2 May 2017

Update | Sector: Utilities

Coal India

BSE Sensex	S&P CNX
29,921	9,314

CMP: INR275 TP: INR335 (+20%) Buy

Stock Info

Bloomberg	COAL IN
Equity Shares (m)	6,316.4
52-Week Range (INR)	350 / 273
1, 6, 12 Rel. Per (%)	-7/-25/-22
M.Cap.(INR b)/(USD b)	1,707/26.4
AvgVal.INRm/Vol'000	1264
Free float (%)	21.1

Financial Snapshot (INR Billion)

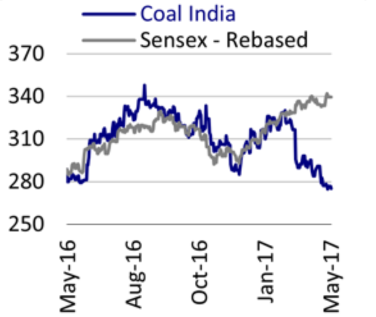
Y/E Mar	2017E	2018E	2019E
Net Sales	753.8	820.4	873.8
EBITDA	132.0	176.5	197.7
PAT	98.8	114.5	126.8
EPS (INR)	15.9	18.4	20.4
Gr. (%)	-29.6	15.9	10.7
BV/Sh (INR)	40.3	40.4	40.4
RoE (%)	39.5	45.7	50.5
RoCE (%)	36.2	49.7	54.8
P/E (x)	17.3	14.9	13.5
P/BV (x)	6.8	6.8	6.8
EV/EBITDA (x)	8.9	6.9	6.3
Div. Yield (%)	7.2	5.6	6.2

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)



April 2017: Off-take growth remains strong

E-auction realization impacted by weaker mix in March 2017

Off-take grew by 6.7% YoY in April

- Off-take grew 6.7% YoY to 45.3mt in April, driven by demand growth and import substitution, mirroring the trends (+5-6% YoY) of the past few months. We estimate 6.8% YoY growth in off-take in FY18 (after sluggish +1.6% in FY17), led by end to the destocking cycle, acceleration in import substitution and demand growth.
- Off-take growth at CCL, SECL, NCL and WCL subsidiaries was in double-digits. BCCL reported an 11% YoY decline, continuing the trend of the last few months, due to an increase in coal prices. MCL reported a 7% YoY decline due to local issues in ramping up production.
- Coal production declined 4.1% YoY to 38.4mt in April, led by destocking of inventories at mines.

E-auction realization decline in March on weaker mix/higher volumes

- E-auction realization fell INR517/t MoM to INR1,556/t in March 2017 due to the special e-auction for the power sector, which led to a weaker mix.
- Coal India (COAL) offered the highest-ever quantity of 47mt in March. Allocated volumes were up 14% YoY/~6mt QoQ to 13mt. Special power sector e-auction volumes were at 5.4mt. The off-take under special e-auction is spread over 2-6 months.
- The share of higher-grade coal (i.e. other than G10-17) was at a five-month low of 28% of quantity allocated (down from 56% MoM) due to demand for lower-grade coal in the special e-auction for power.
- Average premium over notified price declined from ~INR400/t MoM to INR256/t. Premium for lower-grade coal was down from INR337/t MoM to INR180/t. On the other hand, premium for higher-grade coal was broadly unchanged at INR450/t MoM.

