

## Volumes strong but e-auction realizations dip and fuel costs escalate

Coal India's (CIL) operational performance was below our estimates with EBITDA at ~Rs28.6bn (our est. of Rs34.5bn) on account of sharp fall in e-auction realizations (down by ~11% QoQ and premium over raw FSA coal ) and higher fuel costs (up by ~9% QoQ). CIL continues to see improvement in sales volumes (up by 7% in H1FY13) with better railway rake availability (170 rakes/day in H1FY13, up by 10.4% YoY) and strong domestic demand. CIL announced changes to the new FSAs (80% qty trigger) with domestic/import supply split of 65%/15% and penalties below 65% domestic supply ranging from 5%-40% and imported coal to be supplied at cost plus basis. We see robust volume growth ahead but revise our realizations and EBITDA assumptions lower to account for lower e-auction prices and higher fuel costs. Recommend accumulate with a target price of Rs384.

- **Volumes remain firm but realizations dip on account of lower premium on e-auction volumes:** CIL's blended realizations stood at Rs1432/tonne, up by 2% YoY but lower by ~2% QoQ. FSA raw coal realizations remained firm at Rs1287/tonne but e-auction coal realizations fell to Rs2282/tonne (lower by ~11% QoQ and down for second successive quarter on account of cheaper import option for buyers). Overall volumes went up by 8.5% YoY to ~102 MT and e-auction volumes stood at 11.7 MT (11.5% share).
- **EBITDA margin lower due to higher wage & fuel costs:** EBITDA stood at Rs28.6bn with margin of 19.6% (Centrum est. 23.2%) as wage cost went up by 6.6% QoQ to Rs65.4bn and power & fuel costs also increased by ~9% QoQ due to diesel price hike. We expect wage cost for FY13E at Rs256bn.

Y/E Mar (Rsmn)	Q2FY13	Q2FY12	YoY%	Q1FY13	QoQ%	Q2FY13E	Var (%)
<b>Net sales</b>	<b>145,725</b>	<b>131,481</b>	<b>10.8</b>	<b>165,006</b>	<b>(11.7)</b>	<b>148,763</b>	<b>(2.0)</b>
Employee costs	65,364	56,907	14.9	61,301	6.6	63,999	2.1
Power & fuel	5,611	5,248	6.9	5,138	9.2	4,944	13.5
<b>EBITDA</b>	<b>28,617</b>	<b>24,773</b>	<b>15.5</b>	<b>48,146</b>	<b>(40.6)</b>	<b>34,500</b>	<b>(17.1)</b>
<b>EBITDA margin (%)</b>	<b>19.6</b>	<b>18.8</b>		<b>29.2</b>		<b>23.2</b>	
Depreciation	3,872	5,734	(32.5)	5,356	(27.7)	5,144	(24.7)
Interest	102	83		126		0	
Other income	20,929	17,942	16.6	20,714	1.0	20,442	2.4
<b>PBT</b>	<b>45,483</b>	<b>37,063</b>	<b>22.7</b>	<b>63,275</b>	<b>(28.1)</b>	<b>49,798</b>	<b>(8.7)</b>
Provision for tax	14,703	11,132	32.1	18,582	(20.9)	16,433	(10.5)
-effective tax rate	32.3	30.0		29.4		33.0	
<b>PAT</b>	<b>30,781</b>	<b>25,931</b>	<b>18.7</b>	<b>44,693</b>	<b>(31.1)</b>	<b>33,365</b>	<b>(7.7)</b>

Source: Company, Centrum Research

- **FSA changes beneficial in the long run, outlook remains strong:** CIL finalized its new FSAs (80% qty trigger) with domestic/import supply split of 65%/15% and penalties below 65% domestic supply ranging from 5%-40% and imports being supplied on a cost plus basis. Based on our calculations of FSA signing with ~24000MW of power capacity for FY13E, we do not foresee a shortfall of more than 5MT for 65% domestic supply trigger assuming 10MT of inventory sales, 15MT of diversion from existing FSA being supplied in excess of 90% trigger and 22MT additional production during FY13E. Also, eligibility of all power producers for FSA signing would depend on fulfilment of PPA and other conditions which might reduce the overall signing and quantity required to be supplied by CIL. We do not foresee any high risk of large shortfall from CIL and resultant penalties for FY14E also. We maintain our volume estimates but lower our EBITDA estimates for FY13E/14E by 2%/4.3% to account for lower e-auction realizations and higher fuel costs.

