

COAL INDIA

e-auction realisations surprise

India Equity Research | Metals and Mining



Coal India's (CIL) EBITDA at INR42.9bn was ~7% above estimates, led by better than expected realization of INR1,438/t as against our estimate of INR1,419/t. Volumes and total cost were broadly in-line. E-auction coal realizations surged ~20% QoQ versus our estimate of a 6% increase, thereby offsetting the 3.8% QoQ decline in realizations of coal sold under fuel supply agreement (FSA). Higher than estimated other income and lower tax rate further boosted PAT at INR43.6bn, 10% above estimates. Though CIL expects to be slightly short of FY13 production target of 464mt, it is confident of achieving sales target of 470mt (our estimate 461mt) through inventory liquidation. With no risk to our earnings estimate, we maintain 'BUY/SP' with TP of INR410.

Operational performance for the quarter

The key highlight in Q3 was the ~20% QoQ increase in e-auction realisations which we believe is partly on account of improved coal mix. The spike helped offset the 3.8% QoQ drop in FSA realisations leading to overall blended realisations higher at INR1,438/t versus our estimated INR1,419/t. On the cost front, while employee cost at INR63bn was below estimates, it was largely offset by higher other expenses such as social overhead, up 133% QoQ and contractual expenses, up 36% QoQ. EBITDA at INR42.9bn (EBITDA/t of INR356, up 30% QoQ) was above our estimate of INR40bn. Higher other income (up 13% QoQ to INR23.6bn) and lower tax rate (29.6% vs 32.4% in Q2) helped PAT of INR43.6bn beat our estimate of INR39.8bn.

FY13 production target may be missed

Total sales and production volumes in Q3 were in-line at 120.5mt and 117.4mt, respectively. E-auction volumes declined 9% YoY at 10.48mt, in line with the management guidance. Though CIL expects to be slightly short of FY13 production target of 464mt, it is confident of achieving sales target of 470mt (our estimate 461mt) through inventory liquidation. Our estimate for production and sales is 461mt each.

Outlook and valuations: Sales volume on track; maintain 'BUY'

We see no risk to our earnings estimate for FY13/FY14. We introduce FY15 estimates with volume growth of ~5% YoY and EBITDA/t of INR399 (versus INR416 for FY14E). Maintain 'BUY/SP' with TP of INR410. At CMP, stock trades at 6.7x FY15E EV/EBITDA.

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 351
Target Price	: INR 410
52-week range (INR)	: 386 / 289
Share in issue (mn)	: 6,316.4
M cap (INR bn/USD mn)	: 2,216 / 41,098
Avg. Daily Vol.BSE/NSE('000)	: 2,353.3

SHARE HOLDING PATTERN (%)

	Current	Q2FY13	Q1FY13
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	(4.0)	(1.0)	1.7
3 months	(1.0)	4.4	(1.5)
12 months	6.7	11.8	1.8

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Financials

(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	FY12	FY13E	FY14E
Net rev	173,250	153,493	12.9	145,725	18.9	624,154	666,154	726,310
EBITDA	42,883	45,421	(5.6)	28,617	49.9	156,678	164,265	199,507
Net profit	43,650	40,378	8.1	30,673	42.3	147,882	158,843	184,464
EPS (INR)	6.9	6.4	8.1	4.9	42.3	23.3	25.1	29.2
P/E (x)						15.1	14.0	12.0
EV/EBITDA (x)						10.4	9.5	7.3
ROE (%)						40.0	35.5	33.9

Table 1: Q3 production up ~2.4% YoY

	Q3FY13	Q3FY12	Y-o-Y (%)	Q2FY13	Q-o-Q (%)
Production vol. (mt)	117	115	2.4	89	31.8
Sales volumes (mt)	120	110	9.2	102	18.4
Revenues (INR mn)	173,250	153,493	12.9	145,725	18.9
EBITDA (INR mn)	42,883	45,421	(5.6)	28,617	49.9
Net profit (INR mn)	43,650	40,378	8.1	30,673	42.3
Realisation (INR/t)	1,438	1,392	3.3	1,432	0.4
Realisation (USD/t)	27	27	(2.8)	26	2.5
EBITDA (INR/t)	356	412	(13.6)	281	26.6
EBITDA (USD/t)	6.6	8.1	(18.7)	5	29.2

