

Coal India

In-line results; all eyes on volume growth now



analysis adds up

India Equity Research | Metals and Mining

November 12, 2012

Results Update

- Coal India (COAL IN) reported an EBITDA of Rs27.9 bn, in line with our estimates.
- The result was driven primarily by high production at 89 mn MT, growth of 11% y-y and offtake volume at 102 mn MT, growth of 9% y-y.
- COAL e-auction realization at Rs2,282/MT (11% below 1Q FY13 and 20% below 4Q FY12), has come under pressure due to global weakness in coal prices.
- COAL could maintain profitability at Rs340/MT in 2Q FY13, flat y-y, despite the tough regulatory environment and high impact issues witnessed over the past year.
- COAL has tracked well in terms of realization and profitability in 1H FY13 and has set a target for 8% production growth in 3Q FY13.
- We reiterate our ACCUMULATE rating with a DCF based PT of Rs384

Production and offtake increase by 11% and 9%, respectively: Despite the lean Monsoon season in 2Q, COAL's renewed focus on volume has resulted in production and offtake at 89 mn MT and 102 mn MT in 2Q FY13, growth of 11% y-y and 9% y-y, respectively. In 1H FY13, the company has already achieved 41% of FY13E production target. Having tracked well in terms of realization and profitability for 1H FY13, the company intends to maintain focus on volume growth, both on production and offtake. Towards this, COAL has guided for improved volume and targets production growth of 8% y-y in 3Q FY13.

E-auction realization under pressure: Blended realization at Rs1,432/MT was below our estimate only by 1%. E-auction realization, however, has continued to slide due to weak global prices and reported at Rs2,822/MT for (a decline of 11% q-q) after peaking at Rs2,852 in 4Q FY12.

Production cost ex-OBR flat y-y at Rs1,175/MT: We believe COAL has managed its costs well over the past year when it witnessed inflationary pressures on most cost. Despite the tough regulatory environment and other high impact issues such as wage settlement witnessed in the past year, the company could manage to keep its cost per MT at the same level as the past year.

Valuation: We have maintained our earnings estimates for FY13 and FY14. We reiterate our ACCUMULATE rating and a PT of Rs384 based on a DCF methodology. We have assumed a beta of 1.2, a risk free rate of 7.5%, an equity risk premium of 7%, and a terminal growth rate of 6%.

Risks: The government's intervention in price hikes for the regulated sector and regulatory concerns restricting volume growth are key risks to our call and estimates.

**Note: We have included OBR (overburden removal expenses) in our operating expenses. The company will start reporting actual OBR expenses instead of normalized OBR expenses once it adopts IFRS.*

ACCUMULATE Rs347

Reuters: COAL.BO

Bloomberg: COAL IN

12m price target Rs384

Kalpesh Makwana

kalpesh.makwana@quantcapital.co.in

+91 22 4088 0379

Ansuman Deb

ansuman.deb@quantcapital.co.in

+91 22 4088 0373

Market Cap Rs2,189bn (US\$40.1 bn)
 52 Week High/Low: Rs386/289
 Share o/s: 6,316.4 mn
 Avg daily trading vol (3m): 1,945 ('000)
 Avg daily trading val (3m): Rs701.3 mn (US\$12.8 mn)
 Source: Bloomberg

quant vs Consensus (Rs)

	PT	EPS (FY14E)
Mean	392	29.6
High	417	39.7
Low	295	22.7
quant	384	33.6

	Buy(s)	Hold(s)	Sell(s)
Nos	38	9	6

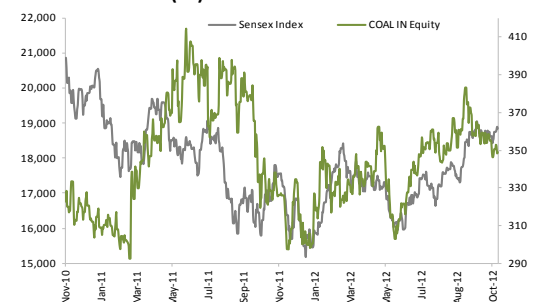
Source: Bloomberg

Shareholding pattern (%)

	Sep12	Jun12	Mar12
Promoters	90.00	90.00	90.00
FIs	5.52	5.55	5.44
MFs/FIs/Banks	1.77	1.73	1.76
Others	2.71	2.72	2.80

