

Coal India

Performance Highlights

Quarterly highlights (Consolidated)

Y/E March (₹ cr)	2QFY13	2QFY12	% chg (yoy)	1QFY13	% chg (qoq)
Total operating income	14,573	13,148	10.8	16,500	(11.7)
EBITDA	2,787	2,750	1.4	5,133	(45.7)
EBITDA margin (%)	19.1	20.9	(179)bp	31.1	(1,198)bp
Adjusted PAT	3,069	2,588	18.6	4,458	(31.2)

Source: Company, Angel Research

Coal India's (CIL) 2QFY2013 results have come in lower than our estimates on account of lower-than-expected realizations on e-auction sales. Nevertheless, **we recommend Accumulate on the stock.**

Strong operational performance: CIL's 2QFY2013 net sales increased 10.8% yoy to ₹14,573cr (below our estimate of ₹15,832cr) due to increases in both volumes as well as average realization. However, its realizations were lower than expected due to lower-than-expected e-auction realizations. Blended average realization on coal sales increased 2.3% yoy to ₹1,434/tonne and sales volumes grew by 8.4% yoy to 102mn tonne. CIL's sales volumes have increased 7.0% yoy to 215mn tonne in 1HFY2013.

Higher staff costs mute EBITDA growth: Despite a 10.8% yoy growth in net sales, CIL's EBITDA grew by only 1.4% yoy to ₹2,787cr due to increase in staff costs which increased by 14.9% yoy to ₹6,536cr and overburden removal expenses which increased by 54.5% yoy to ₹674cr. Nevertheless, a 16.6% yoy growth in other income to ₹2,093cr resulted in the adjusted net income growing by 18.6% yoy to ₹3,069cr.

Outlook and valuation: CIL's 2QFY2013 net profit growth was driven by higher realizations and other income. CIL remains well-poised to meet its FY2013 offtake target with 7.5% yoy increase reported in 1HFY2013. Moreover, an increase in blended realization due to shifting to GCV-based pricing is expected to offset the rise in staff costs in FY2013. **Valuing the stock at 8.0x FY2014 EV/EBITDA, we derive a target price of ₹368 and recommend Accumulate on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	50,229	62,415	66,666	70,292
% chg	12.6	24.3	6.8	5.4
Net profit	10,869	14,792	15,271	16,815
% chg	10.5	36.1	3.2	10.1
EPS (₹)	17.2	23.4	24.2	26.6
EBITDA margin (%)	28.0	27.5	25.7	27.3
P/E (x)	20.1	14.8	14.3	13.0
P/BV (x)	6.6	5.4	4.2	3.4
RoE (%)	36.7	40.1	33.1	29.1
RoCE (%)	27.7	23.0	19.1	18.7
EV/Sales (x)	3.4	2.6	2.3	2.0
EV/EBITDA (x)	12.3	9.3	8.9	7.5

Source: Company, Angel Research

ACCUMULATE

CMP	₹346
Target Price	₹368

Investment Period	12 Months
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Stock Info	
Sector	Mining
Market Cap (₹ cr)	218,704
Net Debt (₹ cr)	(63,433)
Beta	0.7
52 Week High / Low	386/294
Avg. Daily Volume	171,563
Face Value (₹)	10
BSE Sensex	18,684
Nifty	5,686
Reuters Code	COAL.BO
Bloomberg Code	COAL@IN

Shareholding Pattern (%)	
Promoters	90.0
MF / Banks / Indian Fls	1.7
FII / NRIs / OCBs	5.6
Indian Public / Others	2.7

Abs. (%)	3m	1yr	3yr
Sensex	6.4	7.6	13.6
CIL	(1.8)	6.2	-

Note: Coal India was listed on Nov. 4, 2010

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Exhibit 1: 2QFY2013 performance (Consolidated)

