

November 15, 2011

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| | Accumulate |
|----------------|-------------------|
| Rating | |
| Price | Rs323 |
| Target Price | Rs395 |
| Implied Upside | 22.3% |
| Sensex | 17,119 |

(Prices as on November 14, 2011)
Trading data

| | |
|----------------------------|---------|
| Market Cap. (Rs bn) | 2,040.8 |
| Shares o/s (m) | 6,316.4 |
| 3M Avg. Daily value (Rs m) | 2020.6 |

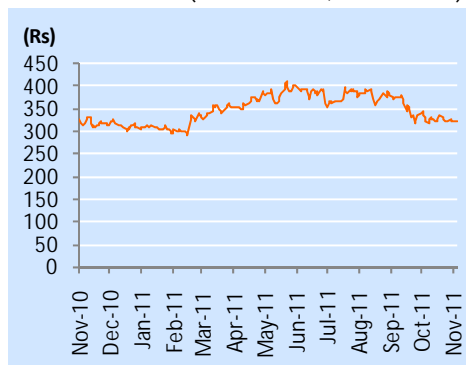
Major shareholders

| | |
|----------------|--------|
| Promoters | 90.00% |
| Foreign | 6.32% |
| Domestic Inst. | 1.57% |
| Public & Other | 2.11% |

Stock Performance

| (%) | 1M | 6M | 12M |
|----------|-----|--------|------|
| Absolute | 0.2 | (16.5) | 0.9 |
| Relative | 0.0 | (8.9) | 16.0 |

Price Performance (RIC: COAL.BO, BB: COAL IN)



Source: Bloomberg

Coal India

Earnings ahead of expectation; reiterate positive stance

Thanks to better-than-expected realisations, Coal India (CIL) reported earnings ahead of our expectation. We remain **positive** on the stock, given its steady earnings profile and attractive valuations, with TP of Rs395.

- Realisations better than expectation; costs in line:** On the back of better-than-expected realisations in FSA and e-auction, CIL reported realisations ahead of our expectation at Rs1,403 (PLe: Rs1,364), up 25% YoY (3% QoQ). Volumes fall in line with expectation at 94m tns (down 5% YoY). Impacted by lower volumes, provisioning for wage revision and higher operational costs associated with abnormal rain fall, total cost per tonne rose by 23% YoY to Rs1,141 (PLe: Rs1,132). CIL provided Rs7.7bn for ongoing wage revision based on 24% hike.
- Earnings surpass our expectation:** Driven by higher-than-expected realisations and in-line costs, EBITDA per tonne rose ahead of our expectation at Rs265 (PLe: Rs232), up 33% YoY. Hence, EBITDA grew ahead of our expectation to Rs24.8bn (Rs21.8bn), up 26%. Driven by strong interest income and other operating income, adjusted PAT grew by 69% to Rs25.8bn (PLe: Rs23.7bn).
- Key con-call highlights: 1)** Inventory liquidated by 13.4m and 23.4m tonnes in Q2FY12 and H1FY12 to 45.8m tonnes at the end of H1FY12. **2)** Operated behind output target by 20m tonnes for H1FY12 **3)** Meagre 0.3m tonnes booked by power sector under the one month equivalent e-auction diversion quantity.
- Maintain Accumulate:** On the back of judicious exploitation of the pricing power, CIL's earnings are expected to grow at a CAGR of 22% during FY11-13, despite substantial escalation in wage cost and tough regulatory environment. We maintain our **'Accumulate'** rating with TP of Rs395, 15x FY13E core earnings.

| Key financials (Y/e March) | 2010 | 2011 | 2012E | 2013E |
|----------------------------|---------|---------|---------|---------|
| Revenues (Rs m) | 446,153 | 502,336 | 594,202 | 655,694 |
| Growth (%) | 15.0 | 12.6 | 18.3 | 10.3 |
| EBITDA (Rs m) | 105,360 | 134,791 | 164,405 | 182,426 |
| PAT (Rs m) | 96,224 | 108,674 | 146,145 | 161,756 |
| EPS (Rs) | 15.2 | 17.2 | 23.1 | 25.6 |
| Growth (%) | 362.9 | 12.9 | 34.5 | 10.7 |
| Net DPS (Rs) | 3.5 | 3.9 | 5.1 | 5.7 |