Source: BSE

Price movement (Rs) vs the Sensex



Source: Bloomberg

Exhibit 1: Financials and valuation

YE	Revenue		EBITDA		Adj PAT		EPS	PE	EV/EBITDA	ROCE	ROE
	(Rs mn)	Growth (%)	(Rs mn)	Margin (%)	(Rs mn)	Growth (%)					
March											
FY10	446,153	15.0	107,454	24.1	97,027	347.4	15.4	22.3	16.9	25.3	43.9
FY11	502,336	12.6	140,570	28.0	110,761	14.2	17.5	20.2	12.4	18.8	36.8
FY12	624,154	24.3	171,377	27.5	151,829	37.1	24.0	14.8	9.5	16.4	40.1
FY13E	687,881	10.2	201,877	29.3	192,212	26.6	30.4	11.4	7.4	16.0	41.0
FY14E	758,388	10.3	234,051	30.9	212,535	10.6	33.6	10.3	5.8	15.7	34.9

Note: pricing as during 9 November 2012; Source: Company data, quant Global Research estimates

Exhibit 2: Consolidated 2Q FY13 production and offtake increase 10.9% y-y and 8.5% y-y, respectively

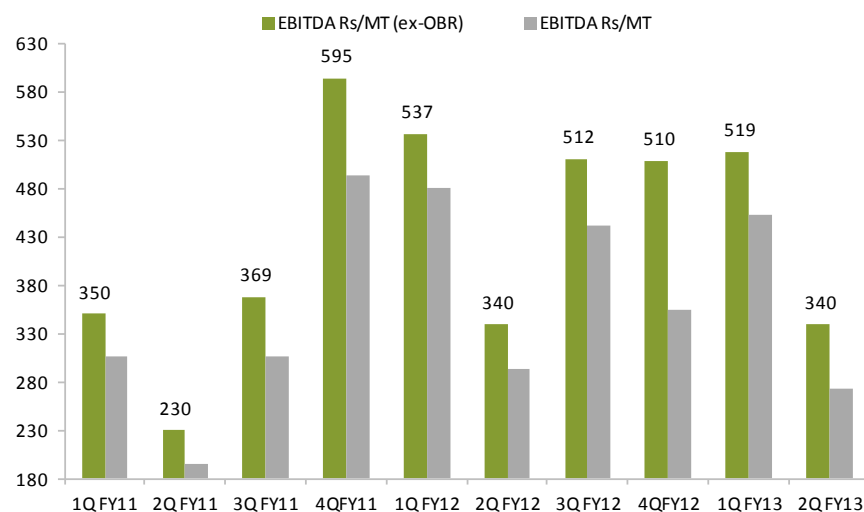
	2QFY13	2QFY12	4QFY12	% change y-y	% change q-q
Quantitative details					
Raw coal production (mn MT)	89	80	102	10.9	(13.1)
Coal Offtake (mn MT)	102	94	113	8.5	(10.0)
Realisation (Rs/MT)	1,432	1,403	1,460	2.1	(1.9)
EBITDA ex OBR/tonne of offtake (Rs)	340	340	519	(0.1)	(34.4)
Production costs ex OBR/MT of production (Rs)	1,175	1,170	995	0.4	18.1