Particulars (₹ cr)	2QFY13	2QFY12	% (yoy)	1QFY13	% (qoq)	1HFY2013	1HFY2012	% (yoy)
Net sales	14,573	13,148	10.8	16,500	(11.7)	31,073	27,647	12.4
Raw material	1,905	1,791	6.4	1,672	14.0	3,577	3,293	8.6
% of net sales	13.1	13.6		10.1		11.5	11.9	
Staff cost	6,536	5,691	14.9	6,130	6.6	12,666	10,563	19.9
% of net sales	44.9	43.3		37.2		40.8	38.2	
Power & Fuel	561	525	6.9	514	9.2	1,075	987	8.9
% of net sales	3.9	4.0		3.1		3.5	3.6	
Social Overhead	315	337	(6.4)	403	(21.8)	718	630	14.0
% of net sales	2.2	2.6		2.4		2.3	2.3	
Contractual Expenses	1,092	965	13.2	1,234	(11.5)	2,326	2,070	12.3
% of net sales	7.5	7.3		7.5		7.5	7.5	
Overburden removal adjustment	674	436	54.5	733	(8.0)	1,407	1,024	37.3
% of net sales	4.6	3.3		4.4		4.5	3.7	
Other Expenses	524	548	(4.4)	556	(5.7)	1,080	986	9.5
% of net sales	3.6	4.2		3.4		3.5	3.6	
Total expenditure	11,608	10,292	12.8	11,241	3.3	22,849	19,553	15.7
% of net sales	79.7	78.3		68.1		73.5	70.7	
Operating profit	2,787	2,750	1.4	5,133	(45.7)	7,920	7,866	9.3
OPM(%)	19.1	20.9		31.1		25.5	28.5	
Other operating income	-	-		-		-	-	
EBIDTA	2,787	2,750	1.4	5,133	(45.7)	7,920	7,866	9.3
EBITDA margins (%)	19.1	20.9		31.1		25.5	28.5	
Interest	10	8	23.4	13	(18.9)	23	14	66.1
Depreciation	387	573	(32.5)	536	(27.7)	923	1,004	(8.1)
Other income	2,093	1,794	16.6	2,071	1.0	4,164	3,353	24.2
Provisions	(74)	273	-	319	-	245	569	(57.0)
Exceptional items	(9)	9	-	(10)	-	(19)	22	-
Profit before tax	4,548	3,699	23.0	6,327	(28.1)	10,875	9,654	17.5
% of net sales	31.2	28.1		38.3		35.0	34.9	
Tax	1,470	1,113	32.1	1,858	(20.9)	3,328	2,925	13.8
% of PBT	32.3	30.1		29.4		30.6	30.3	
Rep. Net income	3,078	2,586	19.0	4,469	(31.1)	7,547	6,730	12.1
% of net sales	21.1	19.7		27.1		24.3	24.3	
Adjusted net income	3,069	2,588	18.6	4,458	(31.2)	7,528	6,745	11.6

Source: Company, Angel Research

Exhibit 2: 2QFY2013 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	14,573	15,832	(8.0)
EBITDA	2,787	3,166	(12.0)
EBITDA margin (%)	19.1	20.0	(87)bp
Adjusted PAT	3,069	3,204	(4.2)

