

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

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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.

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Mentioned companies

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

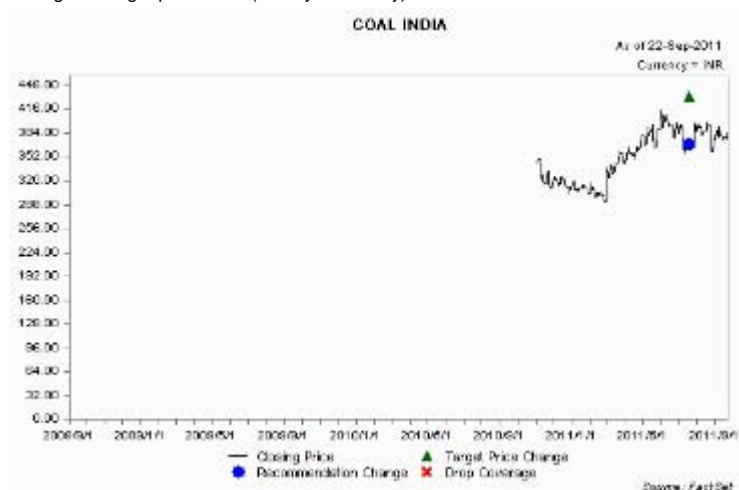
Previous Rating

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)



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.

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As at 30 June 2011.

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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

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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)

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