Source: Company data, quant Global Research

Exhibit 3: Financial results in line with our estimates

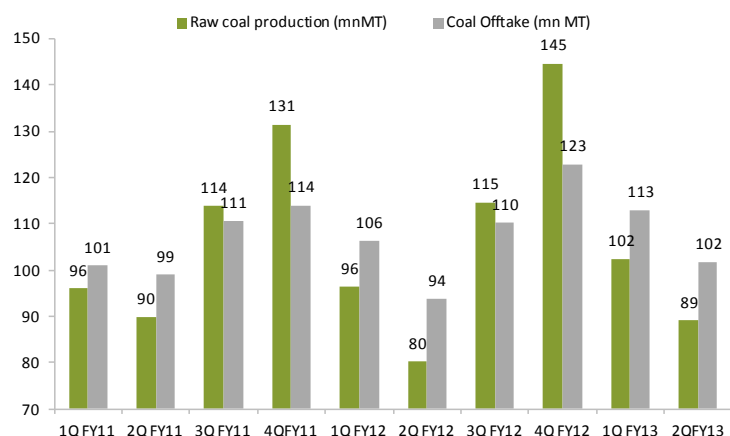
	2QFY13	2QFY12	4QFY12	% change y-y	% change q-q
Net revenues	145,725	131,481	165,006	10.8	(11.7)
Expenditure	(117,853)	(103,935)	(113,670)	13.4	3.7
Stock adjustment	(6,486)	(5,579)	(4,383)	16.3	48.0
Stores and spares	(12,566)	(12,332)	(12,334)	1.9	1.9
Employee costs	(65,364)	(56,907)	(61,301)	14.9	6.6
Power & fuel	(5,611)	(5,248)	(5,138)	6.9	9.2
Social O/H	(3,152)	(3,368)	(4,032)	(6.4)	(21.8)
Other costs	(17,933)	(16,138)	(19,157)	11.1	(6.4)
OB removal adjustment	(6,741)	(4,363)	(7,326)	54.5	(8.0)
EBITDA	27,872	27,546	51,336	1.2	(45.7)
Depreciation	(3,872)	(5,734)	(5,356)	(32.5)	(27.7)
EBIT	24,000	21,812	45,980	10.0	(47.8)
Other income	20,929	17,942	20,714	16.6	1.0
Interest and finance/commitment charges	(102)	(128)	(126)	(20.3)	(18.9)
Pre-tax profits - as reported	44,827	39,626	66,568	13.1	(32.7)
Unusual or infrequent items	549	(2,636)	(3,293)		
Pre-tax profits after exceptional items	45,376	36,990	63,275	22.7	(28.3)
Taxes	(14,703)	(11,132)	(18,582)	32.1	(20.9)
Reported Net Income pre exceptional items	30,673	25,858	44,693	18.6	(31.4)
Adjusted Net Income	31,045	25,931	47,019	19.7	(34.0)
EBITDA (excluding OBR)	34,613	31,909	58,663	8.5	(41.0)

Source: Company data, quant Global Research

Exhibit 4: Profitability at Rs340/MT EBITDA ex-OBR, flat y-y

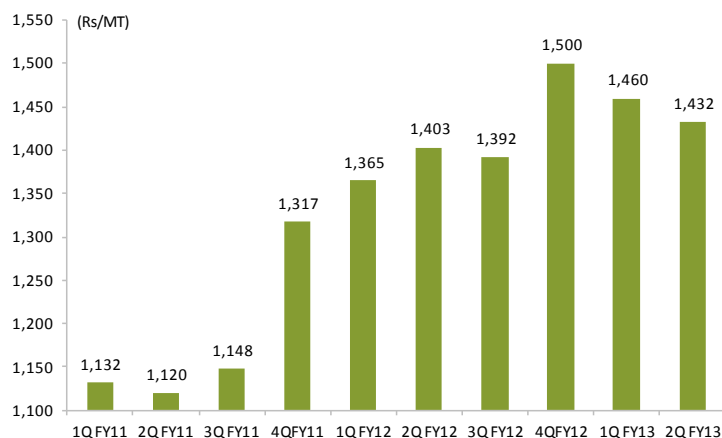
Source: Company data, quant Global Research

Exhibit 5: Production and offtake grow by 11% y-y and 9% y-y, respectively



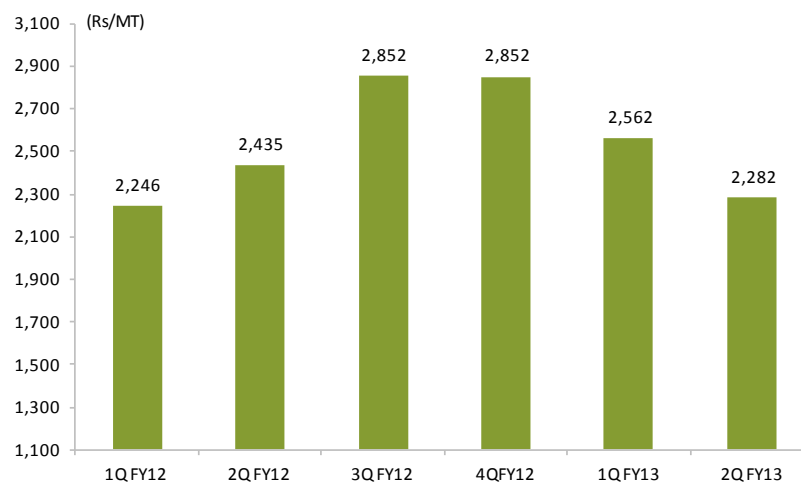
Source: Company data, quant Global Research

