

**BSE Code:** 533278    **NSE Code:** COALINDIA    **Reuters Code:** COAL.NS    **Bloomberg Code:** COAL:IN

Coal India Ltd's (CIL) production is expected to increase going forward on faster clearances by the Government and mounting pressure on it to meet the requirements of the power companies under fuel supply agreement (FSA). Further, larger demand-supply gap and e-auctions will aid better pricing and boost CIL earnings. Moreover, presence in coal washeries and robust expansion plans are also encouraging factors for CIL's business.

### Investor's Rationale

Strong traction in volumes and realisation powered the sales growth of CIL by 13.8% YoY at ₹165.0 billion in Q1FY13. Production and offtake grew 6.4% YoY & 6.5% YoY to 102 million tonnes (MT) and 113 MT. EBITDA surged marginally by 0.3% YoY to ₹51.33 billion and other income rose by whopping 32.9% YoY to ₹20.71 billion. Further, the PAT of the company grew by 7.2% YoY to ₹44.6 billion.

CIL targets production growth of 20% YoY at 96 MT and growth in dispatches by 15% YoY at 107 MT for Q2FY13. In the month of July 2012, production and dispatch stood at 31.8 MT and 36.2 MT. Thus, cumulative production for the period till July 2012 stood at 134.27 MT, up by 5.3% YoY and dispatch for the same period surged by 5% YoY at 149.03 MT.

The new FSA guidelines if implemented would have no major impact on pricing front as it would be pass-through as a pre-condition sought by CIL for imports, while the penalty can impact the earnings on non-fulfillment of requirements.

For the augmentation of the UG production, CIL has taken the strategic initiative of converting manual mines into semi-mechanized bored & pillar mining with LHD/SDL and fully mechanized mass production technology with continuous miner (CM) and power support mine Longwall (PSLW) faces in phases. Besides, CIL has also deployed UDMs (Universal Drilling Machines) to increase productivity of SDL/LHD mines.

Given the rising demand-supply gap for coal in India, we expect the government to ease some of the environmental constraints which would enable the company to meet the production target of 615 MT by March 2017. Further, CIL has set aside ₹350 billion (\$6.4 billion) to acquire assets abroad, develop its blocks in Mozambique and create infrastructure for transporting the fuel.

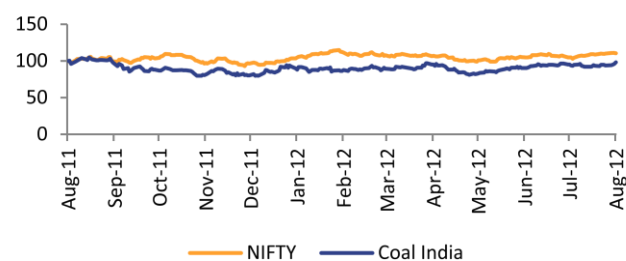
### Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (₹)</b>	366.9
<b>Target (₹)</b>	<b>440</b>
<b>Potential Upside</b>	~20%
<b>Duration</b>	Long Term
52 week H/L (₹)	393.4/293.8
All time High (₹)	422.3
Decline from 52WH (%)	6.7
Rise from 52WL (%)	24.9
Beta	0.4
Mkt. Cap (₹ bn)	2,317.5
Enterprise Value (₹ bn)	1,749.3

### Fiscal Year Ended

	FY11A	FY12A	FY13E	FY14E
Revenue (₹mn)	551,014.2	699,523.3	828,122.	969,706.
Net Profit(₹mn)	108,673.5	147,882.0	173,460.	203,801.
Share Capital	63,163.6	63,163.6	63,163.6	63,163.6
EPS (₹)	17.2	23.4	27.5	32.3
P/E (x)	21.3	15.7	13.4	11.4
P/BV (x)	7.0	5.7	4.1	3.1
EV/EBITDA (x)	10.2	7.5	6.1	5.1
ROE (%)	32.6	36.6	30.5	27.3
ROCE (%)	19.3	19.9	17.5	15.9

