

## RESULTS

## REVIEW

## Coal India Limited

In-line results; free channel pains remain

HOLD

Analyst

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Nifty: 5,686; Sensex: 18,684

CMP	Rs346
Target Price	Rs352
Potential Upside/Downside	+2%

## Key Stock Data

Sector	Mining & Mineral
Bloomberg / Reuters	COAL IN / COAL.BO
Shares o/s (mn)	6,316
Market cap. (Rs mn)	2,186,915
Market cap. (US\$ mn)	39,944
3-m daily average vol.	151,617

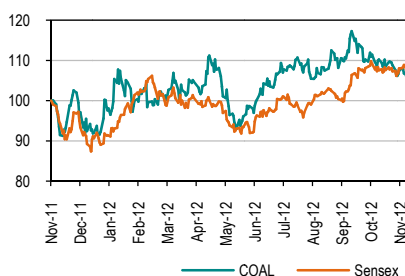
## Price Performance

52-week high/low	Rs386/294		
	-1m	-3m	-12m
Absolute (%)	(3)	(2)	6
Rel to Sensex (%)	(2)	(8)	(1)

## Shareholding Pattern (%)

Promoters	90.0
FII/IRIs/OCBs/GDR	5.5
MFs/Banks/FIs	1.8
Non Promoter Corporate	1.3
Public & Others	1.4

## Relative to Sensex



Source: Capitaline

## Summary

Coal India's (CIL) results were largely in-line with expectation. Revenue grew 10.8% YoY to Rs145.7 bn (IDBlest Rs147 bn) on the back of higher FSA volume (up 9.2% YoY) and realisation (up 5% YoY). Ex-OBR EBITDA margin expanded 210bps YoY to 24.3%. PAT increased 18.7% YoY to Rs30.8 bn (IDBlest Rs31.7 bn). Offtake to the power sector increased 10.4% YoY supported by the new FSA's signed in the last quarter. E-auction realizations continued to fall and contracted by 6.3% YoY. With policy action veering towards priority to power sector and continued pressure to introduce price pooling, we believe that upsides for CIL will be limited. We maintain our target price at Rs352 at 7x FY14E EV/EBITDA. Maintain HOLD.

## Key Highlights

- Revenue for the quarter increased 10.8% YoY to Rs145.7 bn (IDBlest Rs147 bn), though on QoQ basis it was down 11.7%, being a seasonally weak quarter. Revenue growth YoY was mainly helped by realization/volume growth of 2.1%/8.6% respectively. Overall realisation stood at Rs1432/tonne, down 1.9% QoQ, impacted by 11%/10% fall in E-Auction/Washed coal realization QoQ. Offtake/production stood at 101.7 mn tonnes/89 mn tones.
- EBIDTA margin ex-OBR stood at 24.3%, up 210bps YoY and down 940bps QoQ. Sequential drop in margin was largely due to lean season impact on production/offtake. EBIDTA/tonne (ex-OBR) stood at Rs348, up 11.7% YoY.
- Adj PAT stood at Rs30.8 bn (IDBlest Rs31.7 bn), up 18.7% YoY, mainly supported by higher operating margin and other income. Other income increased 16.6% YoY to Rs20.9 bn.
- Share of coal despatched for the regulated power sector increased as offtake growth for the sector stood at 10.4% YoY in Q2FY13. Despatch to the rest of the sectors remained flat or reduced on YoY basis.
- E-Auction volume saw a marginal growth of 4.5% YoY to 12 mn tonnes while realization stood at Rs2,282/tonne, down 10.9% QoQ and 6.3% YoY. This is reflective of the weak international prices which are down ~20% YoY.
- Washed coal volume remained flat QoQ at ~3 mn tonnes but realisation dropped 10% QoQ to Rs2,081/tonne. Rake offtake for the quarter was up from, ~152 rakes/day in Q2FY12 to ~160 rakes/day in Q2FY13.

