

November 10, 2012

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Rating	<b>Accumulate</b>
Price	Rs347
Target Price	Rs375
Implied Upside	8.1%
Sensex	18,684
Nifty	5,686

(Prices as on November 09, 2012)

### Trading data

Market Cap. (Rs bn)	2,189.3
Shares o/s (m)	6,316.4
3M Avg. Daily value (Rs m)	755.9

### Major shareholders

Promoters	90.00%
Foreign	5.52%
Domestic Inst.	1.77%
Public & Other	2.71%

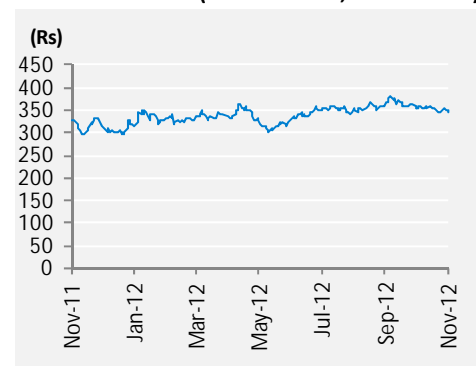
### Stock Performance

(%)	1M	6M	12M
Absolute	(2.8)	6.2	6.3
Relative	(2.2)	(7.2)	(1.3)

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	25.7	26.7	-3.7
2014	27.4	29.6	-7.5

### Price Performance (RIC: COAL.BO, BB: COAL IN)



Source: Bloomberg

Coal India (CIL) reported Q2FY13 earnings in-line-with our expectation. However, we were deeply disappointed with the sharp fall in E-auction realisations. The impact of the same was contained by one-time write-back of prior year provisions. We downgrade the stock from 'BUY' to 'Accumulate' with revised TP of Rs375 (earlier Rs390) on the backdrop of concerns associated with approval of proposed MMDR bill in the upcoming session of parliament, continued weakness in E-auction realisations and strong likelihood of disappointment on volume and cost guidance.

■ **FSA realisations positive; E-auction starkly disappoints:** E-auction realisations dropped by ~11% QoQ or Rs280/t (6% YoY/Rs150/t) to Rs2,282, way below our expectation of Rs2,530. The encouraging part was better than expectation E-auction volumes at 11.7mt. Thanks to better-than-expected grade and price increase in WCL, FSA realisations fared better than our expectation at Rs1,287 (PLe: Rs1,280), up 1.6% QoQ or Rs20/t (5% YoY or Rs62/t). Hence, revenue grew 10.8% (PLe:12.2%) YoY at Rs145.7bn (PLe:Rs147.5bn) on the back of 8.5% growth in volumes at 102mt (PLe:102mt) and 2.1% (PLe:3.4%) YoY rise in realisations at Rs1,435 (PLe:Rs1455)/t. Realisations dipped 2% QoQ or Rs30/t.

■ **Write-back of one-time provisions restricted damage:** Thanks to one-time write-back of prior-year provision of Rs5.7bn, CIL managed to contain the impact of weak E-auction realisations and higher employee cost. Employee cost rose by 6.6% QoQ or Rs4.06bn to Rs65.4bn on account of increase in ex-gratia bonus by Rs2.3bn. Hence, CIL reported 15% YoY growth in EBITDA at Rs28.6bn (PLe: Rs29.4bn). EBITDA/t for the quarter grew 6% YoY to Rs282 (PLe: Rs290).

■ **PAT up 19%, fuelled by higher interest income and lower depreciation:** PAT grew by 19% to Rs30.8bn (PLe: 31.2bn) on the back of 17% rise in other income and 32% drop in depreciation due to appreciation of rupee.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	502,293	624,154	671,137	720,942
Growth (%)	12.6	24.3	7.5	7.4
EBITDA (Rs m)	134,776	156,387	168,169	179,377
PAT (Rs m)	108,957	147,263	162,418	173,147
EPS (Rs)	17.3	23.3	25.7	27.4
Growth (%)	12.8	35.2	10.3	6.6
Net DPS (Rs)	3.9	10.0	13.3	14.2

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	26.8	25.1	25.1	24.9
RoE (%)	36.9	39.9	37.9	36.1
RoCE (%)	33.1	36.2	34.4	32.9
EV / sales (x)	3.5	2.6	2.3	2.1
EV / EBITDA (x)	13.0	10.4	9.3	8.3
PE (x)	20.1	14.9	13.5	12.6
P / BV (x)	6.6	5.4	4.8	4.3
Net dividend yield (%)	1.1	2.9	3.8	4.1

