

Coal India

Performance Highlights

Quarterly highlights (Consolidated)

Y/E March (₹ cr)	3QFY13	3QFY12	% chg (yoy)	2QFY13	% chg (qoq)
Total operating income	17,325	15,349	12.9	14,573	18.9
EBITDA	5,395	5,636	(4.3)	3,461	55.9
EBITDA margin (%)	31.1	36.7	(558)bp	23.8	739bp
Adjusted PAT	4,410	4,043	9.1	3,069	43.7

Source: Company, Angel Research

Coal India's (CIL) 3QFY2013 results were above our expectations on account of higher-than-expected sales volumes. **We maintain our Accumulate rating on the stock.**

Offtake beats our expectations: Coal India's 3QFY2013 net sales grew by 12.9% yoy to ₹17,325cr. Sales volumes stood at 120mn tonne (our estimate was of 112mn tonne), indicating the company's focus on increasing offtake. Railway rakes availability stood at 214/day (CIL's requirements currently stand at 234/day). Realizations grew by 3.4% yoy and were flat qoq to Rs1,438/tonne.

Higher costs dent EBITDA: Despite 12.9% top-line growth, the company's EBITDA decreased by 4.3% yoy to ₹5,395cr, mainly due to higher power and fuel costs and other expenses. The adjusted net profit stood at ₹4,410cr (+9.1% yoy), above our estimate of ₹3,808cr.

Outlook and valuation: CIL's 3QFY2013 net profit growth was driven by higher volumes. Its sales volumes grew by 8.0% yoy during 9MFY2013, indicating its focus on increasing offtake. Also, CIL has demonstrated strong pricing power by increasing prices of coal to offset rising costs. On the price pooling front, we expect price pooling to be revenue-neutral for CIL in case it imports coal to meet the demand of power producers. **Valuing the stock at 8.0x FY2014E EV/EBITDA, we derive a target price of ₹369 and maintain our Accumulate rating 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	16,317	17,316
% chg	10.5	36.1	10.3	6.1
EPS (₹)	17.2	23.4	25.8	27.4
EBITDA margin (%)	28.0	27.5	26.4	27.4
P/E (x)	20.2	14.9	13.5	12.7
P/BV (x)	6.6	5.4	4.2	3.4
RoE (%)	36.7	40.1	35.0	29.3
RoCE (%)	27.7	23.0	19.9	18.8
EV/Sales (x)	3.5	2.6	2.3	2.0
EV/EBITDA (x)	12.4	9.4	8.7	7.5

Source: Company, Angel Research

ACCUMULATE

CMP	₹348
Target Price	₹369

Investment Period	12 Months
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Stock Info	
Sector	Mining
Market Cap (₹ cr)	219,683
Net Debt (₹ cr)	(56,870)
Beta	0.7
52 Week High / Low	386/301
Avg. Daily Volume	179,306
Face Value (₹)	10
BSE Sensex	19,608
Nifty	5,933
Reuters Code	COAL.BO
Bloomberg Code	COAL@IN

Shareholding Pattern (%)	
Promoters	90.0
MF / Banks / Indian Fls	1.7
FII / NRIs / OCBs	5.7
Indian Public / Others	2.6

Abs. (%)	3m	1yr	3yr
Sensex	5.3	10.3	21.4
CIL	0.5	3.4	-

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

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Exhibit 1: 3QFY2013 performance (Consolidated)