## Outlook and Valuation

Despite improved performance in production and offtake we maintain that CIL is likely to face overhang of the incremental production being channeled to the highly regulated power sector. We don't expect a material impact of the new penalty regime as Coal India is well placed to meet 65% of incremental demand from the new FSA to be signed for projects till March 2012. Price pooling aspect though remains a concern due to lack of clarity. Falling prices in the free channel sales are also a concern. Our offtake volume assumption remains at 460 mn tonnes and 483 mn tonnes for FY13/FY14. We maintain **HOLD** with a target price of Rs352 at 7x EV/EBIDTA FY14E.

## Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY11	526,162	134,619	25.6	109,275	17.3	20.0	13.0	36.9	35.7
FY12	624,154	156,678	25.1	147,148	23.3	14.9	10.1	39.9	34.1
FY13E	724,244	185,171	25.6	165,442	26.2	13.2	8.1	36.2	33.9
FY14E	786,811	196,935	25.0	174,361	27.6	12.5	6.9	30.8	29.8

Source: Company; IDBI Capital Research

Table: Financial Snapshot

(Rs mn)

Year-end: March	Q2FY12	Q2FY13	YoY (%)	Q4FY12	QoQ (%)	H1FY12	H1FY13	YoY (%)
<b>Sales</b>	<b>131,481</b>	<b>145,725</b>	<b>10.8</b>	<b>165,006</b>	<b>(11.7)</b>	<b>276,472</b>	<b>310,731</b>	<b>12.4</b>
(Increase)/Decrease in Stock	5,579	6,486	16.3	4,383	48.0	9,254	10,869	17.5
Internal Consumption of Coal	12,332	12,566	1.9	12,334	1.9	23,672	24,900	
Employee Compensation	56,907	65,364	14.9	61,301	6.6	105,724	126,664	19.8
Power & Fuel	5,248	5,611	6.9	5,138	9.2	9,874	10,749	8.9
Contractual Expenses	9,645	10,917	13.2	12,341	(11.5)	20,704	23,259	12.3
OBR expense	4,363	6,741	54.5	7,326	(8.0)	10,244	14,068	37.3
Social Overhead	3,368	3,152	(6.4)	4,032	(21.8)	6,205	7,184	
Repairs	1,014	1,777	75.2	1,258	41.2	2,187	3,035	38.8
Other Expenditure	5,479	5,238	(4.4)	5,557	(5.7)	9,858	10,796	9.5
Provisions	2,727	(745)	(127.3)	3,190	(123.3)	5,693	2,446	(57.0)
Finance Charges / Commitment Charges	46	0		0	-	0	0	-
Total Other Expenditure	8,252	4,494	(45.5)	8,748	(48.6)	15,550	13,242	(14.8)
Total Expenditure	106,708	117,109	9.7	116,860	0.2	203,414	233,969	15.0
<b>EBITDA</b>	<b>24,773</b>	<b>28,617</b>	<b>15.5</b>	<b>48,146</b>	<b>(40.6)</b>	<b>73,058</b>	<b>76,763</b>	<b>5.1</b>
EBITDA Margins (%)	18.8	19.6		29.2		26.4%	24.7	
<b>EBITDA ex-OBR</b>	<b>29,136</b>	<b>35,358</b>	<b>21.4</b>	<b>55,473</b>	<b>(36.3)</b>	<b>83,301</b>	<b>90,830</b>	<b>9.0</b>
EBITDA Margins ex-OBR (%)	22.2	24.3		33.6		30.1	29.2	
Depreciation	5,734	3,872	(32.5)	5,356	(27.7)	10,042	9,228	(8.1)
Interest	83	102	23.4	126	(18.9)	226	229	1.3
Other Income	17,942	20,929	16.6	20,714	1.0	33,531	41,642	24.2
Extra Ordinary Loss/ (Income)	92	195	112.5	103	89.2	(224)	298	(233.4)
<b>PBT</b>	<b>36,990</b>	<b>45,376</b>	<b>22.7</b>	<b>63,275</b>	<b>(28.3)</b>	<b>96,545</b>	<b>108,651</b>	<b>12.5</b>
Tax	11,132	14,703	32.1	18,582	(20.9)	29,248	33,285	13.8
Tax Rate (%)	30.1	32.4	7.7	29.4	10.3	30.3	30.6	1.1
Reported PAT	25,858	30,673	18.6	44,693	(31.4)	67,297	75,366	12.0
Adjustment After Tax (Expense)/Income	(73.3)	(107)				(73.3)	(107.4)	
<b>Adjusted PAT</b>	<b>25,931</b>	<b>30,781</b>	<b>18.7</b>	<b>44,693</b>	<b>(31.1)</b>	<b>67,370</b>	<b>75,473</b>	<b>12.0</b>
PAT Margins (%)	19.6	21.1		27.1		24.4	24.3	