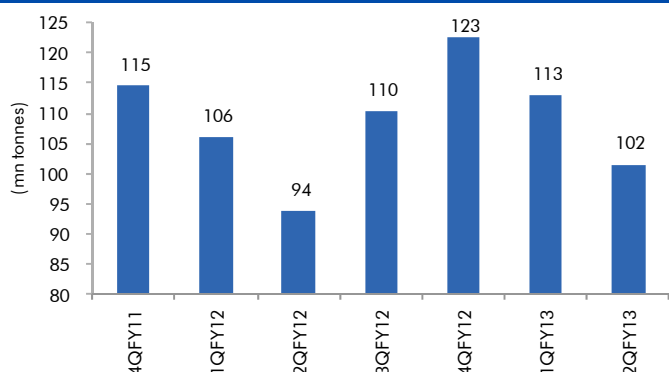
Source: Company, Angel Research

Result highlights

Higher volumes and realization aided net sales growth

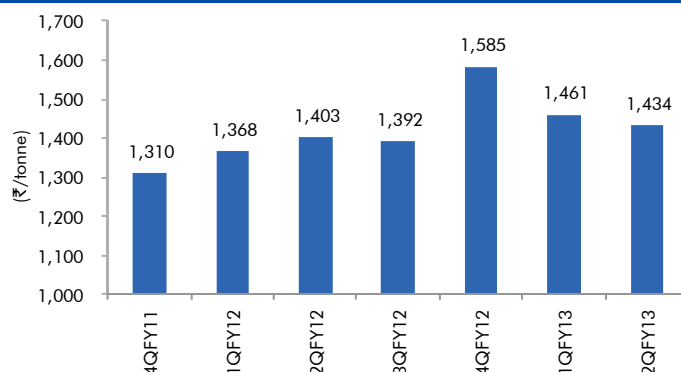
CIL's 2QFY2013 net sales increased 10.8% yoy to ₹14,573cr (below our estimate of ₹15,832cr) due to increases in both volumes as well as average realization. However, its realizations were lower than expected due to lower-than-expected e-auction realizations. Blended average realization on coal sales increased 2.3% yoy to ₹1,434/tonne and sales volumes grew by 8.4% yoy to 102mn tonnes. Production grew 10.8% yoy to 89mn tonne.

Exhibit 3: Sales volumes stood at 102mn tonnes...



Source: Company, Angel Research

Exhibit 4: ...while realization stood at ₹1,434/tonne



Source: Company, Angel Research

Higher staff costs mutes EBITDA growth

The company's EBITDA increased marginally by 1.4% yoy to ₹2,787cr mainly due to increase in staff costs which increased by 14.9% yoy to ₹6,536cr and overburden removal expenses which increased by 54.5% yoy to ₹674cr. Other income grew 16.6% yoy to ₹2,093cr on account of higher cash balance and increased treasury yield. Adjusted net income grew by 18.6% yoy to ₹3,069cr.

Exhibit 5: Per tonne analysis

Per tonne analysis	2QFY13	2QFY12	yoy %	1QFY13	qoq %	1HFY13	1HFY12	yoy %
Production (mn tonnes)	89	80	10.8	102	(13.1)	191	177	8.4
Offtake (mn tonnes)	102	94	8.4	113	(10.0)	215	200	7.4
Revenue	1,434	1,403	2.3	1,461	(1.8)	1,449	1,384	4.6
Cost	1143	1098	4.1	995	14.8	1065	979	8.8
Raw material expenses	188	191	(1.9)	148	26.7	167	165	1.1
Staff costs	643	607	6.0	543	18.5	590	529	11.7
Power & Fuel	55	56	(1.3)	45	21.4	50	49	1.4
Social Overhead	31	36	(13.6)	36	(13.1)	33	32	6.1
Contractual Expenses	107	103	4.4	109	(1.7)	108	104	4.6
Overburden removal	66	47	42.6	65	2.3	66	51	27.9
Other Expenses	52	58	(11.8)	49	4.8	50	49	2.0
EBITDA (₹) per tonne	274	293	(6.5)	455	(39.6)	369	394	(6.2)