- **Valuations - Accumulate:** We remain positive on the company as volumes are set to improve from FY13E onwards with strong domestic demand, pick up in new FSA signings, better railway logistics and higher production. We find the stock trading at reasonable valuations at FY14E adj. (adj for OBR provisioning) P/E of 10.9x and FY13E adj. EV/EBITDA of 6x. We value the company at 7x FY14E EV/EBITDA to arrive at a fair value of Rs383. Our DCF based fair value stands at Rs384. We recommend accumulate with a target price of Rs384 (average of our EV/EBITDA and DCF valuation fair values).

- **Key Risks:** Higher penalties on new FSAs due to large shortfall in supply, coal price reduction, slowdown in production growth and lower railway rake availability.

Y/E Mar (Rsmn)	Rev	YoY (%)	Adj. EBITDA*	Adj. EBITDA(%)	Adj. PAT*	YoY (%)	RoE (%)	RoCE (%)	Adj. EPS* (Rs)	Adj. PE (x)	PB (x)	Adj. EV/EBITDA (x)
FY11	526,162	12.7	166,754	31.7	125,958	10.6	28.5	31.2	19.9	17.4	5.7	10.2
FY12	624,154	18.6	193,617	31.0	172,834	36.1	32.4	29.1	27.4	12.7	4.8	8.2
FY13E	667,573	7.0	216,830	32.5	182,857	8.4	29.8	29.5	28.9	12.0	4.1	6.9
FY14E	720,402	7.9	235,748	32.7	199,878	9.9	28.3	28.0	31.6	11.0	3.5	6.0
FY15E	785,790	9.1	264,792	33.7	225,068	13.6	27.3	27.2	35.6	9.7	3.0	5.0

\*Adjusted for OBR expenses

Source: Company, Centrum Research Estimates

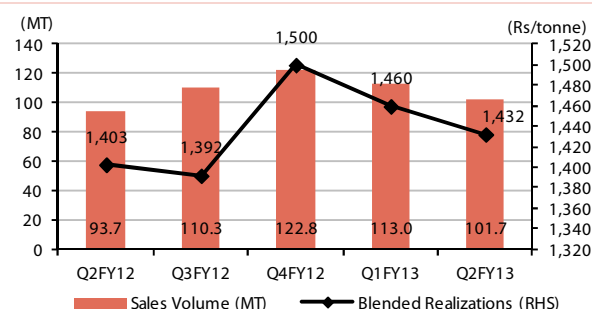
### Key Data

Target Price	Rs384	Bloomberg Code	COALIN
CMP	Rs347*	Reuters Code	COAL.BO
Upside	10.8%	Current Shares O/S (mn)	6,316.4
<b>Stock to Sector</b>	Outperform	Diluted Shares O/S(mn)	6,316.4
<b>Sector to Market</b>	Outperform	Mkt Cap (Rsbn/USDbn)	2,189.3/40
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	386/289
	<b>1M</b>	<b>6M</b>	<b>1Yr</b>
Coal India	(1.9)	7.9	6.3
NIFTY	0.2	15.4	10.0
		Daily Vol. (3M NSE Avg.)	1,763,672
		Face Value (Rs)	10
		<b>1 USD = Rs54.8</b>	

