



CMP: Rs. 346
Target Price: Rs. 355
Recommendation: NEUTRAL

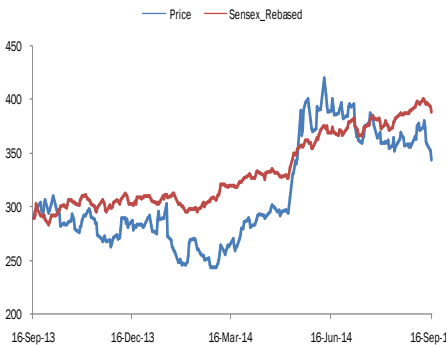
Stock Info

| | |
|------------|-----------|
| BSE Group | A |
| BSE Code | 533278 |
| NSE Symbol | COALINDIA |
| Bloomberg | COAL:IN |
| Reuters | COAL.BO |
| BSE Sensex | 27,090 |
| NSE Nifty | 8,121 |

Market Info

| | |
|------------------|----------------|
| Market Capital | Rs 2,18,799 cr |
| Equity Capital | Rs 6,316 cr |
| Avg. Trading Vol | 40,28,970 |
| 52 Wk High/ Low | Rs 424/236 |
| Face Value | Rs 10 |

| | |
|--------------------------|-----------------------------|
| Shareholding Pattern (%) | (30 th Jun 2014) |
| Promoters | 89.7 |
| Domestic Institutions | 2.8 |
| Foreign Institutions | 5.5 |
| Public & Others | 2.0 |
| Govt. Holdings | 89.7 |



Investment Summary

We are initiating coverage on Coal India Ltd (CIL), a Government of India Undertaking. The company is into coal production. The company has the distinction of holding largest coal reserves in the world and is also the largest producer of coal. CIL produces more than 80% of the domestic coal and enjoys the virtual monopoly in India.

Largest coal producer and reserve holder in the world

Coal India Ltd is the largest coal producer in the world with the production of 462 MT in FY14 and the reserves of 80.9 BT. CIL accounts for approx 80 % of the total coal produced in India and virtually enjoys the monopoly in the domestic market. Although CIL sells coal at about 50 % discount to international prices, it has healthy EBIDTA margins of more than 20%. Due to its size, CIL realises economies of scale in production, procurement and sales.

Rising energy demand augur well for the company

Almost 75% of the CIL dispatches are to the thermal power sector in India. The relatively low per capita power consumption in India compared to world average and the continuing power deficit in India presents significant potential for growth in the demand for power in India, and thus demand for non-coking coal.

Increasing productivity

CIL is continuously reducing its employee base for many years due to natural attrition, thus improving work force efficiency.

Strong financial performance

CIL has a very strong balance sheet with net cash in excess of Rs 80 per share which gives it the cash chest required to buy mines and augment resources. CIL has been able to deliver continuous growth in its EBITDA per ton of coal sold and Net profit per ton thus adding to its cash reserves.

Valuation

Coal India Ltd is currently trading at a PE of 10.8x FY16E EPS of Rs 32.1. We have arrived at the price target of Rs 385 based on 12x FY16E EPS (Market is currently trading at this multiple). Using DCF model we have arrived at a price target of Rs 325. Consequently, using the weighted average methodology we arrive at a share price of Rs 355, having 2% of potential upside from current price of Rs 346. We initiate coverage with **NEUTRAL** rating on the stock

Exhibit 1:

Key financials (consolidated)

| Rs cr | FY13A | FY14A | FY15E | FY16E |
|------------------|--------|--------|--------|--------|
| Total income | 67,809 | 68,717 | 75,480 | 82,895 |
| % growth | 8.0% | 1.3% | 9.8% | 9.8% |
| EBIT | 16,271 | 13,967 | 17,054 | 20,464 |
| EBIT margin | 24.0% | 20.3% | 22.6% | 24.7% |
| PAT | 17,356 | 15,112 | 17,683 | 20,287 |
| PAT margin | 25.6% | 22.0% | 23.4% | 24.5% |
| Diluted EPS (Rs) | 27.48 | 23.92 | 27.99 | 32.12 |
| P/E (x) | 12.61 | 14.48 | 12.37 | 10.78 |