Exhibit 6: Weaker e-auction yield drags net realization by 2% q-q



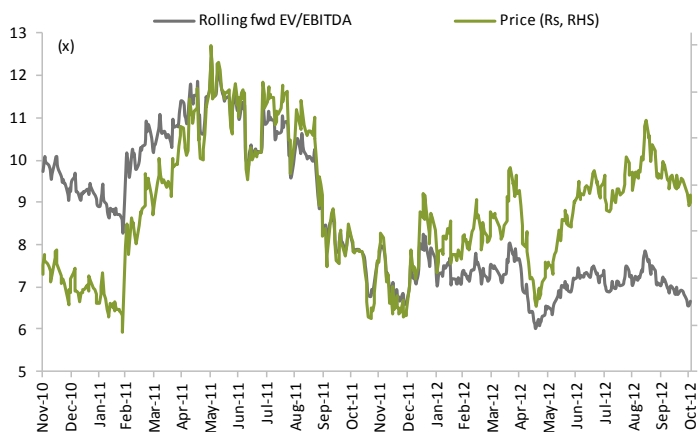
Source: Company data, quant Global Research

Exhibit 7: E-auction realization is down 6% y-y and 11% q-q



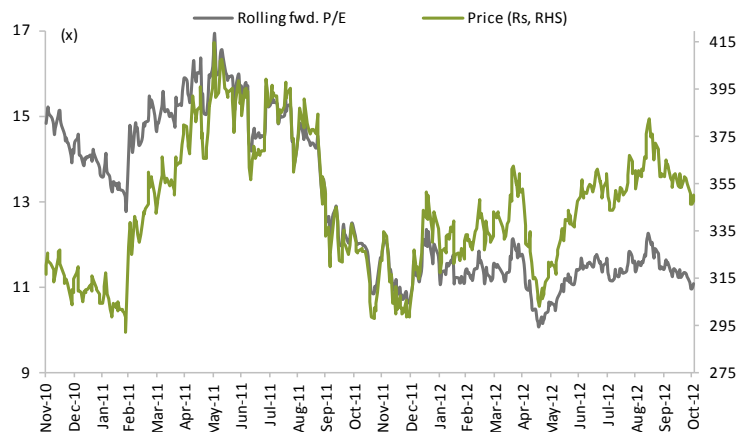
Source: Company data, quant Global Research

Exhibit 8: 12-month forward rolling EV/EBITDA (x)



Source: Bloomberg, quant Global Research estimates

Exhibit 9: 12-month forward rolling P/E (x)



