

Institutional Equity Research

Coal India

Mining | India

4QFY17 Result Update | June 06, 2017

CMP (Rs)	263
Upside/ (Downside) (%)	15
Bloomberg Ticker	COAL IN
Market Cap. (Rs bn)	1,633
Free Float (%)	21.1
Shares O/S (mn)	6,207

BUY 

Target Price: Rs301

Likely Demand Revival to Aid Off-take & Realisations

Coal India (CIL) has reported a subdued performance in the quarter ended March 31, 2017. In line with our estimate, its consolidated net sales rose by 8.3% YoY to Rs247bn in 4QFY17 driven by 5% YoY and 3% YoY increase in coal off-take and average realisation, respectively. Its net profit fell by 38% YoY to Rs27.1bn in 4QFY17. Its operating profit de-grew by 39.2% YoY to Rs33.8bn primarily due to higher provisioning towards pending wage revision and a one-time provisioning of Rs8bn towards grade slippage claims in FY17. Looking ahead, we expect CIL's RoE & RoCE to improve on the back of higher realization, expected improvement in margins and optimum utilization of assets. **Expecting a meaningful revival in demand, we reiterate our BUY recommendation on the stock with a revised Target Price of Rs301 (from Rs319 earlier).**

Key Highlights

- ▶ **Higher Off-take & Realization Boost Revenue:** Revenue grew by 8.6% YoY and 13% QoQ to Rs247bn primarily due to higher e-auction volume (+45% YoY and +17% QoQ). Blended realisation also increased by 4.1% YoY to Rs1,635/tonne due to higher proportion of e-auction volume in the overall sales mix. Further, Fuel Supply Agreement (FSA) sales rose by 2% YoY to 116MT. E-auction sales volume rose by 45% YoY to 29.5MT with realisation declining by 2% YoY to Rs1,610/tonne. Overall, off-take increased by 5% YoY & 3.7% YoY to 151.5MT.
- ▶ **Higher Employee Cost Drags Operating Margins:** CIL's EBITDA declined by 39.2% YoY to Rs33.8bn primarily due to 17.7% YoY rise in employee cost and a one-time provisioning of Rs8bn towards grade slippage claims in FY17. Thus, EBITDA margins declined 1,070bps YoY to 13.6% on the back of 34.7% rise in other expenses. Notably, higher e-auction volume was offset by lower-than-expected e-auction realisation. However, cost per tonne increased by 18.9% YoY, which led to a sharp 34% YoY decline in EBITDA/tonne.

Outlook & Valuation

We believe that CIL's current stock price has discounted decline in e-auction coal prices. We believe that likely improvement in off-take from FY18E onwards and improving e-auction realisations augur well for CIL. Further, as full impact of grade slippage seems to be over in FY17, we believe that the FSA realisations will recover, going forward. We expect volume and realisations to recover in FY18E. Moreover, valuations of 12.3x FY19E EPS seem to be inexpensive. In our view, CIL is a good defensive play with estimated dividend of Rs16/share in FY18, which translates into dividend yield of ~6% at CMP. **We reiterate our BUY recommendation on the stock with a revised Target Price of Rs301.**

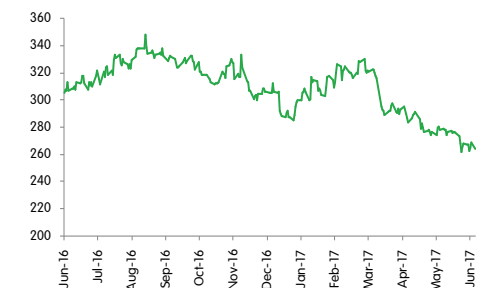
Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Revenue	780,076	782,206	843,944	928,098
EBITDA	187,113	122,399	144,320	172,792
PAT	142,679	92,678	111,889	134,662
EPS (Rs)	22.6	14.7	17.7	21.3
DPS (Rs)	25.1	19.9	15.7	14.2
EBITDA margin (%)	24.0	15.6	17.1	18.6
RoE (%)	38.0	31.2	47.8	58.6
RoCE (%)	34.3	27.2	39.8	48.5
P/E (x)	11.6	17.9	14.8	12.3
P/BV (x)	2.6	2.9	2.9	2.7
Dividend yield (%)	9.5	7.6	6.0	5.4

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(5.7)	(18.5)	(14.0)
Relative to Nifty	(9.3)	(26.4)	(30.8)

Shareholding Pattern (%)	Dec'16	Mar'17
Promoter	79.8	78.9
Public	20.2	21.1

1 Year Stock Price Performance



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Risks to the View

- ▶ Lower realization from e-auction and lower off-take could drag margins, and
- ▶ Depreciation in INR is positive for CIL but lower global prices would keep e-auction realization under check.

