

# Coal India

BSE SENSEX

29,319

S&amp;P CNX

9,105

**CMP: INR279**
**TP: INR335(+20%)**
**Upgrade to Buy**


## Stock Info

|                       |            |
|-----------------------|------------|
| Bloomberg             | COAL IN    |
| Equity Shares (m)     | 6,207      |
| 52-Week Range (INR)   | 350 / 273  |
| 1, 6, 12 Rel. Per (%) | -3/-15/-12 |
| M.Cap. (INR b)        | 1,731.9    |
| M.Cap. (USD b)        | 26.8       |
| Avg Val, INRm         | 1275       |
| Free float (%)        | 21.1       |

## Financials Snapshot (INR b)

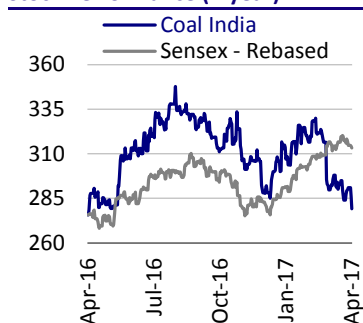
| Y/E Mar     | 2017E | 2018E | 2019E |
|-------------|-------|-------|-------|
| Net Sales   | 760.9 | 835.4 | 888.8 |
| EBITDA      | 139.0 | 191.1 | 212.2 |
| PAT         | 103.5 | 124.6 | 136.9 |
| EPS (INR)   | 16.7  | 20.1  | 22.1  |
| Gr. (%)     | -26.2 | 20.4  | 9.9   |
| BV/Sh (INR) | 41.0  | 41.1  | 41.2  |
| RoE (%)     | 40.6  | 48.8  | 53.5  |
| RoCE (%)    | 37.6  | 52.9  | 57.9  |
| P/E (x)     | 16.7  | 13.9  | 12.7  |
| P/BV (x)    | 6.8   | 6.8   | 6.8   |

## Shareholding pattern (%)

| As On    | Dec-16 | Sep-16 | Dec-15 |
|----------|--------|--------|--------|
| Promoter | 79.8   | 79.7   | 79.7   |
| DII      | 10.8   | 10.3   | 8.6    |
| FII      | 6.9    | 7.8    | 8.8    |
| Others   | 2.5    | 2.3    | 2.9    |

FII Includes depository receipts

## Stock Performance (1-year)



## Volume growth to accelerate

**E-auction price rising, NSR already reflects grade slippage; Upgrade to Buy**

### COAL's dispatch growth to accelerate despite substitution by RE

- Apparent coal demand growth has disappointed with a decline of 2.4% in FY17 due to destocking, efficiency gains, substitution (pet coke) and pick-up in renewable power generation. However, real consumption growth remains robust (e.g., 5% growth in the power sector).
- We are positively surprised with pick-up in RE projects, and are thus upgrading capacity target by 30GW to 110GW at the end of FY20E. On adjusting our power supply and coal supply models, we have reduced Indian apparent coal demand estimates by 52mt to 918mt for FY20. We note that apparent coal demand will still increase at a CAGR of 5.4% over FY17-20E, compared to flat demand over last two years.
- Despite reducing estimates by 16mt and 24mt, we note that Coal India's dispatches will increase by 6.8% to 580mt in FY18E and by 6.6% to 618mt in FY19E, driven by end of destocking and substitution of coal and pet coke imports, despite a rising share of RE in power generation.

### Grade slippage issue largely behind; E-auction prices driving NSR

- COAL's net sales realization (NSR) on FSA volumes has disappointed due to stricter enforcement of GCV measurements. Thus, despite a price hike of 6.9% in May 2016 (revenue gain of INR33b), the NSR of FSA volumes was broadly flat in 2Q/3QFY17.
- COAL has re-evaluated grades of its coal mines, resulting in downward revision in grades of 177 of its 400 odd mines. Based on our analysis of data of individual subsidiaries, we estimate the impact is INR15-25b. This, in our view, is already reflected in the FSA NSR of the past few quarters.
- E-auction coal prices are inching up due to higher international coal prices. We are raising the e-auction prices by ~INR207/t to ~INR1,650/t, which is driving a 2.8% increase in average NSR in FY18E despite no further price hike.

### Cost of mining will decline despite wage hike

- We believe COAL will be able to negotiate an 18% wage hike in view of low inflation, high existing wages and pressure from power consumers to keep coal prices low. COAL's wages have increased 405% in 12 years, the highest among the metal and mining companies. We expect employee cost to increase by less than 2% in FY18 after rising 14% in FY17 due to 3-4% natural net attrition.
- Cost of mining will decline as operating leverage will come into play on volume growth.

**Strong earnings growth, attractive dividend yield; Upgrading to Buy**

- Despite reducing volume estimates by 24mt, we expect 6.7% CAGR in volumes, 21% CAGR in adj. EBITDA and 15% CAGR in EPS over two years on operating leverage and upgrade in e-auction prices while keeping FSA prices unchanged.
- COAL deserves a premium over other metal and mining stocks due to its dominant position in the Indian markets and its current coal pricing being very competitive, which has virtually no downside risk. Therefore, we value the stock at 7.5xEV/adj. EBITDA.
- We are moving the valuation basis to FY19E and raising the target price to INR335. At CMP, the stock has upside of 20%, which is in addition to ~6% dividend yield and is very attractive compared to its cost of equity. Therefore, we upgrade the stock to **Buy**.

**Exhibit 1: Metals sector valuation**

|                | Rating  | Price<br>(INR) | MCAP<br>(USD M) | EPS   |       |       | P/E (x) |       | EV/EBITDA (x) |       | P/B(x) |       |  |
|----------------|---------|----------------|-----------------|-------|-------|-------|---------|-------|---------------|-------|--------|-------|--|
|                |         |                |                 | FY17E | FY18E | FY19E | FY18E   | FY19E | FY18E         | FY19E | FY18E  | FY19E |  |
| Steel          |         |                |                 |       |       |       |         |       |               |       |        |       |  |
| Tata Steel     | Sell    | 450            | 6,803           | 18.9  | 39.4  | 45.7  | 11.4    | 9.9   | 7.3           | 6.6   | 2.9    | 2.4   |  |
| JSW Steel      | Buy     | 187            | 7,040           | 13.6  | 18.3  | 20.5  | 10.2    | 9.1   | 6.5           | 5.6   | 1.8    | 1.5   |  |
| JSPL           | Buy     | 119            | 1,690           | -22.3 | -17.5 | -2.2  | -6.8    | -53.8 | 9.6           | 6.7   | 0.3    | 0.3   |  |
| SAIL           | Sell    | 60             | 3,874           | -7.4  | -12.6 | 0.4   | -4.8    | 161.6 | 58.1          | 10.3  | 0.8    | 0.8   |  |
| Non-Ferrous    |         |                |                 |       |       |       |         |       |               |       |        |       |  |
| Hindalco       | Buy     | 184            | 5,902           | 16.9  | 22.6  | 25.4  | 8.1     | 7.2   | 6.0           | 5.3   | 1.3    | 1.1   |  |
| Nalco          | Buy     | 73             | 2,944           | 3.9   | 5.3   | 5.8   | 13.8    | 12.6  | 5.7           | 5.0   | 1.3    | 1.2   |  |
| Vedanta        | Neutral | 231            | 10,630          | 17.6  | 28.1  | 31.3  | 8.2     | 7.4   | 5.3           | 5.3   | 1.2    | 1.1   |  |
| Mining         |         |                |                 |       |       |       |         |       |               |       |        |       |  |
| Coal India     | Buy     | 279            | 27,419          | 16.7  | 20.1  | 22.1  | 13.9    | 12.7  | 6.6           | 6.0   | 6.8    | 6.8   |  |
| Hindustan Zinc | Neutral | 273            | 17,957          | 19.5  | 25.6  | 27.9  | 10.7    | 9.8   | 6.7           | 5.8   | 3.0    | 2.5   |  |
| NMDC           | Buy     | 127            | 7,816           | 11.9  | 12.1  | 12.8  | 10.5    | 9.9   | 6.6           | 6.2   | 1.6    | 1.5   |  |

Source: MOSL, Company Data

## Despite RE gaining share; COAL's volumes to grow 6.8%

### Apparent coal demand growth to pick up on end of destocking

- Apparent coal demand growth has disappointed with a decline of 2.4% in FY17 on destocking, efficiency gains, substitution (pet coke) and pickup in renewable power generation. However, the real consumption growth still remains robust e.g. 5% growth in power sector.
- We are positively surprised with pick up in RE projects and thus are upgrading capacity target by 30GW to 110GW at the end of FY20E. On adjusting our power supply model (Exhibit 2) and coal supply model (Exhibit 4), we have reduced Indian apparent coal demand estimates by 52mt to 918mt in FY20E. We note that apparent coal demand will still increase at CAGR of 5.4% over FY17-20E as compared to flat demand in last two years.
- Despite reducing estimates by 16 and 24mt, we note that Coal India's dispatches will increase by 6.8 % to 580mt in FY18E and by 6.6% to 618mt in FY19E driven by end of destocking and substitution of coal and pet coke imports despite rising share of RE in power generation.