Source: Company data, Arihant research



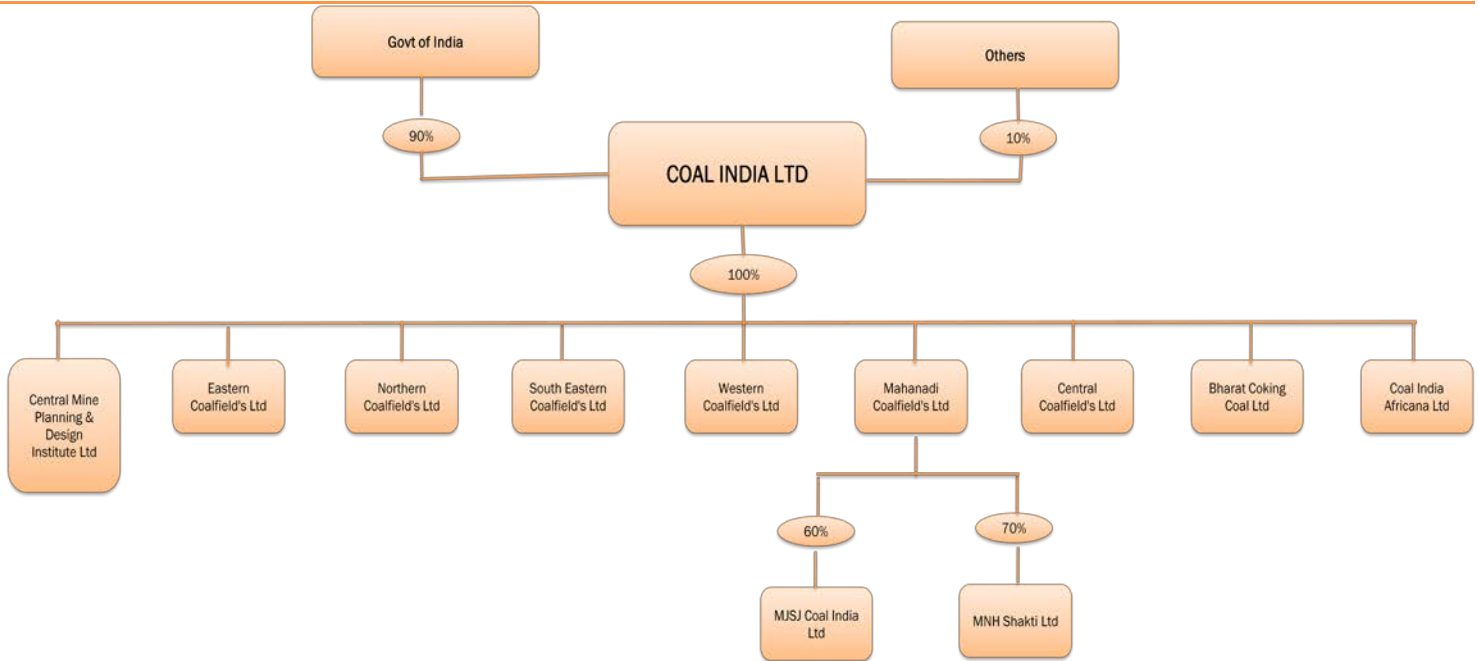
Company background

Coal India Ltd (CIL) is the world largest producer of coal with production of 462 MT in FY14. It also has a largest reserve of approx 81 BT. CIL contributes to approx 80 % of India’s total coal production. It operates through 9 direct subsidiaries and 2 step down subsidiaries.

Corporate structure for Coal India is as depicted in a chart below.

Exhibit 2:

Company overview



Source: Company data, Arihant research

Investment thesis

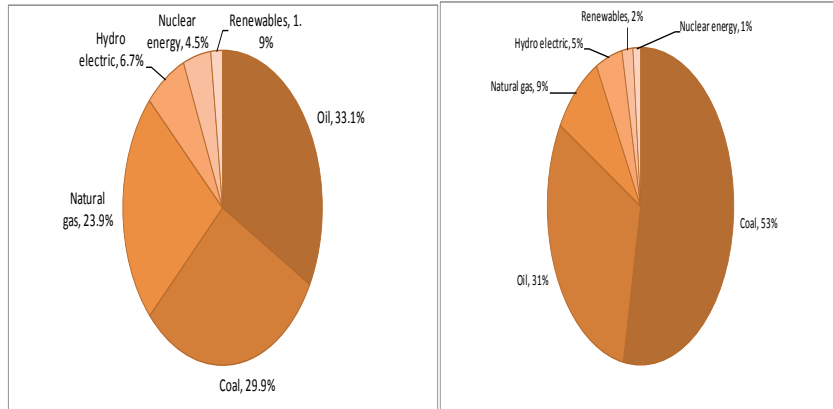
Coal-India’s primary source of fuel

As per BP statistical report in CY12 coal was India’s primary source of energy constituting 52.9% of total and was far ahead of Oil at 30.5% which is second most used source of energy. Also globally coal is second most used source of energy constituting 29.9% not far behind Oil at 33.1%.



