

Investment Pick

22nd March 2013

Sensex: 18,792

Nifty: 5,658

CMP: ₹298

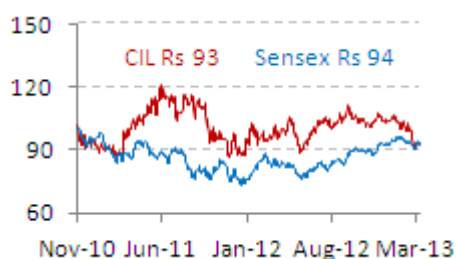
Target Price: ₹378

Rating: Strong Buy

Background: Coal India (CIL) is the world's largest coal producer, with production of 436 mt, despatches of 433 mt in FY12, 18.9 bn tonnes of proven and probable reserves. It has eight subsidiaries in India - seven of which carry out coal production and Central Mine Planning and Design Institute Limited, which provides technical expertise and consultancy to CIL and others.

52 Week High/Low	₹386/291	
Bloomberg Code	COAL:IN	
Reuters Code	COAL.NS	
Face Value	₹10	
No of o/s shares in Cr	632	
Market Cap in bn	1,875	
Beta	1.23	
Shareholding	Sep-12	Dec-12
Promoters (%)	90.0	90.0
FII (%)	5.52	5.64
DII (%)	1.71	1.78
Others (%)	2.77	2.58

Price Performance



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Investment Rationale

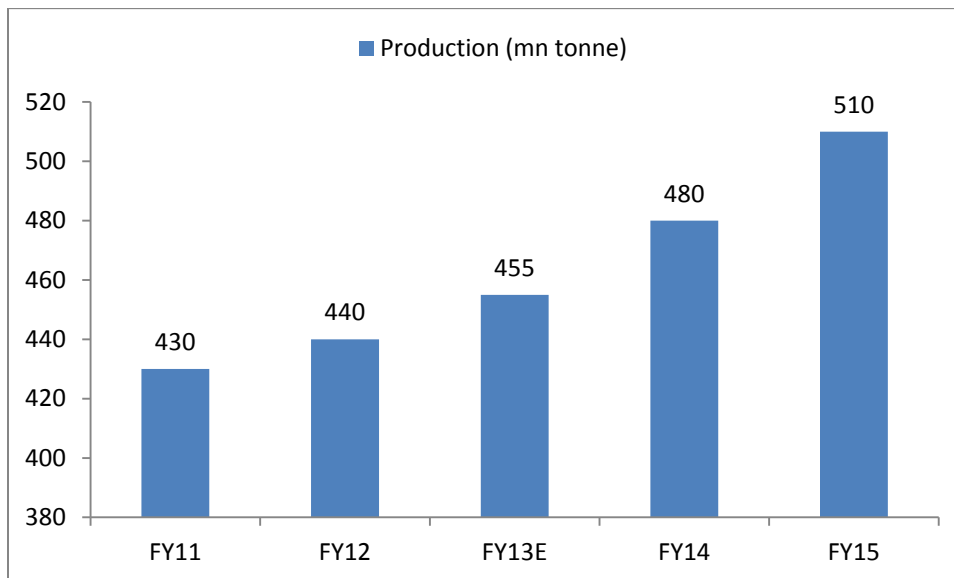
Increase focus on Production: CIL plans to incur a capex of ₹45 bn per annum. over the next 5 years for increasing production, development of new projects and procure efficient machineries. It has also kept aside ₹60 bn for acquisitions of coal blocks outside India. It is further planning to invest Rs 250 bn over the next 5 years to built necessary infrastructure including the development of 6 railway lines. CIL is self-sufficient to finance these capex plans through a strong cash balance of Rs 563 bn as of FY12.

Outlook for Coal industry is looking buoyant: India's coal demand has accelerated over the years with the growth of sectors like power, cement and steel. However, the supply deficit has only widened over the last few years. It is expected that the deficit in the market will grow during the 12th five year plan (2012-17). This is due to the Power Ministry's target to install 80,000 MW of power capacities. For FY12, the total coal supply stood at 545 m tons, 19% short of demand. As of now, this deficit is being met through imports. Thus, there is huge opportunity for CIL to enhance their domestic supply and tap the import market.

Outlook & Valuation: Considering zero debt company, average ROE of 30% and increased focus on production, CIL's current valuation looks attractive, therefore we advise our long term investors to buy the stock at CMP: ₹298 for the target price of ₹378 valuing the stock at 14x at its FY14E EPS of ₹27. We advise investors to buy the stock for 12-18 months horizon. We believe CIL would have been a perfect fit in this dream scenario for investors.

Company Profile

Coal India (CIL) is the world's largest coal producer, with production of 436 mt, despatches of 433 mt in FY12, 18.9 bn tonnes of proven and probable reserves. It has eight subsidiaries in India - seven of which carry out coal production and Central Mine Planning and Design Institute Limited, which provides technical expertise and consultancy to CIL and others. CIL operates 471 mines in 21 major coal fields across 8 states in India, including 163 open cast mines, 273 underground mines and 35 mixed mines. 90% of CIL's production is from open-cast mines. CIL was established in 1973 and 90% of its equity is currently held by the Indian government. Non-coking coal accounts for 90% of production and 95% of the company's reserve estimates. CIL accounts for 80% of India's coal production. Power generation accounts for 70-75% of CIL's volumes. NTPC is its largest customer and accounted for 27-28% of its raw coal despatches.