Source: Company, Edelweiss research

Table 2: e-auction realisation up ~20% QoQ

	Q3FY13	Q3FY12	Y-o-Y (%)	Q2FY13	Q-o-Q (%)
Quantity (mt)					
Production volume	117.4	114.6	2.4	89.1	31.8
Sales volume	120.5	110.3	9.2	101.7	18.4
FSA	105.6	93.8	12.7	87.1	21.3
e-auction	10.5	11.5	(8.7)	10.3	1.9
Washeries	4.0	3.4	16.8	3.2	22.6
Byproducts/others	0.4	1.3	(72.4)	0.8	(53.2)
Sales (INR mn)	173,250	153,490	12.9	145,725	18.9
FSA	130,183	109,031	19.4	111,596	16.7
e-auction	30,824	32,744	(5.9)	25,292	21.9
Washeries	9,863	7,081	39.3	6,758	45.9
Byproducts/others	2,380	4,635	(48.6)	2,079	14.5
Realisation (INR/t)					
Blended	1,438	1,392	3.3	1,432	0.4
FSA	1,232	1,163	6.0	1,281	(3.8)
e-auction	2,941	2,852	3.1	2,460	19.5
Washeries	2,491	2,089	19.2	2,092	19.0

Source: Company, Edelweiss research

Financial snapshot
(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13	FY13E	FY14E
Net revenues	173,250	153,493	12.9	145,725	18.9	483,982	666,154	726,310
Dec/(inc) in stock	2,713	(513)	NA	6,486	(58.2)	13,582	-	-
Repairs and maintenance	1,678	1,497	12.0	1,777	(5.6)	4,713	6,919	7,783
Stores & Spares	15,475	14,064	10.0	12,566	23.1	40,374	58,584	61,887
Power and fuel	6,869	4,963	38.4	5,611	22.4	17,618	25,371	33,516
Social overhead	7,354	3,466	NA	3,152	NA	14,538	17,068	21,589
Contractual expenses	14,858	12,484	19.0	10,917	36.1	38,117	55,355	59,489
Employee expenses	63,050	56,221	12.1	65,364	(3.5)	189,714	265,245	269,138
Other expenses	7,301	4,951	47.5	5,238	39.4	18,096	25,371	27,825
Overburden removal charges	9,070	7,609	19.2	6,741	34.6	23,138	33,675	35,981
Provisions / write-offs	2,000	3,331	(39.9)	(745)	NA	4,446	14,300	9,595
Total expenditure	130,368	108,072	20.6	117,109	11.3	364,336	501,889	526,803
EBITDA	42,883	45,421	(5.6)	28,617	49.9	119,646	164,265	199,507
Depreciation	4,204	5,257	(20.0)	3,872	8.6	13,432	20,698	22,900
EBIT	38,679	40,164	(3.7)	24,745	56.3	106,214	143,566	176,608
Other income	23,605	18,559	27.2	20,929	12.8	65,247	84,561	88,146
Prior period expenses	(151)	52	NA	(195)	NA	(449)	-	-
Interest	96	76	26.3	102	(6.2)	325	776	776
Profit before tax	62,037	58,699	5.7	45,376	36.7	170,687	226,918	263,520
Tax	18,387	18,322	0.4	14,703	25.1	51,672	68,075	79,056
Net profit	43,650	40,378	8.1	30,673	42.3	119,016	158,843	184,464
Equity capital (FV INR 10)	63,164	63,164		63,164		63,164	63,164	63,164
No. of shares (mn)	6,316	6,316		6,316		6,316	6,316	6,316
Diluted EPS (INR)	6.9	6.4	8.1	4.9	42.3	18.8	25.1	29.2

As % of net revenues

Employee cost	36.4	36.6		44.9			39.8	37.1
Stores & Spares (% of revenue)	8.9	9.2		8.6			8.8	8.5
Power & fuel	4.0	3.2		3.9			3.8	4.6
Social overhead	4.2	2.3		2.2			2.6	3.0
Repairs and Maintenance	1.0	1.0		1.2			1.0	1.1
Contractual expenses	8.6	8.1		7.5			8.3	8.2
Other expenditure	4.2	3.2		3.6			3.8	3.8
Overburden removal cearges	5.2	5.0		4.6			5.1	5.0
Provisions / write-offs	1.2	2.2		(0.5)			2.1	1.3
Total expenses	75.2	70.4		80.4			75.3	72.5