Power sector drove coal demand in March

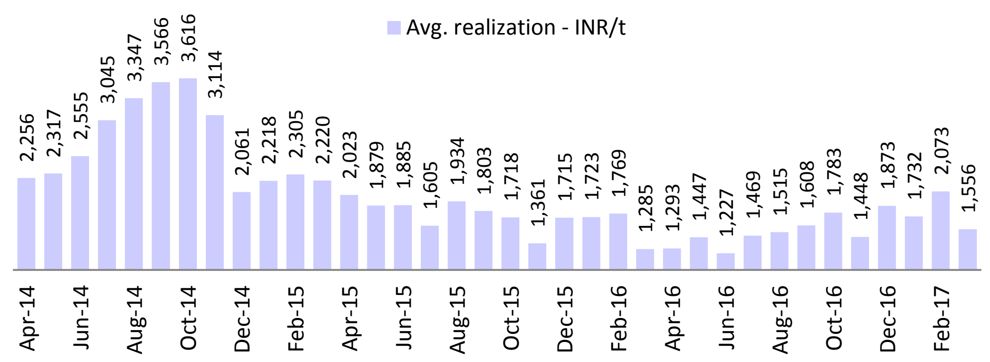
- System coal demand is estimated to have increased by 5% YoY (3.7mt YoY) to ~74mt in March 2017. Demand growth was led by an increase in consumption by the power sector (3.4mt to 51mt). Non-power sector consumption was broadly flat YoY.
- Thermal coal imports were down 2.1mt to ~13mt in March 2017.
- Inventory at power plants increased by 1.6mt MoM to ~28mt in March 2017 (a seasonal pattern). The increase, however, was lower than that seen in the same month last year (2.7mt).
- Petcoke imports increased 8.4% YoY to 1.1mt in March 2017.

Sanjay Jain (SanjayJain@MotilalOswal.com); +91 22 6129 1523
Dhruv Muchhal (Dhruv.Muchhal@MotilalOswal.com); +91 22 6129 1549

Volume growth to accelerate; Maintain Buy

- For COAL, we estimate volumes CAGR of 6.6% over FY17-20E, driven by the end to the destocking cycle, substitution of imports/petcoke and demand growth. This is despite factoring in the increase in the share of renewable energy generation in India's electricity mix from 6.7% in FY17 to 11% by FY20E. Cost of mining will decline on operating leverage from higher volumes. E-auction prices are benefiting from increased demand for higher-grade coal led by rising international coal prices. We estimate 21% EBITDA and 15% EPS CAGR over FY17-19E on volume growth, operating leverage and higher e-auction prices, even as FSA realization is estimated to remain 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 7.5x EV/adj. EBITDA. The stock is trading attractive at 6.3x FY19E EV/EBITDA. Maintain **Buy**.

Exhibit 1: Coal India e-auction realization



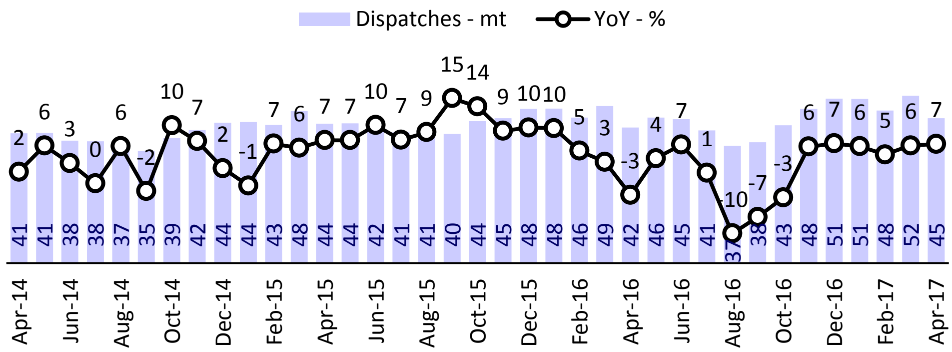
Source: MOSL, CEA

Exhibit 2: Valuations: Indian Companies

	Rating	CMP (INR)	TP (INR)	MCAP (USD M)	EPS			P/E (x)		P/B(x)		RoE (%)	
					FY16	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Powergrid	Buy	206	243	16,031	11.5	15.3	17.7	13.4	11.6	2.2	1.9	17.4	17.5
NTPC	Buy	162	199	19,882	12.3	12.1	14.3	13.4	11.3	1.4	1.3	10.8	11.9
JSW Energy	Buy	62	81	1,520	8.5	3.7	3.0	16.9	20.8	1.2	1.2	7.0	5.6
CESC	Buy	957	970	1,896	27.8	50.2	74.5	19.1	12.8	2.2	1.9	11.0	15.8
Coal India	**Buy**	**275**	**315**	**25,862**	**22.6**	**17.2**	**20.0**	**16.0**	**13.7**	**5.6**	**5.6**	**33.6**	**41.1**