Source: Company data, quant Global Research estimates

Exhibit 10: Profitability trend

(Rs mn)	Revenue (Rs mn)							Adjusted PAT (Rs mn)							EBITDA Margin (%)						
	2QFY13		change y-y (%)					2QFY13		change y-y (%)					2QFY13		2QFY13				
	consensus	actual	2QFY13	1QFY13	4QFY12	3QFY12	2QFY12	consensus	actual	2QFY13	1QFY13	4QFY12	3QFY12	2QFY12	consensus	actual	1QFY13	4QFY12	3QFY12	2QFY12	1QFY12
Sesa Goa #	3,794	2,944	(62.7)	(17.8)	(23.0)	16.3	(14.0)	5,956	3,962	150.6	32.6	(28.2)	(35.5)	(59.2)	25.9	2.0	39	35.7	41.5	32.9	54.4
Hindalco - SA	64,553	61,635	(1.7)	(0.0)	11.7	11.3	7.0	3,837	3,589	(28.6)	(34.0)	(5.1)	(2.1)	15.8	9.0	8.4	7.7	11.3	10.8	10.7	14.4
Coal India	147,455	145,725	10.8	13.8	29.3	20.9	18.6	32,445	31,045	19.7	8.3	(5.3)	53.8	73.0	21.9	19.1	31.1	22.4	31.8	21.0	35.3
Nalco	16,991	16,083	(0.3)	(0.8)	(2.2)	0.4	9.1	1,930	48	(96.5)	(40.8)	(22.1)	(79.9)	(37.8)	16.2	(0.1)	17.4	17.2	4.4	9.5	30.1
NMDC	28,831	26,120	(14.7)	2.1	(31.2)	7.7	24.5	17,651	16,786	(14.5)	5.8	(20.1)	22.0	42.4	81.0	74.1	81.0	76.2	80.1	79.5	81.0
Hindustan Zinc	27,495	28,655	8.7	(3.5)	(3.2)	6.0	20.0	13,929	15,398	12.9	(1.1)	(19.9)	(0.8)	44.0	51.9	50.4	52	52.9	50.3	55.6	55.9
Not Covered																					
JSPL - SA	41,280	35,890	7.7	31.8	22.2	36.8	45.0	6,615	5,822	15.3	23.2	(3.5)	(8.1)	(17.2)	30.7	35.1	31.2	31.4	30.2	32.6	38.1
SAIL	111,173	108,202	(1.5)	(1.0)	14.6	(3.7)	2.2	7,436	5,142	(38.4)	2.0	(28.3)	(13.5)	(14.1)	12.7	10.3	14.1	13.7	14.7	12.1	12.0
Tata Steel	316,444	341,327	(5.9)	2.5	0.5	13.8	15.0	2,478	(3,925)	nm	(76.8)	(90.0)	nm	(82.0)	9.0	6.8	10.1	9.3	5.2	9.1	12.7
Sterlite	104,448	111,026	8.9	8.0	4.0	23.7	67.6	12,379	16,125	6.6	(11.5)	(30.6)	13.9	55.1	22.6	22.8	21.7	25.0	22.5	24.3	28.0
JSW Steel - SA	84,398	88,709	16.2	27.8	34.3	35.6	32.1	4,427	5,132	5.6	19.3	(3.8)	(10.6)	45.8	17.8	17.2	19.6	17.3	15.9	17.0	19.7

Note: SA is standalone, # Under Review; Source: Company data, quant Global Research, Bloomberg consensus estimates

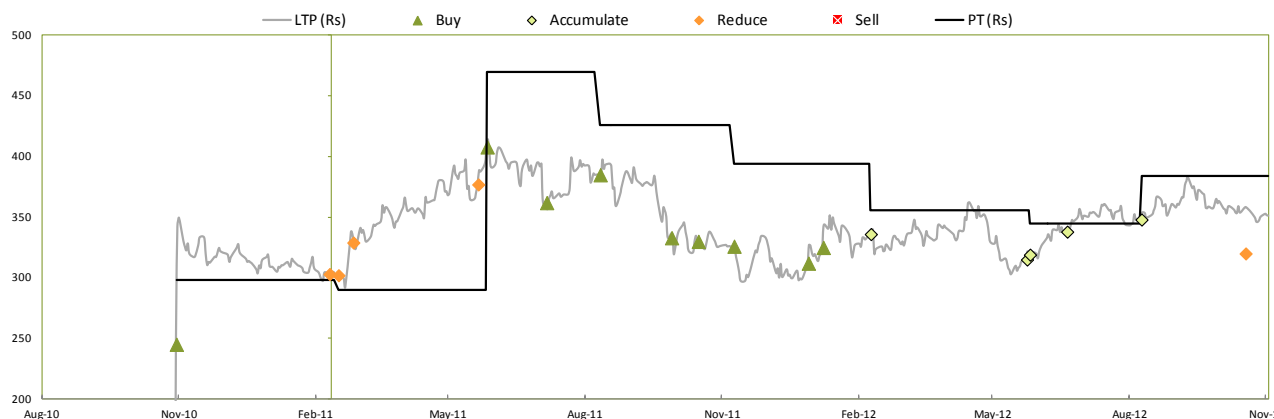
Key financials

Exhibit 11: Financial statements (YE March)

