Coal | India

Coal India COAL IN

BUY

NOMURA

NOMURA FINANCIAL ADVISORY AND SECURITIES (INDIA) PRIVATE LIMITED, INDIA

COMPANY QUICK COMMENT

The Union Cabinet has cleared the new Mining Bill (MMDR, 2011) which effectively stipulates Coal India to annually share 26% of mining profit after tax for the previous financial year with project-affected people. We note: [1] The profit-sharing clause reads mostly on expected lines; channel checks suggest this would be a tax-deductible outgo; [2] our earnings forecast for CIL already builds-in the impact of this mining tax from FY12 itself, albeit as a %age of total net profit. Price correction on this 'expected' event appears unwarranted. Reiterate BUY; stock trades at 12.3x FY13F adj P/E.

Price target: 433.0 INR **Price (30 Sep 2011): 333.2 INR**

Research analyst: Anirudh Gangahar	+91 22 4037 4516	anirudh.gangahar@nomura.com
Research analyst: Nishit Jalan	+91 22 4037 4362	nishit.jalan@nomura.com
Research analyst: Ivan Lee, CFA	+852 2252 6213	ivan.lee@nomura.com

Publish Date: 30 Sep 2011

Cabinet clears Mining Bill 2011 – Much ado about nothing?

EVENT

The Union Cabinet has cleared the new Mining Bill [Mines and Minerals Development and Regulation (MMDR) Bill, 2011)] which stipulates holders of coal mining leases to annually pay 26% of profit after tax from mining related operations for the previous financial year to a District Mineral Foundation (i.e. profit to be shared with project-affected people).

Further, the Bill stipulates that the Central Government, after considering the report and recommendations of the National Mining Regulatory Authority (yet to be formed), by notification, revise the profit sharing percentage, or specify such other method as may be prescribed for calculation of amount to be paid to the District Mineral Foundation (DMF).

ANALYSIS

- The MMDR Bill, 2011 clearly states that coal mining companies would need to "pay 26% of previous financial year's profit after tax from mining related activities", implying that the tax incidence is applicable on mining profit only.
- We note that the Bill does not explicitly state if the profit share to be paid annually would be a tax-deductible expense. However, our channel checks suggest that this would indeed be a tax-deductible outgo.
- We also note that in case the profit-sharing diktat is applied to each CIL subsidiary and not on the consolidated entity, the outgo would not be materially different, considering all CIL subsidiaries are currently profit-making.
- What's next – the Bill is likely to be tabled in the parliament in the Winter Session (beginning end Nov / early Dec) for enactment into an Act.

IMPLICATIONS

In our view, price correction on this 'expected' event appears unwarranted

Overall, we believe that the price correction on this 'expected' event appears unwarranted as no material changes appear to have been made to the draft Mining Bill which was approved by the Group of Ministers (GoM) in July 2011.

Mining tax incidence effectively captured in our base case earnings forecast for CIL

Our base case earnings forecast for CIL incorporates a "26% share of previous financial year's net profit as a tax-deductible expense in the current financial year w.e.f. FY2012".

What if the rule's applicability is interpreted differently…

If we were to apply the profit share on only mining activity related net profit (i.e. exclude non-operating income), ceteris paribus, our EPS forecast for CIL would be higher by ~3%.

If we were to apply the profit share on only mining activity related net profit (i.e. exclude non operating income) but without assuming tax deductibility, ceteris paribus, our EPS forecast for CIL would be lower by ~1%.

Price correction offers a good entry point into the stock; reiterate BUY

We remain focused on CIL's capacity to make-up for the shortfall in 1HFY12 production/offtake (following the sharper-than-expected monsoon-related slowdown in production / dispatches) and potential magnitude of wage revision – key risks to our FY12F/13F earnings forecast for the company. Reiterate BUY; the stock trades at 12.3x FY13F adj P/E. In our view, CIL's structural growth story remains intact.

Exhibit 1: CIL – Scenario analysis on the implication of 26% mining tax

		Scenarios		
	Base	**#1**	**#2**	**#3**
Profit sharing				
26 % of previous year's	Net profit	Net profit	Mining profit	Mining profit
Tax benefit	Yes	No	No	Yes
Adjusted EPS (Rs/sh)				
FY12F	24.7	23.3	24.4	25.4
FY13F	27.1	25.8	26.6	27.9
FY14F	31.3	29.7	30.9	32.3
Target price (Rs/sh)	**433**	**414**	**431**	**447**

Source: Nomura estimates

Valuation Methodology and Investment Risks: Please see below.