Exhibit 3:

Operating margins



Source: Company data, Arihant research

Coal reserves of CIL.

The following table provides coal reserves & resources as on April 1, 2010 in the various coalfields, as classified under the ISP guidelines.

Exhibit 4:

Reserves

| Coalfield | Resource | | | | Reserve |
|--|----------------------------|-------------------------------|------------------------------|---------------------------|-------------------------------------|
| | Proved Geological Reserves | Indicated Geological Reserves | Inferred Geological Reserves | Total Geological Reserves | Extractable/Mine able Coal Reserves |
| (million tons) | | | | | |
| Coalfields currently under production | | | | | |
| Korba | 3,473.7 | 2,013.7 | 64.0 | 5,551.4 | 2,670.0 |
| Singrauli | 3,283.6 | 198.1 | 0.0 | 3,481.7 | 1,891.1 |
| Talcher | 7,972.2 | 1,848.5 | 700.0 | 10,520.7 | 6,297.0 |
| IB-Valley | 3,615.4 | 200.1 | 0.0 | 3,815.5 | 2,506.9 |
| Wardha Valley | 1,988.3 | 867.5 | 65.2 | 2,921.0 | 794.7 |
| Jharia | 5,905.3 | 1,056.9 | 80.5 | 7,042.7 | 1,151.4 |
| North Karanpura | 4,502.0 | 77.1 | 0.0 | 4,579.1 | 2,053.6 |
| Central India Coalfields | 2,413.4 | 1,113.4 | 153.5 | 3,680.3 | 752.1 |
| Raniganj | 7,482.8 | 1,260.9 | 433.7 | 9,177.4 | 661.6 |
| Rajmahal/Deogarh | 1,247.9 | 1,476.5 | 579.2 | 3,303.6 | 545.7 |
| East Bokaro | 2,063.3 | 1,162.4 | 0.0 | 3,225.7 | 684.1 |
| West Bokaro | 1,483.2 | 266.6 | 13.1 | 1,762.9 | 453.1 |
| Kamptee | 755.1 | 182.8 | 0.0 | 937.9 | 214.3 |
| Mand-Raigarh | 1,912.7 | 157.8 | 0.0 | 2,070.5 | 659.3 |
| Umrer Nand Bander | 557.8 | 0.7 | 0.0 | 558.5 | 214.9 |
| South Karanpura | 1,445.0 | 214.3 | 7.2 | 1,666.5 | 307.8 |
| Pench-Kanhan | 673.2 | 203.2 | 60.0 | 936.4 | 148.7 |
| Pathakhera | 188.2 | 30.0 | 0.0 | 218.2 | 87.0 |
| Makum | 308.4 | 15.0 | 11.7 | 335.1 | 92.6 |
| Ramgarh | 382.8 | 22.2 | 0.0 | 405.0 | 137.7 |
| Giridih | 17.5 | 0.0 | 0.0 | 17.5 | 14.6 |
| Coalfields currently not under production | | | | | |
| Daltonganj | 15.7 | 0.2 | 0.0 | 15.9 | 0.0 |
| Hutar | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tatapani-Ramkola | 0.0 | 483.7 | 0.0 | 483.7 | 0.0 |
| Dilli-Jeypore | 4.2 | 14.9 | 0.0 | 19.1 | 0.0 |
| Total | 51,691.7 | 12,866.5 | 2,168.1 | 66,726.3 | 22,338.2 |