Income statement (Rs mn)	FY10	FY11	FY12	FY13E	FY14E	Balance sheet (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net revenues	446,153	502,336	624,154	687,881	758,388	Equity capital	63,164	63,164	63,164	63,164	63,164
Expenditure	(338,699)	(361,766)	(452,778)	(486,003)	(524,337)	Reserves and surplus	194,789	269,978	341,367	470,415	619,787
Raw materials	(42,598)	(39,368)	(51,230)	(51,658)	(55,662)	Long term Provisions/Liabilities	14,774	245,182	309,183	312,683	316,183
Employee expenses	(166,555)	(182,110)	(252,536)	(271,298)	(287,982)	Deferred tax liability	(9,604)	(8,732)	(11,941)	(11,941)	(11,941)
Other expenditure	(99,006)	(114,103)	(112,073)	(132,032)	(144,405)	Total Equity	263,123	569,592	701,773	834,321	987,193
OB Removal Adjustment	(30,539)	(26,185)	(36,939)	(31,015)	(36,287)	Long term borrowings	19,631	13,338	13,333	13,333	13,333
EBITDA	107,454	140,570	171,377	201,877	234,051	Minority interest	236	326	536	536	536
Depreciation	(13,295)	(16,729)	(19,692)	(18,493)	(22,048)	Current liabilities	415,557	266,659	341,884	343,940	379,194
EBIT	94,159	123,841	151,684	183,384	212,003	Total capital	698,547	849,914	1,057,526	1,192,130	1,380,256
Non-operating income	49,006	47,963	75,369	95,179	95,886	Cash	390,778	458,064	582,028	703,763	852,852
Interest expenses	(886)	(791)	(540)	(1,200)	(1,200)	Inventory	44,018	55,856	60,713	69,501	78,729
Reported pre-tax profits	142,280	171,013	226,514	277,363	306,689	Debtors	21,686	34,187	56,679	41,273	45,503
Taxes	(43,425)	(55,959)	(64,845)	(85,150)	(94,153)	Short term loan/other current assets	86,777	132,947	163,990	171,970	189,597
Profit before extraordinary items	98,855	115,054	161,669	192,212	212,535	Current investments	-	2,127	10,344	10,344	10,344
Extraordinary items	(2,630)	(6,381)	(13,787)	-	-	Total current assets	543,259	683,183	873,754	996,852	1,177,026
Reported net income	96,224	108,674	147,882	192,212	212,535	Gross block	349,453	367,211	380,964	410,964	440,964
Adjusted net income	97,027	110,761	151,829	192,212	212,535	Less: Depreciation	(229,144)	(240,387)	(246,561)	(265,055)	(287,103)
						Net block	120,310	126,824	134,403	145,910	153,861
EPS (Rs), based on wtd avg shares	15.4	17.5	24.0	30.4	33.6	Add: Capital work-in-process	22,107	22,181	29,034	29,034	29,034
EPS (Rs), based on fully diluted shares	15.4	17.5	24.0	30.4	33.6	Total fixed assets	142,416	149,005	163,437	174,943	182,895
Year-end shares outstanding (mn)	6,316	6,316	6,316	6,316	6,316	Long term Loans/assets	-	9,217	10,865	10,865	10,865
Weighted average shares outstanding (mn)	6,316	6,316	6,316	6,316	6,316	Investments	12,872	8,510	9,470	9,470	9,470
Fully diluted shares outstanding (mn)	6,316	6,316	6,316	6,316	6,316	Total assets	698,547	849,914	1,057,526	1,192,130	1,380,256
Cash flow statement (Rs mn)	FY10	FY11	FY12	FY13E	FY14E	Ratios (%)	FY10	FY11	FY12	FY13E	FY14E
Cash flow from operating activities						Effective tax rate	30.5	32.7	28.6	30.7	30.7
PBT	144,039	164,632	212,727	277,363	306,689	EBITDA margins	24.1	28.0	27.5	29.3	30.9
Add: Depreciation	6,795	17,654	19,692	18,493	22,048	EBIT margins	21.1	24.7	24.3	26.7	28.0
Interest paid	-	(25,854)	(49,951)	1,200	1,200	Net debt/equity	(149.4)	(137.1)	(144.9)	(132.4)	(125.1)
Less: Taxes paid	(39,990)	(56,228)	(67,044)	(85,150)	(94,153)	ROACE	25.3	18.8	16.4	16.0	15.7
Add: Working capital changes + others	22,183	(13,159)	83,455	694	4,169	ROAE	43.9	36.8	40.1	41.0	34.9
Total operating cash flow	133,026	87,045	198,879	212,599	239,952						
Operating Cash flow w/o WC	110,843	100,204	115,424	211,906	235,783	Key assumptions					
						Raw coal volumes (mn tons)	395	404	414	426	448
Cash flow from investing activities						Beneficiated coal volumes (mn tons)	15	15	19	20	21
Capital expenditure	(19,804)	(25,682)	(34,094)	(30,000)	(30,000)	Raw coal realisation (Rs/ton)	1,045	1,143	1,400	1,498	1,573
Investments	-	36,085	33,000	-	-	Beneficiated coal realisation (Rs/ton)	2,134	2,203	2,328	2,490	2,615
Redemption of power bond	2,230	-	-	-	-	Non-coking coal production (mn tons)	395	395	400	414	434
Misc expenditure not written off	-	-	-	-	-	Coking coal production (mn tons)	36	36	36	37	39
Total investing cash flow	(17,573)	10,403	(1,094)	(30,000)	(30,000)						
						Valuations (x)					
Cash flow from financing activities						Price to Diluted earnings	22.3	20.2	14.8	11.4	10.3
Share issuances & MI	-	-	-	-	-	EV/EBITDA	16.9	12.4	9.5	7.4	5.8
Loans	(616)	(5,035)	(2,474)	-	-	EV/Sales	4.1	3.5	2.6	2.2	1.8
Redemption of bond	-	-	-	-	-	M.cap/Sales	4.9	4.4	3.5	3.2	2.9
Less: Dividends paid (including dividend tax)	(22,100)	(25,832)	(74,291)	(63,164)	(63,164)	Price to book	8.3	3.8	3.1	2.6	2.2
Increase in provisions/funds	2,536	1,439	3,483	3,500	3,500						
Interest and finance charges paid	(1,445)	(737)	(540)	(1,200)	(1,200)	Per share numbers (Rs)					
Total financing cash flow	(21,625)	(30,165)	(73,821)	(60,864)	(60,864)	Reported Earnings	15.4	17.5	24.0	30.4	33.6
						Diluted Earnings	15.4	17.5	24.0	30.4	33.6
Net change in cash	93,828	67,282	123,963	121,736	149,088	Cash earnings	17.5	20.2	27.2	33.4	37.1
Opening cash	296,950	390,782	458,064	582,028	703,763	Free cash	17.9	9.7	26.1	28.9	33.2
Closing cash	390,778	458,064	582,028	703,763	852,852	Book	41.7	90.2	111.1	132.1	156.3