Note: Ratings and Price Targets are as of the date of the most recently published report (http://go.nomuranow.com/research/globalresearchportal) rather than the date of this email.

New force in Research: Global from east to west

Nomura Equity Research website: http://go.nomuranow.com/research/globalresearchportal
Nomura Strategy website: https://apps.nomuranow.com/EQS

Analyst Certification

We, Anirudh Gangahar, Nishit Jalan and Ivan Lee, CFA, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

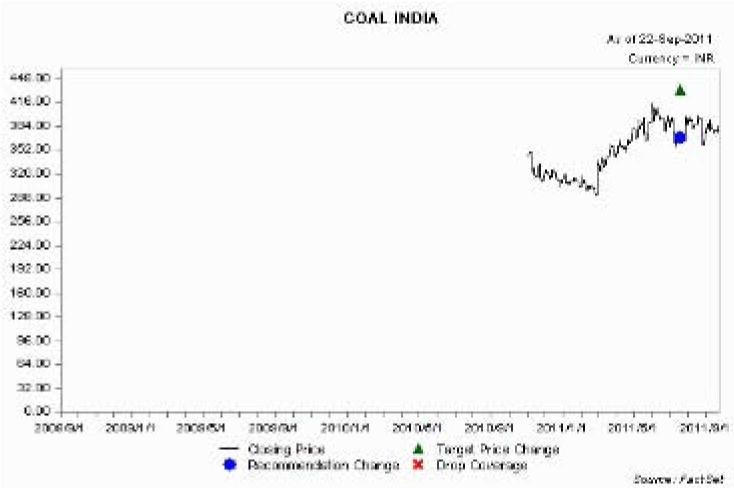
Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Coal India	COAL IN	333.2 INR	30 Sep 2011	Buy	

Previous Rating

Issuer name	Previous Rating	Date of change
Coal India	Not Rated	18 Jul 2011

Coal India (COAL IN) **333.2 INR (30 Sep 2011)** Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
18-Jul-2011		433.00	368.85
18-Jul-2011	Buy		368.85

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We arrive at our Rs433/share 12-mth target price for CIL using a sum-of-the-parts of [1] FCFF-based methodology to value the cash flows from its 10.6bn tons of proven reserves, and [2] EV/ton based value of CIL's probable reserves (8.3bn tons) and remaining resources (45.5bn tons) as per the JORC Code.

Risks that may impede the achievement of the target price Key risks: 1) Regulatory uncertainty particularly around pricing flexibility, environmental/forest clearance and restriction on e-auction coal sales; 2) lower-than-expected coal despatch due to lower rake availability; 3)delays in land acquisition/possession; and 4) wage revision of non-executives is higher than our expectation of a 30% increase.

Important Disclosures

Online availability of research and additional conflict-of-interest disclosures

Nomura Japanese Equity Research is available electronically for clients in the US on NOMURA.COM, REUTERS, BLOOMBERG and THOMSON ONE ANALYTICS. For clients in Europe, Japan and elsewhere in Asia it is available on NOMURA.COM, REUTERS and BLOOMBERG.
Important disclosures may be accessed through the left hand side of the Nomura Disclosure web page http://go.nomuranow.com/research/globalresearchportal or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email grpsupport-eu@nomura.com for technical assistance.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities.
Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA/NYSE rules, may not be associated persons of NSI, and may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Industry Specialists identified in some Nomura International plc research reports are employees within the Firm who are responsible for the sales and trading effort in the sector for which they have coverage. Industry Specialists do not contribute in any manner to the content of research reports in which their names appear.
Marketing Analysts identified in some Nomura research reports are research analysts employed by Nomura International plc who are primarily responsible for marketing Nomura's Equity Research product in the sector for which they have coverage. Marketing Analysts may also contribute to research reports in which their names appear and publish research on their sector.