Source: IDBI Capital Research

Table: Volume break-up: E-auction share falling

(mn tonne)

Year-end: March	Q2FY12	Q2FY13	YoY (%)	Q1FY13	QoQ (%)
FSA Coal	79	86	9.2	95	(9.7)
E-Auction	11	12	4.5	13	(13.6)
Washed Coal	3	3	(2.4)	3	0.0

Source: IDBI Capital Research

Table: Realization break-up: E-auction realization still holding well

(Rs/tonne)

Year-end: March	Q2FY12	Q2FY13	YoY (%)	Q1FY13	QoQ (%)
FSA Coal	1,225	1,286	5.0	1,267	1.5
E-Auction	2,435	2,282	(6.3)	2,562	(10.9)
Washed Coal	2,262	2,081	(8.0)	2,314	(10.0)

Source: IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
<b>Net sales</b>	<b>526,162</b>	<b>624,154</b>	<b>724,244</b>	<b>786,811</b>
Growth (%)	12.7	18.6	16.0	8.6
Operating expenses	(391,542)	(467,476)	(539,074)	(589,876)
<b>EBITDA</b>	<b>134,619</b>	<b>156,678</b>	<b>185,171</b>	<b>196,935</b>
Growth (%)	31.6	16.4	18.2	6.4
<b>EBITDA (Ex- OBR)</b>	<b>160,804</b>	<b>193,617</b>	<b>221,383</b>	<b>236,276</b>
Depreciation	(16,729)	(19,692)	(19,160)	(18,699)
<b>EBIT</b>	<b>117,890</b>	<b>136,986</b>	<b>166,010</b>	<b>178,236</b>
Interest paid	(619)	(540)	(439)	(348)
Other income	47,963	75,369	72,818	73,353
<b>Pre-tax profit</b>	<b>164,632</b>	<b>212,549</b>	<b>238,389</b>	<b>251,241</b>
Tax	(55,959)	(64,845)	(72,947)	(76,880)
Effective tax rate (%)	34.0	30.5	30.6	30.6
<b>Net profit</b>	<b>108,674</b>	<b>147,704</b>	<b>165,442</b>	<b>174,361</b>
<b>Adjusted net profit</b>	<b>109,275</b>	<b>147,148</b>	<b>165,442</b>	<b>174,361</b>
Growth (%)	10.5	34.7	12.4	5.4
Shares o/s (mn nos)	6,316	6,316	6,316	6,316