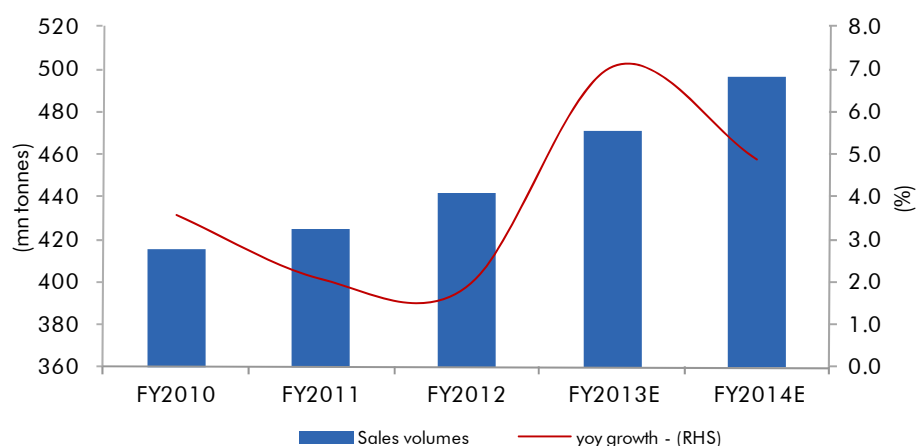
Source: Company, Angel Research

Investment rationale

Production and sales growth to pick up

During FY2012, CIL's production has been affected by higher-than-expected rainfall and imposition of stringent environmental laws by regulatory authorities. However, looking ahead, given the rising demand-supply gap for coal in India, we expect the government to ease some of the environmental constraints which will drive CIL's production and sales growth.

Exhibit 6: CIL's sales volume growth trend

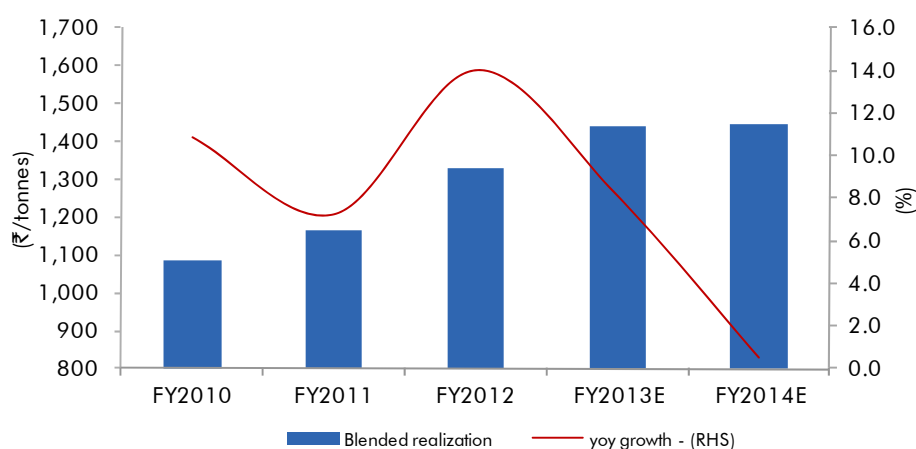


Source: Company, Angel Research

GCV-based pricing to offset high staff costs

CIL's realizations shifted to gross calorific value (GCV) based pricing mechanism during January 2012 which has resulted in higher realizations during 1HFY2013. Going forward, we believe CIL remains well-poised to pass on the rise in costs to its customers given coal's demand-supply mismatch in India.

Exhibit 7: CIL's pricing trend



Source: Company, Angel Research

Outlook and valuation

CIL's 2QFY2013 net profit growth was driven by higher realizations. CIL remains well-poised to meet its FY2013 offtake target with 7.5% yoy increase reported in 1HFY2013. Moreover, an increase in blended realization due to shifting to GCV-based pricing is expected to offset the rise in staff costs in FY2013. **Valuing the stock at 8.0x FY2014 EV/EBITDA, we derive a target price of ₹368 and recommend Accumulate on the stock.**

Exhibit 6: EPS – Angel forecast vs. consensus (Consolidated)

Year (₹)	Angel forecast	Bloomberg consensus	Variation (%)
FY2013E	24.2	26.6	(9.1)
FY2014E	26.6	29.6	(10.1)

Source: Bloomberg, Angel Research

Exhibit 7: Recommendation summary

Companies	CMP (₹)	Target price (₹)	Reco.	Mcap (₹ cr)	Upside (%)	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
NMDC	179	198	Accum	71,067	11	9.7	8.7	2.4	2.0	5.6	4.7	27.0	24.6	31.7	29.1
Coal India	346	368	Accum.	218,704	6	14.3	13.0	4.2	3.4	8.9	7.5	33.1	29.1	19.1	18.7
MOIL	249	261	Accum.	4,183	5	9.6	8.9	1.5	1.4	4.4	3.6	16.7	16.2	15.4	15.2

Source: Company, Angel Research

Company background

Coal India (CIL), a Navratna company, is the largest coal producing company in the world, based on its raw coal production (436mn tonne in FY2012). The company is also the largest coal reserve holder in the world, based on its reserve base (18bn tonne). The company caters to large thermal power generation companies, steel and cement producers and other industrial companies in the public and private sector.