Source: Company Data; PL Research

**Exhibit 1: Q2FY13 Result Overview (Rs m)**

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	Q1FY13	H1FY13	H1FY12	YoY gr. (%)
<b>Net operating revenue</b>	<b>145,725</b>	<b>131,481</b>	<b>10.8</b>	<b>165,006</b>	<b>310,731</b>	<b>276,472</b>	<b>12.4</b>
(Accretion)/Decretion in Stocks	6,486	5,575	16.3	4,383	10,869	9,254	17.5
Consumption of stores and spares	12,566	12,336	1.9	12,334	24,900	23,672	5.2
Employees' Remuneration & Benefits	65,364	56,907	14.9	61,301	126,664	105,628	19.9
Power & Fuel	5,611	5,248	6.9	5,138	10,749	9,874	8.9
Welfare expenses	3,152	3,368	(6.4)	4,032	7,184	6,302	14.0
Repairs	1,777	1,014	75.2	1,258	3,035	2,187	38.8
Contractual Expenses	10,917	9,645	13.2	12,341	23,259	20,704	12.3
Other Expenses	5,238	5,479	(4.4)	5,557	10,796	9,935	8.7
Overburden Removal Adjustment	6,741	4,363	54.5	7,326	14,068	10,244	37.3
Provision and write off	(745)	2,727	(127.3)	3,190	2,446	5,693	(57.0)
Total Cost of Sales	117,109	106,662	9.8	116,860	233,969	203,492	15.0
<b>EBITDA</b>	<b>28,617</b>	<b>24,819</b>	<b>15.3</b>	<b>48,146</b>	<b>76,763</b>	<b>72,980</b>	<b>5.2</b>
<i>as a % of Sales</i>	<i>19.6</i>	<i>18.9</i>		<i>29.2</i>	<i>24.7</i>	<i>26.4</i>	
Depreciation	3,872	5,734	(32.5)	5,356	9,228	10,042	(8.1)
<b>EBIT</b>	<b>24,745</b>	<b>19,085</b>	<b>29.7</b>	<b>42,790</b>	<b>67,535</b>	<b>62,939</b>	<b>7.3</b>
Interest	102	83	23.4	126	229	180	26.9
<b>PBT (before other income)</b>	<b>24,643</b>	<b>19,002</b>	<b>29.7</b>	<b>42,664</b>	<b>67,307</b>	<b>62,759</b>	<b>7.2</b>
Other Income	20,929	17,942	16.6	20,714	41,642	33,608	23.9
<b>PBT before extraordinaries</b>	<b>45,571</b>	<b>36,944</b>	<b>23.4</b>	<b>63,378</b>	<b>108,949</b>	<b>96,367</b>	<b>13.1</b>
Adj pertaining to previous year	(195)	92	(312.5)	(103)	(298)	224	(233.4)
<b>PBT after extraordinaries</b>	<b>45,376</b>	<b>37,036</b>	<b>22.5</b>	<b>63,275</b>	<b>108,651</b>	<b>96,590</b>	<b>12.5</b>
Provision for Taxation	14,703	11,132	32.1	18,582	33,285	29,248	13.8
<b>Reported PAT</b>	<b>30,673</b>	<b>25,903</b>	<b>18.4</b>	<b>44,693</b>	<b>75,366</b>	<b>67,343</b>	<b>11.9</b>
Extraordinary items (net of tax exp) (Charge)/ Credit	107	73	46.5	-	107	73	
<b>Net profit</b>	<b>30,781</b>	<b>25,977</b>	<b>18.5</b>	<b>44,693</b>	<b>75,473</b>	<b>67,416</b>	<b>12.0</b>
<b>Adjusted PAT</b>	<b>30,805</b>	<b>25,841</b>	<b>19.2</b>	<b>44,762</b>	<b>75,567</b>	<b>67,192</b>	<b>12.5</b>

