

Coal India raises coal prices selectively

■ Coal price increases to generate additional Rs62bn in FY12 revenue

CI has increased coal prices which will help increase its revenues by Rs6.5bn/Rs62bn in FY11/FY12. At 447mt of sale in FY12, this would imply 12% increase in average coal prices over 9MFY11 ASP of Rs1,136/t. (We est 9% price increase over FY11-13). However, CI has not been able to confirm price increases across various grades and quantities on which it will be applicable.

■ Media reports indicate introduction of dual pricing

As per media reports 1) Power utilities, IPPs, fertiliser & defence sectors have been exempt from price hikes except for consumers of MCL (Mahanadi Coalfields Ltd) – all consumers of MCL (incl power utilities) will face c20% price increase (Rs90/t) to bring it in line with South Eastern Coal Fields (SECL) – in FY10 MCL sold 104mt. 2) A, B grade coal will be sold at 15% discount to global prices (7% of total volumes) while 3) C-F grade will be higher by 30% for the non-core sector

■ Likely upside risk to our estimates; no clarity on further price hikes

We believe this is a positive step and will allay investor concerns on CI's profitability given recent concerns on volume growth and higher wage bill due to increase in dearness allowance (49% vs 27.7% in Oct 09). We will revisit our estimates as we get more clarity on current & future hikes (wage negotiations in Jun '11) from CI. There is likely to be upside risks to our earnings though marginal downside risk to volumes (447/470mt in FY12/FY13 vs guidance of 428/447mt)

■ Valuation: Maintain Buy and PT of Rs400

We continue to value CI using a target PE multiple (16.5x December 2012E EPS).

Highlights (Rsm)	03/10	03/10	03/11E	03/12E	03/13E
Revenues	408,108	466,843	538,718	577,289	662,024
EBIT (UBS)	28,653	91,523	120,703	126,634	172,464
Net Income (UBS)	40,595	98,294	113,395	124,387	160,913
EPS (UBS, Rs)	6.43	15.56	17.95	19.69	25.48
Net DPS (UBS, Rs)	2.70	3.50	4.04	4.43	5.73

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	-	19.6	22.4	21.9	26.1
ROIC (EBIT) %	-	95.0	106.5	90.2	95.9
EV/EBITDA (core) x	-	-	11.1	9.9	7.0
PE (UBS) x	-	-	16.3	14.8	11.5
Net dividend yield %	-	-	1.4	1.5	2.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs291.90 on 25 Feb 2011 23:38 SGT

Navin Gupta, CFA

Analyst

navin-kumar.gupta@ubs.com

+91-22-6155 6052

Global Equity Research

India

Mining

12-month rating **Buy**
Unchanged

12m price target **Rs400.00/US\$8.81**
Unchanged

Price **Rs291.90/US\$6.43**

RIC: COAL.BO BBG: COAL IB

28 February 2011

Trading data (local/US\$)

52-wk range	Rs342.35-291.90/US\$7.76-6.44
Market cap.	Rs1,844bn/US\$40.6bn
Shares o/s	6,316m (ORD)
Free float	10%
Avg. daily volume ('000)	4,564
Avg. daily value (m)	Rs1,424.5

Balance sheet data 03/11E

Shareholders' equity	Rs337bn
P/BV (UBS)	5.5x
Net Cash (debt)	Rs467bn

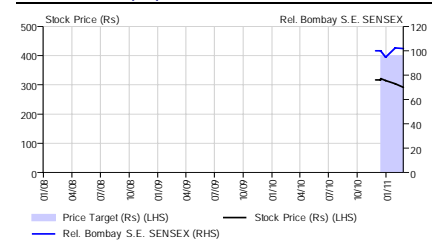
Forecast returns

Forecast price appreciation	+37.0%
Forecast dividend yield	1.4%
Forecast stock return	+38.4%
Market return assumption	13.1%
Forecast excess return	+25.3%

EPS (UBS, Rs)

	03/11E		03/10
	UBS	Cons.	Actual
Q1E	4.49	4.49	3.89
Q2E	4.49	4.49	3.89
Q3E	4.49	4.49	3.89
Q4E	4.49	4.49	3.89
03/11E	17.95	17.95	
03/12E	19.69	19.69	

Performance (Rs)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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Coal India