### Balance Sheet

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net fixed assets	150,610	163,434	159,279	162,857
Investments	10,637	19,814	10,637	10,637
Other non-curr assets	8,732	11,941	-	-
<b>Current assets</b>	<b>643,944</b>	<b>874,275</b>	<b>929,129</b>	<b>1,103,586</b>
Inventories	55,856	60,713	54,461	56,841
Sundry Debtors	30,256	56,679	39,685	43,113
Cash and Bank	458,607	611,860	690,134	846,270
Loans and advances	99,225	145,023	144,849	157,362
<b>Total assets</b>	<b>813,924</b>	<b>1,069,466</b>	<b>1,099,045</b>	<b>1,277,080</b>
<b>Shareholders' funds</b>	<b>333,138</b>	<b>404,530</b>	<b>509,376</b>	<b>622,463</b>
Share capital	63,164	63,164	63,164	63,164
Reserves & surplus	270,008	341,412	446,245	559,330
<b>Total Debt</b>	<b>15,536</b>	<b>13,333</b>	<b>10,978</b>	<b>8,708</b>
Secured loans	326	-	-	-
Unsecured loans	15,210	13,333	10,978	8,708
Other liabilities	31,749	33,103	32,848	32,678
<b>Curr Liab &amp; prov</b>	<b>505,486</b>	<b>804,073</b>	<b>593,293</b>	<b>660,379</b>
Current liabilities	448,725	631,297	556,820	621,939
Provisions	56,761	172,776	36,473	38,440
<b>Total liabilities</b>	<b>480,475</b>	<b>664,400</b>	<b>589,668</b>	<b>654,617</b>
<b>Total equity &amp; liabilities</b>	<b>813,924</b>	<b>1,069,466</b>	<b>1,099,045</b>	<b>1,277,080</b>
<b>Book Value (Rs)</b>	<b>53</b>	<b>64</b>	<b>80</b>	<b>98</b>

Source: Company; IDBI Capital Research

### Cash Flow Statement

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Pre-tax profit	164,632	212,549	238,389	251,241
Depreciation	9,638	7,781	12,532	14,998
Tax paid	(55,033)	(68,053)	(61,006)	(76,880)
Chg in working capital	1,897	105,494	(51,056)	46,797
Other operating activities	(0)	44,424	(41,070)	2,099
<b>Cash flow from operations (a)</b>	<b>121,134</b>	<b>302,195</b>	<b>97,788</b>	<b>238,255</b>
Capital expenditure	(17,659)	(20,606)	(8,376)	(18,576)
Chg in investments	2,186	(9,177)	9,177	-
Other investing activities	1,055	(21,634)	(73)	(75)
<b>Cash flow from investing (b)</b>	<b>(14,417)</b>	<b>(51,417)</b>	<b>728</b>	<b>(18,651)</b>
Equity raised/(repaid)	(18)	(12)	13	2
Debt raised/(repaid)	(5,333)	(2,203)	(2,355)	(2,270)
Dividend (incl. tax)	(33,611)	(74,999)	(58,070)	(61,201)
Chg in minorities	75	225	(536)	-
Other financing activities	-	(20,536)	40,707	-
<b>Cash flow from financing (c)</b>	<b>(38,888)</b>	<b>(97,525)</b>	<b>(20,242)</b>	<b>(63,469)</b>
<b>Net chg in cash (a+b+c)</b>	<b>67,829</b>	<b>153,253</b>	<b>78,274</b>	<b>156,135</b>

### Financial Ratios

Year-end: March	FY11	FY12	FY13E	FY14E
Adj. EPS (Rs)	17.3	23.3	26.2	27.6
Adj. EPS growth (%)	10.5	34.7	12.4	5.4
EBITDA margin (%)	25.6	25.1	25.6	25.0
EBITDA margin (Ex-OBR) (%)	30.6	31.0	30.6	30.0
Pre-tax margin (%)	31.3	34.1	32.9	31.9
ROE (%)	36.9	39.9	36.2	30.8
ROCE (%)	35.7	34.1	33.9	29.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	0.7	0.7	0.7	0.7
Leverage factor (x)	2.6	2.6	2.4	2.1
Net margin (%)	20.8	23.6	22.8	22.2
Net Debt / Equity (x)	(1.3)	(1.5)	(1.3)	(1.3)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	39	36	27	26
Receivable days	21	33	20	20
Payable days	8	9	8	8

### Valuation

Year-end: December	FY11	FY12	FY13E	FY14E
P/E (x)	20.0	14.9	13.2	12.5
Price / Book value (x)	6.6	5.4	4.3	3.5
PCE (x)	17.4	13.1	11.8	11.3
EV / Net sales (x)	3.3	2.5	2.1	1.7
EV / EBITDA (x)	13.0	10.1	8.1	6.9
Dividend Yield (%)	1.1	2.9	2.3	2.4



# Notes

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### Stocks:

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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