Source: Bloomberg, Centrum Research

\*as on 09 November 2012

### Volume and Realizations trend



Source: Company, Centrum Research

### Sales Mix of Coal India (E-auction realizations soften)

Sales Mix	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)
<b>Raw Coal (FSA based)</b>					
Volumes (MT)	85.7	78.5	9.2	95.0	(9.7)
% of total volumes	84.3	83.8		84.0	
Revenues (Rs mn)	110,303	96,217	14.6	120,299	(8.3)
Realization (Rs/tonne)	1,287	1,225	5.0	1,267	1.6
<b>E-auction</b>					
Volumes (MT)	11.7	11.2	4.5	13.5	(13.6)
% of total volumes	11.5	11.9		11.9	
Revenues (Rs mn)	26,585	27,154	(2.1)	34,527	(23.0)
Realization (Rs/tonne)	2,282	2,435	(6.3)	2,561	(10.9)
premium % over raw coal	77.3	98.8		102.2	
<b>Washed Coal</b>					
Volumes (MT)	3.2	3.3	(2.7)	3.3	(0.3)
Revenues (Rs mn)	6,758	7,533	(10.3)	7,524	(10.2)
Realization (Rs/tonne)	2,086	2,262	(7.8)	2,315	(9.9)

Source: Company, Centrum Research

### Earning Revision

(Rsbn)	FY13E			FY14E		
	Rev.	Prev.	Chg (%)	Rev.	Prev.	Chg (%)
Revenue	667.6	671.3	(0.6)	720.4	729.4	(1.2)
EBITDA	183.2	187.0	(2.0)	200.8	209.7	(4.3)
EBITDA Margin %	27.4	27.8		27.9	28.8	
PAT	161.0	162.7	(1.1)	177.1	182.3	(2.9)
PAT - adj for OBR	183.6	185.3	(0.9)	200.8	206.1	(2.5)
Sales Volumes (MT)	462.6	462.6	0.0	485.5	485.5	0.0
Blended Realizations (Rs/t)	1443.0	1451.1	(0.6)	1483.8	1502.3	(1.2)

Source: Company, Centrum Research Estimates

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Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

## Financials

### Exhibit 1: Income Statement

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
<b>Revenues</b>	<b>526,162</b>	<b>624,154</b>	<b>667,573</b>	<b>720,402</b>	<b>785,790</b>
Growth in revenues (%)	12.7	18.6	7.0	7.9	9.1
Consn. of stores & spares	52,315	51,970	57,829	63,117	68,788
% of net sales	9.9	8.3	8.7	8.8	8.8
Employee expenses	182,110	252,536	255,995	270,254	284,908
% of net sales	34.6	40.5	38.3	37.5	36.3
Power & fuel	17,546	20,125	23,648	26,307	29,265
% of net sales	3.3	3.2	3.5	3.7	3.7
Overburden removal expenses	26,185	36,939	34,697	36,414	38,215
% of net sales	5.0	5.9	5.2	5.1	4.9
Total expenses	385,592	467,476	485,440	521,068	559,214
% of net sales	73.3	74.9	72.7	72.3	71.2
<b>EBITDA</b>	<b>140,570</b>	<b>156,678</b>	<b>182,133</b>	<b>199,334</b>	<b>226,576</b>
YoY growth (%)	30.8	11.5	16.2	9.4	13.7
EBITDA Margin (%)	26.7	25.1	27.3	27.7	28.8
<b>EBITDA adj (OB removal adjustment)</b>	<b>166,754</b>	<b>193,617</b>	<b>216,830</b>	<b>235,748</b>	<b>264,792</b>
Adj. EBITDA Margin (%)	31.7	31.0	32.5	32.7	33.7
Depreciation & Amortisation	16,729	19,692	19,393	21,643	23,893
<b>EBIT</b>	<b>123,841</b>	<b>136,986</b>	<b>162,740</b>	<b>177,691</b>	<b>202,683</b>
Interest expenses	791	540	1,321	1,221	1,121
Other Income	47,963	63,209	69,000	77,000	87,000
<b>EBT bef. Excep. Items</b>	<b>171,013</b>	<b>199,655</b>	<b>230,419</b>	<b>253,470</b>	<b>288,562</b>
Excep. Items (prior period adj etc)	(6,381)	-	(4,000)	(4,000)	(4,000)
<b>EBT</b>	<b>164,632</b>	<b>199,655</b>	<b>226,419</b>	<b>249,470</b>	<b>284,562</b>
Provision for tax	55,959	64,790	78,932	86,749	98,551
Effective tax rate (%)	34.0	32.5	34.9	34.8	34.6
<b>Net Profit Reported</b>	<b>108,674</b>	<b>147,882</b>	<b>160,255</b>	<b>176,127</b>	<b>200,088</b>
YoY growth (%)	10.6	36.1	8.4	9.9	13.6
<b>Net Profit adjusted (OB removal adj.)</b>	<b>125,958</b>	<b>172,834</b>	<b>182,857</b>	<b>199,878</b>	<b>225,068</b>
Adjusted Net Profit Margin (%)	23.9	27.7	27.4	27.7	28.6
YoY growth (%)	5.5	37.2	5.8	9.3	12.6

