

March 16, 2012

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

With continuously rising coal demand, larger demand-supply gap, better pricing and improved offtake to boost Coal India Ltd (CIL) earnings. Moreover, with huge coal reserves, growing industry demand and the government support, coal production in the country is expected to grow at a CAGR of around 7% till FY2014. Further, improved asset base, presence in coal washeries and further expansion plans is also encouraging factor for CIL's business.

Investor's Rationale

Q3FY'12 performance better than market estimates

Coal India, the largest coal producer in the world, reported 53.6% jump in net profits to ₹4,037.8 crore. Net sales for Q3FY'12 increased by 21% to ₹15,349.3 crore from ₹12,691.9 crore registered in same period previous year. This was primarily due to better realisations. EBITDA for the quarter grew by 33.6% YoY to ₹4,547.4 crore and margins rose by 270 bps to 29.6% for the quarter. This was primarily due to normalization of operating expenses and better e-auction realization at ₹2,852/tonne.

Muted production and offtake numbers

Production and offtake growth was flat during Q3FY'12. Production increased by 0.7% to 114.6 MT and Offtake was 110.3 MT (-0.1%). E-auction volumes stood at 11.5MT (10.4% of offtake), Washed coal volumes stood at 5.4MT (4.9% of volumes) and FSA coal volumes were at 93.5MT (85% in Q3). Inventory has declined by ~19MT and as of Q3FY'12 stands at ~50MT.

Wages to increase from Q4FY'12

National Coal Wage Agreement (NCWA IX) covering wage settlement of around 0.36 mn non-executive employees has been finalized and the five year wage agreement would be effective from July 1, 2011. The company signed an agreement with the five recognized union to hike 25% wages till 2016 which is expected to add about ₹4,000 crore to its annual wage bill. CIL has made a provision of ₹780 crore similar to that of Q2'FY12 and ₹330 crore in Q3'FY'12.

Speedy clearance of projects after FSA

Prime minister office's (PMO's) recent announcement to increase the fuel supply agreement (FSA) trigger level from the earlier 50% to 80% for power sector would substantially increase the expansion in CIL's volumes. Further, it would lead to speedy clearances for the projects which has been stuck due to hazy policies of MoEF like 'Go, No-Go', Comprehensive environment pollution index (CEPI) and stringent environment & forest clearance.

Market Data

CMP (₹)	342	
Target Price	393	
Stop Loss	325	
Duration	Mid-term	
52-week High-Low (₹)	422.3/293.7	
Rise from 52WL (%)	16.5	
Correction from 52WH (%)	19.0	
Beta	0.6	
1 year Average Volume (mn)	0.7	
	3M-	13.5
Stock Return (%)	6M-	(9.5)
	9M-	(13.6)
Market Cap (₹bn)	2,161.7	
Enterprise Value (₹bn)	1,622.4	

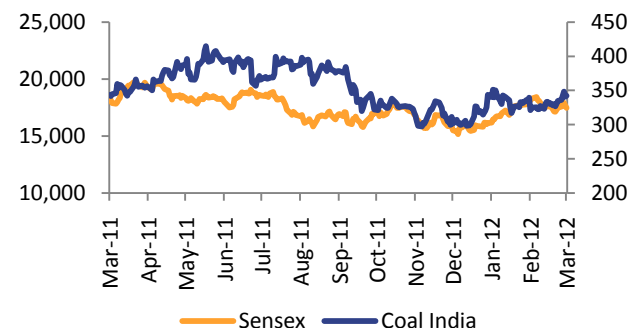
Shareholding Pattern

	Dec'11	Sep'11	Chg
Promoters (%)	90.0	90.0	-
FII (%)	5.6	6.3	(0.8)
DII (%)	1.8	1.6	0.2
Public & Others (%)	2.6	2.1	0.5

Quarterly Performance

(₹ bn)	Q3 FY'12	Q3 FY'11	Q2 FY'12	%Y-o-Y Change	%Q-o-Q Change
Net sales	153.5	126.9	131.4	21.0	16.8
Op. exp	108.1	928.0	106.7	16.5	1.3
EBITDA	45.5	34.1	24.7	33.6	83.8
OPM	29.6	26.9	18.8	270bps	1080bps
Net profit	40.3	26.2	25.9	53.6	56.0
NPM (%)	26.3	20.6	19.7	570bps	660bps
EPS	6.4	4.2	4.1	52.4	56.1

One Year Price Chart





Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

Disclaimer

@ All Rights Reserved

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Indbank Limited and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Indbank and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced, duplicated or sold in any form.