Source: Company Data, PL Research

**Exhibit 2: Operating Metrics**

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	Q1FY13	H1FY13	H1FY12	YoY gr. (%)
Coal production (m tonnes)	89.1	80.3	10.9	102.5	191.5	176.6	8.4
Coal sales volume (m tonnes)	101.7	93.7	8.5	113.0	214.8	200.0	7.4
<b>Rs/tonne analysis on aggregate volumes</b>							
Net realisation	1,435	1,406	2.1	1,465	1,451	1,386	4.7
Total cost/tonne	1,153	1,141	1.1	1,034	1,092	1,020	7.1
EBITDA/tonne	282	265	6.2	426	358	366	(2.0)
<b>Sales volume mix (m tonnes)</b>							
FSA	85.7	78.5	9.2	95.0	180.7	166.5	8.5
E-auction	11.7	11.2	4.5	13.5	25.1	24.7	1.8
Washed coal	3.2	3.3	(2.7)	3.3	6.5	7.3	(10.9)
Middlings and others	0.8	0.2	276.2	0.9	1.7	1.2	39.2
<b>Realisation per tonne (Rs)</b>							
FSA	1,287	1,225	5.0	1,267	1,276	1,205	5.9
E-auction	2,282	2,435	(6.3)	2,561	2,432	2,331	4.3
Washed coal	2,086	2,262	(7.8)	2,315	2,201	2,217	(0.7)
Middlings and others	2,632	2,745	(4.1)	3,018	2,835	1,767	60.4

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012	2013E	2014E
<b>Net Revenue</b>	<b>502,293</b>	<b>624,154</b>	<b>671,137</b>	<b>720,942</b>
Raw Material Expenses	40,579	51,230	62,621	70,652
Gross Profit	461,714	572,925	608,516	650,290
Employee Cost	189,318	252,536	264,066	276,635
Other Expenses	137,620	164,001	176,281	194,278
<b>EBITDA</b>	<b>134,776</b>	<b>156,387</b>	<b>168,169</b>	<b>179,377</b>
Depr. & Amortization	17,654	19,402	20,070	18,360
Net Interest	737	540	580	624
Other Income	48,146	76,103	84,508	86,960
<b>Profit before Tax</b>	<b>164,531</b>	<b>212,549</b>	<b>232,026</b>	<b>247,354</b>
Total Tax	55,959	64,790	69,608	74,206
<b>Profit after Tax</b>	<b>108,572</b>	<b>147,759</b>	<b>162,418</b>	<b>173,147</b>
Ex-Od items / Min. Int.	(385)	496	—	—
<b>Adj. PAT</b>	<b>108,957</b>	<b>147,263</b>	<b>162,418</b>	<b>173,147</b>
<b>Avg. Shares O/S (m)</b>	<b>6,316.4</b>	<b>6,316.4</b>	<b>6,316.4</b>	<b>6,316.4</b>
<b>EPS (Rs.)</b>	<b>17.3</b>	<b>23.3</b>	<b>25.7</b>	<b>27.4</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
C/F from Operations	87,045	198,879	153,742	176,081
C/F from Investing	10,403	(1,094)	18,143	12,533
C/F from Financing	(30,165)	(73,821)	(108,908)	(115,794)
Inc. / Dec. in Cash	67,282	123,963	62,978	72,819
Opening Cash	397,270	458,064	582,028	645,006
Closing Cash	458,064	582,028	645,006	717,825
FCFF	102,693	226,390	173,917	184,365
FCFE	98,597	226,128	172,917	183,365

**Key Financial Metrics**

Y/e March	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	12.6	24.3	7.5	7.4
EBITDA (%)	27.9	16.0	7.5	6.7
PAT (%)	12.8	35.2	10.3	6.6
EPS (%)	12.8	35.2	10.3	6.6
<b>Profitability</b>				
EBITDA Margin (%)	26.8	25.1	25.1	24.9
PAT Margin (%)	21.7	23.6	24.2	24.0
RoCE (%)	33.1	36.2	34.4	32.9
RoE (%)	36.9	39.9	37.9	36.1
<b>Balance Sheet</b>				
Net Debt : Equity	(1.3)	(1.4)	(1.4)	(1.4)
Net Wrkng Cap. (days)	(737)	(848)	(694)	(627)
<b>Valuation</b>				
PER (x)	20.1	14.9	13.5	12.6
P / B (x)	6.6	5.4	4.8	4.3
EV / EBITDA (x)	13.0	10.4	9.3	8.3
EV / Sales (x)	3.5	2.6	2.3	2.1
<b>Earnings Quality</b>				
Eff. Tax Rate	34.0	30.5	30.0	30.0
Other Inc / PBT	29.5	35.6	36.4	35.2
Eff. Depr. Rate (%)	4.8	5.1	4.8	3.9
FCFE / PAT	90.5	153.6	106.5	105.9