### Raising RE capacity addition estimates in our power supply model

Renewable energy (RE) capacity addition momentum has picked up very well during FY17 due to short execution cycle, improving economics and govt. support in setting up solar parks. RE capacity addition at 13.5GW was ahead of our est. of 7.6GW, which surpassed conventional (Conv) capacity net addition at 9GW (est. of 15.7GW) for the first time in the history of India. Falling Solar PV panel capex is pushing down tariffs to new lows of ~INR3/kwh, which will further accelerate solar capacity addition, in our view. We are raising the RE capacity target by 30GW to 110GW at the end of FY20E.

We are raising the RE capacity target by 30GW to 110GW at the end of FY20E

**Exhibit 2: Fuel wise contribution in Indian power generation (%)**

|                     | FY11        | FY12        | FY13        | FY14        | FY15        | FY16        | FY17        | FY18E       | FY19E       | FY20E       |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Conventional</b> | <b>96.6</b> | <b>96.1</b> | <b>95.4</b> | <b>95.3</b> | <b>94.4</b> | <b>94.4</b> | <b>93.3</b> | <b>92.0</b> | <b>90.5</b> | <b>89.0</b> |
| Total Thermal       | 82.6        | 81.3        | 83.8        | 82.4        | 84.2        | 85.6        | 86.1        | 85.6        | 85.5        | 85.3        |
| - Coal              | 70.1        | 70.6        | 76.5        | 77.8        | 80.2        | 81.3        | 81.9        | 81.6        | 81.7        | 81.7        |
| - Gas               | 12.4        | 10.7        | 7.4         | 4.6         | 3.9         | 4.3         | 4.3         | 4.0         | 3.8         | 3.6         |
| Hydro               | 14.2        | 15.0        | 12.5        | 14.0        | 12.4        | 11.0        | 10.6        | 10.7        | 10.7        | 10.8        |
| Nuclear             | 3.3         | 3.7         | 3.6         | 3.6         | 3.5         | 3.4         | 3.3         | 3.7         | 3.8         | 3.9         |
| <b>Renewable</b>    | <b>3.4</b>  | <b>3.9</b>  | <b>4.6</b>  | <b>4.7</b>  | <b>5.6</b>  | <b>5.6</b>  | <b>6.7</b>  | <b>8.0</b>  | <b>9.5</b>  | <b>11.0</b> |

Source: MOSL

### Acceleration in RE generation is crowding out coal demand

RE generation too has started growing driven by (1) acceleration in capacity addition and (2) improvement in grid availability. RE generation has increased by 25% to 82.3b kWh in FY17. The share of renewable in total generation has increased by 70bps to 6.7%. Although the total energy demand (excluding CPP) has increased by 5.8% to 1,236 b kwh, yet the Conv generation increased by only 4.7% to 1,154b kwh due to displacement from RE. Coal continues to remain the main driver of Conv power generation with 86% share. Coal based generation (incl. lignite) increased by 5.4% to 945b kwh. However, this is lower than our estimate of 963b kwh. This trend will continue. We are adjusting our power supply model to account for 310bps higher contribution of RE at 11% in FY20E, which will crowd out Conv. generation.

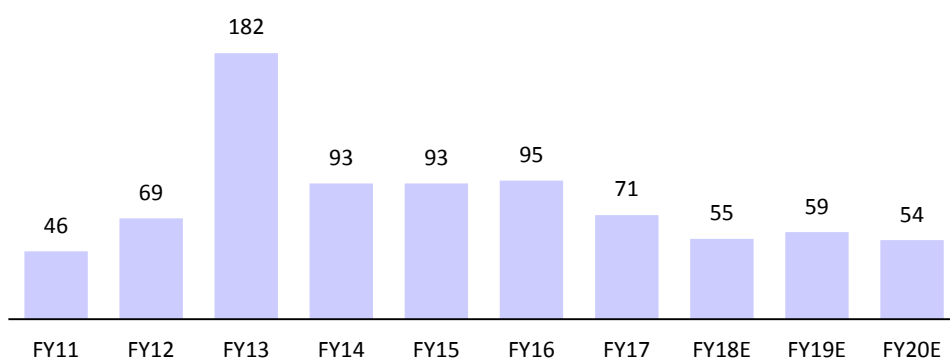
We are adjusting our power supply model to account for 310bps higher contribution of RE at 11% in FY20E, which will crowd out 16mt of coal demand

Though we are keeping the overall generation growth unchanged at 7% CAGR, the Conv generation growth is toned down to 5.3% CAGR (v/s 6.2%) over FY17-20E. Coal based generation too is expected to grow slower at 5.3% CAGR (v/s 6.4%) over same period. This is impacting coal demand. We now expect coal consumption in power generation to increase at slower pace of 4.2% CAGR to 647mt over FY17-20E because new plants are more efficient and have lower station heat rates (Exhibit 2). There is a reduction of 16mt coal demand by power sector from our earlier estimates.

**Exhibit 3: Coal consumption in power generation**

|                                | FY11       | FY12       | FY13       | FY14       | FY15       | FY16       | FY17E      | FY18E      | FY19E      | FY20E      |
|--------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Power generation (b kwh)       | 850        | 904        | 953        | 1,011      | 1,107      | 1,169      | 1,236      | 1,323      | 1,415      | 1,514      |
| YoY (%)                        | 7.8        | 6.3        | 5.4        | 6.1        | 9.5        | 5.6        | 5.8        | 7.0        | 7.0        | 7.0        |
| Conv. power generation (b kwh) | 811        | 877        | 912        | 967        | 1,049      | 1,102      | 1,159      | 1,222      | 1,288      | 1,354      |
| YoY (%)                        | 5.9        | 8.1        | 4.0        | 6.0        | 8.4        | 5.1        | 5.2        | 5.4        | 5.4        | 5.1        |
| Coal based gen. (b kwh)        | 535        | 585        | 659        | 714        | 800        | 862        | 910        | 956        | 1,011      | 1,064      |
| YoY (%)                        | 4.0        | 9.2        | 12.7       | 8.3        | 12.1       | 7.7        | 5.6        | 5.0        | 5.8        | 5.2        |
| kg/kwh                         | 0.723      | 0.714      | 0.690      | 0.686      | 0.664      | 0.633      | 0.629      | 0.621      | 0.614      | 0.608      |
| imports in supply (%)          | 7.8        | 10.8       | 13.8       | 16.2       | 17.2       | 14.8       | 11.6       | 11.0       | 10.5       | 10.0       |
| <b>Consumption (mt)</b>        | <b>387</b> | <b>418</b> | <b>455</b> | <b>489</b> | <b>531</b> | <b>546</b> | <b>573</b> | <b>593</b> | <b>621</b> | <b>647</b> |
| YoY (%)                        | 5.4        | 7.9        | 8.9        | 7.7        | 8.6        | 2.7        | 5.0        | 3.6        | 4.7        | 4.2        |

Source: MOSL

**Exhibit 4: Role of coal in incremental power generation (%)**

Source: MOSL, CEA

Apparent demand increased by 2.3% in FY16, while it declined by 2.4% in FY17.

### Efficiencies, destocking and substitution impacted apparent coal demand

India's apparent coal demand has slowed down considerably and remained flat over FY15-17 in comparison to 8.2% CAGR over FY11-FY15 on account of

- Significant slowdown in coal based power generation (CPG), 6.6% over FY15-17 v/s 10.6% over FY11-15, despite moderate slowdown in total generation (5.1% over FY15-17 v/s 6.6% over FY11-15). Gas based power generation (GPG) declined by ~60% to 41b kwh over FY11-FY15 thereby boosting the demand for CPG. On the other hand, GPG increased by ~20% over FY15-17 aided by subsidies thereby easing the pressure on CPG.
- Specific consumption of coal has improved faster at CAGR of 2.7% over FY15-17 v/s 2.1% over FY11-15
- Moderate 5mt increase in inventories over FY15-17 v/s 23mt increase in inventories at power stations over FY11-15. Power stations initially increased inventories from 23mt at the end of FY15 to 39mt at the end of FY16 but destocked to 28mt at the end of FY17 as they grew confident of domestic availability.

- De-stocking at captive mines. There was increase in inventories at captive mines during FY15 to exploit production limits before de-allocation pursuant to Supreme Court order dated Sep 2014. These coal inventories had shifted to consumer end by the end of FY15 and were gradually destocked in FY16 and FY17.
- De-stocking in supply chain. There was increase in-transit inventory in supply chain (ports, railways etc) due to rising dependence on imports over FY11-15. Improved domestic availability has led to substitution of imports and destocking in supply chain. Swapping of linkage too reduced destocking of supply chain.
- Substitution of ~10mt coal demand from pet coke. Pet coke imports increased at CAGR of 52% over FY15-17. Cement industry moved quickly to pet coke uses as it was (1) more economical and (2) supply chain is more consistent and reliable.