Particulars (₹ cr)	3QFY13	3QFY12	% chg (yoy)	2QFY13	% chg (qoq)	9MFY2013	9MFY2012	% chg (yoy)
Net sales	17,325	15,349	12.9	14,573	18.9	48,395	42,996	12.6
Raw material	1,819	1,355	34.2	1,905	(4.5)	5,396	4,648	16.1
% of net sales	10.5	8.8		13.1		11.1	10.8	
Staff cost	6,305	5,622	12.1	6,536	(3.5)	18,971	16,185	17.2
% of net sales	36.4	36.6		44.9		39.2	37.6	
Power & Fuel	687	496	38.4	561	22.4	1,762	1,484	18.7
% of net sales	4.0	3.2		3.9		3.6	3.5	
Social Overhead	735	347	112.2	315	133.3	1,454	977	48.8
% of net sales	4.2	2.3		2.2		3.0	2.3	
Contractual Expenses	1,486	1,248	19.0	1,092	36.1	3,812	3,319	14.9
% of net sales	8.6	8.1		7.5		7.9	7.7	
Other Expenses	730	490	49.0	524	39.4	1,810	1,476	22.6
% of net sales	4.2	3.2		3.6		3.7	3.4	
Total expenditure	11,762	9,558	23.1	10,934	7.6	33,205	28,089	18.2
% of net sales	67.9	62.3		75.0		68.6	65.3	
Operating profit	5,395	5,636	(4.3)	3,461	55.9	14,723	14,527	1.3
OPM(%)	31.1	36.7		23.8		30.4	33.8	
Other operating income	-	-		-		-	-	
EBIDTA	5,395	5,636	(4.3)	3,461	55.9	14,723	14,527	1.3
EBITDA margins (%)	31.1	36.7		23.8		30.4	33.8	
Overburden removal adjustment	907	761	19.2	674	34.6	2,314	1,785	29.6
% of net sales	5.2	5.0		4.6		4.8	4.2	
Interest	10	8	26.3	10	(6.2)	33	21	57.1
Depreciation	420	526	(20.0)	387	8.6	1,343	1,530	(12.2)
Other income	2,360	1,856	27.2	2,093	12.8	6,525	5,209	25.3
Provisions	200	333	(39.9)	(74)	(368.6)	445	902	(50.7)
Exceptional items	15	5	188.5	(9)	(271.7)	4	28	(85.7)
Profit before tax	6,234	5,870	6.2	4,548	37.1	17,117	15,526	10.2
% of net sales	36.0	38.2		31.2		35.4	36.1	
Tax	1,839	1,832	0.4	1,470	25.1	5,167	4,757	8.6
% of PBT	29.5	31.2		32.3		30.2	30.6	
Rep. Net income	4,395	4,038	8.9	3,078	42.8	11,942	10,769	10.9
% of net sales	25.4	26.3		21.1		24.7	25.0	
Adjusted net income	4,410	4,043	9.1	3,069	43.7	11,938	10,788	10.7

Source: Company, Angel Research

Exhibit 2: 3QFY2013 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	17,325	16,190	7.0
EBITDA	3,461	5,019	(31.0)
EBITDA margin (%)	31.1	31.0	10bp
Adjusted PAT	4,410	3,808	15.8

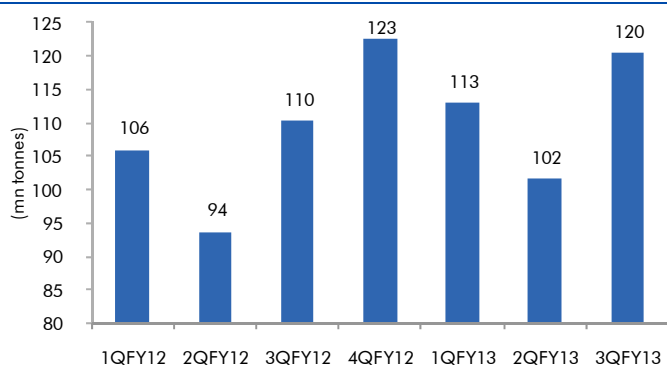
Source: Company, Angel Research

Result highlights

Higher volumes and realization aided net sales growth

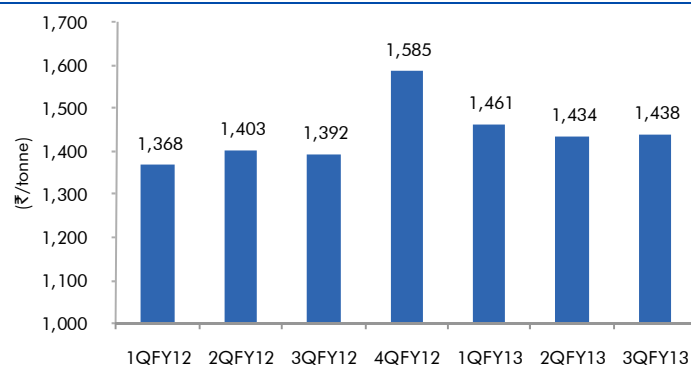
CIL's 3QFY2013 net sales grew by 12.9% yoy to ₹17,325cr. Sales volumes stood at 120mn tonne (our estimate was of 112mn tonne), indicating the company's focus on increasing offtake. Railway rakes availability stood at 214/day (CIL's requirements currently stand at 234/day). Realizations grew by 3.4% yoy and were flat qoq to ₹1,438/tonne.

Exhibit 3: Sales volumes stood at 120mn tonne...