### One year Price Chart



### Shareholding Pattern

	Jun'12	Mar'12	Diff.
<b>Promoters</b>	90.0	90.0	-
<b>FII</b>	5.5	5.4	0.1
<b>DII</b>	1.7	1.7	-
<b>Others</b>	2.7	2.8	(0.1)



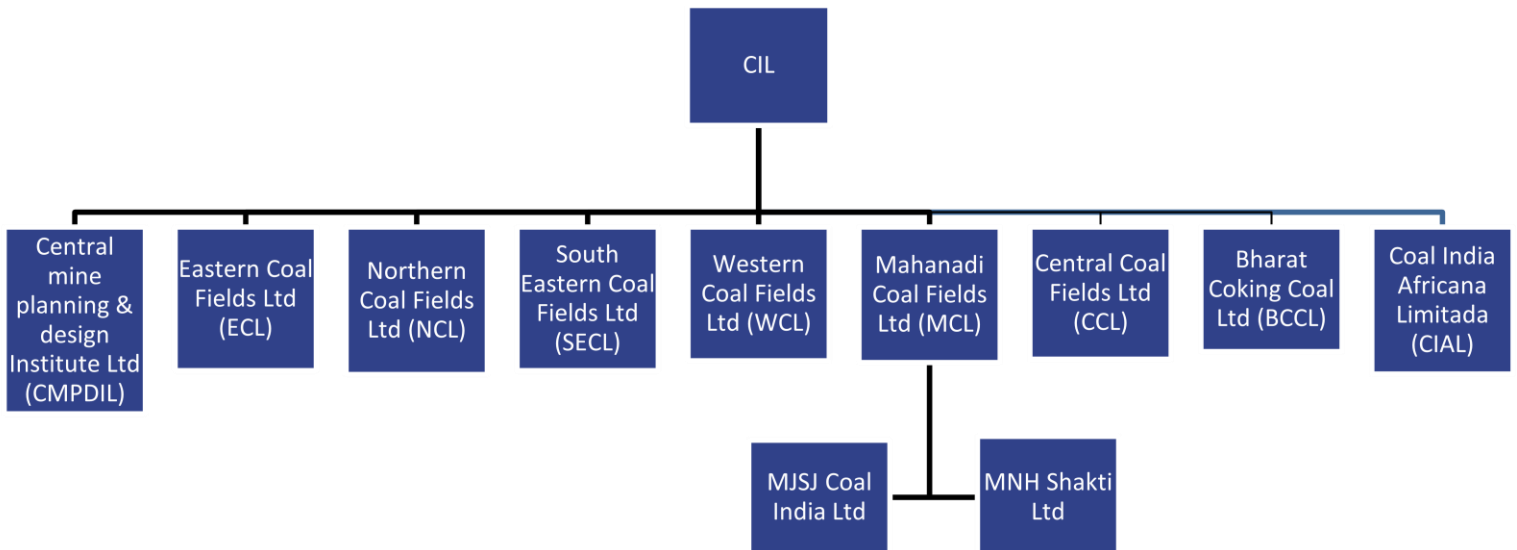
## World's largest coal miner with presence across the entire coal business value chain

Coal India Ltd, with a market capitalization of over ₹2 trillion, stands out to be the largest coal producing company in the world, besides holding one of the largest coal reserves in the world. Operating in 81 mining areas, spread over 8 provincial states, CIL accounts for around 81.1% of India's overall coal production. CIL presently owns 467 mines of which 273 are underground (UG), 164 open cast and 30 are mixed mines. CIL's major consumers are Power and Steel sectors while others include Cement, Fertiliser, Brick Kilns, and small scale industries. In India where approximately 52% of primary commercial energy is coal dependent, CIL alone meets to the tune of 40% of primary commercial energy requirement and feeds 82 out of 86 coal based thermal power plants in the country. CIL has core competence across the entire coal business value chain, starting from exploration, planning and design, operations, beneficiations and marketing. The principal product of CIL is raw coal, primarily non-coking. It is also looking for further diversification opportunities in the areas of Coal Bed Methane, Coal gasification Coal Liquefaction and Power Generation.