### Real consumption, however, continues to grow

Consumption in power sector grew at CAGR of 3.8%

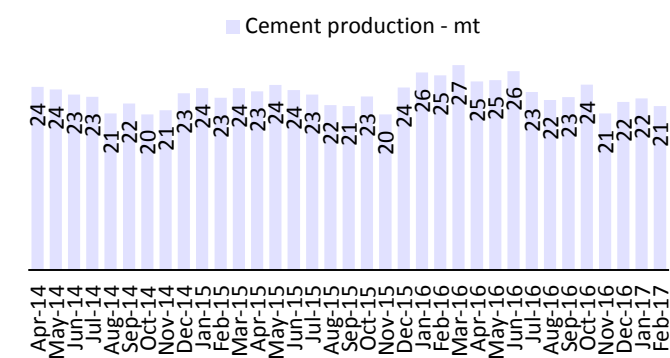
Although apparent demand was flat, the real consumption continues to grow at 3.8% CAGR in power sector over FY15-17. It is difficult to judge real consumption in non-power sector due to absence of inventory data at consumer end. However, we don't see reasons for a slowdown. Production of cement, sponge iron, aluminum etc has all increased (Exhibit 5 and Exhibit 6). The decline of apparent demand can largely be attributed to destocking.

**Exhibit 5: Indian coal supply model**

|                                | FY11       | FY12       | FY13       | FY14       | FY15       | FY16       | FY17E      | FY18E      | FY19E      | FY20E      |
|--------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Production+imports</b>      | <b>582</b> | <b>611</b> | <b>667</b> | <b>702</b> | <b>795</b> | <b>803</b> | <b>794</b> | <b>827</b> | <b>873</b> | <b>918</b> |
| Coal India                     | 431        | 436        | 453        | 461        | 494        | 534        | 554        | 580        | 618        | 657        |
| SCCL                           | 51         | 52         | 53         | 50         | 53         | 60         | 61         | 67         | 72         | 77         |
| Captive mines                  | 50         | 52         | 50         | 54         | 62         | 43         | 47         | 53         | 59         | 66         |
| Imports                        | 49         | 71         | 110        | 136        | 186        | 166        | 132        | 127        | 124        | 118        |
| <b>Dispatches</b>              | <b>573</b> | <b>607</b> | <b>677</b> | <b>710</b> | <b>784</b> | <b>802</b> | <b>783</b> | <b>827</b> | <b>873</b> | <b>918</b> |
| Power                          | 380        | 416        | 461        | 495        | 542        | 562        | 562        | 594        | 623        | 648        |
| Non-power                      | 193        | 191        | 216        | 216        | 242        | 241        | 220        | 232        | 250        | 269        |
| Coal India                     | 423        | 433        | 464        | 472        | 489        | 531        | 543        | 580        | 618        | 657        |
| Power                          | 304        | 312        | 346        | 354        | 385        | 409        | 402        | 426        | 445        | 460        |
| Non-power                      | 119        | 120        | 118        | 118        | 104        | 122        | 141        | 153        | 174        | 197        |
| SCCL                           | 50         | 51         | 53         | 48         | 53         | 59         | 61         | 67         | 72         | 77         |
| Power                          | 33         | 37         | 38         | 34         | 39         | 47         | 52         | 57         | 62         | 67         |
| Non-power                      | 17         | 15         | 15         | 14         | 13         | 11         | 9          | 10         | 10         | 9          |
| Captive mines                  | 50         | 52         | 50         | 54         | 63         | 44         | 47         | 53         | 59         | 66         |
| Power                          | 13         | 22         | 15         | 27         | 27         | 24         | 42         | 46         | 51         | 56         |
| Non-power                      | 37         | 30         | 35         | 27         | 36         | 20         | 5          | 7          | 8          | 10         |
| Imports                        | 49         | 71         | 110        | 136        | 179        | 168        | 132        | 127        | 124        | 118        |
| Power                          | 30         | 45         | 63         | 79         | 91         | 81         | 66         | 65         | 65         | 65         |
| Non-power                      | 19         | 26         | 48         | 57         | 88         | 87         | 65         | 62         | 59         | 53         |
| <b>Inventories at user end</b> | <b>2</b>   | <b>0</b>   | <b>7</b>   | <b>12</b>  | <b>23</b>  | <b>39</b>  | <b>28</b>  | <b>29</b>  | <b>32</b>  | <b>34</b>  |
| Power                          | 2          | 0          | 7          | 12         | 23         | 39         | 28         | 29         | 30         | 31         |
| Non-power                      |            |            |            |            |            |            |            | 1          | 1          | 2          |
| Inventory increase/(decrease)  | -7         | -2         | 7          | 5          | 11         | 16         | -11        | 2          | 2          | 2          |
| Power                          | -7         | -2         | 7          | 5          | 11         | 16         | -11        | 1          | 1          | 1          |
| Non-power                      |            |            |            |            |            |            |            | 1          | 1          | 1          |
| <b>Consumption</b>             | <b>580</b> | <b>609</b> | <b>671</b> | <b>705</b> | <b>773</b> | <b>786</b> | <b>793</b> | <b>825</b> | <b>871</b> | <b>915</b> |
| Power (real)                   | 387        | 418        | 455        | 489        | 531        | 546        | 573        | 593        | 621        | 647        |
| Non-power (apparent)           | 193        | 191        | 216        | 216        | 242        | 241        | 220        | 232        | 249        | 268        |

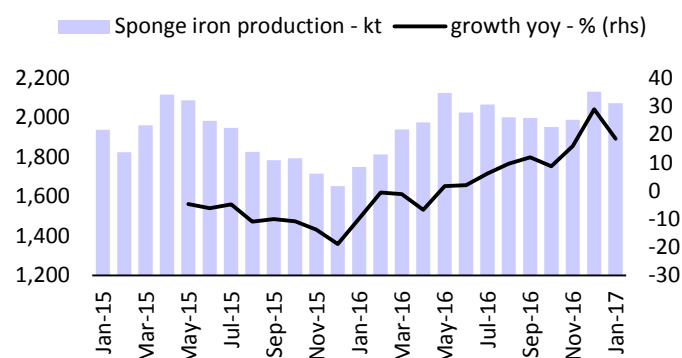
Source: MOSL

Exhibit 6: Cement production



Source: MOSL, Company

Exhibit 7: Sponge iron production



Source: MOSL, Company

Apparent demand to increase at CAGR of 5.4% to 918mt in FY20E

### Apparent coal demand to pick up despite rising share of RE

Despite rising share of RE, we expect CPG to increase at CAGR at 5.3% over FY17-20. Accounting for efficiency gains at CAGR of 1.1%, we expect coal demand in power generation to increase at CAGR of 4.2% to 647mt in FY20E. We believe destocking is largely behind. Coal consumption from non-power segment is expected to increase at CAGR of 6.7% over FY17-20E aided by substitution of pet coke on rising prices of latter (Exhibit 8).

We expect Indian coal consumption to increase at CAGR of 4.9% and apparent demand to increase at CAGR of 5.4% to 918mt in FY20E. This is a reduction of 52mt as compared to our earlier estimates. We expect import substitution to continue albeit at slower pace.

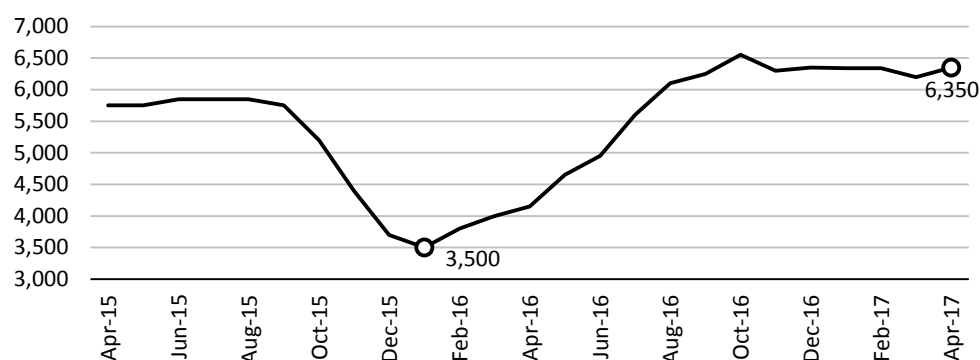
Exhibit 8: Apparent coal demand (mt)

|           | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E | FY19E | FY20E |
|-----------|------|------|------|------|------|------|-------|-------|-------|-------|
| Power     | 380  | 416  | 461  | 495  | 542  | 562  | 562   | 595   | 623   | 649   |
| YoY (%)   |      | 9.4  | 10.9 | 7.2  | 9.7  | 3.5  | 0.1   | 5.8   | 4.8   | 4.2   |
| Non-Power | 193  | 191  | 216  | 216  | 242  | 241  | 220   | 232   | 249   | 268   |
| YoY (%)   |      | -0.8 | 13.2 | -0.3 | 12.2 | -0.5 | -8.4  | 5.2   | 7.6   | 7.5   |
| All India | 573  | 607  | 677  | 710  | 784  | 802  | 783   | 827   | 873   | 918   |
| YoY (%)   |      | 6.0  | 11.6 | 4.8  | 10.5 | 2.3  | -2.4  | 5.6   | 5.6   | 5.1   |

Source: MOSL

Rising pet coke prices will aid substitution to domestic coal.