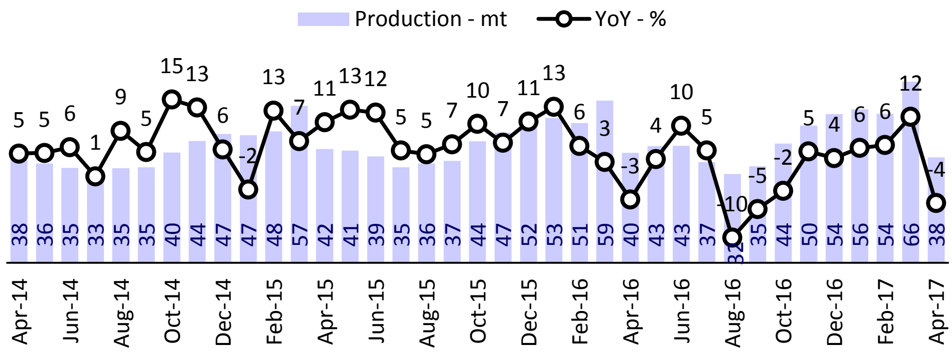
Coal India's volume monitor – April 2017

Exhibit 3: Dispatches grew 6.7% YoY in April



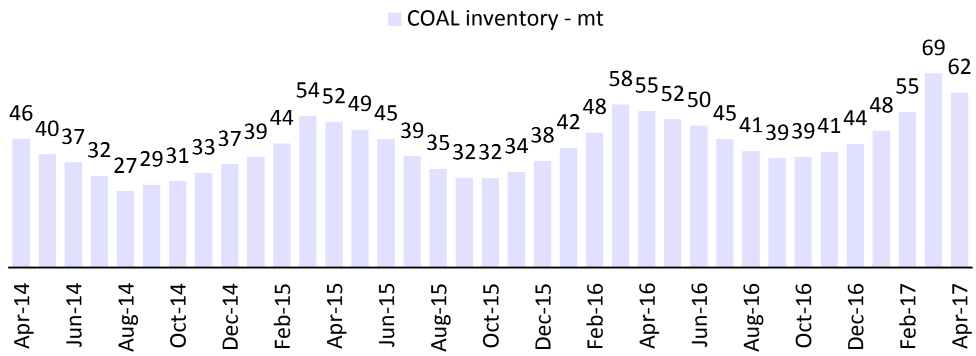
Source: MOSL, Company

Exhibit 4: Production declined by 4.1% YoY in April



Source: MOSL, Company

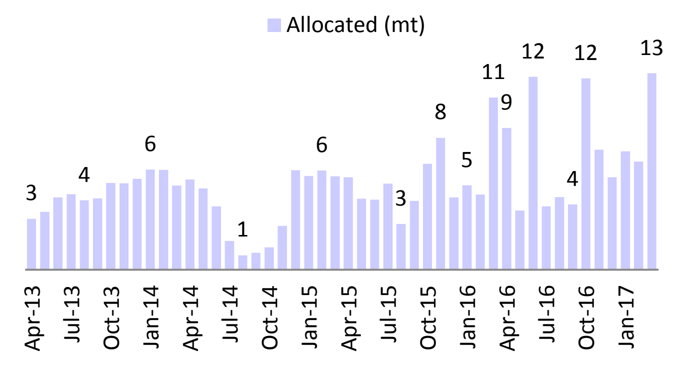
Exhibit 5: Inventory at mines declined MoM in April