Source: Company, Centrum Research Estimates

### Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Equity Share Capital	63,164	63,164	63,164	63,164	63,164
Pref Shares	-	-	-	-	-
Reserves & surplus	301,582	375,173	454,136	537,887	645,598
Shifting & rehabilitation fund	16,214	17,835	19,619	21,580	23,738
Shareholders' fund	380,959	456,171	536,918	622,631	732,500
Total Debt	15,536	14,536	13,536	12,536	11,536
<b>Total Capital Employed</b>	<b>396,821</b>	<b>471,033</b>	<b>550,780</b>	<b>635,492</b>	<b>744,361</b>
Gross Block	367,211	380,964	430,964	480,964	530,964
Less: Acc. Depreciation	261,106	280,798	300,192	321,835	345,728
Net Block	101,585	95,646	126,253	154,609	180,716
Capital WIP	19,260	27,588	32,588	42,588	52,588
Net Fixed Assets	120,845	123,234	158,840	197,197	233,304
Investments	10,637	19,814	10,637	10,637	10,637
Cash	493,688	590,068	699,158	768,893	864,559
Sundry debtors	34,187	56,679	32,921	35,527	38,751
Loans & Advances	120,255	145,023	128,028	138,159	150,699
Inventories	55,856	60,713	66,499	71,379	76,605
Total Current Asset	703,987	852,483	926,605	1,013,958	1,130,614
Current Liab. & Prov.	448,725	537,918	558,588	599,585	643,479
Net Current Asset	255,261	314,565	368,017	414,373	487,135
Deferred tax asset	8,732	11,941	11,941	11,941	11,941
<b>Total Assets</b>	<b>396,821</b>	<b>471,033</b>	<b>550,780</b>	<b>635,492</b>	<b>744,361</b>