Exhibit 9: Pet coke prices – INR/t



Source: MOSL, SteelMint

**Coal India's dispatches will pick up at faster pace despite cut in estimates**

Dispatches of Coal India are expected to increase at CAGR of 6.6% to 657mt over FY17-20E, which is faster than the 5.3% CAGR over FY15-17. The FY20E volume estimate is cut ~32mt on lower coal-based power generation growth due to increase in generation from RE. We expect dispatches to increase at 6.7% to 580mt in FY18E.

**Exhibit 10: Summary of volumes**

| Sales (m tons)     |              |              |              |              |              |              | Changes in estimates |              |              |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------------|--------------|--------------|
|                    | FY15         | FY16         | FY17E        | FY18E        | FY19E        | FY20E        | FY18E                | FY19E        | FY20E        |
| <b>Total</b>       | <b>489.4</b> | <b>534.5</b> | <b>543.0</b> | <b>580.0</b> | <b>618.0</b> | <b>657.0</b> | <b>-16.5</b>         | <b>-24.1</b> | <b>-31.9</b> |
| YoY (%)            | 3.8          | 9.2          | 1.6          | 6.8          | 6.6          | 6.3          |                      |              |              |
| FSA (incl. MoU)    | 426.0        | 448.3        | 427.0        | 460.1        | 489.4        | 520.2        | 0.0                  | 0.0          | 0.0          |
| - Power (est)      | 385.4        | 408.8        | 380.0        | 405.1        | 429.4        | 455.2        | 0.0                  | 0.0          | 0.0          |
| - Non Power (est.) | 40.6         | 39.6         | 47.0         | 55.0         | 60.0         | 65.0         | 0.0                  | 0.0          | 0.0          |
| E-auction coal     | 46.9         | 67.0         | 97.5         | 101.4        | 110.1        | 118.3        | -16.5                | -24.1        | -31.9        |
| Washed Coal        | 12.0         | 14.3         | 13.4         | 13.4         | 13.4         | 13.4         | 0.0                  | 0.0          | 0.0          |
| - Coking           | 2.1          | 2.1          | 2.1          | 2.1          | 2.1          | 2.1          | 0.0                  | 0.0          | 0.0          |
| - Non coking       | 9.8          | 12.2         | 11.4         | 11.4         | 11.4         | 11.4         | 0.0                  | 0.0          | 0.0          |
| Others             | 4.5          | 5.1          | 5.1          | 5.1          | 5.1          | 5.1          | 0.0                  | 0.0          | 0.0          |

Source: MOSL

## E-auction volumes and prices to lift NSR

### Impact of grade correction is already reflected

- Price hike (May 2016) has got diluted as COAL addressed quality issues by correction of grades for its 177 mines. According to our calculations, INR15-25b could be the impact on revenue, which is already factored in NSR.
- Rising share of market linked coal in sales mix and E-auction prices will lift average NSR by 2.8% in FY18E. We have raised E-auction NSR by INR207/t to INR1650/t.

### Price hikes got diluted by grade correction of mines

We believe that the total impact of grade correction for COAL should range INR15-25b, which is lower than the benefit of price hike announced

There are number of factors that are driving average realization of coal in opposite direction for the company. COAL had taken a price hike on 31<sup>st</sup> May 2016, which was expected to boost annual revenue by INR33b or average NSR by 6%. However, this price hike had barely an impact on average NSR of FSA revenues in the two subsequent quarters. It is understood that COAL is correcting grades of its 177 mines to address quality issues, which is offsetting the benefit of price hikes. In a recent disclosure by the subsidiaries, new lists of grades of each mine have been published. According to our ballpark calculations, there is an impact on revenue of INR4b for MCL and INR 10-11b for SECL. The impact on the revenue of NCL and ECL is negligible because grade correction is fewer. BCCL has recently announced price hike for coking coal. We are unable to calculate the impact for the mines of WCL and CCL due to lack of data. Therefore, we believe that the total impact for COAL should range INR15-25b, which is lower than the benefit of price hike announced in May 2016. The average NSR of FSA revenue in 2Q and 3Q was lower YoY, which implies dilution on account of grade correction. Therefore, we believe that the recent announcement of new list of grades is already reflected in the revenue and perhaps there is no additional impact on NSR.

### Share of market linked volumes is increasing

Share of market linked volumes is continuously increasing as COAL is trying to sell coal through various methods in E-auction. The share of E-auction coal was earlier restricted to only 10% of volumes. After the limit was removed, the share of E-auction volumes has increased to 18%.

Share of E-auction volumes has increased to 18%.

#### Exhibit 11: Coal Sales (m tons)

|                   | FY15       | FY16       | FY17E      | FY18E      | FY19E      | FY20E      |
|-------------------|------------|------------|------------|------------|------------|------------|
| Linkages          | 426        | 448        | 427        | 460        | 489        | 520        |
| Proportion (%)    | 87.0       | 83.9       | 78.6       | 79.3       | 79.2       | 79.2       |
| E-Auction         | 47         | 67         | 97         | 101        | 110        | 118        |
| Proportion (%)    | 9.6        | 12.5       | 18.0       | 17.5       | 17.8       | 18.0       |
| Beneficiated coal | 12         | 14         | 13         | 13         | 13         | 13         |
| Proportion (%)    | 2.4        | 2.7        | 2.5        | 2.3        | 2.2        | 2.0        |
| Others            | 5          | 5          | 5          | 5          | 5          | 5          |
| Proportion (%)    | 0.9        | 0.9        | 0.9        | 0.9        | 0.8        | 0.8        |
| <b>Total</b>      | <b>489</b> | <b>534</b> | <b>543</b> | <b>580</b> | <b>618</b> | <b>657</b> |
| YoY (%)           | 3.8        | 9.2        | 1.6        | 6.8        | 6.6        | 6.3        |

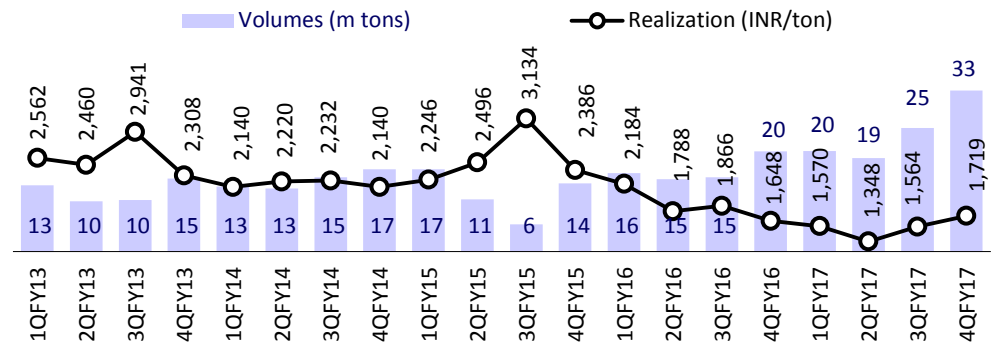
Source: MOSL, Company

We are raising average NSR for E-auction by INR207/t to INR1650/t.

### Market linked coal prices are already inching up...

E-auction prices were continuously falling during FY16 and 1H FY17, which pulled down average realization for COAL by 3.8% in FY16 and by 1% in FY17E. However, the E-auction prices have started inching up in 2HFY17E, which will drive up NSR in FY18E. We are raising average NSR for E-auction by INR207/t to INR1650/t.

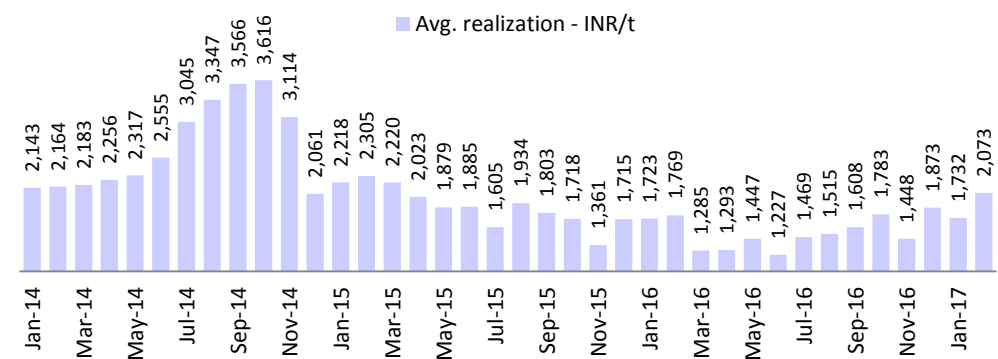
**Exhibit 12: Both volume and prices have started increasing in E-auction**



Source: MOSL, CEA

E-auction prices are inching up.