Source: MOSL, Company

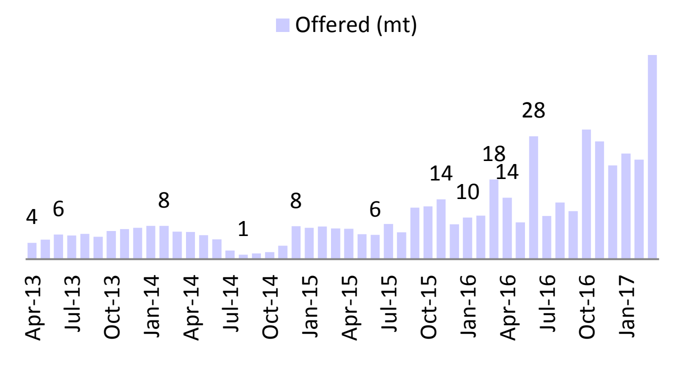
E-auction monthly monitor – March 17

Exhibit 6: Monthly E-auction allocated quantity



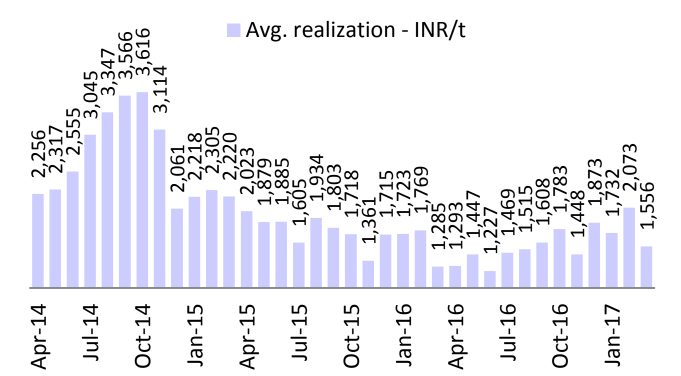
Source: ICMW

Exhibit 7: Monthly E-auction offered quantity



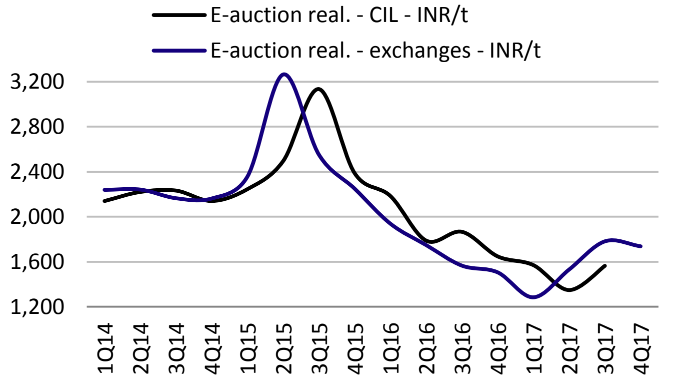
Source: ICMW

Exhibit 8: Average E-auction realization – INR/t



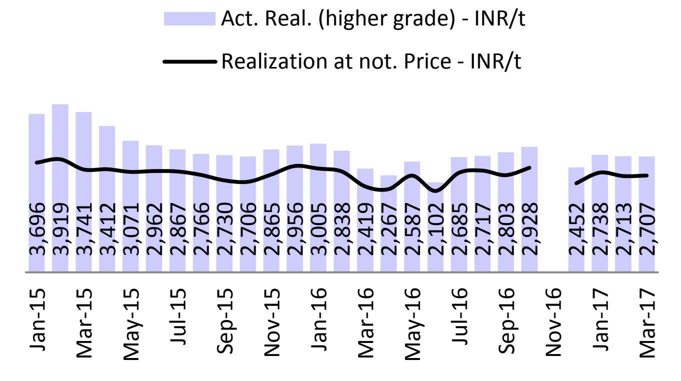
Source: ICMW

Exhibit 9: Realization trend – CIL v/s. exchanges



