

RESULTS FIRST LOOK

At Rs25.8bn, 2QFY12 normalized PAT was 22% above our forecast, but 8% below consensus; reported PAT was Rs25.9bn (up 74% YoY, down 23% QoQ). Earnings surprise was driven by 5.5% above-forecast realization (up ~3% QoQ to Rs1403/ton); 11.9% offtake was via e-auction, realization up 8.4% QoQ. Provision for wage revision was on expected lines at ~Rs8bn (builds in ~25% wage hike). Await commentary at the earnings call on rakes availability, offtake/production targets, dialogue on wage revision and cash deployment. Our earnings forecast and TP for CIL are under review; maintain BUY.

Price target: 433.0 INR

Price (11 Nov 2011): 326.1 INR

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2QFY12 – Realization surprises positively; earnings build-in ~25% wage revision

- Earnings vs. our Forecast: **ABOVE**

Likely Impact:

- Earnings Estimates: **NO CHANGE**

- Dividend Estimates: **NO CHANGE**

- Price Target: **NO CHANGE**

- Long-term View: **CONFIRMED**

Coal India (CIL) posted a normalized PAT of Rs25.8bn in 2QFY12 (22% above our forecast, but 8% below consensus); reported PAT was Rs25.9bn (up 74% YoY, down 23% QoQ). In a nutshell, the earnings surprise was driven by 5.5% higher-than-expected blended realization (up ~3% QoQ to Rs1403/ton). Provision for wage revision was on expected lines at ~Rs8bn, building in a wage hike of ~25%. A five-point summary of CIL's 2QFY12 financials follows –

Exhibit 1. COAL – 2QFY12 Actual vs Estimates

COAL - 2QFY12 (Rs million)	Actual	Nomura Estimate	Actual vs. Est.	Cons. Estimate	Actual vs. Cons.
Offtake (mt)	93.7	93.9	-0.2%		
Realization (Rs/mt)	1,403	1,330	5.5%		
Sales	131,481	124,891	5.3%	134,089	-1.9%
Adj. EBITDA*	29,181	23,453	24.4%	29,787	-2.0%
Adj. Net Profit	25,766	21,157	21.8%	27,910	-7.7%
Reported PAT	25,931	21,157	22.6%	27,910	-7.1%

Note: Consensus = Bloomberg mean estimates

* Adj. EBITDA = EBITDA less OB Adj Removal; definition of consensus EBITDA not available

Source: Company data, Bloomberg, Nomura research

[1] Blended realization up ~3% QoQ, leads to sharp surprise at the EBITDA level

At Rs131bn, revenues were 5.3% above our expectations primarily due to higher blended realization (Rs1403/ton, 5.5% above our forecast of Rs1330/ton). Total opex was largely in line with our forecast (higher-than-expected expenses relating to power/fuel and consumption of stores/spares was offset by lower-than-expected employee cost); accordingly, surprise at the top line resulted in adjusted EBITDA (excluding OB Adj. removal) coming 24% above our forecast.

[2] e-auction sales were 11.9% of raw coal offtake, realization up 8.4% QoQ

At 11.2mt, e-auction sales volume was 10% above forecast and accounted for 11.9% of total raw coal offtake during the quarter. At Rs2435/ton (up 8.4% QoQ), e-auction realization was 7% above our forecast. Notably, e-auction sales account for 12.3% of offtake

and ~21% of revenues in 1HFY12.

[3] Beneficiated/FSA revenues re-grouped for 1QFY12; washed coal realization up 3.8% QoQ

At 3.3mt, beneficiated sales volume was 17% above forecast; for 1HFY12, beneficiated coal sales account for 3.6% of offtake and ~6% of revenues in 1HFY12.

[4] Provision for upcoming wage revision is ~Rs8bn (on expected lines)

CIL commenced provisioning for the upcoming revision of non-executive wages on expected lines – management set aside ~Rs8bn in 2QFY12, implying that provisioning is being done for ~25% hike in wages. However, the overall wage bill was 4% below our forecast.

[5] Unexpected spike in impairment/depreciation offset by higher-than-expected 'other income'

While depreciation (including amortization & impairment) was up 33% QoQ, non-operating income (including recovery of transport/loading charges) surprised once again, up 15% QoQ (18% above our forecast).