**Exhibit 13: E-auction realization – INR/t (based on data from exchanges)**

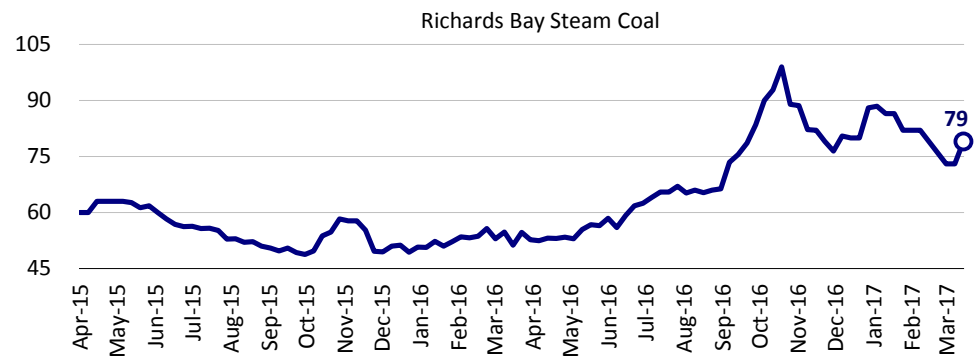


Source: MOSL, MJunction

### ...driven by international coal prices

We expect import substitution at faster pace

International coal market has moved from being surplus to more balanced equation after Chinese govt. started managing production to support coal prices. Chinese coal mines account for nearly half of the global coal production. Apparently, Chinese govt. wants prices neither too high nor too low and working range is USD60-90/t for the 6,000kcal/kg coal. This is getting reflected in the price movements. This augurs well for COAL because this will drive import substitution. We hear that Indian power plants on the west coast are now evaluating switching to domestic coal if they can source it from Talcher coal fields of MCL due to proximity to the ports.

**Exhibit 14: International coal prices (USD/t) now materially higher**

Source: MOSL, CEA

**Exhibit 15: Net Sales realization (NSR) in INR/t**

|                   | FY15         | FY16         | FY17E        | FY18E        | FY19E        | FY20E        |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Raw Coal (FSA)    | 1,327        | 1,309        | 1,304        | 1,333        | 1,333        | 1,333        |
| E-auction coal    | 2,450        | 1,839        | 1,575        | 1,650        | 1,650        | 1,650        |
| Beneficiated Coal | 2,348        | 2,328        | 2,535        | 2,630        | 2,630        | 2,630        |
| Others            | 2,593        | 2,463        | 2,685        | 2,630        | 2,630        | 2,630        |
| <b>Average</b>    | <b>1,472</b> | <b>1,415</b> | <b>1,401</b> | <b>1,440</b> | <b>1,438</b> | <b>1,436</b> |
| % YoY             | 0.8          | (3.8)        | (1.0)        | 2.8          | (0.1)        | (0.2)        |

Source: MOSL, Company

## Cost of mining will decline despite wage hike

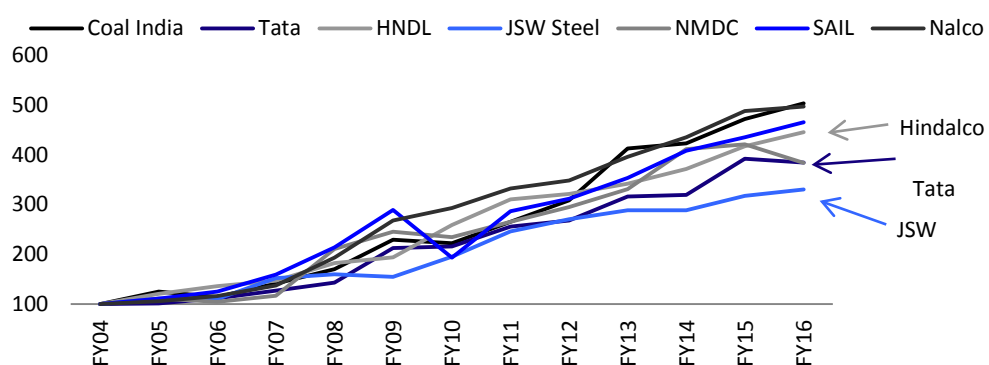
### Operating leverage will be at play

- We believe COAL will be able to negotiate 18% wage hike in view low inflation, high existing wages, pressure from power consumers to keep coal prices low, and less peer pressure because many of other CPSU's e.g. SAIL are not able to afford wage hike because they are losing money.
- Cost of mining will decline as operating leverage will come into play on volume growth.

### We are factoring 18% wage hike

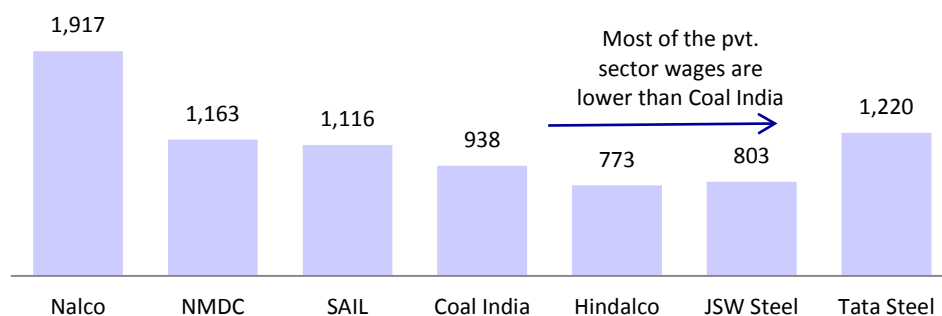
Employee cost has very high share in the revenue due to legacy issue. It was 39.2% of revenue in FY16, which increased to 44.1% in FY17E assuming average hike of 18%. The wage revision is due w.e.f. 1<sup>st</sup> July 2016 for 90% of the work force and w.e.f. 1<sup>st</sup> Jan 2017 for the remaining 10% manpower which are executives. We understand that management has offered 15% hike, while staff is asking for 30% hike. We expect 18% wage hike is reasonable considering average employee cost has increased 405% in 12 years, which is highest among Indian metal and mining companies (Exhibit 15). Further, its average employee cost is now higher than private players like Hindalco and JSW Steel despite lower skills required in mining than in metal production (Exhibit 16).

**Exhibit 16: Average employee cost Indexed to 100 in FY04**



Source: MOSL

**Exhibit 17: Average annual employee cost (INR 000/year)**

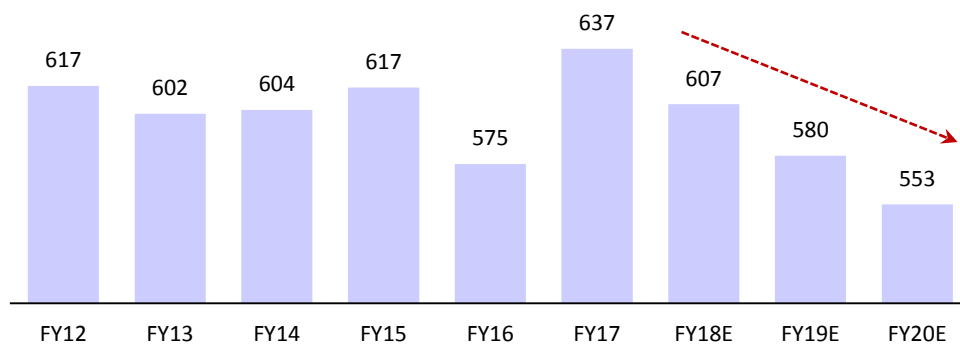


Source: MOSL, Company

### Specific labor cost will decline on operating leverage

Despite wage revision, we expect employee cost to increase less than 2% in FY18E after an increase of 14% in FY17 due to 3-4% natural net attrition. Employee cost as percentage of revenue will start declining benefiting from operating leverage.