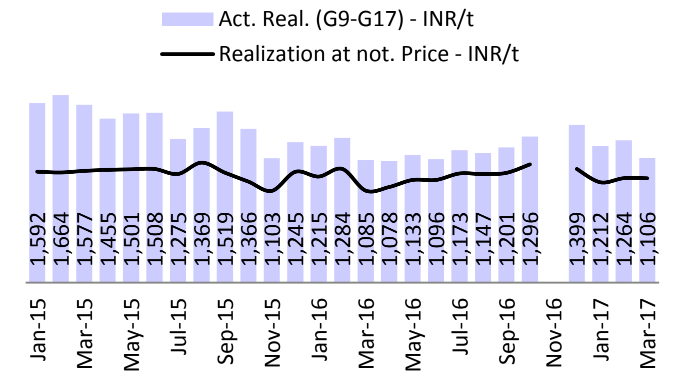
Source: ICMW

Exhibit 10: Average realization (higher grade)



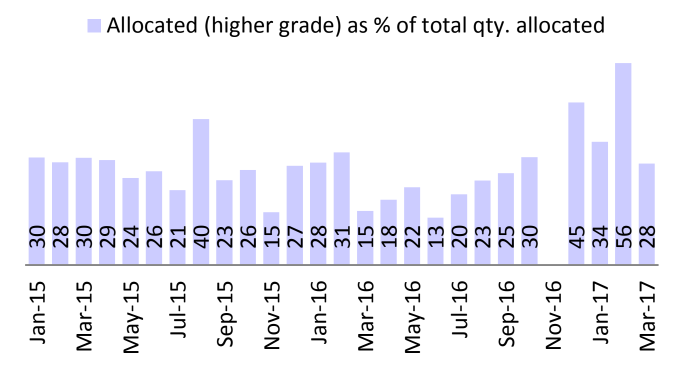
Source: ICMW

Exhibit 11: Average realization (G9-G17 grade)



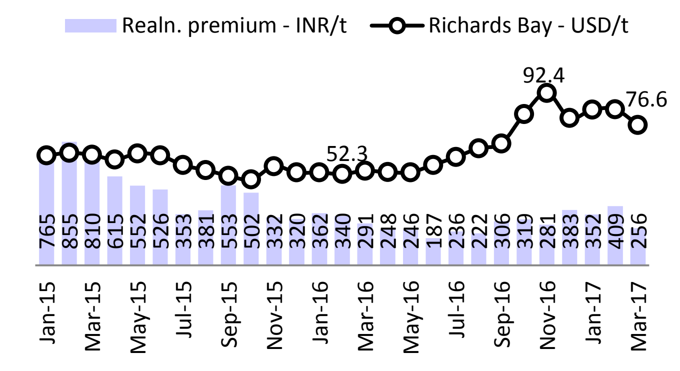
Source: ICMW

Exhibit 12: Share (%) of high grade in allotted mix



Source: ICMW

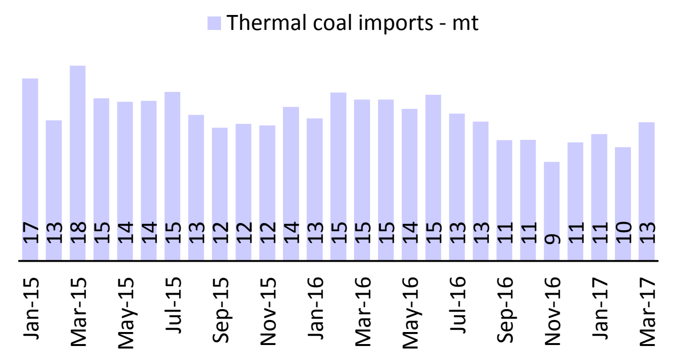
Exhibit 13: Realized premium over not. price and RB Index