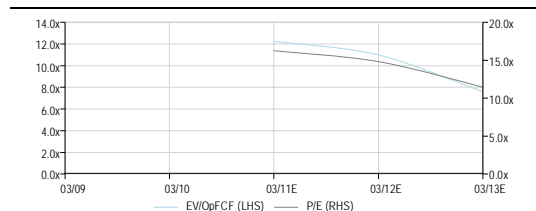
Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	307,559	315,427	346,084	408,108	466,843	538,718	15.4	577,289	7.2	662,024	14.7
Operating expenses (ex depn)	(233,329)	(261,879)	(294,168)	(362,546)	(362,026)	(401,734)	11.0	(433,054)	7.8	(470,066)	8.5
EBITDA (UBS)	74,230	53,547	51,916	45,562	104,817	136,984	30.7	144,235	5.3	191,958	33.1
Depreciation	(13,473)	(13,578)	(15,606)	(16,909)	(13,295)	(16,281)	22.5	(17,601)	8.1	(19,494)	10.8
Operating income (EBIT, UBS)	60,757	39,969	36,310	28,653	91,523	120,703	31.9	126,634	4.9	172,464	36.2
Other income & associates	21,669	15,478	12,986	26,142	28,277	23,101	-18.3	24,360	5.4	25,926	6.4
Net interest	8,022	12,726	17,818	25,314	24,239	26,076	7.6	35,354	35.6	42,678	20.7
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	90,448	68,174	67,113	80,109	144,039	169,881	17.9	186,348	9.7	241,068	29.4
Tax	(29,655)	(26,283)	(29,537)	(39,514)	(45,745)	(56,485)	23.5	(61,961)	9.7	(80,155)	29.4
Profit after tax	60,793	41,890	37,576	40,595	98,294	113,395	15.4	124,387	9.7	160,913	29.4
Abnormal items (post-tax)	343	162	5,274	33	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	61,136	42,053	42,850	40,628	98,294	113,395	15.4	124,387	9.7	160,913	29.4
Net Income (UBS)	60,793	41,890	37,576	40,595	98,294	113,395	15.4	124,387	9.7	160,913	29.4
Tax rate (%)	33	39	44	49	32	33	4.7	33	0.0	33	0.0
Pre-abnormal tax rate (%)	33	39	44	49	32	33	4.7	33	0.0	33	0.0
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	9.68	6.66	6.78	6.43	15.56	17.95	15.4	19.69	9.7	25.48	29.4
EPS (UBS)	9.63	6.63	5.95	6.43	15.56	17.95	15.4	19.69	9.7	25.48	29.4
Net DPS	2.00	2.37	2.70	2.70	3.50	4.04	15.4	4.43	9.7	5.73	29.4
Cash EPS	11.76	8.78	8.42	9.10	17.67	20.53	16.2	22.48	9.5	28.56	27.1
BVPS	22.57	25.67	27.23	30.10	40.92	53.42	30.5	67.13	25.7	84.86	26.4
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	114,515	116,543	120,071	129,283	142,416	164,135	15.3	193,034	17.6	242,183	25.5
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	26,983	11,547	6,748	(26,024)	(25,912)	(22,967)	-11.4	(19,763)	-14.0	(19,503)	-1.3
Other liabilities	(9,328)	(9,212)	(11,259)	(12,238)	(14,774)	(16,144)	9.3	(17,453)	8.1	(18,907)	8.3
Operating invested capital	132,170	118,878	115,559	91,020	101,730	125,024	22.9	155,819	24.6	203,773	30.8
Investments	22,445	20,259	17,179	15,052	12,823	12,823	0.0	12,823	0.0	12,823	0.0
Total capital employed	154,615	139,137	132,738	106,072	114,553	137,848	20.3	168,642	22.3	216,596	28.4
Shareholders' equity	142,536	162,131	172,007	190,081	258,453	337,388	30.5	423,974	25.7	535,986	26.4
Minority interests	0	0	0	19	221	221	0.0	221	0.0	221	0.0
Total equity	142,536	162,131	172,007	190,100	258,673	337,608	30.5	424,195	25.6	536,207	26.4
Net debt / (cash)	(111,082)	(137,854)	(190,776)	(275,465)	(369,909)	(467,371)	26.3	(564,829)	20.9	(675,151)	19.5
Other debt-deemed items	123,161	114,859	151,507	191,436	225,789	267,611	18.5	309,276	15.6	355,540	15.0
Total capital employed	154,615	139,137	132,738	106,072	114,553	137,848	20.3	168,642	22.3	216,596	28.4
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	60,757	39,969	36,310	28,653	91,523	120,703	31.9	126,634	4.9	172,464	36.2
Depreciation	13,473	13,578	15,606	16,909	13,295	16,281	22.5	17,601	8.1	19,494	10.8
Net change in working capital	9,559	10,938	(5,053)	14,377	(12,170)	(2,945)	-75.8	(3,205)	8.8	(260)	-91.9
Other (operating)	21,526	6,046	53,307	59,847	56,130	66,201	17.9	67,042	1.3	72,944	8.8
Operating cash flow (pre tax/interest)	105,315	70,532	100,170	119,786	148,777	200,241	34.6	208,072	3.9	264,642	27.2
Net interest received / (paid)	8,022	12,726	17,818	25,314	24,239	26,076	7.6	35,354	35.6	42,678	20.7
Dividends paid	(14,154)	(18,875)	(19,953)	(17,054)	(22,100)	(34,461)	55.9	(37,801)	9.7	(48,901)	29.4
Tax paid	(29,661)	(23,325)	(29,297)	(27,907)	(39,990)	(56,485)	41.2	(61,961)	9.7	(80,155)	29.4
Capital expenditure	(12,446)	(15,342)	(18,350)	(18,746)	(19,804)	(38,000)	91.9	(46,500)	22.4	(68,642)	47.6
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	-	1,056	2,534	3,296	3,321	1,369	-58.8	1,310	-4.4	1,454	11.0
Share issues	0	0	0	0	0	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	58,705	26,771	52,922	84,690	94,444	98,740	4.5	98,474	-0.3	111,076	12.8
FX / non cash items	-	0	0	0	0	(1,278)	-	(1,016)	-20.5	(754)	-25.8
Balance sheet (inc)/dec in net debt	-	26,771	52,922	84,690	94,444	97,462	3.2	97,458	0.0	110,322	13.2
Core EBITDA	74,230	53,547	51,916	45,562	104,817	136,984	30.7	144,235	5.3	191,958	33.1
Maintenance capital expenditure	(9,239)	(9,589)	(10,028)	(10,552)	(11,147)	(12,287)	10.2	(13,682)	11.4	(15,741)	15.1
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	64,992	43,958	41,888	35,010	93,670	124,697	33.1	130,553	4.7	176,217	35.0