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	FY12	FY13E	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.5	5.5	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
Sector				
Indonesian thermal coal price (4200 kcal,	60.0	51.2	55.1	60.0
India thermal coal demand (mn tonnes)	650.1	682.6	723.6	767.0
Coal imports (mn tonnes)	113.0	125.9	139.2	149.2
Company				
Production (mt)	436	461	480	504
Sales volumes (mt)	433	461	480	504
E-auction coal volume (mt)	51	46	46	42
Beneficiation coal volume (mt)	17	17	17	20
Raw Coal volume (mt)	365	399	417	441
Blended realisation (INR/t)	1,441.2	1,444.1	1,513.9	1,507.0
E-auction realisation (INR/t)	2,599.3	2,435.2	2,594.9	2,594.9
Beneficiation coal realisation (INR/t)	2,228.2	2,130.1	2,236.6	2,314.9
Raw coal realisation (INR/t)	1,243.5	1,300.7	1,365.7	1,365.7
Stores and spares per tonne (INR)	127	127	129	129
Power and fuel per tonne (INR)	46	55	70	73
Social overhead per tonne (INR)	34	37	45	46
Repairs per tonne (INR)	15	15	16	17
Contractual expenses per tonne (INR)	113	120	124	127
Miscellaneous expenses per tonne (INR)	51	55	58	58
OBR per tonne (INR)	85	73	75	77
Provisions/ write-offs per tonne (INR)	34	31	20	21
Staff costs (INR bn)	252.5	265.2	269.1	282.6
Blended EBITDA/t (INR)	359	356	416	399
Average Interest rate (%)	1.4	2.0	2.0	2.0
Average Depreciation rate (%)	5.2	5.0	5.2	5.2
Debtor days	46	40	40	45
Inventory days	25	31	30	40
Payable days	413	430	415	415

Income statement

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Net revenue	624,154	666,154	726,310	759,103
Employee costs	252,536	265,245	269,138	282,595
Total SG&A expenses	121,619	127,317	134,436	144,745
Other Expenses	93,321	109,327	123,229	130,974
EBITDA	156,678	164,265	199,507	200,790
Depreciation & Amortization	19,692	21,131	23,357	25,660
EBIT	136,986	143,133	176,150	175,130
Other income	75,369	84,561	88,146	97,500
Interest expenses	540	776	776	796
Profit before tax	211,815	226,918	263,520	271,833
Provision for tax	64,845	68,075	79,056	81,550
Net profit	146,971	158,843	184,464	190,283
Profit after minority interest	147,882	158,843	184,464	190,283
Shares outstanding (mn)	6,316	6,316	6,316	6,316
Diluted EPS (INR)	23.3	25.1	29.2	30.1
Dividend per share (INR)	10.0	10.0	10.0	10.0
Dividend payout (%)	42.7	39.8	34.2	33.2
Tax rate (%)	30.6	30.0	30.0	30.0

Common size metrics

Year to March	FY12	FY13E	FY14E	FY15E
Operating expenses	74.9	75.3	72.5	73.5
EBITDA margins	25.1	24.7	27.5	26.5
Net profit margins	23.7	23.8	25.4	25.1

Growth ratios (%)

Year to March	FY12	FY13E	FY14E	FY15E
Revenues	18.6	6.7	9.0	4.5
EBITDA	16.2	4.8	21.5	0.6
Net profit	36.1	7.4	16.1	3.2
EPS	34.5	8.1	16.1	3.2

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	63,164	63,164	63,164	63,164	
Reserves & surplus	341,367	425,210	534,675	649,959	
Shareholders funds	404,530	488,374	597,839	713,123	
Minority interest (BS)	536	536	536	536	
Long term debt	39,803	39,803	39,803	39,803	
Borrowings	39,803	39,803	39,803	39,803	
Deferred tax liability	(11,941)	(11,941)	(11,941)	(11,941)	
Sources of funds	432,929	516,772	626,237	741,521	
Tangible assets	126,812	138,680	140,233	158,230	
Intangible assets	7,591	7,591	7,591	7,591	
CWIP (incl. intangible)	29,034	29,034	29,034	29,034	
Total net fixed assets	163,437	175,305	176,858	194,855	
Non current investments	10,344	10,344	10,344	10,344	
Current Investments	10,163	10,163	10,163	10,163	
Cash and equivalents	582,028	655,242	765,463	863,983	
Inventories	60,713	55,002	57,732	68,833	
Sundry debtors	56,679	57,034	59,697	83,189	
Loans and advances	174,162	161,162	161,162	161,162	
Total current assets (ex cash)	301,898	283,542	288,935	323,529	
Trade payable	608,383	591,266	598,968	634,795	
Others current liabilities	16,214	16,214	16,214	16,214	
Total current liabilities &	624,597	607,480	615,181	651,008	
Net current assets (ex cash)	(322,699)	(323,938)	(326,246)	(327,479)	
Uses of funds	432,929	516,772	626,237	741,521	
Book value per share (INR)	64.0	77.3	94.6	112.9	