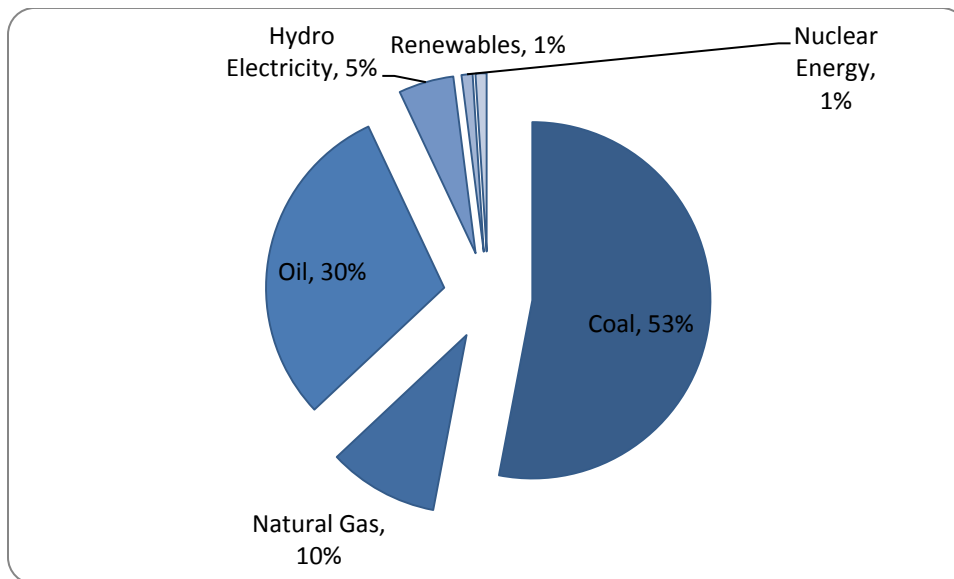


Industry Overview

The Indian coal industry, one of the largest in terms of reserve base and production level, has gained significant momentum in the past few years. India is the third largest producer of coal in the world. The total coal production in the country during FY12 stood at around 545 MT. India is also the third largest consumer of coal in the world as coal meets 57% of the country's energy needs. The coal demand has been rising constantly in India on back of high demand from major coal consuming sectors, including power, cement and steel. Around 77% of the total coal in India is consumed by the power sector. The mineral is also used in other industries such as steel, cement, fertilizers, bricks manufacturing, textiles and chemicals. Demand of coal from captive plants is projected to grow at a high rate, thereby increasing its share in total demand by FY15.

Domestic coal production is unlikely to meet expected demand growth over the next five years. PSU companies, who account for four-fifths of the country's coal production, are finding it difficult to accelerate production growth. Environment clearance and rehabilitation and resettlement (R&R) issues are creating serious roadblocks for private companies as well. Hence, the demand-supply gap has to be met by raising imports. A top government advisory body has proposed that the government should allow private firms to mine coal to plug supply shortages. At present, India does not permit commercial mining of coal by private firms. However, it allows power producers to access 'captive blocks' for their fuel needs. The country has 293.5 bn tonnes of coal reserves, of which 40% of these have been proven. But social and environmental concerns, in addition to policy inaction have kept the prospects of the sector on a tight leash.

India's Energy Requirements for Coal



Source: Company, Greshma Research

Financial Summary

Consolidated P&L INR Cr				
Particulars	2011A	2012A	2013E	2014E
Operating Income	50,229	62,415	70,217	76,537
Growth %		24.3%	12.5%	9.0%
Total Expenditure	36,752	46,748	52,312	56,790
% of revenue	73.2%	74.9%	74.5%	74.2%
EBITDA	13,478	15,668	17,905	19,747
EBITDA Margin	26.8%	25.1%	25.5%	25.8%
Depreciation	1,765	1,969	2,127	2,297
EBIT	11,712	13,699	15,779	17,450
Interest	74	54	45	40
Other Income	4,872	7,537	7,914	8,309
PBT	16,511	21,182	23,647	25,719
Tax	5,596	6,484	8,040	8,744
Effective Tax Rate	33.9%	30.6%	34.0%	34.0%
PAT	10,915	14,697	15,607	16,975
PAT Margin	21.7%	23.5%	22.2%	22.2%
EPS	17.3	23.3	24.7	26.9

Source: Company, Greshma Research

CIL has grown its consolidated net profits at an average annual rate of 27% in the past five years

CIL has earned an average ROIC of almost 15.6% over the past five years

CIL's average payout ratio has been a healthy 40.6% over the past five years. In FY12-13 company have declared the dividend of 10.2, which is 3.4% dividend yield (CMP)

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