Exhibit 1: Quarterly Performance

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net operating revenue	247,802	228,130	8.6	219,467	12.9
(Accretion)/Decretion in Stocks	(17,177)	(21,864)	(21.4)	(2,413)	611.8
Consumption of stores and spares	22,210	20,283	9.5	17,663	25.7
Employees' Remuneration & Benefits	92,291	78,430	17.7	82,318	12.1
Power & Fuel	6,343	6,303	0.6	6,495	(2.3)
Welfare expenses	2,272	3,899	(41.7)	956	137.7
Repairs	4,742	4,695	1.0	3,027	56.7
Contractual Expenses	37,688	34,502	9.2	33,681	11.9
Other Expenses	38,059	28,250	34.7	26,908	41.4
Overburden Removal Adjustment	14,843	13,195	12.5	8,124	82.7
Provision and write off	12,657	4,755	166.2	4,161	204.2
Total Cost of Sales	213,926	172,447	24.1	180,918	18.2
EBITDA	33,876	55,684	(39.2)	38,549	(12.1)
as a % of Sales	13.7	24.4		17.6	
Depreciation	8,498	8,100	4.9	7,011	21.2
EBIT	25,378	47,584	(46.7)	31,538	(19.5)
Interest	1,151	1,192	(3.5)	1,107	4.0
PBT (before other income)	24,227	46,391	(47.8)	30,432	(20.4)
Other Income	18,558	17,708	4.8	11,167	66.2
PBT before extraordinaries	42,784	64,099	(33.3)	41,598	2.9
as a % of Sales	17.3	28.1		19.0	
Provision for Taxation	15,606	20,104	(22.4)	12,754	22.4
as a % of PBT	36.5	31.4		30.7	
Reported PAT	27,179	43,995	(38.2)	28,845	(5.8)

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net operating revenue	780,076	782,206	843,944	928,098
% Change	8.3	0.3	7.9	10.0
Consumption of stores and spares	55,955	57,253	63,605	68,020
Employees' Remuneration & Benefits	301,268	335,143	369,339	399,034
Power & Fuel	24,905	25,581	28,911	31,537
Social overhead	10,822	4,897	5,272	5,729
Repairs	12,417	12,877	13,925	15,389
Contractual Expenses	111,284	123,041	130,101	139,132
Miscellaneous Expenses	39,352	53,589	41,632	45,759
Overburden Removal Adjustment	28,114	26,722	27,755	29,682
Provision and write off	8,846	20,706	19,082	21,024
Total Cost of Sales	592,963	659,807	699,624	755,306
EBITDA	187,113	122,399	144,320	172,792
as a % of Sales	24.0	15.6	17.1	18.6
Depreciation	28,259	29,101	31,335	33,816
EBIT	158,854	93,298	112,985	138,975
Interest	3,862	4,117	4,255	4,277
PBT (before other income)	154,992	89,181	108,730	134,698
Other Income	59,406	55,156	59,524	67,801
PBT before extraordinaries	214,398	144,337	168,255	202,499
Provision for Taxation	71,719	51,660	56,365	67,837
Reported PAT	142,679	92,678	111,889	134,662
% Change	3.9	(35.0)	20.7	20.4
Reported EPS	22.6	14.7	17.7	21.3

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Balance Sheet

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
Sources of funds				
Share Capital	63,164	62,074	62,074	62,074
Reserves & Surplus	285,168	183,194	160,816	174,282
Net Worth	348,332	245,268	222,890	236,356
Debt	49,934	51,570	50,470	50,320
Minority Interest	1,048	3,459	3,459	3,459
TOTAL	399,313	300,297	276,819	290,135
Net Block	206,626	220,322	226,987	268,170
CWIP	59,732	103,656	110,000	62,000
Total Fixed assets	266,357	323,978	336,987	330,170
Investments	29,061	14,829	16,034	16,034
Inventories	75,692	89,453	81,949	88,315
Debtors	114,476	107,359	111,870	126,328
Cash & Bank balances	380,149	312,298	272,479	290,473
Loans and Advances & Others	242,102	285,545	292,045	334,050
Total Current assets	812,419	794,655	758,343	839,167
Current liabilities	233,063	328,459	336,671	345,088
Provisions	495,905	532,033	525,201	577,476
Total current liabilities & provisions	728,969	860,492	861,872	922,563
Net Current Assets	83,450	(65,837)	(103,529)	(83,396)
Deferred Tax Assets	20,445	27,328	27,328	27,328
TOTAL	399,313	300,297	276,819	290,135

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Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
Cash flow from operating activities				
Net profit before tax	214,398	144,337	168,255	202,499
Depreciation	28,259	29,101	31,335	33,816
Other Adjustments	49,286	98,912	-	-
Operating profit before wc changes	291,943	272,350	199,590	236,316
Change in working capital	(22,313)	(60,322)	923	2,138
Cash generated from operations	269,630	212,028	200,512	238,454
Direct taxes paid	(71,719)	(51,660)	(56,365)	(67,837)
Net cash inflow from operation	197,911	160,368	144,147	170,617
Investment in fixed assets	(78,491)	(86,721)	(44,344)	(27,000)
Net cash used in Investing activities	(78,491)	(86,721)	(44,344)	(27,000)
Increase/(Decrease) of Loan	5,920	1,636	(1,100)	(150)
Interest Paid	(3,862)	(4,117)	(4,255)	(4,277)
Dividend paid	(214,019)	(139,016)	(134,267)	(121,196)
Net cash used in Financing activities	(211,960)	(141,498)	(139,622)	(125,623)
change in cash and cash equivalents	(92,540)	(67,851)	(39,819)	17,994
Opening cash and cash equivalents	472,689	380,149	312,298	272,479
Closing cash and cash equivalents	380,149	312,298	272,479	290,473

Key Ratios

Y/E March	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	24.0	15.6	17.1	18.6
RoE (%)	38.0	31.2	47.8	58.6
RoCE (%)	34.3	27.2	39.8	48.5
EV/Sales (x)	1.7	1.8	1.7	1.5
EV/EBITDA (x)	7.1	11.5	10.0	8.2
P/E (x)	11.6	17.9	14.8	12.3
P/BV (x)	2.6	2.9	2.9	2.7
Net Dividend yield (%)	9.5	7.6	6.0	5.4

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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