Distribution of ratings (Global)

The distribution of all ratings published by Nomura Global Equity Research is as follows:
49% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 41% of companies with this rating are investment banking clients of the Nomura Group*.
40% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 46% of companies with this rating are investment banking clients of the Nomura Group*.
11% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 14% of companies with this rating are investment banking clients of the Nomura Group*.
As at 30 June 2011.
**The Nomura Group as defined in the Disclaimer section at the end of this report.*

Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America for ratings published from 27 October 2008

The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

STOCKS
A rating of '**Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
A rating of '**Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
A rating of '**Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
A rating of '**Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
Benchmarks are as follows: **United States/Europe**: Please see valuation methodologies for explanations of relevant benchmarks for stocks (accessible through the left hand side of the Nomura Disclosure web page: http://go.nomuranow.com/research/globalresearchportal);**Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

SECTORS
A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months.
A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.
A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS
Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.
A '**Buy'** recommendation indicates that potential upside is 15% or more.
A '**Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%.
A '**Reduce'** recommendation indicates that potential downside is 5% or more.
A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.
Securities and/or companies that are labelled as '**Not rated'** or shown as '**No rating'** are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

A rating of '1' or '**Strong buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.

A rating of '2' or '**Buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.

A rating of '3' or '**Neutral'**, indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.

A rating of '4' or '**Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.

A rating of '5' or '**Sell'**, indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.

Stocks labeled '**Not rated'** or shown as '**No rating'** are not in Nomura's regular research coverage. Nomura might not publish additional research reports concerning this company, and it undertakes no obligation to update the analysis, estimates, projections, conclusions or other information contained herein.

SECTORS

A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months.

A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.

A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

Benchmarks are as follows: **Japan**: TOPIX; **United States**: S&P 500, MSCI World Technology Hardware & Equipment; **Europe**, by sector - *Hardware/Semiconductors*: FTSE W Europe IT Hardware; *Telecoms*: FTSE W Europe Business Services; *Business Services*: FTSE W Europe; *Auto & Components*: FTSE W Europe Auto & Parts; *Communications equipment*: FTSE W Europe IT Hardware; **Ecology Focus**: Bloomberg World Energy Alternate Sources; **Global Emerging Markets**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A '**Strong buy'** recommendation indicates that upside is more than 20%.

A '**Buy'** recommendation indicates that upside is between 10% and 20%.

A '**Neutral'** recommendation indicates that upside or downside is less than 10%.

A '**Reduce'** recommendation indicates that downside is between 10% and 20%.

A '**Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

Disclaimers

This publication contains material that has been prepared by the Nomura entity identified at the top or bottom of page 1 herein, if any, and/or, with the sole or joint contributions of one or more Nomura entities whose employees and their respective affiliations are specified on page 1 herein or elsewhere identified in the publication. Affiliates and subsidiaries of Nomura Holdings, Inc. (collectively, the 'Nomura Group'), include: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura International plc ('NIplc'), United Kingdom; Nomura Securities International, Inc. ('NSI'), New York, NY; Nomura International (Hong Kong) Ltd. ('NIHK'), Hong Kong; Nomura Financial Investment (Korea) Co., Ltd. ('NFIK'), Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at http://dis.kofia.or.kr); Nomura Singapore Ltd. ('NSL'), Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Capital Nomura Securities Public Company Limited ('CNS'), Thailand; Nomura Australia Ltd. ('NAL'), Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission ('ASIC') and holder of an Australian financial services licence number 246412; P.T. Nomura Indonesia ('PTNI'), Indonesia; Nomura Securities Malaysia Sdn. Bhd. ('NSM'), Malaysia; Nomura International (Hong Kong) Ltd., Taipei Branch ('NITB'), Taiwan; Nomura Financial Advisory and Securities (India) Private Limited ('NFASL'), Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; SEBI Registration No: BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034); Banque Nomura France ('BNF'); NIplc, Dubai Branch ('NIplc, Dubai'); NIplc, Madrid Branch ('NIplc, Madrid') and OOO Nomura, Moscow ('OOO Nomura').

THIS MATERIAL IS: (I) FOR YOUR PRIVATE INFORMATION, AND WE ARE NOT SOLICITING ANY ACTION BASED UPON IT; (II) NOT TO BE CONSTRUED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE ILLEGAL; AND (III) BASED UPON INFORMATION THAT WE CONSIDER RELIABLE.

Additional information available upon request

NIPlc and other Nomura Group entities manage conflicts identified through the following: their Chinese Wall, confidentiality and independence policies, maintenance of a Restricted List and a Watch List, personal account dealing rules, policies and procedures for managing conflicts of interest arising from the allocation and pricing of securities and impartial investment research and disclosure to clients via client documentation.

Disclosure information is available at the Nomura Disclosure web page:

http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx

Nomura Financial Advisory and Securities (India) Private Limited, India

Tel: +91 22 4037 4037

Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road,
Worli, Mumbai- 400 018, India

Fax: +91 22 4037 4111

Caring for the environment: to receive only the electronic versions of our research, please contact your sales representative.