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Coal mining activity at CIL is primarily carried out through seven of wholly-owned subsidiaries in India, besides having direct operational control of North Eastern Coalfields (NEC), a small coal producing unit operating in Margherita, Assam. It's another wholly owned subsidiary, CMPDIL, carries out exploration activities for their subsidiaries and provides technical and consultancy services for their operations as well as to third-party clients for coal exploration, mining, processing and related activities. CIL has also established a wholly-owned subsidiary in Mozambique, Coal India Africana Limitada, to pursue coal mining opportunities in Mozambique and have acquired prospecting licenses for two coal blocks in Mozambique. Recognizing the role of CIL in the overall development of the country, Govt. of India has also conferred 'Maharatna' upon status to CIL in 2011, which is likely to provide greater financial autonomy to expand its operations both domestically and globally.

### CIL's corporate Structure





## Strong traction in volumes and realisation powered sales growth in Q1FY13

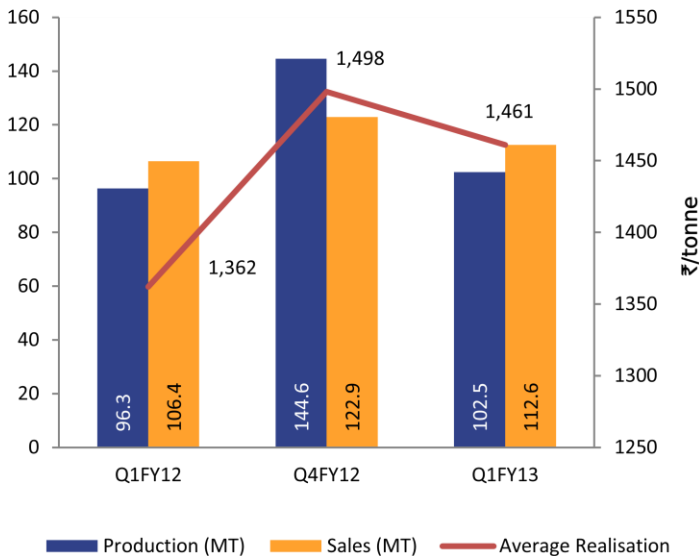
CIL registered 13.8% YoY increment in net sales at ₹165.0 billion, driven by increase in both volumes as well as average realisation. EBITDA increased marginally by 0.3% YoY to ₹51.33 billion and PAT grew by 7.2% YoY to ₹44.6 billion.

During Q1FY13, the major coal miner of India, CIL registered 13.8% YoY increment in net sales at ₹165.0 billion, driven by increase in both volumes as well as average realisation. Production and offtake grew 6.4% YoY & 6.5% YoY to 102 MT and 113 MT. Further, blended average realisation on coal sales surged 6.8% YoY to ₹1,461/tonne, led by change in pricing mechanism to gross calorific value (GCV). Also, rakes availability in Q1FY13 improved to 177/day v/s 164/day YoY which helped in increasing the dispatches through rail by 11% YoY.

