

# COAL INDIA

## Positives in store

India Equity Research | Metals and Mining



Coal India (CIL) indicated that MOEF approvals for 45mtpa expansion are virtually completed as part of the proposal to hike capacity by 25%. With this, CIL can potentially produce 500mt in FY14 (our current estimate: 474mt). This approach provides improved visibility of meeting FY17 production target of 615mt (volume CAGR: 7.5%). CIL Chairman has indicated possibility of coal price hike around March 2013. Key negative is the fall in e-Auction volume of ~4mtpa going forward. However, our FY14E estimates are broadly intact led by 1% upward revision in volumes and 1.5% cut in costs. We maintain our DCF-based TP at INR410/share. Assuming an FY17 production of 615mt (our estimate: 547mt) causes our TP to increase to INR442. Maintain 'BUY'.

### MOEF approvals for hike in existing capacity are in the bag

Our interaction with CIL indicates MOEF approvals for 45mtpa capacity expansion are virtually completed. This is part of the proposal for providing blanket approvals to hike existing capacity by 25%. CIL is confident of achieving similar approvals and now has improved visibility on its FY17 production target of 615mt by FY17 (our estimate: 549mt).

### Possibility of price hike

CIL's Chairman has indicated a possibility of price hike around March 2013. CIL has not hiked prices for low-grade coal for most power consumers since October 2009.

### E-auction volumes to decline by ~4mtpa

CIL indicated that e-Auction volumes are expected to decline by 4mtpa YoY in FY13. We had considered flat volumes and cut the same by ~9%/~13% for FY13E/FY14E.

### Outlook and valuations: Positives in store; maintain 'BUY'

We broadly retain our FY14E estimates but cut FY13E EPS by ~3% led by cut in e-Auction volumes. Retain 'BUY/SP' with TP of INR410. At CMP, stock trades at 7.3x FY14E EV/EBITDA.

#### Financials

Year to March	FY11	FY12	FY13E	FY14E
Revenues (INR mn)	526,162	624,154	666,154	726,310
Rev. growth (%)	12.7	18.6	6.7	9.0
EBITDA (INR mn)	134,791	156,678	164,265	199,507
Net profit (INR mn)	108,674	147,882	159,948	187,095
Share outstanding (mn)	6,316	6,316	6,316	6,316
EPS (INR)	17.3	23.3	25.3	29.6
EPS growth (%)	12.9	34.5	8.8	17.0
Diluted P/E (x)	20.8	15.5	14.2	12.2
EV/EBITDA (x)	13.4	10.8	9.7	7.3
ROAE (%)	36.7	40.0	35.2	32.9

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

#### MARKET DATA (R: COAL.BO, B: COAL IN)

CMP	: INR 361
Target Price	: INR 410
52-week range (INR)	: 386 / 289
Share in issue (mn)	: 6,316.4
M cap (INR bn/USD mn)	: 2,278 / 41,594
Avg. Daily Vol.BSE/NSE('000)	: 2,636.3

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters *	90.0	90.0	90.0
MF's, FI's & BK's	1.7	1.8	1.7
FII's	5.6	5.5	5.5
others	2.6	2.7	2.7
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	(0.7)	1.6	1.7
3 months	0.8	5.7	(1.5)
12 months	12.7	26.2	1.8

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### Possibility of price hike post March 2013

As per media reports, Chairman of CIL has indicated possibility of coal price hike around March 2013. We note that the company has not initiated across- the-board price hikes for most power producers since October 2009 and post the wage revision of FY12. Having boosted volume growth to ~6% in FY13 from a stagnant 2% in FY11/FY12 could create a ground for hikes. In February 2011, the blended price hike was ~12%.

### Revision in estimates

We have revised our production volume estimates upward for FY14 by 1.1% with no change in FY13 volumes. Operation costs are revised downward by ~2% for FY14. We have cut our e-Auction volumes by ~9% and ~13% in FY13 and FY14, respectively. We are assuming a 5% blended price hike in FY14E. We note that in spite of no company-wide price increase in FY12 and FY13E, change in product mix, switch to GCV system and price hike for WCL have caused blended FSA coal prices to rise ~6% YoY in H1FY13. Our FY13E EBITDA and EPS are revised downward by 4.8% and 3.3% respectively led by cut in e-Auction volumes. However, for FY14E our EBITDA and EPS are broadly intact due to volume increase, cut in operating cost and the price hike in spite of the cut in e-Auction volumes.