Source: Company Data; PL Research

| Profitability & Valuation | 2010 | 2011 | 2012E | 2013E |
|---------------------------|------|------|-------|-------|
| EBITDA margin (%) | 23.6 | 26.8 | 27.7 | 27.8 |
| RoE (%) | 43.0 | 36.8 | 38.0 | 32.9 |
| RoCE (%) | 37.5 | 33.2 | 35.1 | 30.7 |
| EV / sales (x) | 3.7 | 3.2 | 2.5 | 2.1 |
| EV / EBITDA (x) | 15.8 | 11.9 | 9.1 | 7.6 |
| PE (x) | 21.2 | 18.8 | 14.0 | 12.6 |
| P / BV (x) | 7.9 | 6.1 | 4.7 | 3.7 |
| Net dividend yield (%) | 1.1 | 1.2 | 1.6 | 1.8 |

Source: Company Data; PL Research

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Exhibit 1: Q2FY12 Result Overview (Rs m)

| Y/e March | Q2FY12 | Q2FY11 | YoY gr. (%) | Q1FY12 | H1FY12 | H1FY11 | YoY gr. (%) |
|------------------------------------|----------------|----------------|-------------|----------------|----------------|----------------|-------------|
| Net operating revenue | 131,481 | 111,023 | 18.4 | 144,991 | 276,472 | 225,379 | 22.7 |
| (Accretion)/Decretion in Stocks | 5,579 | 2,026 | 175.3 | 3,690 | 9,269 | 2,173 | 326.6 |
| Consumption of stores and spares | 12,332 | 12,803 | (3.7) | 11,325 | 23,657 | 23,567 | 0.4 |
| Employees' Remuneration & Benefits | 56,907 | 49,411 | 15.2 | 48,721 | 105,628 | 94,554 | 11.7 |
| Power & Fuel | 5,248 | 4,268 | 23.0 | 4,627 | 9,874 | 8,587 | 15.0 |
| Welfare Expenses | 3,368 | 2,813 | 19.7 | 2,933 | 6,302 | 5,352 | 17.7 |
| Repairs | 1,014 | 1,101 | (7.8) | 1,173 | 2,187 | 2,197 | (0.4) |
| Contractual Expenses | 9,645 | 10,604 | (9.0) | 11,059 | 20,704 | 20,812 | (0.5) |
| Other Expenses | 5,479 | 4,200 | 30.4 | 4,379 | 9,858 | 8,230 | 19.8 |
| Overburden Removal Adjustment | 4,363 | 3,446 | 26.6 | 5,881 | 10,244 | 7,780 | 31.7 |
| Provision and write off | 2,727 | 677 | 303.2 | 2,965 | 5,693 | 1,405 | 305.2 |
| Total Cost of Sales | 106,662 | 91,349 | 16.8 | 96,752 | 203,414 | 174,655 | 16.5 |
| EBITDA | 24,819 | 19,674 | 26.1 | 48,239 | 73,058 | 50,724 | 44.0 |
| <i>as a % of Sales</i> | <i>18.9</i> | <i>17.7</i> | | <i>33.3</i> | <i>26.4</i> | <i>22.5</i> | |
| Depreciation | 5,734 | 3,869 | 48.2 | 4,308 | 10,042 | 8,149 | 23.2 |
| EBIT | 19,085 | 15,805 | 20.8 | 43,931 | 63,016 | 42,575 | 48.0 |
| PBT (before other income) | 18,956 | 15,691 | 20.8 | 43,834 | 62,790 | 42,347 | 48.3 |
| Other Income | 17,942 | 10,592 | 69.4 | 15,589 | 33,531 | 21,404 | 56.7 |
| PBT before extra ordinaries | 36,898 | 26,283 | 40.4 | 59,423 | 96,321 | 63,750 | 51.1 |
| Provision for Taxation | 11,132 | 10,839 | 2.7 | 18,115 | 29,248 | 22,937 | 27.5 |
| <i>as a % of PBT</i> | <i>30.1</i> | <i>42.0</i> | | <i>30.4</i> | <i>30.3</i> | <i>36.3</i> | |
| Net profit | 25,931 | 14,945 | 73.5 | 41,439 | 67,370 | 40,204 | 67.6 |
| Adjusted PAT | 25,766 | 15,444 | 66.8 | 41,308 | 67,074 | 40,814 | 64.3 |
| Coal production | 80.3 | 90.5 | (11.3) | 96.3 | 176.6 | 185.7 | (4.9) |
| Coal despatches | 93.7 | 98.9 | (5.2) | 106.3 | 200.0 | 199.9 | 0.0 |
| Realisation | 1,406 | 1,125 | 25.0 | 1,368 | 1,386 | 1,130 | 22.7 |
| Cost of sales | 1141 | 926 | 23.2 | 913 | 1020 | 876 | 16.4 |
| EBITDA per tonne | 265 | 199 | 33.1 | 455 | 366 | 254 | 44.0 |
| Cash cost per tonne | 1065 | 884 | 20.5 | 829 | 940 | 830 | 13.3 |