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net sales	40,811	44,615	50,229	62,415	66,666	70,292
Other operating income	-	-	-	-	-	-
Total operating income	40,811	44,615	50,229	62,415	66,666	70,292
% chg	17.9	9.3	12.6	24.3	6.8	5.4
Total expenditure	38,174	33,870	36,173	45,278	49,518	51,123
Other mfg costs	8,315	6,053	5,807	7,136	9,433	9,841
Personnel	19,742	16,656	18,932	25,254	25,885	26,661
Other	10,117	11,161	11,434	12,889	14,200	14,621
EBITDA	2,643	10,744	14,058	17,141	17,148	19,169
% chg	(57.9)	306.5	30.8	21.9	0.0	11.8
(% of Net sales)	6.5	24.1	28.0	27.5	25.7	27.3
Depreciation	1,691	1,329	1,765	1,969	2,176	2,351
EBIT	952	9,414	12,292	15,172	14,972	16,819
% chg	(79.8)	889.1	30.6	23.4	(1.3)	12.3
(% of Net sales)	2.3	21.1	24.5	24.3	22.5	23.9
Interest charges	179	89	74	54	40	40
Other income	5,120	4,901	4,872	7,537	8,533	8,997
(% of PBT)	86.9	34.4	28.5	33.3	36.4	34.9
Provision	176	209	579	1,470	1,333	1,406
Recurring PBT	5,893	14,228	17,091	22,655	23,466	25,776
% chg	(29.1)	141.7	20.1	32.6	3.6	9.8
Extra. Inc/(Expense)	0	(54)	(58)	(73.4)	-	-
PBT (reported)	5,717	13,965	16,454	21,258	22,132	24,370
Tax	3,636	4,342	5,592	6,479	6,861	7,555
(% of PBT)	63.6	31.1	34.0	30.5	31.0	31.0
PAT (reported)	4,068	9,834	10,869	14,792	15,271	16,815
% chg	(5.1)	142.1	10.5	36.1	3.2	10.1
(% of Net sales)	10.0	22.0	21.6	23.7	22.9	23.9
Basic EPS (₹)	6.4	15.6	17.2	23.4	24.2	26.6
Fully diluted EPS (₹)	6.4	15.6	17.2	23.4	24.2	26.6
% chg	(5.1)	142.1	10.3	36.1	3.2	10.1

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	6,316	6,316	6,316	6,316	6,316	6,316
Reserves & Surplus	12,692	19,531	26,998	34,137	45,302	57,601
Shareholders' Funds	19,008	25,848	33,314	40,453	51,619	63,918
Share Warrants	-	-	-	-	-	-
Minority Interest	2	24	33	54	54	54
Total Loans	2,148	2,087	1,366	1,333	1,333	1,333
Other Long Term liabilities	-	-	2,057	2,647	2,647	2,647
Long term provisions	-	-	22,461	28,271	28,271	28,271
Shifting and rehab. fund	1,224	1,477	-	-	-	-
Total Liabilities	22,382	29,436	59,231	72,758	83,924	96,223
APPLICATION OF FUNDS						
Gross Block	33,255	34,945	36,714	38,096	41,696	44,696
Less: Acc. Depreciation	22,246	22,914	23,871	24,656	26,832	29,183
Net Block	11,009	12,031	12,843	13,440	14,864	15,514
Capital Work-in-Progress	11,009	12,031	12,843	13,440	14,864	15,514
Goodwill	-	-	-	-	-	-
Investments	1,505	1,282	1,064	1,981	1,981	1,981
Long Term loans and advances	-	-	845	1,017	-	-
Other non-current assets	-	-	76	69	-	-
Current Assets	46,936	54,313	68,106	86,341	93,660	103,908
Cash	29,695	39,078	45,806	58,203	64,567	74,270
Loans & Advances	11,727	8,665	11,180	13,485	13,485	13,485
Other	5,514	6,570	11,119	14,653	15,608	16,153
Current liabilities	39,942	41,385	26,633	34,188	34,266	34,364
Net Current Assets	6,994	12,929	41,472	52,153	59,394	69,544
Net deferred tax assets	955	966	873	1,194	1,194	1,194
Total Assets	22,382	29,436	59,231	72,758	83,924	96,223