### Change in estimates

	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	666,154	672880	(1.0)	726,310	737,618	(1.5)	
EBITDA	164,265	172,613	(4.8)	199,507	202,840	(1.6)	Led by cut in e-Auction volumes
EBITDA Margin	24.7	25.7		27.5	27.5		
Core profit	159,948	165,460	(3.3)	187,095	188,844	(0.9)	
PAT Margin	24.0	24.6		25.8	25.6		

## Company Description

Coal India (CIL) is the world's largest coal reserve holder and producer and also controls ~80% of the Indian coal market. It is going to be the primary beneficiary of the structural deficit of coal in India. Moreover, it is one of the least cost producers of coal in the world.

CIL, a Maharatna company, is one of the largest public sector companies in India in terms of turnover. Its product portfolio consists largely of thermal coal (90%) with the balance being coking coal. The company enjoys a near-monopoly position in the lucrative coal market and is more of a utility player due to assured volume off-take, pseudo regulated environment and minimal chance of a product price cut, as prices already remain at ~50% discount to international benchmark prices.

It currently operates ~471 mines in India and is also scouting for international mines to increase global presence and assure its resources. It sells ~10% of its production based on the e-Auction route and ~3.5% beneficiated coal (2x realisations of raw coal). Beneficiated coal volumes are expected to rise significantly to ~150 mtpa by FY17 (25% of total volumes).

## Investment Theme

Volume growth accelerating after stagnating in FY11 and FY12

Significant headroom to increase product prices

India's largest coal miner with a near monopoly position

Strong balance sheet with low leverage and significant cash reserves

## Key Risks

Delay or non-receipt of approvals for increase in mining capacity

Decline in e-Auction volumes higher than estimate

Challenges of logistics and land acquisition

Proposed new mining bill incorporates new levy equal to 26% of mining profits

Imposition of penalty for meeting less than 65% of FSA quantity through own production

Increase in costs without immediate increase in prices

## Financial Statements

### Key Assumptions

Year to March	FY11	FY12	FY13	FY14E
<b>Macro</b>				
GDP(Y-o-Y %)	8.4	6.5	5.5	6.5
Inflation (Avg)	9.9	8.8	7.8	6.0
Repo rate (exit rate)	6.8	8.5	7.5	6.8
USD/INR (Avg)	45.6	47.9	54.5	54.0
<b>Sector</b>				
Indonesian thermal coal price (4200 kcal, USD/t)	51.6	60.0	51.2	55.1
India coal demand (mn tonnes)	616.9	650.1	682.6	723.6
Coal imports (mn tonnes)	92.0	113.0	142.8	156.1
<b>Company</b>				
Production (mt)	431	436	461	480
Sales volumes (MT)	425	433	461	480
E-auction coal volume (mt)	48	51	46	46
Beneficiation coal volume (mt)	16	17	17	17
Raw Coal volume (mt)	361	365	399	417
Blended realisation (USD/t)	1,183	1,441	1,444	1,514
E-auction realisation (INR/t)	1,846	2,599	2,435	2,595
Beneficiation coal realisation (INR/t)	2,202	2,228	2,130	2,237
Raw coal realisation (INR/t)	1,052	1,243	1,301	1,366
Stores and spares per tonne (INR)	123	127	127	127
Power and fuel (INR)	41	46	55	57
Social overhead per tonne (INR)	53	34	37	37
Repairs per tonne (INR)	14	15	15	16
Contractual expenses per tonne (INR)	108	113	120	120
Miscellaneous expenses per tonne (INR)	52	51	55	55
Overburden removal adjustment per tonne (INR)	62	85	73	75
Provisions/ write-offs per tonne (INR)	14	34	31	31
Staff costs	182.1	252.5	265.2	278.3
Blended EBITDA/t (USD/t)	313	359	356	416
Average Interest rate (%)	5.1	1.4	2.0	2.0
Average Depreciation rate (%)	4.6	5.2	5.0	5.2
Debtor days	47	46	40	40
Inventory days	19	25	31	30
Payable days	402	413	440	425

### Income statement

(INR mn)

Year to March	FY11	FY12	FY13E	FY14E
Net revenue	526,162	624,154	666,154	726,310
Employee costs	182,110	252,536	265,245	278,253
Total SG&A expenses	129,856	121,619	127,317	133,957
Other Expenses	79,405	93,321	109,327	114,593
EBITDA	134,791	156,678	164,265	199,507
Depreciation & Amortization	16,729	19,692	21,131	23,357
EBIT	118,062	136,986	143,133	176,150
Other income	47,963	75,369	86,140	91,905
Interest expenses	791	540	776	776
Profit before tax	165,234	211,815	228,497	267,279
Provision for tax	55,959	64,845	68,549	80,184
Net profit	109,275	146,971	159,948	187,095
Profit after minority interest	108,674	147,882	159,948	187,095
Shares outstanding (mn)	6,316	6,316	6,316	6,316
Diluted EPS (INR)	17.3	23.3	25.3	29.6
Dividend per share (INR)	3.9	10.0	8.0	8.0
Dividend payout (%)	22.7	42.7	31.6	27.0
Tax rate (%)	33.9	30.6	30.0	30.0