Earnings call tomorrow (14 Nov); we await management commentary on key issues

Besides clarifications on a few items in its 2QFY12 reported financials (including impairment, transport/loading charges and sharp spike in ex-wages opex), we look forward to management's commentary on 1) guidance for rakes availability, full year offtake/production target. 2) expected magnitude and timeline of employee wage revision, 3) status of e-auction coal earmarked for the power sector in October, and 4) expected deployment of cash towards overseas acquisition and/or buyback/cross-holdings.

Exhibit 2. COAL – 2QFY12 Consolidated Earnings Summary

Qtrly - Snapshot	2QFY12	2QFY11	YoY	1QFY12	QoQ	2QFY12F	Act
	Sep-11	Sep-10	(%)	Jun-11	(%)	Sep-11	vs Est
Operational Metrics							
Production (mn tons)	80.3	90.5	-11%	96.3	-17%	79.2	1%
Offtake (mn tons)	93.7	98.8	-5%	106.3	-12%	93.9	0%
Realization (Rs/ton)	1,403	1,122	25%	1,365	3%	1,330	5%
EBITDA (Rs/ton)	311	223	40%	509	-39%	250	25%
Key Financials (INR m)							
Revenues	131,481	116,677	13%	144,991	-9%	124,891	5%
Employee Cost	(56,907)	(47,812)	19%	(48,721)	17%	(59,439)	-4%
Consumption of Stores / Spares	(12,332)	(12,700)	-3%	(11,325)	9%	(10,296)	20%
Power & Fuel	(5,248)	(4,278)	23%	(4,627)	13%	(3,960)	33%
Contractual Expenses	(9,645)	(10,554)	-9%	(11,059)	-13%	(9,504)	1%
Others	(18,168)	(19,297)	-6%	(15,140)	20%	(18,238)	0%
EBITDA (pre OB removal adj.)	29,181	22,036	32%	54,120	-46%	23,453	24%
Margin	22.2%	18.9%		37.3%		18.8%	
OB removal adj.	(4,363)	(3,446)	27%	(5,881)	-26%	(4,125)	6%
EBITDA (reported)	24,819	18,590	34%	48,239	-49%	19,328	28%
Margin	18.9%	15.9%		33.3%		15.5%	
Depreciation	(5,734)	(3,701)	55%	(4,308)	33%	(3,959)	45%
EBIT	19,085	14,889	28%	43,931	-57%	15,369	24%
Interest expenses	(128)	(176)	-27%	(97)	32%	(146)	-12%
Other Income	17,942	11,576	55%	15,589	15%	15,218	18%
PBT	36,898	26,289	40%	59,423	-38%	30,442	21%
Taxes	(11,132)	(9,377)	19%	(18,115)	-39%	(9,285)	20%
Normalized PAT	25,766	16,912	52%	41,308	-38%	21,157	22%
Extraordinary items	165	(1,967)	NM	132	25%	-	-
Reported PAT	25,931	14,945	74%	41,439	-37%	21,157	23%

Source: Company data, Nomura estimates

Exhibit 3. COAL – Quarterly Earnings Trend

Qtrly - Snapshot (INR m)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Operational Metrics						
Production (mn tons)	95.2	90.5	113.9	131.8	96.3	80.3
Offtake (mn tons)	101.1	98.8	110.5	114.1	106.3	93.7
Realization (Rs/ton)	1,132	1,122	1,148	1,316	1,365	1,403
EBITDA (Rs/ton)	350	223	369	551	509	311
Key Financials (INR m)						
Revenues	114,356	116,677	126,919	144,383	144,991	131,481
Employee cost	(45,143)	(47,812)	(45,001)	(44,155)	(48,721)	(56,907)