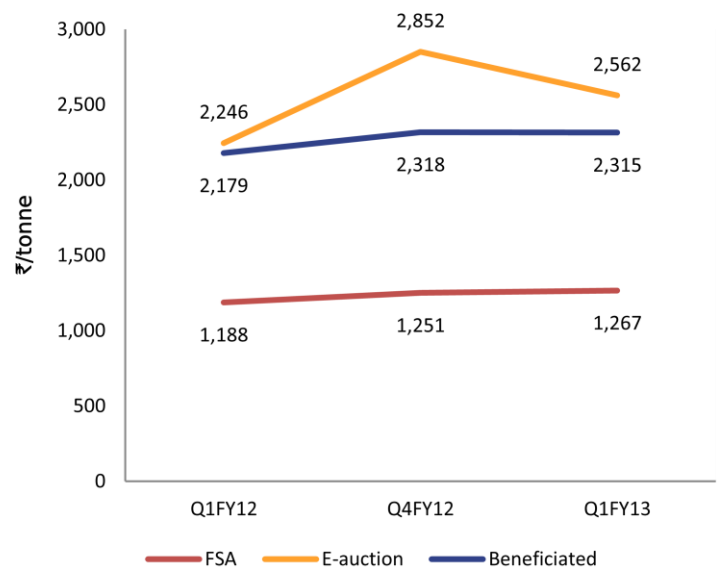
While, EBITDA increased marginally by 0.3% YoY to ₹51.33 billion on back of lower than expected staff costs (₹61.3 billion). However, the benefit was offset by higher cost of inventory and increase in other expenditure. EBITDA per tonne declined 5.8% YoY to ₹455 in Q1FY13. Other income rose by whopping 32.9% YoY at ₹20.71 billion on account of higher cash balance and increased treasury yield. Further, the PAT of the company grew by 7.2% YoY to ₹44.6 billion.

E-auction revenues of the company came at ₹34.5 billion in Q1FY13, with volumes stood at 13.5 MT (12% of the total mix vs 12.7% in Q1FY12) at average realisation of ₹2,562/tonne (up by 14% YoY). During the quarter, washed coal revenues stood at ₹10.2 billion, with volumes stood at 4.22 MT (2.9% of total volumes) at average realisation of ₹2,315/tonne (up by 6.2% YoY). FSA contributed 84.4% of total volumes in Q1FY13 as compared to 82.6% in Q1FY12. Realisation in FSA improved by 6.7% YoY at ₹1,267/tonne and registered revenues of ₹120.2 billion with volumes stood at 95.4 MT.

CIL's production, sales and realisation trend



CIL's average price realisation trend



For Q2FY13, CIL targets production growth of 20% YoY at 96 MT and growth in dispatches by 15% YoY at 107 MT. In the month of July 2012, production and dispatch stood at 31.8 MT and 36.2 MT. Thus, cumulative production for the period till July 2012 stood at 134.27 MT, up by 5.3% YoY and dispatch for the same period surged by 5% YoY at 149.03 MT. Also, average rake availability increased by 7.1% YoY at 178/day.

CIL will pay the penalty of 1.5% if the supply is between 65-80%, 5% for supply between 60-65%, 10-20% for providing coal between 50-60% of assured quantity and hefty penalty of up to 40% if it fails to supply 50% of the fuel to power firms.