**Exhibit 18: Specific labor cost (incl. social overheads) INR/t**



Source: MOSL, Company

**Exhibit 19: Cash cost of production (INR/t) is on declining trend**

|                   | FY14  | FY15  | FY16  | FY17E | FY18E | FY19E | FY20E |
|-------------------|-------|-------|-------|-------|-------|-------|-------|
| CoP per ton       | 1,051 | 1,082 | 1,064 | 1,145 | 1,111 | 1,095 | 1,091 |
| YoY (%)           | 3.7   | 3.0   | -1.6  | 7.6   | -3.0  | -1.4  | -0.4  |
| Labor & social OH | 604   | 617   | 575   | 637   | 607   | 580   | 553   |
| Contract          | 145   | 174   | 208   | 206   | 214   | 228   | 252   |
| R&M               | 170   | 171   | 156   | 159   | 156   | 153   | 150   |
| Others            | 132   | 120   | 125   | 143   | 133   | 134   | 136   |

Source: MOSL, Company

## EBITDA CAGR of 21%; E-auction prices offset volume cuts

20% upside and 6% dividend yield is attractive; Upgrade to BUY

- Despite reducing volume estimates by 24mt, we expect 6.7% CAGR in volumes, 21% CAGR in adj. EBITDA, 15% CAGR in EPS over two years on operating leverage and upgrade in E-auction prices while keeping the FSA prices unchanged.
- We are raising the target price to INR335/share as we roll over the valuation basis to FY19E (7.5xEV/EBITDA). 20% upside and 6% dividend yield is attractive. Upgrade to BUY.

### Adj. EBITDA CAGR of 21% over two years

After a steep decline of 23%, we expect adjusted EBITDA to increase by 33% to INR215b (INR3b upgrade w.r.t. old est.) in FY18E driven by 6.8% volume growth to 580mt (volumes reduced by 16mt w.r.t old est.), 2.7% growth in NSR aided by E-auction prices and rising share of market linked volumes, and operating leverage. Adjusted EBITDA is expected to increase further by 11% to INR237b (INR1.9b reduction w.r.t. old est.) in FY19E driven by 6.6% volume growth to 618mt (volumes reduced by 24mt w.r.t old est.) and operating leverage. This 21% CAGR in adj. EBITDA is despite keeping FSA prices unchanged.

### EPS CAGR of 15% and attractive dividend yield of 6%

The EPS is expected to increase at CAGR of 15% to INR22.1 in FY19E. This will allow COAL to dole out handsome dividends as it can maintain 100% or above payout ratio despite INR80b annual capex. At CMP, the dividend yield is very attractive at 6%.

### Upgrading to BUY

COAL deserves premium over other metal and mining stocks due to its dominant position in Indian markets and its current coal pricing being very competitive, which has virtually no downside risk. Therefore, we value the stock at 7.5xEV/adj.EBITDA. We are moving the valuation basis to FY19E and raising the target price to INR335. At CMP, the stock has upside of 20%, which is in addition to ~6% dividend yield and very attractive as compared to its cost of equity. Therefore, we upgrade the stock to Buy.

#### Exhibit 20: Target Price calculations

|                      | FY16      | FY17E     | FY18E     | FY19E     | FY20E     |
|----------------------|-----------|-----------|-----------|-----------|-----------|
| Adjusted EBITDA      | 209,433   | 161,241   | 214,830   | 237,493   | 253,456   |
| Target EV/EBITDA (x) | 7.5       | 7.5       | 7.5       | 7.5       | 7.5       |
| Target EV            | 1,570,746 | 1,209,310 | 1,611,227 | 1,781,194 | 1,900,920 |
| Net debt             | -449,609  | -342,196  | -317,660  | -301,241  | -290,538  |
| Target Equity value  | 2,020,356 | 1,551,506 | 1,928,887 | 2,082,435 | 2,191,458 |
| TP (INR/share)       | 325       | 250       | 311       | 335       | 353       |

Source: MOSL

## Exhibit 21: Adjusted P&amp;L

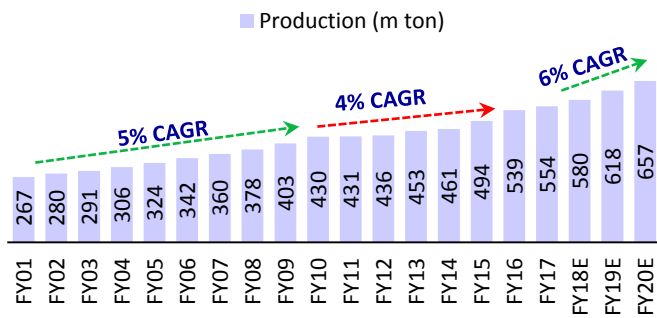
|                                | FY14           | FY15           | FY16           | FY17E          | FY18E          | FY19E          | FY20E          |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>                 | <b>705,076</b> | <b>740,416</b> | <b>778,357</b> | <b>783,124</b> | <b>859,193</b> | <b>914,153</b> | <b>970,249</b> |
| Power FSA                      | 460,707        | 511,009        | 535,676        | 494,973        | 539,909        | 571,763        | 605,529        |
| Non Power FSA                  | 74,048         | 72,085         | 69,455         | 79,477         | 92,455         | 100,860        | 109,265        |
| Eaution/MoU                    | 170,322        | 157,321        | 173,226        | 208,673        | 226,829        | 241,530        | 255,455        |
| Sales (mt)                     | 472            | 489            | 534            | 543            | 580            | 618            | 657            |
| YoY (%)                        | 1.6            | 3.8            | 9.2            | 1.6            | 6.8            | 6.6            | 6.3            |
| Power FSA                      | 354            | 385            | 409            | 380            | 405            | 429            | 455            |
| Share (%)                      | 75             | 79             | 76             | 70             | 70             | 69             | 69             |
| Non Power FSA                  | 42             | 41             | 40             | 47             | 55             | 60             | 65             |
| Eaution/MoU                    | 75             | 63             | 86             | 116            | 120            | 129            | 137            |
| Revenue per ton                | 1,496          | 1,517          | 1,442          | 1,442          | 1,481          | 1,479          | 1,477          |
| YoY (%)                        | -0.5           | 1.4            | -4.9           | 0              | 2.7            | -0.1           | -0.2           |
| Power FSA                      | 1,302          | 1,326          | 1,311          | 1,303          | 1,333          | 1,331          | 1,330          |
| Non Power FSA                  | 1,745          | 1,775          | 1,755          | 1,691          | 1,681          | 1,681          | 1,681          |
| Eaution/MoU                    | 2,261          | 2,482          | 2,010          | 1,800          | 1,892          | 1,878          | 1,867          |
| <b>Cost of Mining (ex. OB)</b> | <b>495,603</b> | <b>529,580</b> | <b>568,924</b> | <b>621,882</b> | <b>644,363</b> | <b>676,660</b> | <b>716,793</b> |
| CoP per ton                    | 1,051          | 1,082          | 1,064          | 1,145          | 1,111          | 1,095          | 1,091          |
| YoY (%)                        | 3.7            | 3              | -1.6           | 7.6            | -3             | -1.4           | -0.4           |
| Labor & social OH              | 604            | 617            | 575            | 637            | 607            | 580            | 553            |
| Contract                       | 145            | 174            | 208            | 206            | 214            | 228            | 252            |
| R&M                            | 170            | 171            | 156            | 159            | 156            | 153            | 150            |
| Others                         | 132            | 120            | 125            | 143            | 133            | 134            | 136            |
| <b>Adjusted EBITDA*</b>        | <b>209,473</b> | <b>210,836</b> | <b>209,433</b> | <b>161,241</b> | <b>214,830</b> | <b>237,493</b> | <b>253,456</b> |
| Power FSA                      | 88,852         | 93,951         | 100,597        | 59,730         | 89,840         | 101,583        | 108,918        |
| Share (%)                      | 42             | 45             | 48             | 37             | 42             | 43             | 43             |
| Non Power FSA                  | 29,456         | 28,150         | 27,327         | 25,644         | 31,352         | 35,165         | 38,349         |
| Share (%)                      | 14             | 13             | 13             | 16             | 15             | 15             | 15             |
| Eaution/MoU                    | 91,165         | 88,735         | 81,509         | 75,867         | 93,639         | 100,745        | 106,188        |
| Share (%)                      | 44             | 42             | 39             | 47             | 44             | 42             | 42             |
| EBITDA per ton                 | 444            | 431            | 392            | 297            | 370            | 384            | 386            |
| YoY (%)                        | -9             | -3             | -9             | -24            | 25             | 4              | 0              |
| Power FSA                      | 251            | 244            | 246            | 157            | 222            | 237            | 239            |
| Non Power FSA                  | 694            | 693            | 690            | 546            | 570            | 586            | 590            |
| Eaution                        | 1,210          | 1,400          | 946            | 654            | 781            | 784            | 776            |

\*Adj. EBITDA = Incl. transportation income (part of other income) and excluding OB removal provision