Source: Company Data, PL Research

Earnings revision upward by 2% FY12; down by 4% in FY13

We revised our EBITDA upward by 2% to Rs164.4bn on account of higher than realisations and lower employee cost. EPS estimate for FY12 revised upwards by 2% to Rs23.1. While, EBITDA estimate revised downward by 5% to Rs182.4bn owing to lower volumes and realisations. Thanks to higher other income, EPS revised downward by 4% to Rs25.6.

Exhibit 2: Change in Estimates

| | FY12 | | | FY13 | | |
|-----------------------|---------|---------------|----------|---------|---------------|----------|
| | Earlier | Post revision | % change | Earlier | Post revision | % change |
| Revenue (Rs m) | 601,839 | 594,202 | (1.3) | 675,233 | 655,694 | (2.9) |
| EBITDA (Rs m) | 160,408 | 164,405 | 2.5 | 192,882 | 182,426 | (5.4) |
| PAT (Rs m) | 142,944 | 146,145 | 2.2 | 169,093 | 161,756 | (4.3) |
| EPS (Rs) | 22.6 | 23.1 | 2.2 | 26.8 | 25.6 | (4.3) |
| Volumes (m tonnes) | 446 | 431 | (3.3) | 473 | 462 | (2.3) |
| Realisation per tonne | 1,349 | 1,378 | 2.1 | 1,428 | 1,419 | (0.6) |
| Total cost per tonne | 990 | 997 | 0.7 | 1,020 | 1,024 | 0.4 |
| EBIDTA per tonne | 360 | 381 | 6.0 | 408 | 395 | (3.2) |

Source: PL Research



Income Statement (Rs m)

| Y/e March | 2010 | 2011 | 2012E | 2013E |
|----------------------------|----------------|----------------|----------------|----------------|
| Net Revenue | 446,153 | 502,336 | 594,202 | 655,694 |
| Raw Material Expenses | 42,598 | 39,368 | 54,913 | 61,777 |
| Gross Profit | 403,554 | 462,968 | 539,289 | 593,917 |
| Employee Cost | 166,555 | 182,110 | 222,116 | 242,641 |
| Other Expenses | 131,639 | 146,066 | 152,768 | 168,850 |
| EBITDA | 105,360 | 134,791 | 164,405 | 182,426 |
| Depr. & Amortization | 13,138 | 16,462 | 19,107 | 19,045 |
| Net Interest | 886 | 791 | 746 | 734 |
| Other Income | 48,626 | 47,628 | 67,802 | 72,388 |
| Profit before Tax | 139,962 | 165,165 | 212,354 | 235,035 |
| Total Tax | 43,425 | 55,959 | 65,659 | 72,673 |
| Profit after Tax | 96,537 | 109,207 | 146,694 | 162,362 |
| Ex-Od items / Min. Int. | — | — | — | — |
| Adj. PAT | 96,224 | 108,674 | 146,145 | 161,756 |
| Avg. Shares O/S (m) | 6,316.4 | 6,316.4 | 6,316.4 | 6,316.4 |
| EPS (Rs.) | 15.2 | 17.2 | 23.1 | 25.6 |