Source: Company data, Arihant research



Largest Coal Company in the world and enjoys virtual monopoly in India

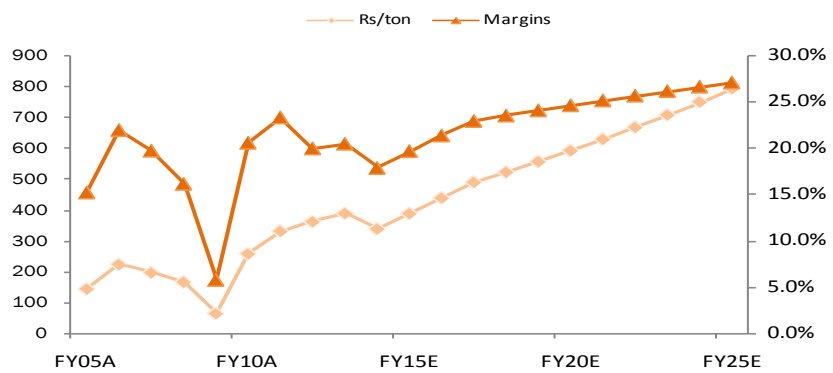
Largest coal producer and reserve holder in the world

Coal India Ltd is the largest coal producer in the world with the production of 462 MT in FY14 and the reserves of 80 BT. CIL accounts for approx 80 % of the total coal produced in India and virtually enjoys the monopoly in the domestic market. Although CIL sells the coal at about 50% discount to international prices it has a healthy EBIDTA margins of 20%+. Large scale of operations enables CIL to realise economies of scale in production, procurement and sales.

In our calculations we have taken a conservative growth rate of 5% in coal production against the management expectations of 6%+. This is because of various reasons such as prolonged monsoon, difficulty land acquisition, delay in environmental clearances and mining ban in certain areas by Supreme Court of India.

Exhibit 5:

Operating margins



Source: Company data, Arihant research

Electricity is important for achieving 7%+ GDP growth rate

Rising energy demand augur well for the company

Almost 75% of the CIL dispatches are to the thermal power sector in India. The relatively low per capita power consumption in India compared to world average and the continuing power deficit in India presents significant potential for growth in the demand for power in India, and thus demand for non-coking coal.

Realisations for CIL is stable at ~ Rs 1900/ton

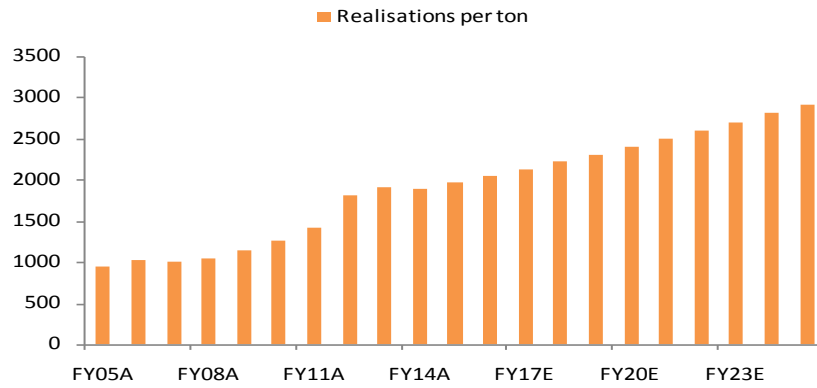
Stable realisations

Average realizations (including e-auction) for CIL is last couple of years have remained stable at ~ Rs 1900 per tonne, this is despite 50% fall in global coal prices. Also for land locked power plant it is not feasible to import coal due to transportation cost and hence will always have to rely on CIL. These two factors give us confidence that realisation for CIL will gradually increase going forward.



Exhibit 6:

Realisations per ton



Source: Company data, Arihant research

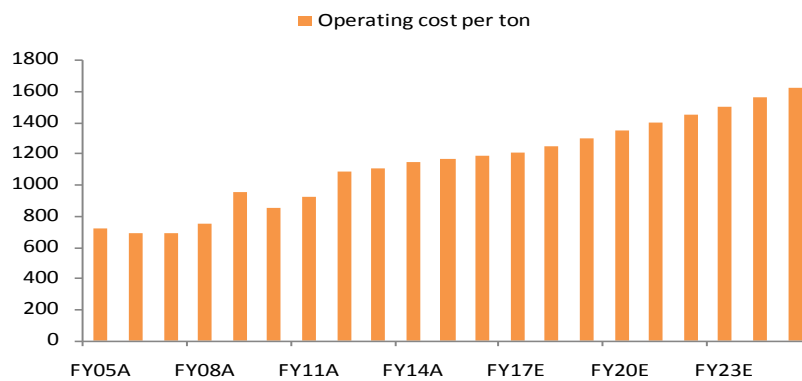
Opencast mines reduces the cost of mining

Cost efficient operations

CIL benefits from favourable geographic and geological conditions as many of its coalfields have relatively thick flat-lying coal seams located at shallow depths, stable ground conditions, relatively simple geological structures and low stripping ratio which enables CIL to bring into operation large open cast mines within relatively short time frames and with relatively low investment. In addition, a majority of its raw coal production is from open cast mines where cost of production is significantly lower than in underground mines due to favorable geo-economic conditions and lower employee and equipment cost.