Source: MOSL

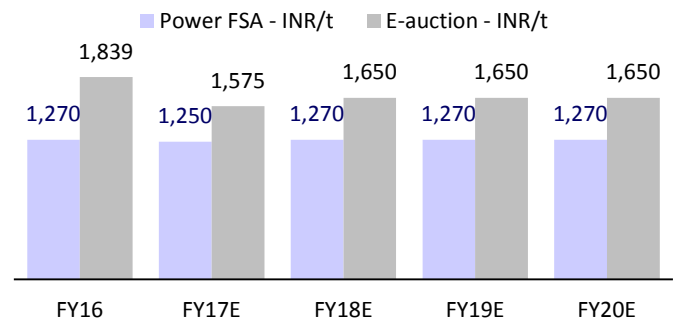
## Story in charts

**Exhibit 22: Production to grow by ~6% CAGR over FY17-20E**



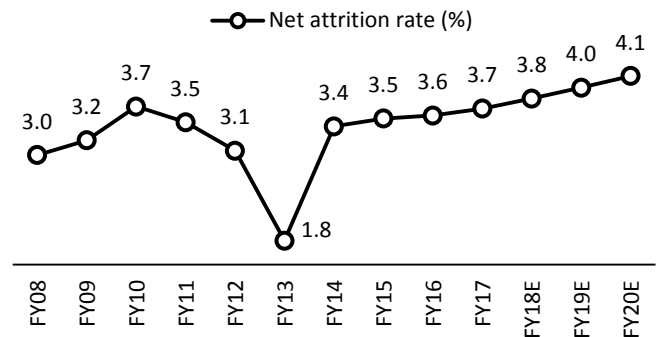
Source: MOSL, Company

**Exhibit 23: No increase in FSA realn.**



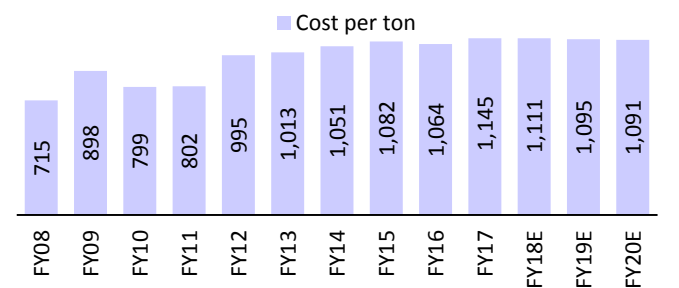
Source: MOSL, Company

**Exhibit 24: Attrition will drive saving in employee cost**



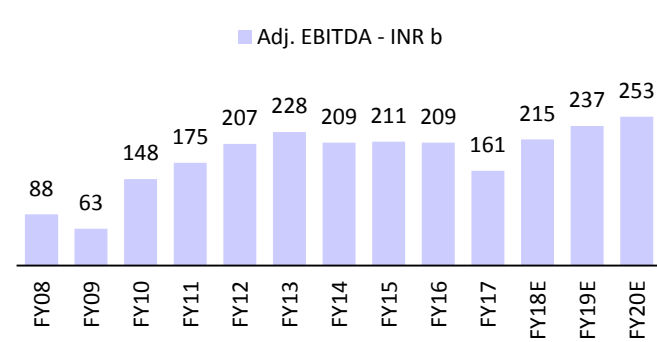
Source: MOSL, Company

**Exhibit 25: CoP will decline on operating leverage**



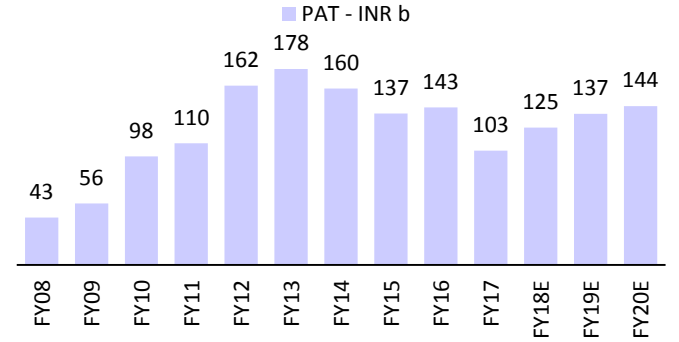
Source: MOSL, Company

**Exhibit 26: Adj. EBITDA to increase by ~21% CAGR FY17-19E**



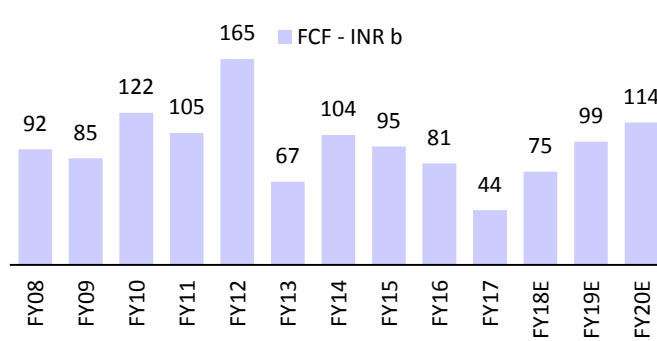
Source: MOSL, Company

**Exhibit 27: PAT to increase by ~15% CAGR FY17-19E**



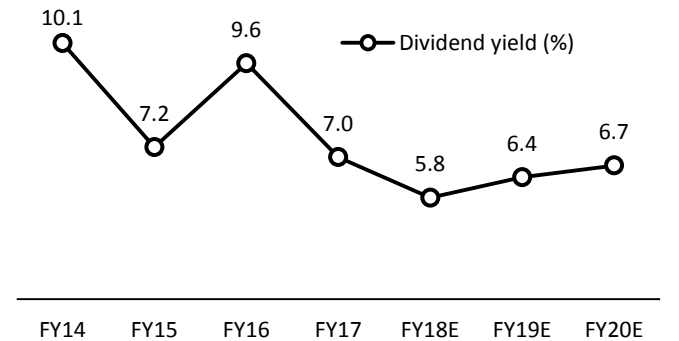
Source: MOSL, Company

**Exhibit 28: Strong FCF generation**



Source: MOSL, Company

**Exhibit 29: Attractive dividend yield**



Source: MOSL, Company

## Financials and Valuations

| Income Statement            |                |                |                |                |                | (INR Million)  |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Y/E March                   | FY14           | FY15           | FY16           | FY17E          | FY18E          | FY19E          |
| <b>Net Sales</b>            | <b>688,100</b> | <b>720,146</b> | <b>756,443</b> | <b>760,863</b> | <b>835,413</b> | <b>888,815</b> |
| Change (%)                  | 0.7            | 4.7            | 5.0            | 0.6            | 9.8            | 6.4            |
| Operating Expenses          | 528,469        | 567,847        | 597,038        | 649,229        | 683,919        | 718,521        |
| <b>EBITDA</b>               | <b>159,632</b> | <b>152,300</b> | <b>159,404</b> | <b>111,634</b> | <b>151,494</b> | <b>170,294</b> |
| % of Net Sales              | 23.2           | 21.1           | 21.1           | 14.7           | 18.1           | 19.2           |
| adj. EBITDA/ton             | 444            | 431            | 392            | 297            | 370            | 384            |
| Depreciation                | 19,964         | 23,198         | 24,664         | 27,580         | 29,380         | 31,180         |
| Interest                    | 580            | 73             | 207            | 3,540          | 3,575          | 3,611          |
| Other Income                | 89,694         | 86,761         | 80,943         | 73,901         | 64,614         | 62,840         |
| Extra Ordinary              | -14            | -50            | -414           | 0              | 0              | 0              |
| <b>PBT</b>                  | <b>228,795</b> | <b>215,839</b> | <b>215,891</b> | <b>154,414</b> | <b>183,152</b> | <b>198,342</b> |
| Tax                         | 77,679         | 78,573         | 73,148         | 50,941         | 58,590         | 61,466         |
| Rate (%)                    | 34.0           | 36.4           | 33.9           | 33.0           | 32.0           | 31.0           |
| <b>PAT before Min. Int.</b> | <b>151,116</b> | <b>137,266</b> | <b>142,743</b> | <b>103,473</b> | <b>124,562</b> | <b>136,876</b> |
| Minority Interest           |                |                |                |                |                |                |
| <b>Reported PAT</b>         | <b>151,116</b> | <b>137,266</b> | <b>142,743</b> | <b>103,473</b> | <b>124,562</b> | <b>136,876</b> |
| Change (%)                  | -13.4          | -9.2           | 4.0            | -27.5          | 20.4           | 9.9            |
| <b>Adjusted PAT</b>         | <b>159,881</b> | <b>137,316</b> | <b>142,743</b> | <b>103,473</b> | <b>124,562</b> | <b>136,876</b> |
| Change (%)                  | -9.9           | -14.1          | 4.0            | -27.5          | 20.4           | 9.9            |