Cash Flow Abstract (Rs m)

| Y/e March | 2010 | 2011 | 2012E | 2013E |
|---------------------|----------|----------|----------|----------|
| C/F from Operations | 105,956 | 89,974 | 131,413 | 145,327 |
| C/F from Investing | 9,497 | 6,975 | 6,828 | 9,937 |
| C/F from Financing | (21,625) | (29,108) | (44,854) | (45,321) |
| Inc. / Dec. in Cash | 93,828 | 67,841 | 93,386 | 109,943 |
| Opening Cash | 296,950 | 390,778 | 458,623 | 552,009 |
| Closing Cash | 390,778 | 458,623 | 552,009 | 661,952 |
| FCFF | 128,541 | 107,675 | 138,207 | 159,938 |
| FCFE | 126,688 | 103,579 | 137,207 | 158,938 |

Key Financial Metrics

| Y/e March | 2010 | 2011 | 2012E | 2013E |
|-------------------------|---------|---------|---------|---------|
| Growth | | | | |
| Revenue (%) | 15.0 | 12.6 | 18.3 | 10.3 |
| EBITDA (%) | 328.1 | 27.9 | 22.0 | 11.0 |
| PAT (%) | 362.9 | 12.9 | 34.5 | 10.7 |
| EPS (%) | 362.9 | 12.9 | 34.5 | 10.7 |
| Profitability | | | | |
| EBITDA Margin (%) | 23.6 | 26.8 | 27.7 | 27.8 |
| PAT Margin (%) | 21.6 | 21.6 | 24.6 | 24.7 |
| RoCE (%) | 37.5 | 33.2 | 35.1 | 30.7 |
| RoE (%) | 43.0 | 36.8 | 38.0 | 32.9 |
| Balance Sheet | | | | |
| Net Debt : Equity | (1.4) | (1.3) | (1.2) | (1.2) |
| Net Wrkng Cap. (days) | (2,827) | (3,094) | (2,344) | (2,197) |
| Valuation | | | | |
| PER (x) | 21.2 | 18.8 | 14.0 | 12.6 |
| P / B (x) | 7.9 | 6.1 | 4.7 | 3.7 |
| EV / EBITDA (x) | 15.8 | 11.9 | 9.1 | 7.6 |
| EV / Sales (x) | 3.7 | 3.2 | 2.5 | 2.1 |
| Earnings Quality | | | | |
| Eff. Tax Rate | 31.1 | 34.0 | 31.0 | 31.0 |
| Other Inc / PBT | 35.0 | 29.0 | 31.9 | 30.7 |
| Eff. Depr. Rate (%) | 3.8 | 4.5 | 4.7 | 4.3 |
| FCFE / PAT | 131.7 | 95.3 | 93.9 | 98.3 |