Source: Company, Angel Research

Exhibit 4: ...while realization stood at ₹1,438/tonne



Source: Company, Angel Research

Higher Power & Fuel costs mute EBITDA growth

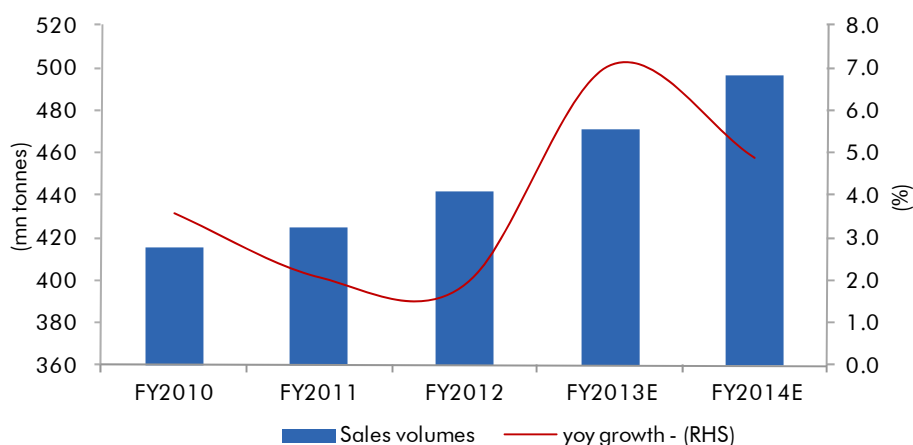
The company's EBITDA decreased by 4.3% yoy to ₹5,395cr, mainly due to higher power and fuel costs and other expenses. Other income grew by 27.2% yoy to ₹2,360cr and hence the adjusted net profit stood at ₹4,410cr (+9.1% yoy) above our estimate of ₹3,808cr.

Investment rationale

Production and offtake 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. Given the rising demand-supply gap for coal in India, we expect government to ease some of the environmental constraints which will drive CIL's production. On the offtake front, CIL's sales volumes grew by 8.0% yoy, indicating its strong focus to increase supplies during 9MFY2013.

Exhibit 5: CIL's sales volume growth trend

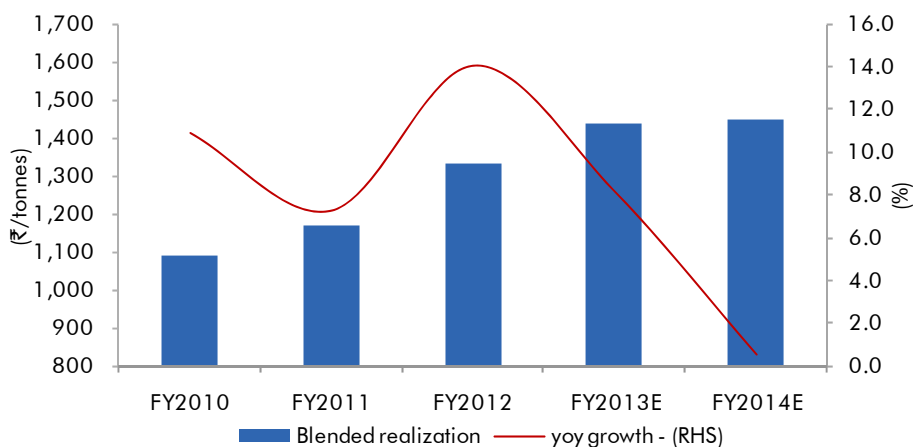


Source: Company, Angel Research

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 9MFY2013. Going forward, given its monopoly over coal supply, we believe CIL remains well-poised to pass on the rise in costs to its customers, especially considering coal's demand-supply mismatch in India.

Exhibit 6: CIL's pricing trend



Source: Company, Angel Research

Outlook and valuation

CIL's 3QFY2013 net profit growth was driven by higher volumes. Its sales volumes grew by 8.0% yoy during 9MFY2013 indicating its focus on increasing offtake. Also, CIL has demonstrated strong pricing power by increasing prices of coal to offset rising costs. We expect price pooling to be revenue-neutral for CIL in case it imports coal to meet the demand of power producers. **Valuing the stock at 8.0x FY2014 EV/EBITDA, we derive a target price of ₹369 and maintain our Accumulate rating on the stock.**

Exhibit 7: EPS – Angel forecast vs consensus (Consolidated)

Year (₹)	Angel forecast	Bloomberg consensus	Variation (%)
FY2013E	25.8	26.5	(2.5)
FY2014E	27.4	27.2	0.8

Source: Bloomberg, Angel Research

Exhibit 8: Recommendation summary

Companies	CMP	Target	Reco.	Mcap	Upside	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
	(₹)	price (₹)				(₹ cr)	(%)	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
NMDC	147	181	Buy	58,182	23	9.2	7.9	2.0	1.7	5.1	4.0	23.6	23.0	26.6	27.0
Coal India	348	369	Accum.	219,683	6	13.5	12.7	4.2	3.4	8.7	7.5	35.0	29.3	19.9	18.8
MOIL	252	-	Neutral	4,239	-	9.8	9.6	1.5	1.4	4.4	4.2	16.7	15.1	15.1	13.4