Note: pricing date as on 9 November 2012; Source: Company data, quant Global Research estimates

Rating history – Coal India



Source: quant Global Research estimates

Ratings and other definitions

Stock rating system

BUY. We expect the stock to deliver >15% absolute returns.

ACCUMULATE. We expect the stock to deliver 6-15% absolute returns.

REDUCE. We expect the stock to deliver +5% to -5% absolute returns.

SELL. We expect the stock to deliver negative absolute returns of >5%.

Not Rated (NR). We have no investment opinion on the stock.

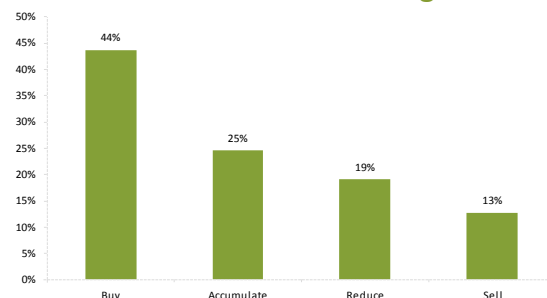
Sector rating system

Overweight. We expect the sector to relatively outperform the Sensex.

Underweight. We expect the sector to relatively underperform the Sensex.

Neutral. We expect the sector to relatively perform in line with the Sensex.

Institutional Equities Research coverage universe – distribution of ratings



Analyst certification

"We, Kalpesh Makwana and Ansuman Deb, hereby certify all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

Disclaimer

quant Group generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, quant Group generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

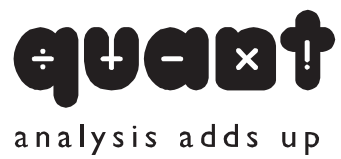
This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of quant Group. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. quant Group does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market maker or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or advisory services for or relating to those companies and may also be represented in the supervisory board or any other committee of those companies.

For the purpose of calculating whether quant Group and its affiliates hold, beneficially own, or control, including the right to vote for directors, 1% or more of the equity shares of the subject, the holding of the issuer of a research report is also included.

quant Group and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, affectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this material may be (i) copied, photocopied, or duplicated in any form by any means or (ii) redistributed without quant Group's prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.



612, maker chambers IV, nariman point, mumbai 400 021, india
phone 91 22 4088 0100, 3025 0100 fax 91 22 4088 0198, 3025 0198