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

| Y/e March | 2010 | 2011 | 2012E | 2013E |
|-------------------------------|----------------|----------------|----------------|----------------|
| Shareholder's Funds | 257,952 | 333,172 | 435,474 | 548,703 |
| Total Debt | 19,631 | 15,536 | 14,536 | 13,536 |
| Other Liabilities | 15,010 | 16,540 | 20,419 | 24,648 |
| Total Liabilities | 292,594 | 365,247 | 470,429 | 586,887 |
| Net Fixed Assets | 142,461 | 150,610 | 172,953 | 195,452 |
| Goodwill | — | — | — | — |
| Investments | 12,821 | 10,637 | 10,637 | 10,637 |
| Net Current Assets | 127,691 | 195,235 | 278,073 | 372,031 |
| <i>Cash & Equivalents</i> | <i>390,782</i> | <i>458,623</i> | <i>552,009</i> | <i>661,952</i> |
| <i>Other Current Assets</i> | <i>152,466</i> | <i>185,337</i> | <i>189,125</i> | <i>198,901</i> |
| <i>Current Liabilities</i> | <i>415,557</i> | <i>448,725</i> | <i>463,061</i> | <i>488,822</i> |
| Other Assets | 9,620 | 8,766 | 8,766 | 8,766 |
| Total Assets | 292,594 | 365,247 | 470,429 | 586,887 |

Quarterly Financials (Rs m)

| Y/e March | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 |
|--------------------------|----------------|----------------|----------------|----------------|
| Net Revenue | 126,919 | 150,162 | 144,991 | 131,481 |
| EBITDA | 33,804 | 51,987 | 48,239 | 24,819 |
| <i>% of revenue</i> | <i>26.6</i> | <i>34.6</i> | <i>33.3</i> | <i>18.9</i> |
| Depr. & Amortization | 4,136 | 4,780 | 4,308 | 5,734 |
| Net Interest | (12,547) | (12,056) | (15,492) | (17,814) |
| Other Income | 12,876 | 12,466 | 15,589 | 17,942 |
| Profit before Tax | 42,056 | 59,433 | 59,555 | 36,990 |
| Total Tax | 15,796 | 17,224 | 18,115 | 11,132 |
| Profit after Tax | 26,419 | 42,039 | 41,308 | 25,839 |
| Adj. PAT | 26,419 | 42,039 | 41,308 | 25,839 |

Key Operating Metrics

| Y/e March | 2010 | 2011 | 2012E | 2013E |
|-------------------------------------|-------|-------|-------|-------|
| Raw coal prod (mn tn) | 431 | 431 | 431 | 462 |
| Coal despatches (mn tn) | 415 | 424 | 431 | 462 |
| Vol sold under FSA/MoU (mn tn) | 352 | 356 | 362 | 394 |
| Vol sold under E-auction (mn tn) | 43 | 48 | 49 | 49 |
| Beneficiated coal vol (mn tn) | 15 | 15 | 15 | 15 |
| Vol sold to power utilities (mn tn) | 298 | 304 | 335 | 350 |
| Real. / tonne (Rs) | 1,070 | 1,170 | 1,366 | 1,408 |
| Total cost per tonne (Rs) | 946 | 833 | 868 | 997 |
| Cash cost per tonne (Rs) | 794 | 731 | 808 | 915 |
| Employee cost / tonne (Rs) | 437 | 386 | 422 | 515 |
| EBITDA / tonne (Rs) | 254 | 318 | 381 | 395 |
| OBR adj / tonne (Rs) | 54 | 71 | 61 | 62 |

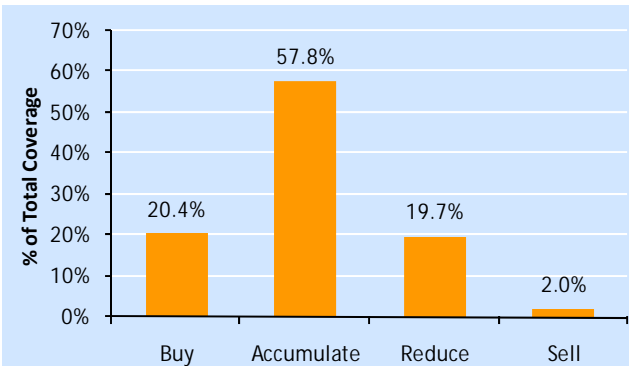
Source: Company Data, PL Research.

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| BUY | : Over 15% Outperformance to Sensex over 12-months | Accumulate | : Outperformance to Sensex over 12-months |
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