Source: Company, Centrum Research Estimates

### Exhibit 3: Cash flow

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
<b>PBT</b>	<b>164,632</b>	<b>212,672</b>	<b>239,187</b>	<b>262,876</b>	<b>298,638</b>
Interest	5,968	540	5,321	5,221	5,121
Depreciation	16,729	19,692	19,393	21,643	23,893
Change in working capital	(22,932)	37,076	55,638	23,380	22,903
Tax	55,959	64,790	78,932	86,749	98,551
<b>Cash flow from operations</b>	<b>110,822</b>	<b>203,603</b>	<b>242,391</b>	<b>228,333</b>	<b>254,164</b>
Change in fixed assets	16,223	22,215	54,865	60,000	60,000
Change in investments	(2,185)	9,177	(9,177)	-	-
<b>Cash flow from investments</b>	<b>(14,038)</b>	<b>(31,392)</b>	<b>(45,688)</b>	<b>(60,000)</b>	<b>(60,000)</b>
Change in equity capital	-	-	-	-	-
Change in debt	(4,096)	(1,000)	(1,000)	(1,000)	(1,000)
Dividends paid	33,616	74,291	81,292	92,377	92,377
Interest paid	5,968	540	5,321	5,221	5,121
<b>Cash flow from financing</b>	<b>(43,680)</b>	<b>(75,831)</b>	<b>(87,613)</b>	<b>(98,598)</b>	<b>(98,498)</b>
Net cash flow	<b>53,104</b>	<b>96,380</b>	<b>109,090</b>	<b>69,735</b>	<b>95,666</b>
Opening cash balance	440,584	493,688	590,068	699,158	768,893
<b>Closing cash balance</b>	<b>493,688</b>	<b>590,068</b>	<b>699,158</b>	<b>768,893</b>	<b>864,559</b>
<b>Free Cash Flow</b>	<b>94,600</b>	<b>181,388</b>	<b>187,525</b>	<b>168,333</b>	<b>194,164</b>

Source: Company, Centrum Research Estimates

### Exhibit 4: Key Ratios

Y/E March	FY11	FY12	FY13E	FY14E	FY15E
<b>Margin Ratios (%)</b>					
EBITDA Margin	26.7	25.1	27.3	27.7	28.8
PBT Margin	31.3	32.0	33.9	34.6	36.2
Adj. PAT Margin	23.9	27.7	27.4	27.7	28.6
<b>Growth Ratio (%)</b>					
Revenue	12.7	18.6	7.0	7.9	9.1
EBITDA	30.8	11.5	16.2	9.4	13.7
<b>Return Ratios (%)</b>					
ROE	28.5	32.4	29.8	28.3	27.3
ROCE	31.2	29.1	29.5	28.0	27.2
<b>Turnover Ratios</b>					
Asset turnover ratio (x)	1.3	1.3	1.2	1.1	1.1
Debtors (days)	24	33	18	18	18
Inventory (days)	53	47	50	50	50
Creditor (days)	425	420	420	420	420
<b>Per share Ratios (Rs)</b>					
Basic EPS	17.2	23.4	25.4	27.9	31.7
Adj. EPS	19.9	27.4	28.9	31.6	35.6
Book value	60.3	72.2	85.0	98.6	116.0
Cash earnings per share	19.9	26.5	28.4	31.3	35.5
Dividend per share	3.9	9.5	11.0	12.5	12.5
<b>Gearing Ratio (x)</b>					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Interest coverage ratio	156.7	253.8	123.2	145.5	180.8
<b>Valuation (x)</b>					
P/E (Adj. Fully Diluted)	17.4	12.7	12.0	11.0	9.7
P/BV	5.7	4.8	4.1	3.5	3.0
EV/EBITDA (adj.)	10.2	8.2	6.9	6.0	5.0
EV/Sales	3.2	2.6	2.2	2.0	1.7
M-cap/Sales	4.2	3.5	3.3	3.0	2.8

Source: Company, Centrum Research Estimates

## Appendix A

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Stock to Sector	Sector to Market	Stock to Market
<b>Outperform</b>	Outperform	Buy
	Neutral	Buy
	Underperform	Accumulate
<b>Neutral</b>	Outperform	Neutral
	Neutral	Neutral
	Underperform	Neutral
<b>Underperform</b>	Outperform	Reduce
	Neutral	Sell
	Underperform	Sell

**Accumulate: Add on decline; Reduce: Sell on rise**

- **Stock to Sector** – This is the relative rating of the stock to the sector and reflects its relative attractiveness vis-à-vis other coverage stocks in the sector.
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**Registration Nos.**

**CAPITAL MARKET SEBI REGN. NO.:** BSE: INB011454239, NSE: INB231454233

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**CDSL DP ID:** 12200. **SEBI REGISTRATION NO.:** IN-DP-CDSL-661-2012

**PMS REGISTRATION NO.:** INP000004383

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