### FSA penalty structure to have adverse effect on non-fulfilment of requirement

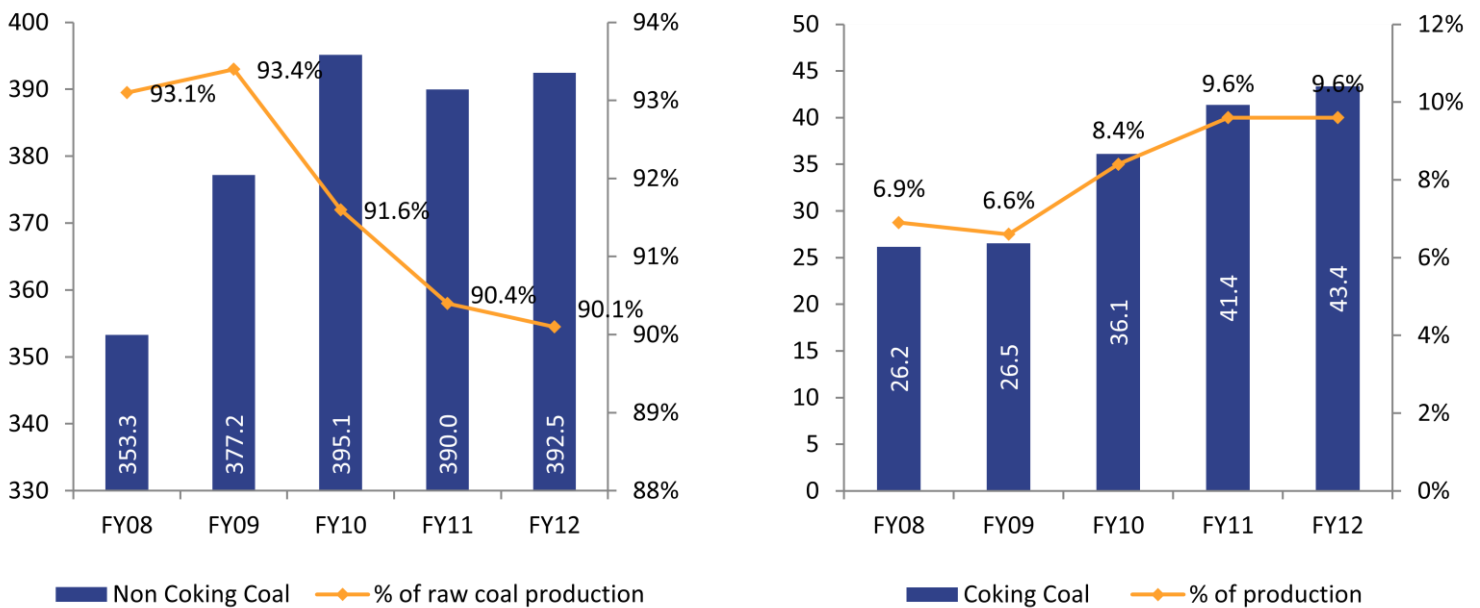
CIL has revised penalty structure for new FSAs upwards to 1.5-40% (earlier 0.01%). As per the new FSA, CIL will pay the penalty of 1.5% (of the value of fuel not supplied) if the supply is between 65 and 80%, the penalty would be 5% for supply between 60-65% of the contract, while the penalty is 10-20% for providing coal between 50-60% of assured quantity and hefty penalty of up to 40% if it fails to supply 50% (of the contracted quantity) of the fuel to power firms. The company will meet 80% requirement of the power companies with 15% imported coal & 65% domestic coal. The prices of the domestic as well as international coal would be clubbed and an average price would be charged from the power utilities. However, the decision on price pooling for imported coal has been deferred. We expect no impact on pricing front as it would be pass-through as a pre-condition sought by CIL for imports, while the penalty can impact the earnings on non-fulfillment of requirements.

### Production capacity-increased efforts to enhance UG output

During FY12, CIL produced 435.84 MT of raw coal as against 431.32 MT in FY11, reflecting an output growth of 4.52 MT over the year. To which, 91.2% or 397.45 MT was contributed by the open cast mines while raw coal contribution from the underground mines stood at 38.39MT during the fiscal. For FY12, the overburden removed was 735.14 million cubic meters as compared to 732.13 million cubic meters in FY11, registering a growth of 3.01 million cubic meters over the previous year. Further for the augmentation of the UG production, CIL has taken the strategic initiative of converting manual mines into semi-mechanized bored & pillar mining with LHD (Loan Haul Dumper)/SDL (Side Discharge Loader) and fully mechanized mass production technology with continuous miner and PSLW faces in phases. Besides, CIL has also deployed UDMs (Universal Drilling Machines) to increase productivity of SDL/LHD mines.