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	333,142	404,530	453,256	505,200
Total Debt	15,536	15,274	14,274	13,274
Other Liabilities	20,900	27,006	31,727	37,384
<b>Total Liabilities</b>	<b>369,578</b>	<b>446,810</b>	<b>499,256</b>	<b>555,858</b>
Net Fixed Assets	149,005	163,437	185,203	213,780
Goodwill	—	—	—	—
Investments	10,637	19,814	19,814	19,814
Net Current Assets	201,204	251,619	282,298	310,324
<i>Cash &amp; Equivalents</i>	<i>458,064</i>	<i>582,028</i>	<i>645,006</i>	<i>717,825</i>
<i>Other Current Assets</i>	<i>232,208</i>	<i>292,247</i>	<i>303,765</i>	<i>314,511</i>
<i>Current Liabilities</i>	<i>489,068</i>	<i>622,656</i>	<i>666,473</i>	<i>722,012</i>
Other Assets	8,732	11,941	11,941	11,941
<b>Total Assets</b>	<b>369,578</b>	<b>446,810</b>	<b>499,256</b>	<b>555,858</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY12	Q4FY12	Q1FY13	Q2FY13
<b>Net Revenue</b>	<b>153,493</b>	<b>194,190</b>	<b>165,006</b>	<b>145,725</b>
<b>EBITDA</b>	<b>45,474</b>	<b>37,856</b>	<b>48,146</b>	<b>28,617</b>
<i>% of revenue</i>	<i>29.6</i>	<i>19.5</i>	<i>29.2</i>	<i>19.6</i>
Depr. & Amortization	5,257	4,103	5,356	3,872
Net Interest	(18,429)	(23,095)	(20,588)	(20,826)
Other Income	18,559	23,280	20,714	20,929
<b>Profit before Tax</b>	<b>58,699</b>	<b>57,305</b>	<b>63,275</b>	<b>45,376</b>
Total Tax	18,322	17,221	18,582	14,703
<b>Profit after Tax</b>	<b>40,378</b>	<b>40,084</b>	<b>44,693</b>	<b>30,673</b>
<b>Adj. PAT</b>	<b>40,342</b>	<b>39,774</b>	<b>44,762</b>	<b>30,805</b>

**Key Operating Metrics**

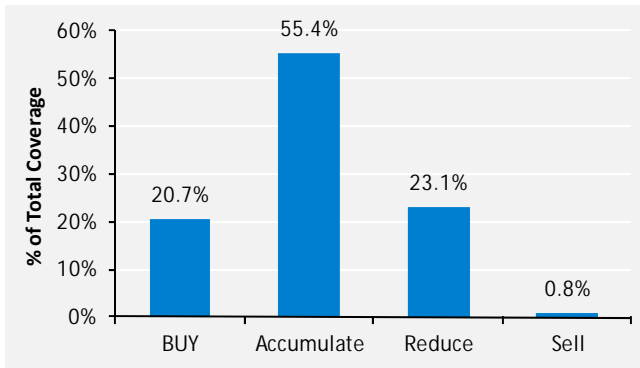
Y/e March	2011	2012	2013E	2014E
Raw coal prod (mn tn)	431	436	459	484
Coal despatches (mn tn)	424	432	459	484
Vol sold under FSA/MoU (mn tn)	356	362	390	416
Vol sold under E-auction (mn tn)	48	51	48	46
Beneficiated coal vol (mn tn)	15	17	17	17
Vol sold to power utilities (mn tn)	304	312	337	370
Real. / tonne (Rs)	1,170	1,428	1,444	1,472
Total cost per tonne (Rs)	833	867	1,082	1,095
Cash cost per tonne (Rs)	731	806	964	986
Employee cost / tonne (Rs)	386	439	579	575
EBITDA / tonne (Rs)	318	362	366	371
OBR adj / tonne (Rs)	71	61	85	81

Source: Company Data, PL Research.



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**Rating Distribution of Research Coverage**



**PL's Recommendation Nomenclature**

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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