| Balance Sheet               |                |                |                |                |                 | (INR Million)   |
|-----------------------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| Y/E March                   | FY14           | FY15           | FY16           | FY17E          | FY18E           | FY19E           |
| Share Capital               | 63,164         | 63,164         | 63,164         | 62,074         | 62,074          | 62,074          |
| Reserves                    | 360,881        | 340,367        | 275,428        | 192,656        | 193,154         | 193,701         |
| <b>Net Worth</b>            | <b>424,045</b> | <b>403,531</b> | <b>338,592</b> | <b>254,730</b> | <b>255,228</b>  | <b>255,775</b>  |
| Minority Interest           | 636            | 658            | 658            | 658            | 658             | 658             |
| Loans                       | 1,715          | 4,019          | 4,019          | 4,019          | 4,019           | 4,019           |
| Defferd tax Liability       | -19,717        | -19,591        | -19,591        | -19,591        | -19,591         | -19,591         |
| <b>Capital Employed</b>     | <b>406,678</b> | <b>388,617</b> | <b>323,678</b> | <b>239,816</b> | <b>240,314</b>  | <b>240,862</b>  |
| <b>Gross Fixed Assets</b>   | <b>414,795</b> | <b>448,080</b> | <b>508,080</b> | <b>568,080</b> | <b>628,080</b>  | <b>688,080</b>  |
| Less: Depreciation          | 266,951        | 286,929        | 311,594        | 339,174        | 368,555         | 399,735         |
| <b>Net Fixed Assets</b>     | <b>147,844</b> | <b>161,150</b> | <b>196,486</b> | <b>228,906</b> | <b>259,525</b>  | <b>288,345</b>  |
| Capital Work in Progress    | 43,158         | 51,594         | 52,824         | 70,474         | 90,474          | 110,474         |
| Investments                 | 37,749         | 28,134         | 28,134         | 28,134         | 28,134          | 28,134          |
| <b>Current Assets</b>       | <b>793,955</b> | <b>844,940</b> | <b>771,875</b> | <b>665,346</b> | <b>655,720</b>  | <b>649,981</b>  |
| Inventory                   | 55,681         | 61,838         | 62,173         | 62,537         | 68,664          | 73,053          |
| Debtors                     | 82,410         | 85,219         | 89,115         | 89,636         | 98,419          | 104,710         |
| Other Current Assets        | 54,375         | 61,808         | 61,808         | 61,808         | 61,808          | 61,808          |
| Loans and Advances          | 77,594         | 105,150        | 105,150        | 105,150        | 105,150         | 105,150         |
| Cash                        | 523,895        | 530,925        | 453,629        | 346,216        | 321,680         | 305,261         |
| <b>Current Liabilities</b>  | <b>616,028</b> | <b>697,201</b> | <b>725,641</b> | <b>753,044</b> | <b>793,539</b>  | <b>836,072</b>  |
| Payables                    | 8,051          | 9,208          | 9,533          | 9,589          | 10,528          | 11,202          |
| Other current liabilities   | 607,978        | 687,994        | 716,108        | 743,455        | 783,011         | 824,871         |
| <b>Net Curr. Assets</b>     | <b>177,927</b> | <b>147,739</b> | <b>46,234</b>  | <b>-87,698</b> | <b>-137,819</b> | <b>-186,091</b> |
| Misc. Expenses              | 0              | 0              | 0              | 0              | 0               | 0               |
| <b>Application of Funds</b> | <b>406,678</b> | <b>388,617</b> | <b>323,678</b> | <b>239,816</b> | <b>240,314</b>  | <b>240,862</b>  |

E: MOSL Estimates

## Financials and Valuations

### Ratios

| Y/E March                       | FY14        | FY15        | FY16        | FY17E       | FY18E       | FY19E       |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Basic</b>                    |             |             |             |             |             |             |
| <b>Adjusted EPS</b>             | <b>25.3</b> | <b>21.7</b> | <b>22.6</b> | <b>16.7</b> | <b>20.1</b> | <b>22.1</b> |
| Cash EPS                        | 33.7        | 31.5        | 31.0        | 25.5        | 31.2        | 33.8        |
| Book Value                      | 67.1        | 63.9        | 53.6        | 41.0        | 41.1        | 41.2        |
| DPS                             | 29.0        | 20.7        | 27.4        | 19.9        | 16.7        | 18.3        |
| Payout (incl. Div. Tax.)        | 130.3       | 112.9       | 145.5       | 145.8       | 99.6        | 99.6        |
| <b>Valuation (x)</b>            |             |             |             |             |             |             |
| P/E                             | 11.0        | 12.8        | 12.3        | 16.7        | 13.9        | 12.7        |
| P/BV                            | 4.2         | 4.4         | 5.2         | 6.8         | 6.8         | 6.8         |
| EV/Adj. EBITDA                  | 5.8         | 5.7         | 6.1         | 8.6         | 6.6         | 6.0         |
| Dividend Yield (%)              | 10.4        | 7.4         | 9.8         | 7.1         | 6.0         | 6.6         |
| EV /ton of Reserves             | 55.6        | 55.4        | 59.0        | 63.9        | 65.0        | 65.8        |
| <b>Profitability Ratios (%)</b> |             |             |             |             |             |             |
| Debtor (Days)                   | 43.7        | 43.2        | 43.0        | 43.0        | 43.0        | 43.0        |
| Inventory (Days)                | 29.5        | 31.3        | 30.0        | 30.0        | 30.0        | 30.0        |
| Payables (Days)                 | 4.3         | 4.7         | 4.6         | 4.6         | 4.6         | 4.6         |
| Asset turnover(x)               | 1.7         | 1.9         | 2.3         | 3.2         | 3.5         | 3.7         |
| <b>Profitability Ratios (%)</b> |             |             |             |             |             |             |
| RoE                             | 35.6        | 34.0        | 42.2        | 40.6        | 48.8        | 53.5        |
| RoCE                            | 34.4        | 34.5        | 40.0        | 37.6        | 52.9        | 57.9        |
| RoIC                            | -45.5       | -39.1       | -41.2       | -27.1       | -41.0       | -47.6       |
| <b>Leverage Ratio</b>           |             |             |             |             |             |             |
| Current Ratio                   |             |             |             |             |             |             |
| Net Debt/Equity (x)             | -1.2        | -1.3        | -1.3        | -1.3        | -1.2        | -1.2        |

### Cash Flow Statement

(INR Million)

| Y/E March                    | FY14            | FY15            | FY16            | FY17E           | FY18E           | FY19E           |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Adj EBITDA*</b>           | <b>209,473</b>  | <b>210,836</b>  | <b>209,433</b>  | <b>161,241</b>  | <b>214,830</b>  | <b>237,493</b>  |
| Non cash exp. (income)       | 21,596          | 22,213          | 9,918           | 11,947          | 12,271          | 12,572          |
| (Inc)/Dec in WC              | 2,442           | 6,487           | -3,906          | -828            | -13,971         | -10,007         |
| Taxes paid                   | -88,264         | -95,721         | -73,148         | -50,941         | -58,590         | -61,466         |
| <b>CF from Operations</b>    | <b>145,247</b>  | <b>143,815</b>  | <b>142,297</b>  | <b>121,419</b>  | <b>154,540</b>  | <b>178,590</b>  |
| Capex                        | -41,164         | -49,014         | -61,230         | -77,650         | -80,000         | -80,000         |
| <b>Free Cash Flow</b>        | <b>104,083</b>  | <b>94,801</b>   | <b>81,067</b>   | <b>43,769</b>   | <b>74,540</b>   | <b>98,590</b>   |
| (Pur)/Sale of Investments    | -13,799         | 9,615           | 0               | 0               | 0               | 0               |
| Interest/dividend            | 64,754          | 52,871          | 49,111          | 39,693          | 28,563          | 24,930          |
| <b>CF from Investments</b>   | <b>9,791</b>    | <b>13,472</b>   | <b>-12,119</b>  | <b>-37,957</b>  | <b>-51,437</b>  | <b>-55,070</b>  |
| Equity raised/(repaid)       | 0               | 0               | 0               | -36,500         | 0               | 0               |
| Debt raised/(repaid)         | -12,634         | 1,935           | 0               | 0               | 0               | 0               |
| Interest paid                | -580            | -73             | -207            | -3,540          | -3,575          | -3,611          |
| Dividend (incl. tax)         | -242,430        | -155,963        | -207,682        | -150,835        | -124,064        | -136,329        |
| Other financing              | 2,141           | 3,844           | 414             |                 |                 |                 |
| <b>CF from Fin. Activity</b> | <b>-253,503</b> | <b>-150,257</b> | <b>-207,474</b> | <b>-190,875</b> | <b>-127,639</b> | <b>-139,940</b> |
| <b>Inc/Dec of Cash</b>       | <b>-98,465</b>  | <b>7,030</b>    | <b>-77,296</b>  | <b>-107,413</b> | <b>-24,536</b>  | <b>-16,419</b>  |
| Add: Beginning Balance       | 622,360         | 523,895         | 530,925         | 453,629         | 346,216         | 321,680         |
| <b>Closing Balance</b>       | <b>523,895</b>  | <b>530,925</b>  | <b>453,629</b>  | <b>346,216</b>  | <b>321,680</b>  | <b>305,261</b>  |

\* Adj EBITDA is ex. OBR and including transportation/loading income

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