### Common size metrics

Year to March	FY11	FY12	FY13E	FY14E
Operating expenses	74.4	74.9	75.3	72.5
EBITDA margins	25.6	25.1	24.7	27.5
Net profit margins	20.7	23.7	24.0	25.8

### Growth ratios (%)

Year to March	FY11	FY12	FY13E	FY14E
Rev. growth (%)	12.7	18.6	6.7	9.0
EBITDA	31.3	16.2	4.8	21.5
Net profit	10.6	36.1	8.2	17.0
EPS growth (%)	12.9	34.5	8.8	17.0

Balance sheet		(INR mn)			
As on 31st March	FY11	FY12	FY13E	FY14E	
Equity capital	63,164	63,164	63,164	63,164	
Reserves & surplus	270,008	341,367	441,315	568,411	
Shareholders' funds	333,172	404,530	504,479	631,575	
Minority interest (BS)	326	536	536	536	
Short term debt	326	-	-	-	
Long term debt	15,210	39,803	39,803	39,803	
Borrowings	15,536	39,803	39,803	39,803	
Deferred tax liability	(8,732)	(11,941)	(11,941)	(11,941)	
<b>Sources of funds</b>	<b>340,302</b>	<b>432,929</b>	<b>532,878</b>	<b>659,973</b>	
Tangible assets	120,643	126,812	138,680	140,233	
Intangible assets	7,786	7,591	7,591	7,591	
CWIP (incl. intangible)	22,181	29,034	29,034	29,034	
Total net fixed assets	150,610	163,437	175,305	176,858	
Non current investments	2,127	10,344	10,344	10,344	
Current Investments	8,510	10,163	10,163	10,163	
Cash and equivalents	458,623	582,028	685,554	813,632	
Inventories	55,856	60,713	55,002	57,732	
Sundry debtors	30,256	56,679	56,577	59,697	
Loans and advances	99,225	174,162	161,162	161,162	
Total current assets (ex cash)	187,465	301,898	283,085	288,935	
Trade payable	448,692	608,383	605,017	613,401	
Others current liabilities	16,214	16,214	16,214	16,214	
Total current liabilities &	464,905	624,597	621,230	629,615	
Net current assets (ex cash)	(277,440)	(322,699)	(338,145)	(340,680)	
<b>Uses of funds</b>	<b>340,302</b>	<b>432,929</b>	<b>532,878</b>	<b>659,973</b>	
Book value per share (INR)	52.7	64.0	79.9	100.0	

Free cash flow		(INR mn)			
Year to March	FY11	FY12	FY13E	FY14E	
Net profit	108,674	147,882	159,948	187,095	
Depreciation	16,729	19,692	21,131	23,357	
Deferred tax	(103)	(3,208)	-	-	
Others	(36,633)	(10,745)	776	776	
Gross cash flow	88,666	153,621	181,856	211,229	
Less: Changes in WC	(1,308)	(45,258)	(15,446)	(2,535)	
Operating cash flow	89,974	198,879	197,302	213,763	
Less: Capex	17,758	33,000	33,000	24,910	
<b>Free cash flow</b>	<b>72,216</b>	<b>165,879</b>	<b>164,302</b>	<b>188,853</b>	

Cash flow metrics				
Year to March	FY11	FY12	FY13E	FY14E
Operating cash flow	89,974	198,879	197,302	213,763
Investing cash flow	6,975	(1,094)	(33,000)	(24,910)
Financing cash flow	(29,108)	(73,821)	(60,776)	(60,776)
Net cash flow	67,841	123,963	103,526	128,078
Capex	(17,758)	(33,000)	(33,000)	(24,910)
Dividends paid	(25,832)	(74,291)	(59,999)	(59,999)

Profitability & efficiency ratios				
Year to March	FY11	FY12	FY13E	FY14E
ROAE (%)	36.7	40.0	35.2	32.9
ROACE (%)	38.7	35.4	29.6	29.5
Inventory day	19	25	31	30
Debtors days	47	46	40	40
Payable days	402	413	440	425
Cash conversion cycle (days)	(252)	(287)	(270)	(249)
Current ratio	1.4	1.4	1.6	1.8
Debt/EBITDA	0.1	0.3	0.2	0.2
Debt/Equity	-	0.1	0.1	0.1
Adjusted debt/equity	-	0.1	0.1	0.1