Exhibit 7:

Operating cost per ton



Source: Company data, Arihant research

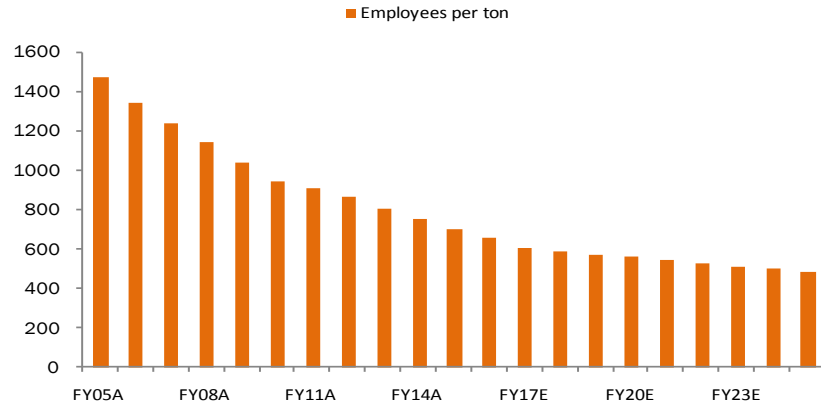
Increasing productivity

CIL is continuously reducing its employee base for last many years due to natural attrition which has allowed CIL to increase its efficiency by employing its workforce from less productive units to more productive units. CIL has also brought in state of the art technology thereby reducing its manpower per ton of coal produced.



Exhibit 8:

Increasing Productivity



Source: Company data, Arihant research

Strong balance sheet gives power to acquire coal assets in India & abroad

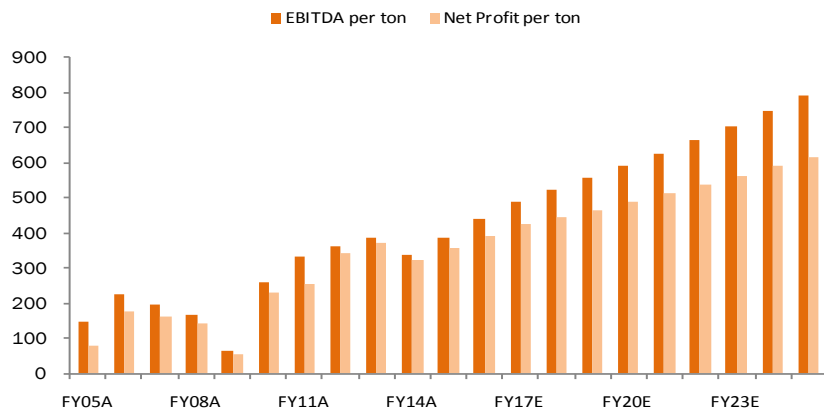
Strong financial performance

CIL has a very strong balance sheet with net cash in excess of Rs 80 per share which gives it the cash chest required to buy mines and augment resources. CIL has been able to deliver continues growth in its EBITDA per ton of coal sold and Net profit per ton thus adding to its cash reserves.

EBITDA per ton has almost doubled from Rs 167 per ton to Rs 339 per ton from FY08 to FY14.

Exhibit 9:

Operating performance



Source: Company data, Arihant research

Strong research to help in mine planning and exploration

Coal Mine, Planning & Design Institute Ltd (CMPDIL), a wholly owned subsidiary of CIL, is an established institute in India to provide research and development in coal mining. CMPDIL has significant knowledge of geological and geo-mining conditions in India and is a repository of information relating to coal blocks in India, which enables CIL to implement effective mine development and mine planning activities and reduces the cost.