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CIL's raw coal production trend (MT)





### Subsidiary-wise production during FY12

Production details (MT)	ECL	BCCL	CCL	NCL	WCL	SECL	MCL	NEC	CIL
UG	6.83	3.48	1.09	-	8.39	16.41	2.19	0.004	38.39
OC	23.73	26.73	46.91	66.40	34.72	97.43	100.93	0.60	397.45
Total	30.56	30.21	48.00	66.40	43.11	113.84	103.12	0.60	435.84

*CIL intends to develop 20 more coal washeries comprising of 14 non coking coal facilities and 6 coking coal facilities with the capacity of 111.1 MTPA*

*We expect the government to ease some of the environmental constraints which would enable the company to meet the production target of 615 MT by March 2017.*

### Washeries to aid the growth

CIL operates 17 coal washeries comprising 12 coking coal beneficiation facilities with a total capacity of 22.18 MT and 5 non-coking coal beneficiation facilities with capacity of 17.22 MT as of March 31, 2012. The coal beneficiation facilities enable it to supply improved quality and sized coal to the customers.

Further, the company intends to develop 20 more coal washeries considering the increasing demand for washed coal and drive for a cleaner environment. These washeries are scheduled to be commissioned during XII plan period which comprises of 14 non coking coal facilities and 6 coking coal facilities with the capacity of 111.1 MTPA as the management has planned to raise the level of washed coal to 40% of total production by 2017 from the current 3%. Planned capex for the project is estimated around ₹23,275 million. Thus, once the facilities will be set up, CIL revenue is likely to inch higher. The company has also planned up to integrate its facilities with open cast mines having capacities of more than 2.5 MT.

### Coal demand robust; expect CILs production to improve

During FY12, CIL accounted for 81% of total coal produced in India. In FY11 and FY12 the production of CIL has remained flat in between 430-435 MTPA. The production of the company has been affected due to higher-than-expected rainfall and imposition of stringent environmental laws by regulatory authorities. Around 179 projects of coal are awaiting environment clearances from the Centre and the state governments. In January 2012, power companies approached the ministry for resolution of coal availability issue, which directed CIL to quickly approve the model FSA to be inked with power firms. Further, the company has set aside ₹350 billion (\$6.4 billion) to acquire assets abroad and to develop its blocks in Mozambique. The company has been actively scouting for coal mines in South Africa, Australia and Indonesia since 2010, but hasn't been able to seal any big deals due to delays in getting government approvals. It also plans to spend ₹254 billion during the five-year period through March 2017 to mainly expand production from its mines in India and to create infrastructure for transporting the fuel.

Given the rising demand-supply gap for coal in India, coal demand is expected to rise to 980.5 MT by March 2017 from 772.84 MT in the current financial year. Going ahead, we expect the government to ease some of the environmental constraints and once given the clearance, these projects will significantly boost the CIL's production. CIL targets to produce 464.10 MT coal in the current financial year and expects investments will help it ramp up production to 615 MT by March 2017.



## SWOT Analysis of CIL

### STRENGTHS:

- The largest coal producer and reserve holder in the world
- Well positioned to capitalize on the high demand for coal in India
- Well established track record of growth and cost efficient operations as well as financial performance
- Strong capabilities for exploration, mine planning, research and development

### WEAKNESSES:

- High cost of production in underground coal mines rendering them largely loss making
- Evacuation of coal largely dependent on external agencies which is often constraints.

### OPPORTUNITIES:

- Strong economic growth in India and resultant demand for energy opens huge growth opportunities for CIL
- Coal is cheapest source of energy and thus demand will continue to remain strong, comparative to alternate energy sources available in India.
- Imported coal presents huge opportunity for CIL in view of mismatch in quantity and quality of domestic coal available in India

### THREATS

- Most of the coal reserves are under forest and tribal inhabited areas, increasingly making it difficult to excavate.
- Large tract coal bearing areas in India is in disturbed areas, thus prone to operational disruptions.
- Change in policies/ regulations governing the sector e.g. private participation can negatively impact CIL's performance.