Source: ICMW

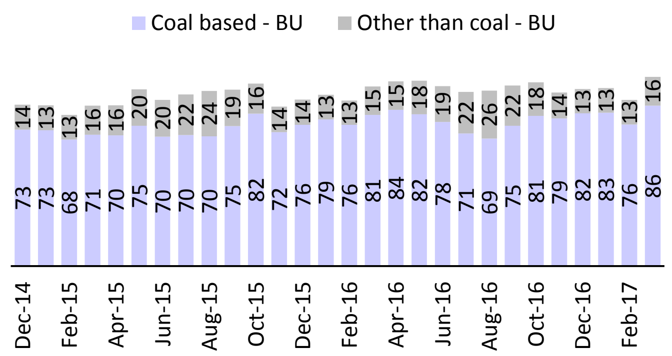
India coal demand and its drivers' monitor

Exhibit 14: Monthly thermal coal imports – mt



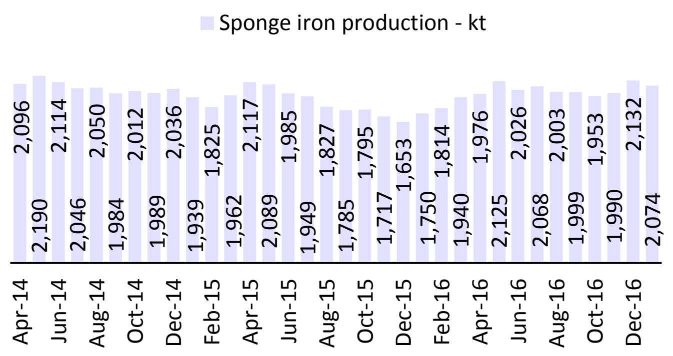
Source: CEA,ICMW

Exhibit 15: Power generation (5.9% YoY) in Mar – B kwh



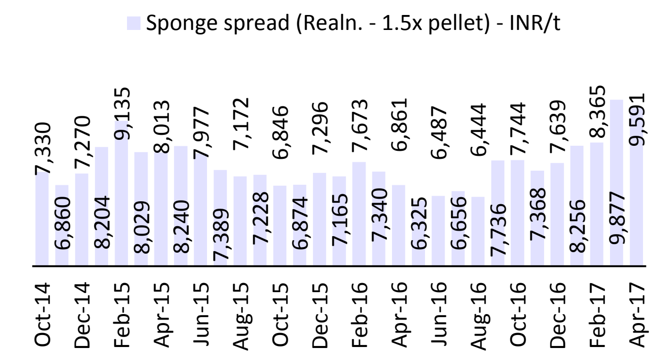
Source: CEA

Exhibit 16: Sponge iron production up 18% YoY in Jan



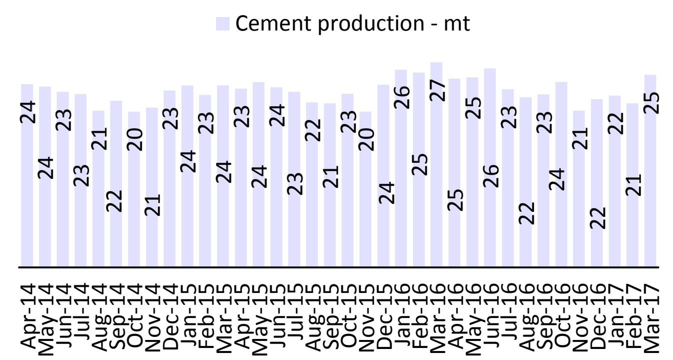
Source: JPC

Exhibit 17: Sponge iron spreads – INR/t



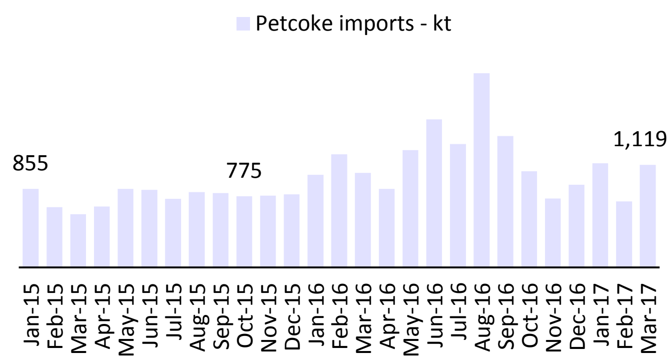
Source: SteelMint

Exhibit 18: Cement production was down 6% YoY in Mar



Source: Industry

Exhibit 19: Coal substitute – Pet coke imports



Source: ICMW

Financials and valuations

Income Statement						(INR Million)
Y/E March	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Net Sales	**688,100**	**720,146**	**756,443**	**760,863**	**835,413**	**888,815**
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
EBITDA	**159,632**	**152,300**	**159,404**	**111,634**	**151,494**	**170,294**
% 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
PBT	**228,795**	**215,839**	**215,891**	**154,414**	**183,152**	**198,342**
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
PAT before Min. Int.	**151,116**	**137,266**	**142,743**	**103,473**	**124,562**	**136,876**
Minority Interest						
Reported PAT	**151,116**	**137,266**	**142,743**	**103,473**	**124,562**	**136,876**
Change (%)	-13.4	-9.2	4.0	-27.5	20.4	9.9
Adjusted PAT	**159,881**	**137,316**	**142,743**	**103,473**	**124,562**	**136,876**
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
Net Worth	**424,045**	**403,531**	**338,592**	**254,730**	**255,228**	**255,775**
Minority Interest	636	658	658	658	658	658
Loans	1,715	4,019	4,019	4,019	4,019	4,019
Defferd tax Liabiity	-19,717	-19,591	-19,591	-19,591	-19,591	-19,591
Capital Employed	**406,678**	**388,617**	**323,678**	**239,816**	**240,314**	**240,862**
Gross Fixed Assets	**414,795**	**448,080**	**508,080**	**568,080**	**628,080**	**688,080**
Less: Depreciation	266,951	286,929	311,594	339,174	368,555	399,735
Net Fixed Assets	**147,844**	**161,150**	**196,486**	**228,906**	**259,525**	**288,345**
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
Current Assets	**793,955**	**844,940**	**771,875**	**665,346**	**655,720**	**649,981**