Free cash flow		(INR mn)			
Year to March	FY12	FY13E	FY14E	FY15E	
Net profit	147,882	158,843	184,464	190,283	
Depreciation	19,692	21,131	23,357	25,660	
Deferred tax	(3,208)	-	-	-	
Others	(10,745)	776	776	796	
Gross cash flow	153,621	180,750	208,598	216,739	
Less: Changes in WC	(45,258)	(1,240)	(2,308)	(1,233)	
Operating cash flow	198,879	181,990	210,906	217,972	
Less: Capex	33,000	33,000	24,910	43,657	
Free cash flow	165,879	148,990	185,996	174,315	

Cash flow metrics		FY12	FY13E	FY14E	FY15E
Year to March					
Operating cash flow		198,879	181,990	210,906	217,972
Investing cash flow		(1,094)	(33,000)	(24,910)	(43,657)
Financing cash flow		(73,821)	(75,775)	(75,775)	(75,795)
Net cash flow		123,963	73,214	110,220	98,520
Capex		(33,000)	(33,000)	(24,910)	(43,657)
Dividends paid		(74,291)	(74,999)	(74,999)	(74,999)

Profitability & efficiency ratios		FY12	FY13E	FY14E	FY15E
Year to March					
ROAE (%)		40.0	35.5	33.9	29.0
ROACE (%)		35.4	30.1	30.8	25.6
Inventory day		25	31	30	40
Debtors days		46	40	40	45
Payable days		413	430	415	415
Cash conversion cycle (days)		(287)	(263)	(242)	(232)
Current ratio		1.4	1.5	1.7	1.8
Debt/EBITDA		0.3	0.2	0.2	0.2
Debt/Equity		0.1	0.1	0.1	0.1
Adjusted debt/equity		0.1	0.1	0.1	0.1

Operating ratios		FY12	FY13E	FY14E	FY15E
Year to March					
Total asset turnover		0.7	0.6	0.6	0.6
Fixed asset turnover		4.7	4.7	4.9	4.8
Equity turnover		1.7	1.5	1.3	1.2

Valuation parameters		FY12	FY13E	FY14E	FY15E
Year to March					
Diluted EPS (INR)		23.3	25.1	29.2	30.1
Y-o-Y growth (%)		34.5	8.1	16.1	3.2
CEPS (INR)		25.9	28.5	32.9	34.2
Diluted PE (x)		15.1	14.0	12.0	11.6
Price/BV (x)		5.5	4.5	3.7	3.1
EV/Sales (x)		2.6	2.3	2.0	1.8
EV/EBITDA (x)		10.4	9.5	7.3	6.7
Dividend yield (%)		2.8	2.8	2.8	2.8

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		EV/EBITDA (X)		ROAE (%)	
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Coal India	41,111	14.0	12.0	9.5	7.3	35.5	33.9
Bumi Resources Tbk PT	1,454	-	-	7.1	7.0	(58.9)	(13.3)
China Coal Energy Co Ltd	16,454	10.1	9.7	7.7	7.0	40.3	39.0
China Shenhua Energy Co Ltd	79,268	10.5	10.0	6.3	5.9	76.8	71.3
CONSOL Energy Inc	7,531	35.8	32.0	9.4	9.0	26.8	19.2
Peabody Energy Corp	6,422	11.8	51.6	6.8	9.1	37.8	3.5
Yanzhou Coal Mining Co Ltd	12,452	10.2	12.3	11.4	10.9	48.3	34.5

Source: Bloomberg, Edelweiss research

Additional 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 - Deoki Bijay & Co, De Chakraborty & Sen

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
The Children's Investment Fund Management (UK) LLP	1.01	Templeton Asset Management Ltd.	0.62
ICICI Prudential Life Insurance Co. Ltd.	0.40	Thornburg Investment Management, Inc.	0.34
The Vanguard Group, Inc.	0.22	HDFC Asset Management Co. Ltd.	0.20
BlackRock Fund Advisors	0.12	Artisan Partners LP	0.11
UTI Asset Management Co. Ltd.	0.11	Franklin Templeton Asset Management (India) Pvt Ltd.	0.10

**in last one year*

Bulk Deals

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

**in last one year*

Insider Trades

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

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bhushan Steel	REDUCE	SU	M	Coal India	BUY	SO	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	SP	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): Metals and Mining

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
13-Feb-13	SAIL	Realisations disappoint, but costs surprise positively; <i>Result Update</i>	79	Buy
13-Feb-13	Hindalco Industries	Novelis: One-offs impact EBITDA; <i>Result Update</i>	110	Buy
08-Feb-13	Hindalco Industries	Sound operational performance; <i>Result Update</i>	110	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
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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