Demand far outstrips the supply

Increase production to capitalize on significant demand supply gap

Imports increased to 138 MT in FY13 from 73 MT in FY10 which is expected to increase to 186 MT by FY17 as domestic production is not able to keep pace with demand. CIL is looking to increase its output gradually by increasingly using newer technologies which will help in exploring resources in a more efficient manner. It is also looking to expand the existing mines and develop new mines to enhance production. CIL is also looking to use new technologies to explore mines which were abandoned earlier because of unfeasible operations. CIL is also adopting superior technologies to increase production in underground mines.

Technology to increase coal production

Continue to augment reserve base in India

CIL continue to leverage its exploration capabilities and technical expertise related to coal mining to strengthen its reserve base. It continues to invest in superior equipments and developing newer technologies for maintaining its geological database of resources for optimum utilization of its reserve.



Risks

- Delays or failure in acquiring land (and associated surface rights to access coal reserves) and obtaining forest & environmental clearances from authorities may lead to project delays and non-compliance that could result in mine closure or incurring fines.
- Labour disputes and trade union activity could lead to loss of production and/or increased cost of production.
- Coal India sells coal at prices that are lower than international prices and will continue to do so in future. This contradicts the interest of minority shareholder.
- CIL business depends on rail and road transportation to deliver coal to its customers and any delays in implementation and shortage in availability of the transportation infrastructure might adversely affect coal off-take.

Valuation

Coal India Ltd is currently trading at a PE of 10.8x FY16E EPS of Rs 32.1. We have arrived at the price target of Rs 385 based on 12x FY16E EPS (Market is currently trading at this multiple). Using DCF model we have arrived at a price target of Rs 325. Consequently, using the weighted average methodology we arrive at a share price of Rs 355, having 2% of potential upside from current price of Rs 346.

Exhibit 10:

Valuations

| Methodologies | Weights | Price (Rs) | Target price (Rs) |
|--------------------------|---------|------------|-------------------|
| DCF Approach | 50% | 325 | 162 |
| P/E Approach (12x FY16E) | 50% | 385 | 193 |
| Target price | | | 355 |
| Current price | | | 346 |
| Upside | | | 2% |

Source: Company data, Arihant research

We have arrived at a price target of Rs 355.

Having a potential upside of 2% from the current levels



Profit and loss

| Rs in cr | FY13 | FY14 | FY15E | FY16E |
|--------------------------|---------------|---------------|---------------|---------------|
| Net sales | 67,809 | 68,717 | 75,480 | 82,895 |
| Total income | 67,809 | 68,717 | 75,480 | 82,895 |
| Total expenditure | 49,725 | 52,754 | 56,264 | 60,111 |
| Employee remuneration | 27,321 | 27,769 | 29,119 | 30,534 |
| Contractual expenses | 5,802 | 6,828 | 7,742 | 8,780 |
| Overburden removal cost | 3,202 | 3,287 | 3,520 | 3,770 |
| Others | 13,401 | 14,871 | 15,883 | 17,027 |
| EBITDA | 18,084 | 15,963 | 19,216 | 22,784 |
| Depreciation | 1,813 | 1,996 | 2,162 | 2,320 |
| EBIT | 16,271 | 13,967 | 17,054 | 20,464 |
| Interest | 45 | 58 | 79 | 73 |
| Other income | 8,747 | 8,969 | 9,418 | 9,889 |
| Prior period adjustment | (7) | (1) | - | - |
| Profit before tax | 24,965 | 22,877 | 26,392 | 30,280 |
| Tax | 7,623 | 7,768 | 8,709 | 9,992 |
| Profit after tax | 17,343 | 15,109 | 17,683 | 20,287 |
| EPS | 27.46 | 23.92 | 27.99 | 32.12 |
| Cash EPS | 30.3 | 27.1 | 31.4 | 35.8 |