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

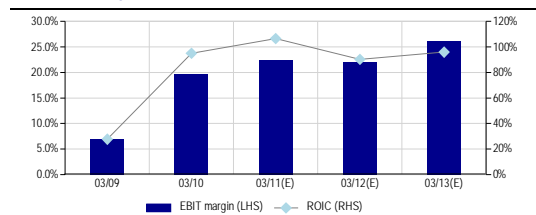
Company profile

Coal India is the largest coal company in the world (primarily thermal coal). The government owns 90% of the company. It sells its entire output (415Mt in FY10) in the domestic market. Coal India sells coal at a significant discount (55-60%) to international coal prices.

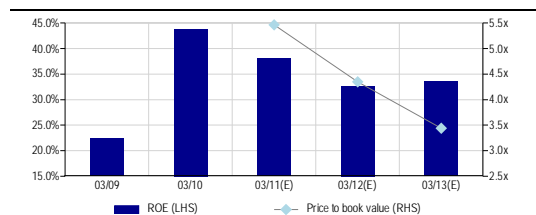
Value (EV/OpFCF & P/E)



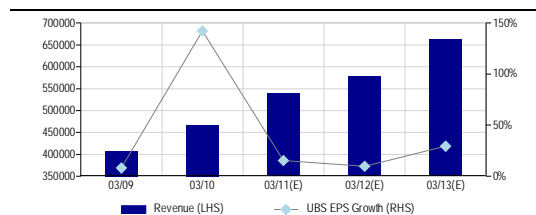
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	-	-	-	16.3	14.8	11.5
P/E (UBS)	-	-	-	16.3	14.8	11.5
P/CEPS	-	-	-	14.2	13.0	10.2
Net dividend yield (%)	-	-	-	1.4	1.5	2.0
P/BV	-	-	-	5.5	4.3	3.4
EV/revenue (core)	-	-	-	2.8	2.5	2.0
EV/EBITDA (core)	-	-	-	11.1	9.9	7.0
EV/EBIT (core)	-	-	-	12.6	11.3	7.8
EV/OpFCF (core)	-	-	-	12.2	11.0	7.6
EV/op. invested capital	-	-	-	NM	NM	7.4

