

PMO moves to expedite 'green nod' for projects

Quick Note

What's new – PMO directs MoEF to grant clearance to 12 projects

As per a news report from Press Trust of India (PTI), post a meeting convened by the Prime Minister's Office (PMO) with the Environment Ministry (MoEF), Coal India (CIL) and Ministry of Coal (MoC) to review the status of 12 projects of CIL, where production is proposed to be raised by 25%:

- The PMO has directed the MoEF to grant clearances to these projects within 3-4 months; progress would be monitored on a monthly basis.
- The permission to raise production from these projects by 25% would augment output by 10mtpa.
- However, the MoEF has not relaxed the prerequisite of a public hearing (meeting of all stakeholders, including villagers of the area to be affected) prior to the grant of the environment/forest approval.

Implication – Signal of intent to expedite clearances is a positive

- Feedback from our interaction with policymakers and CIL over the past three months has consistently indicated a 3QFY12 timeline for MoEF awarding clearances for critical projects of CIL. In this context, PMO's push to MoEF to expedite the 'green nod' for CIL's expansion projects was imminent, in our view.
- Notwithstanding, the non-exemption from 'public hearing' prior to the 'green nod' (which arguably leaves the door open for delay in granting clearances) for the 12 projects, we view this signal of intent to expedite clearances is a positive for CIL and, in turn, the power utilities space.

Production / offtake on target; up 6.4% / 6.3% YoY in 1QFY13...

In 1QFY13, CIL posted a 6.4% YoY rise in production to 102.5mt (up 6.2mt YoY) and 6.3% YoY rise in offtake to 112.9mt (up 6.7mt YoY), in line with the company's target. We build in offtake at 460mt (vs. 433mt in FY12 and CIL's target of 470mt for FY13) and blended realization at Rs1,463/ton (implying a 3.2% rise over the normalized FY12 blended realization of Rs1,418/ton).

...our FY13 forecasts appear fairly achievable; maintain Buy rating

On our FY13F normalized earnings (which includes the incidence of the potential 26% profit share via the mining tax), the stock trades at 14.2x P/E, 7.5x EV/EBITDA.

July 6, 2012

Rating Remains	Buy
Target price Remains	INR 398
Closing price July 6, 2012	INR 351

Research analysts

India Power & Utilities

Anirudh Gangahar - NFASL
anirudh.gangahar@nomura.com
+91 22 4037 4516

Ivan Lee, CFA - NIHK
ivan.lee@nomura.com
+852 2252 6213

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Fig. 1: Coal India – Projects awaiting clearance to expand capacity by 25%

As per news reports, PMO has directed MoEF to award Environment Clearance (EC) to 12 projects, which would augment coal production by 10mtpa

CIL Subsidiary	Project	Approved EC (mtpa)	Remarks
ECL	Mohonpur OC	1.0	
NCL	Bina OC	6.0	
WCL	Krishnashila OC	4.0	
WCL	Ghugus OC	1.9	
WCL	Junad OC	0.6	
WCL	Inder OC	0.6	
MCL	Belpahar	4.5	EC for 6mtpa recommended, but formal letter awaited. EC for >6mtpa required
MCL	Samleswari OC	5.0	EC for 11mtpa recommended; formal letter awaited. EC for >11mtpa required
MCL	Lajkura OC	1.0	EC for 3mtpa awaited. EC for >3mtpa required
MCL	Lakhanpur OC	15.0	
SECL	Dipka OC	25.0	
SECL	Kusmunda OC	15.0	
SECL	Gevra OC	35.0	
	Total	114.6	

Note: In addition, final EC Bhubaneswari OC project of MCL is also awaited

Source: Infraline

Appendix A-1

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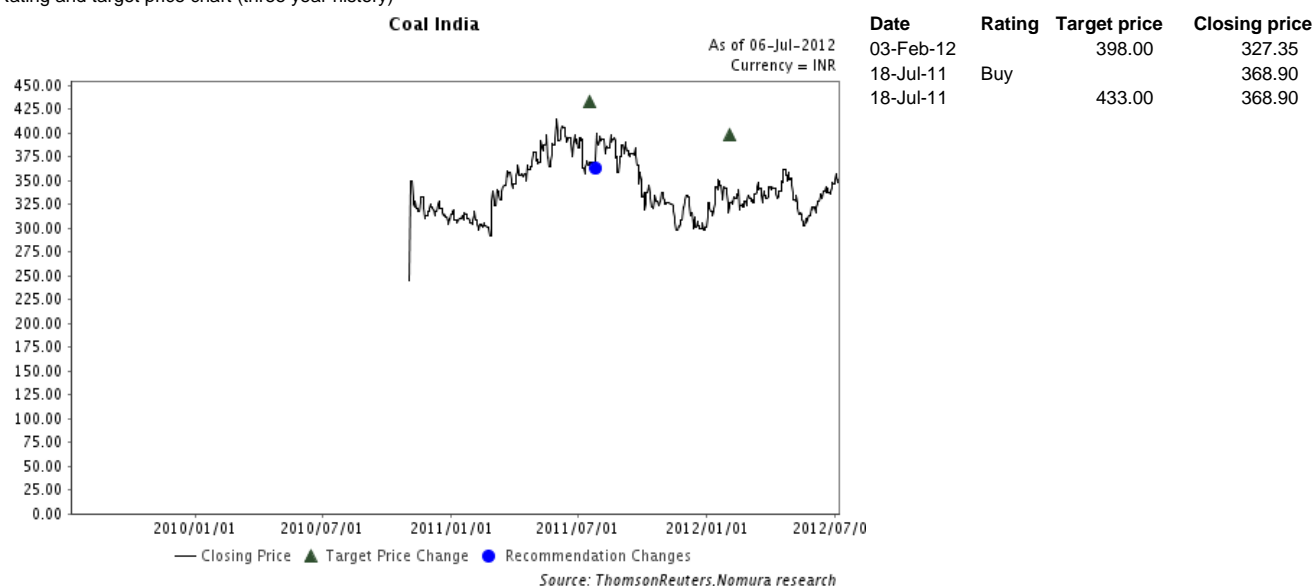
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Coal India	COAL IN	INR 351	06-Jul-2012	Buy	Not rated	

Previous Rating

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

Coal India (COAL IN) INR 351 (06-Jul-2012) Buy (Sector rating: Not rated)

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 Rs398/share 12-month 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 at Rs315/share, and 2) MCap/ton based value of CIL's probable reserves (8.3bn tons) and remaining resources (45.5bn tons as per the JORC Code) at Rs83/share.

Risks that may impede the achievement of the target price Key risks to our investment thesis include – [1] Regulatory uncertainty around pricing flexibility and restriction on e-auction coal sales, [2] bottlenecks in coal handling and dispatch logistics, including rake availability, [3] delays in land acquisition/possession and law & order issues hampering production growth.

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

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