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	49,085	51,053
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	13,767	14,550
EBITDA	2,643	10,744	14,058	17,141	17,582	19,239
% chg	(57.9)	306.5	30.8	21.9	2.6	9.4
(% of Net sales)	6.5	24.1	28.0	27.5	26.4	27.4
Depreciation	1,691	1,329	1,765	1,969	1,894	2,046
EBIT	952	9,414	12,292	15,172	15,687	17,193
% chg	(79.8)	889.1	30.6	23.4	3.4	9.6
(% of Net sales)	2.3	21.1	24.5	24.3	23.5	24.5
Interest charges	179	89	74	54	40	40
Other income	5,120	4,901	4,872	7,537	9,000	8,997
(% of PBT)	86.9	34.4	28.5	33.3	36.5	34.4
Provision	176	209	579	1,470	1,000	1,054
Recurring PBT	5,893	14,228	17,091	22,655	24,647	26,150
% chg	(29.1)	141.7	20.1	32.6	8.8	6.1
Extra. Inc/(Expense)	-	(54)	(58)	(73.4)	-	-
PBT (reported)	5,717	13,965	16,454	21,258	23,647	25,096
Tax	3,636	4,342	5,592	6,479	7,331	7,780
(% of PBT)	63.6	31.1	34.0	30.5	31.0	31.0
PAT (reported)	4,068	9,834	10,869	14,792	16,317	17,316
% chg	(5.1)	142.1	10.5	36.1	10.3	6.1
(% of Net sales)	10.0	22.0	21.6	23.7	24.5	24.6
Basic EPS (₹)	6.4	15.6	17.2	23.4	25.8	27.4
Fully diluted EPS (₹)	6.4	15.6	17.2	23.4	25.8	27.4
% chg	(5.1)	142.1	10.3	36.1	10.3	6.1

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	46,348	59,148
Shareholders' Funds	19,008	25,848	33,314	40,453	52,664	65,464
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	84,969	97,769
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	26,551	28,597
Net Block	11,009	12,031	12,843	13,440	15,146	16,100
Capital Work-in-Progress	11,009	12,031	12,843	13,440	15,146	16,100
Goodwill	-	-	-	-	-	-
Investments	1,505	1,282	1,064	1,981	1,981	1,981
Long Term loans and adv.	-	-	845	1,017	-	-
Other non-current assets	-	-	76	69	-	-
Current Assets	46,936	54,313	68,106	86,341	94,416	104,868
Cash	29,695	39,078	45,806	58,203	65,381	75,240
Loans & Advances	11,727	8,665	11,180	13,485	13,485	13,485
Other	5,514	6,570	11,119	14,653	15,550	16,143
Current liabilities	39,942	41,385	26,633	34,188	34,258	34,364
Net Current Assets	6,994	12,929	41,472	52,153	60,158	70,504
Net deferred tax assets	955	966	873	1,194	1,194	1,194
Total Assets	22,382	29,436	59,231	72,758	84,969	97,769

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	23,647	25,096
Depreciation	1,063	679	1,765	1,969	1,894	2,046
Change in working capital	5,606	2,268	(4,328)	3,565	(827)	(488)
Less: Other income	2,103	406	427	(214)	-	-
Direct taxes paid	2,791	3,999	5,623	6,704	7,331	7,780
Cash flow from operations	11,719	13,320	8,704	19,888	17,384	18,875
(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	7,178	9,859
Opening cash bal.	20,961	29,695	39,078	45,806	58,203	65,381
Closing cash bal.	29,695	39,078	45,806	58,203	65,381	75,240

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation ratio (x)						
P/E (on FDEPS)	54.0	22.3	20.2	14.9	13.5	12.7
P/CEPS	38.3	19.7	17.4	13.1	12.1	11.3
P/BV	11.6	8.5	6.6	5.4	4.2	3.4
Dividend yield (%)	0.8	1.0	1.1	1.3	1.4	1.6
EV/Sales	4.7	4.1	3.5	2.6	2.3	2.0
EV/EBITDA	72.1	16.9	12.4	9.4	8.7	7.5
EV/Total assets	8.5	6.2	2.9	2.2	1.8	1.5
Per share data (₹)						
EPS (Basic)	6.4	15.6	17.2	23.4	25.8	27.4
EPS (fully diluted)	6.4	15.6	17.2	23.4	25.8	27.4
Cash EPS	9.1	17.7	20.0	26.5	28.8	30.7
DPS	2.7	3.5	3.9	4.5	5.0	5.5
Book value	30.1	41.0	52.8	64.1	83.5	103.7
Returns (%)						
RoCE (Pre-tax)	4.5	36.3	27.7	23.0	19.9	18.8
RoE (pre-tax)	22.5	43.8	36.7	40.1	35.0	29.3
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	392.2	429.8

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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%)