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	5,739	13,965	16,463	21,273	22,132	24,370
Depreciation	1,063	679	1,765	1,969	2,176	2,351
Change in working capital	5,606	2,268	(4,328)	3,565	(877)	(447)
Less: Other income	2,103	406	427	(214)	-	-
Direct taxes paid	2,791	3,999	5,623	6,704	6,861	7,555
Cash flow from operations	11,719	13,320	8,704	19,888	16,570	18,719
(Inc.)/ Dec. in fixed assets	(1,875)	(1,998)	(2,568)	(3,409)	(6,100)	(4,500)
(Inc.)/ Dec. in investments	213	223	3,286	4,097	-	-
Others	-	-	(613)	(797)	-	-
Cash flow from investing	(1,662)	(1,775)	717	688	(6,100)	(4,500)
Issue of equity						
Inc./(Dec.) in loans	265	(62)	(504)	(247)	-	-
Dividend paid	(1,705)	(2,210)	(2,583)	(7,429)	(4,106)	(4,516)
Others	117	109	70	294	-	-
Cash flow from financing	(1,324)	(2,163)	(3,017)	(7,382)	(4,106)	(4,516)
Inc./(Dec.) in cash	8,734	9,383	6,405	13,193	6,364	9,703
Opening cash bal.	20,961	29,695	39,078	45,806	58,203	64,567
Closing cash bal.	29,695	39,078	45,806	58,203	64,567	74,270

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation ratio (x)						
P/E (on FDEPS)	53.7	22.2	20.1	14.8	14.3	13.0
P/CEPS	38.1	19.6	17.3	13.0	12.5	11.4
P/BV	11.5	8.4	6.6	5.4	4.2	3.4
Dividend yield (%)	0.8	1.0	1.1	1.3	1.4	1.6
EV/Sales	4.6	4.0	3.4	2.6	2.3	2.0
EV/EBITDA	71.7	16.8	12.3	9.3	8.9	7.5
EV/Total assets	8.5	6.1	2.9	2.2	1.8	1.5
Per share data (₹)						
EPS (Basic)	6.4	15.6	17.2	23.4	24.2	26.6
EPS (fully diluted)	6.4	15.6	17.2	23.4	24.2	26.6
Cash EPS	9.1	17.7	20.0	26.5	27.6	30.3
DPS	2.7	3.5	3.9	4.5	5.0	5.5
Book value	30.1	41.0	52.8	64.1	81.8	101.3
Returns (%)						
RoCE (Pre-tax)	4.5	36.3	27.7	23.0	19.1	18.7
RoE (pre-tax)	22.5	43.8	36.7	40.1	33.1	29.1
Turnover ratios (x)						
Asset turnover (gross block)	1.2	1.3	1.4	1.6	1.6	1.6
Inventory (days)	35	47	56	49	49	49
Receivables (days)	17	18	25	33	33	33
Payables (days)	8	8	7	7	7	7
WC cycle (days)	40	43	51	56	62	62
Solvency ratios (x)						
Net debt to equity	(1.5)	(1.5)	(1.4)	(1.5)	(1.3)	(1.2)
Net debt to EBITDA	(11.0)	(3.6)	(3.2)	(3.4)	(3.8)	(3.9)
Interest coverage	5.3	105.8	166.8	281.1	374.3	420.5

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Coal India

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)