Source: Company data, Arihant Research

Cash flow

| Rs in cr | FY13 | FY14 | FY15E | FY16E |
|-----------------------------|----------------|-----------------|----------------|-----------------|
| PBT | 24,979 | 22,880 | 26,392 | 30,280 |
| Depreciation | 1,839 | 1,996 | 2,162 | 2,320 |
| Other non cash items | (2,218) | (1,769) | - | - |
| Chg in working capital | (6,839) | 244 | (432) | (558) |
| Tax paid | (8,652) | (8,826) | (8,709) | (9,992) |
| Operating cashflow | 9,109 | 14,525 | 19,413 | 22,050 |
| Capital expenditure | (2,454) | (4,116) | (3,586) | (3,792) |
| Others | 621 | 12,696 | - | - |
| Free cashflow | 7,277 | 23,104 | 15,828 | 18,258 |
| Loans taken/(Repaid) | 55 | (1,107) | 548 | 1,685 |
| Dividend paid (incl tax) | (7,907) | (24,243) | (10,344) | (11,868) |
| Financing cashflow | (7,852) | (25,350) | (9,796) | (10,183) |
| Net chg in cash | (575) | (2,246) | 6,031 | 8,075 |
| Opening cash balance | 12,260 | 11,685 | 52,390 | 58,421 |
| Closing cash balance | 11,685 | 9,439 | 58,421 | 66,496 |

Source: Company data, Arihant Research

Balance sheet

| Rs in cr | FY13 | FY14 | FY15E | FY16E |
|--|-----------------|-----------------|-----------------|-----------------|
| Sources of Funds | | | | |
| A. Shareholders Fund | | | | |
| a)Share Capital | 6,316 | 6,316 | 6,316 | 6,316 |
| b)Reserves and Surplus | 42,156 | 36,088 | 43,426 | 51,846 |
| B. Non-Current Liabilities | 35,359 | 37,339 | 38,029 | 39,820 |
| C. Minority Interest | 64 | 64 | 64 | 64 |
| D. Current Liabilities | 37,670 | 24,435 | 26,484 | 28,505 |
| Total Liabilities | 1,21,565 | 1,04,242 | 1,14,319 | 1,26,551 |
| Applications of Funds | | | | |
| A. Fixed Assets | | | | |
| Net Block | 13,466 | 14,595 | 16,105 | 17,277 |
| a)Capital Work-in-Progress | 2,216 | 2,836 | 2,750 | 3,049 |
| b)Intangible Assets under Developn | 1,280 | 1,669 | 1,669 | 1,669 |
| B. Non-Current Investments | 1,400 | 1,188 | 1,188 | 1,188 |
| C. Deferred Tax Assets (Net) | 2,255 | 1,972 | 1,972 | 1,972 |
| D. Long Term Loans & Advances | 1,181 | 1,164 | 1,305 | 1,411 |
| E. Other Non-Current Assets | 74 | 593 | 593 | 593 |
| F. Current Assets, Loans & Advances | 99,692 | 80,227 | 88,738 | 99,393 |
| Total Assets | 1,21,565 | 1,04,242 | 1,14,319 | 1,26,551 |

Source: Company data, Arihant Research

Key Ratios

| Rs in cr | FY13 | FY14 | FY15E | FY16E |
|----------------------------|-------------|-------------|-------------|-------------|
| Per Share data (Rs) | | | | |
| EPS | 27.5 | 23.9 | 28.0 | 32.1 |
| Cash EPS | 30.3 | 27.1 | 31.4 | 35.8 |
| DPS | 14.0 | 29.0 | 14.0 | 16.1 |
| Book value | 76.7 | 67.1 | 78.8 | 92.1 |
| Operating, Returns Ratio | | | | |
| Debt/ Equity (X) | 0.02 | 0.00 | 0.00 | 0.00 |
| Current Ratio (X) | 2.6 | 3.3 | 3.4 | 3.5 |
| RoE (%) | 35.8 | 35.6 | 35.5 | 34.9 |
| RoCE (%) | 35.1 | 35.6 | 35.6 | 34.9 |
| OPM (%) | 26.7 | 23.2 | 25.5 | 27.5 |
| NPM (%) | 25.6 | 22.0 | 23.4 | 24.5 |
| Inventory turnover days | 23 | 23 | 24 | 23 |
| Debtors days | 43 | 34 | 36 | 36 |
| Valuation Ratio (X) | | | | |
| P/E | 12.5 | 14.3 | 12.2 | 10.6 |
| P/BV | 4.5 | 5.1 | 4.3 | 3.7 |
| Dividend Yield (%) | 4.1 | 8.5 | 4.1 | 4.7 |

Source: Company data, Arihant Research



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Stock Rating Scale

| | Absolute Return |
|------------|------------------------|
| BUY | >20 |
| ACCUMULATE | 12-20 |
| HOLD | 5-12 |
| NEUTRAL | 0-5 |
| REDUCE | <0 |

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