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
Current Liabilities	**616,028**	**697,201**	**725,641**	**753,044**	**793,539**	**836,072**
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
Net Curr. Assets	**177,927**	**147,739**	**46,234**	**-87,698**	**-137,819**	**-186,091**
Misc. Expenses	0	0	0	0	0	0
Application of Funds	**406,678**	**388,617**	**323,678**	**239,816**	**240,314**	**240,862**

E: MOSL Estimates

Financials and valuations

Ratios						
Y/E March	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Basic						
Adjusted EPS	**25.3**	**21.7**	**22.6**	**16.7**	**20.1**	**22.1**
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
Valuation (x)						
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
Profitability Ratios (%)						
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
Profitability Ratios (%)						
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
Leverage Ratio						
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**
Adj EBITDA*	**209,473**	**210,836**	**209,433**	**161,241**	**214,830**	**237,493**
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
CF from Operations	**145,247**	**143,815**	**142,297**	**121,419**	**154,540**	**178,590**
Capex	-41,164	-49,014	-61,230	-77,650	-80,000	-80,000
Free Cash Flow	**104,083**	**94,801**	**81,067**	**43,769**	**74,540**	**98,590**
(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
CF from Investments	**9,791**	**13,472**	**-12,119**	**-37,957**	**-51,437**	**-55,070**
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			
CF from Fin. Activity	**-253,503**	**-150,257**	**-207,474**	**-190,875**	**-127,639**	**-139,940**
Inc/Dec of Cash	**-98,465**	**7,030**	**-77,296**	**-107,413**	**-24,536**	**-16,419**
Add: Beginning Balance	622,360	523,895	530,925	453,629	346,216	321,680
Closing Balance	**523,895**	**530,925**	**453,629**	**346,216**	**321,680**	**305,261**

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Varun Kumar
Varun.kumar@motilaloswal.com
Contact : (+65) 68189232
Office Address:21 (Suite 31),16 Collyer Quay,Singapore 04931

Motilal Oswal Securities Ltd
Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025
Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com