## Balance Sheet

(₹million)	FY11A	FY12A	FY13E	FY14E
Share Capital	63,163.6	63,163.6	63,163.6	63,163.6
Reserve and surplus	269,978.4	341,366.6	505,773.0	682,793.6
Net Worth	333,142.0	404,530.2	568,936.6	745,957.2
Minority Interest	326.1	536.00	696.8	891.9
Loan funds (Long Term)	13,337.6	13,332.8	16,666.0	21,851.5
Current Liabilities	266,658.5	341,884.0	417,098.5	492,176.2
Provisions (Long Term)	224,607.9	282,712.8	397,611.0	510,810.9
Other Liabilities (Long Term)	20,573.9	26,470.3	31,764.4	37,602.6
<b>Capital Employed</b>	<b>858,646.0</b>	<b>1,069,466.1</b>	<b>1,432,773.2</b>	<b>1,809,290.3</b>
Total Fixed Assets	28,190.9	163,436.7	273,127.5	385,953.5
Non-Current Investment	1,355.3	9,469.9	12,686.9	16,020.9
Loans & Advances (Long Term)	1,164.5	10,172.5	12,207.0	14,648.4
Deferred Tax Assets (Net)	58.3	11,940.6	15,522.8	18,198.9
Current Assets	53,926.0	873,753.5	1,118,404.5	1,373,479.0
Other Current assets	9.3	692.9	824.6	989.6
<b>Capital Deployed</b>	<b>84,704.3</b>	<b>1,069,466.1</b>	<b>1,432,773.2</b>	<b>1,809,290.3</b>

## Key Ratios

	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	33.3	33.2	33.1	32.6
EBIT Margin (%)	30.1	30.4	30.2	29.7
NPM (%)	19.7	21.1	20.9	21.0
ROCE (%)	19.3	19.9	17.5	15.9
ROE (%)	32.6	36.6	30.5	27.3
EPS (₹)	17.2	23.4	27.5	32.3
P/E (x)	21.3	15.7	13.4	11.4
BVPS	52.7	64.0	90.1	118.1
P/BVPS (x)	7.0	5.7	4.1	3.1
EV/Operating Income (x)	3.7	2.8	2.2	1.8
EV/EBITDA (x)	10.2	7.5	6.1	5.1
EV/EBIT (x)	11.3	8.2	6.7	5.6

## Profit & Loss Account

(₹million)	FY11A	FY12A	FY13E	FY14E
<b>Total Operating Income</b>	<b>551,014.2</b>	<b>699,523.3</b>	<b>828,122.6</b>	<b>969,706.2</b>
Expenses	367,516.8	467,476.2	554,323.9	654,013.8
<b>EBITDA</b>	<b>183,497.4</b>	<b>232,047.1</b>	<b>273,798.7</b>	<b>315,692.3</b>
Depreciation	17,654.0	19,692.2	23,630.6	27,884.2
<b>EBIT</b>	<b>165,843.4</b>	<b>212,354.9</b>	<b>250,168.1</b>	<b>287,808.2</b>
Interest	737.0	539.8	647.8	764.4
Extra-Ordinary Item	101.3	177.8	0.0	0.0
Prior Period Adjustment	(575.3)	733.7	0.0	0.0
<b>Profit Before Tax</b>	<b>164,632.4</b>	<b>212,726.6</b>	<b>249,520.3</b>	<b>287,043.8</b>
Tax	55,958.8	64,844.5	76,060.2	83,242.7
Loss from discontinuing Operations	0.1	0.1	0.0	0.0
<b>Net Profit</b>	<b>108,673.5</b>	<b>147,882.0</b>	<b>173,460.1</b>	<b>203,801.1</b>

## Valuation and view

With expectations of higher volumes, FSA realisation and other income, CIL is likely to post strong growth in both revenue and profitability. Further, intact e-auction volumes, increased availability of rakes and FSA issue about to resolve shortly, the company is well poised for continuous growth driven by its positioning as the largest coal producer in world. We expect CIL's revenue & net profit to register a CAGR of 18% & 17% respectively over FY12-FY14E.

CIL is attractively placed at P/E of ~ 13.4x FY13E given the long term prospects of the company. Considering the above aspects, we rate the stock as 'BUY' at the current market price of ₹366.9, with the target price of ₹440.



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