Operating ratios				
Year to March	FY11	FY12	FY13E	FY14E
Total asset turnover	0.7	0.7	0.6	0.6
Fixed asset turnover	4.2	4.7	4.7	4.9
Equity turnover	1.7	1.7	1.5	1.3

Valuation parameters				
Year to March	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	17.3	23.3	25.3	29.6
Y-o-Y growth (%)	12.9	34.5	8.8	17.0
CEPS (INR)	19.9	25.9	28.7	33.3
Diluted PE (x)	20.8	15.5	14.2	12.2
Price/BV (x)	6.8	5.6	4.5	3.6
EV/Sales (x)	3.4	2.7	2.4	2.0
EV/EBITDA (x)	13.4	10.8	9.6	7.3
Dividend yield (%)	1.1	2.8	2.2	2.2
Market cap/Sales (x)	4.3	3.6	3.4	3.1
Market Capitalisation	2,277,995	2,277,995	2,277,995	2,277,995

**Peer comparison valuation**

Name	Market Cap	Diluted PE (X)		EV/EBITDA (X)		ROAE (%)	
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Coal India	41,600	14.2	12.2	9.6	7.3	35.2	32.9
China Shenhua Energy Co Ltd	79,142	11.1	10.5	6.2	5.8	76.7	71.9
CONSOL Energy Inc	7,038	33.3	26.2	8.8	7.9	25.8	24.3
Peabody Energy Corp	7,139	13.3	25.4	7.2	8.3	37.8	18.5
Yanzhou Coal Mining Co Ltd	11,853	10.6	12.8	10.9	10.4	50.1	37.8
Median	-	13.3	12.8	8.8	7.9	37.8	32.9
AVERAGE	-	16.5	17.4	8.6	8.0	45.1	37.1

*Source: Bloomberg*

## Additional Alternative Data

### Directors Data

R Mohan Das	Director	A K Sinha	Director
A K Rath	Independent Director	S K Barua	Independent Director
Sheela Bhide	Independent Director	Kamal R Gupta	Independent Director
R N Trivedi	Independent Director	M A Ansari	Independent Director
S Chaudhuri	Independent Director	Anjali Anand Srivastava	Director (Part-Time)
Zohra Chatterji	Official Director (Part time)	S Narsing Rao	Chairman & Managing Director
Nagendra Kumar	Director	B K Saxena	Director

Auditors - De Chakraborty & Sen

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
The Children's Investment Fund	1.01	Templeton Asset Management	0.62
ICICI Prudential Life Insurance	0.67	Thornburg Investment Management, Inc.	0.34
HDFC Asset Management Co. Ltd.	0.24	The Vanguard Group, Inc.	0.21
BlackRock Fund Advisors	0.12	UTI Asset Management Co. Ltd.	0.11
Franklin Templeton Asset Management	0.10	ICICI Prudential Asset Management	0.10

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*as per last available data*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bhushan Steel	REDUCE	SU	M	Coal India	BUY	SP	M
Hindalco Industries	BUY	SO	M	Hindustan Zinc	BUY	SP	L
Jindal Steel & Power	BUY	SP	M	JSW Steel	BUY	SO	M
National Aluminium Company	REDUCE	SU	M	Sesa Goa	BUY	SP	M
Steel Authority of India	BUY	SU	L	Sterlite Industries (India)	BUY	SO	M
Tata Steel	BUY	SO	M	Usha Martin	HOLD	SU	M

**ABSOLUTE RATING**

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

**RELATIVE RETURNS RATING**

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

**RELATIVE RISK RATING**

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

**SECTOR RATING**

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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### Coverage group(s) of stocks by primary analyst(s):

Bhushan Steel, Coal India, Hindalco Industries, Hindustan Zinc, Jindal Steel & Power, JSW Steel, National Aluminium Company, Steel Authority of India, Sesa Goa, Sterlite Industries (India), Tata Steel, Usha Martin

### Recent Research

Date	Company	Title	Price (INR)	Recos
09-Jan-13	<b>Alcoa</b>	Demand uptick expected; <i>Global Pulse</i>		
04-Dec-12	<b>Metals and Mining</b>	The end of slowdown; <i>Sector Update</i>		
22-Nov-12	<b>Tata Steel</b>	Short-term challenges; <i>Visit Note</i>	365	Buy

### Distribution of Ratings / Market Cap

#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	118	46	17	181
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	117	57	7	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period



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### Analyst holding in the stock: No.

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