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	-	-	1,843,640	1,843,640	1,843,640
+ minority interests	19	221	221	221	221
+ average net debt (cash)	(233,120)	(322,687)	(418,640)	(516,100)	(619,990)
+ pension obligations and other	101,647	105,648	114,100	119,689	126,871
- non-core asset value	(15,052)	(12,823)	(12,823)	(12,823)	(12,823)
Core enterprise value	-	-	1,526,498	1,434,627	1,337,918

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	-	17.9	14.4	15.4	7.2	14.7
EBITDA (UBS)	-	-12.2	130.1	30.7	5.3	33.1
EBIT (UBS)	-	-21.1	NM	31.9	4.9	36.2
EPS (UBS)	-	8.0	142.1	15.4	9.7	29.4
Cash EPS	-	8.1	94.1	16.2	9.5	27.1
Net DPS	-	0.0	29.6	15.4	9.7	29.4
BVPS	-	10.5	36.0	30.5	25.7	26.4

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	-	11.2	22.5	25.4	25.0	29.0
EBIT / revenue	-	7.0	19.6	22.4	21.9	26.1
Net profit (UBS) / revenue	-	9.9	21.1	21.0	21.5	24.3

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	-	27.7	NM	NM	NM	NM
ROIC post tax	-	14.1	64.8	71.1	60.2	64.0
Net ROE	-	22.4	43.8	38.1	32.7	33.5

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	-	2.4	4.4	4.4	4.4	4.4
Div. payout ratio (% , UBS EPS)	-	42.0	22.5	22.5	22.5	22.5
Net debt / EBITDA	-	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	-	4.0	4.8	4.8	4.1	3.7
Revenue / fixed assets	-	3.3	3.4	3.5	3.2	3.0
Revenue / net working capital	-	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	-	1.2	1.0	1.0	1.0	1.0
Capex / revenue (%)	-	4.6	4.2	7.1	8.1	10.4
Capex / depreciation	-	1.1	1.5	2.3	2.6	3.5

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	-	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	-	NM	NM	NM	NM	NM
Net debt (core) / EV	-	-	-	(27.4)	(36.0)	(46.3)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs291.90 on 25 Feb 2011 23:38 SGT Market cap(E) may include forecast share issues/buybacks.

Navin Gupta, CFA

Analyst

navin-kumar.gupta@ubs.com

+91-22-6155 6052

■ Coal India

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■ Statement of Risk

Coal India is expanding capacity significantly; any delay in capacity expansion will be a risk for the company. Another key risk for the company is wagon availability from the Indian Railways. Introduction of mining tax profit or increase in increase is likely to be another risk for the company.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Securities India Private Ltd: Navin Gupta, CFA.

Company Disclosures

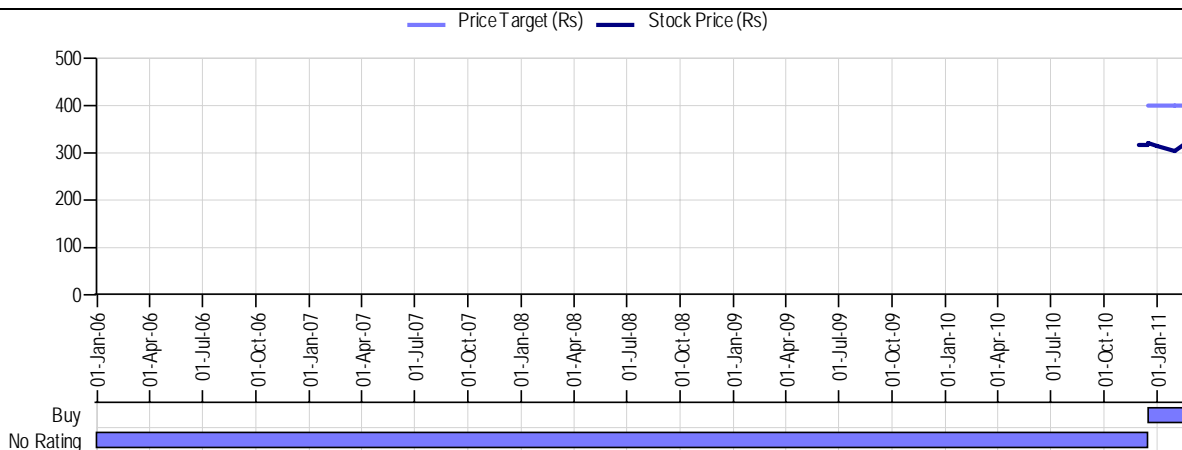
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Coal India	COAL.BO	Buy	N/A	Rs328.15	28 Feb 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Coal India (Rs)



Source: UBS; as of 28 Feb 2011

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