Consumption of Stores & Spares	(10,764)	(12,700)	(13,535)	(15,317)	(11,325)	(12,332)
Power & Fuel	(4,319)	(4,278)	(4,643)	(4,306)	(4,627)	(5,248)
Contractual Expenses	(10,208)	(10,554)	(11,473)	(13,565)	(11,059)	(9,645)
Others	(8,540)	(19,297)	(11,525)	(4,228)	(15,140)	(18,168)
EBITDA (pre OB removal adj.)	35,384	22,036	40,743	62,813	54,120	29,181
Margin	30.9%	18.9%	32.1%	43.5%	37.3%	22.2%
OB removal	(4,334)	(3,446)	(6,939)	(11,466)	(5,881)	(4,363)
EBITDA (after OB adjustment)	31,050	18,590	33,804	51,347	48,239	24,819
Margin	27.2%	15.9%	26.6%	35.6%	33.3%	18.9%
Depreciation	(4,280)	(3,701)	(4,136)	(4,612)	(4,308)	(5,734)
EBIT	26,770	14,889	29,668	46,735	43,931	19,085
Interest expenses	(114)	(176)	(329)	(171)	(97)	(128)
Other income	10,812	11,576	12,876	12,699	15,589	17,942
PBT	37,468	26,289	42,214	59,263	59,423	36,898
Taxes	(12,098)	(9,377)	(15,796)	(18,687)	(18,115)	(11,132)
Normalized PAT	25,370	16,912	26,419	40,575	41,308	25,766
Extra-ordinary items	(111)	(1,967)	(158)	1,635	132	165
Reported net profit	25,259	14,945	26,261	42,210	41,439	25,931

Source: Company data, Nomura research

Exhibit 4. COAL – 1HFY12 Revenue & Offtake mix

Qtrly Results	1QFY12	2QFY12	QoQ (%)
	Jun-11	Sep-11	
Sales volume (mn tons)			
E-auction	13.5	11.2	-18%
Benefeciated coal	4.0	3.3	-16%
Notified (incl. FSA, high-grade)	87.9	78.5	-11%
Realization (Rs/ton)			
E-auction	2,246	2,435	8%
Benefeciated coal	2,179	2,262	4%
Notified (incl. FSA, high-grade)	1,205	1,233	2%
Blended (based on offtake)	1,365	1,403	3%
Blended (based on dispatch)	1,368	1,410	3%
Revenues (INR m)			
E-auction	30,410	27,154	-11%
Benefeciated coal	8,606	7,533	-12%
Notified (incl. FSA, high-grade)	105,975	96,793	-9%
Revenue Mix (%)			
E-auction	21.0%	20.7%	-2%
Benefeciated coal	5.9%	5.7%	-3%
Notified (incl. FSA, high-grade)	73.1%	73.6%	1%

Source: Company data, Nomura research

Valuation Methodology and Investment Risks: see below

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Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Coal India	COAL IN	326.1 INR	11 Nov 2011	Buy	

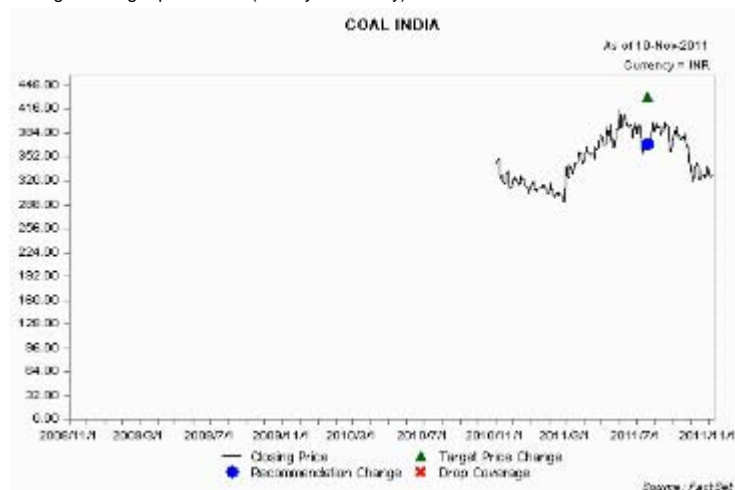
Previous Rating

Issuer name	Previous Rating	Date of change
Coal India	Not Rated	18 Jul 2011

Coal India (COAL IN)

326.1 INR (11 Nov 2011) Buy

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We arrive at our Rs433/share 12-mth target price for CIL using a sum-of-the-parts of [1] FCFF-based methodology to value the cash flows from its 10.6bn tons of proven reserves, and [2] EV/ton based value of CIL's probable reserves (8.3bn tons) and remaining resources (45.5bn tons) as per the JORC Code.

Risks that may impede the achievement of the target price Key risks: 1) Regulatory uncertainty particularly around pricing flexibility, environmental/forest clearance and restriction on e-auction coal sales; 2) lower-than-expected coal despatch due to lower rake availability; 3) delays in land acquisition/possession; and 4) wage revision of non-executives is higher than our expectation of a 30% increase.

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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