2 November 2017

Update | Sector: Utilities

Coal India

BSE SENSEX	S&P CNX
33,573	10,424

CMP: INR292 TP: INR335(+15%) Buy

October 2017: Dispatch growth remains strong

Domestic shortage driving e-auction prices

Dispatches grew ~12% YoY in October, likely to exceed full-year estimate

- Coal India's (COAL) dispatch growth remains strong, as it grew 12.2% YoY to 48.3mt in October 2017. YTD 7MFY18 dispatches are up 8.7% YoY (to 317mt), and are set to exceed our estimate of +6.8% growth for FY18. Coal inventories at power plants remain at critical levels (just ~6 days of consumption), which provides visibility of strong growth ahead.
- Production grew 6% YoY to 46.1mt. YTD 7MFY18 production increased 1.7% YoY to ~278mt.
- CCL, NCL and WCL delivered strong double-digit growth in dispatches. BCCL and ECL saw a decline, while MCL continues to struggle.

E-auction at INR2,397/t in September

- E-auction realization was healthy at INR2,397/t (-6% MoM) in September, but with some loss of volumes. Allocated quantity of ~5.7mt (+37% YoY/54% QoQ) was below the required annual run-rate (of ~110mt). Net benefit, however, should still be positive for COAL.
- Premium over notified prices at INR774/t was the highest since January 2015 due to domestic shortage.

Coal-based electricity generation moderates to ~3% YoY in October

- Domestic coal production rose 10.6% YoY to 47.5mt, while dispatches are estimated to have increased 14.9% YoY to 52.3mt in September 2017. Imports were down 7.7% YoY to 10.3mt in September, but the rate of decline against the last few months is moderating.
- We estimate coal demand growth of ~3% YoY to ~66mt in September. Demand by the power sector was strong at ~6% YoY (as per CEA), but was partly offset by weakness in non-power.
- Based on electricity generation data for the 28 days of October 2017, coal-based generation growth has moderated to ~3% YoY (6MFY18: +5.8% YoY).

Volume growth accelerating, concerns are behind; Buy

Concerns around grade slippage, e-auction price decline, deceleration in volume growth, and wage hike are now behind. Volume growth is accelerating, which will also drive operating leverage gains. Various cost initiatives like closing of underground mines, VRS, overtime compensation and others can drive upside to our estimates. The stock trades attractive at 7.3x FY19E EV/EBITDA and 5.4% dividend yield. The TP is INR335/sh. based on 8x FY19E EV/EBITDA. **Buy**.

Stock Info

Bloomberg	COAL IN
Equity Shares (m)	6,207
52-Week Range (INR)	337 / 234
1, 6, 12 Rel. Per (%)	0/-8/-33
M.Cap. (INR b)	1,773.5
M.Cap. (USD b)	27.5
Avg Val (INRm)/Vol m	1256
Free float (%)	21.1

Financials Snapshot (INR b)

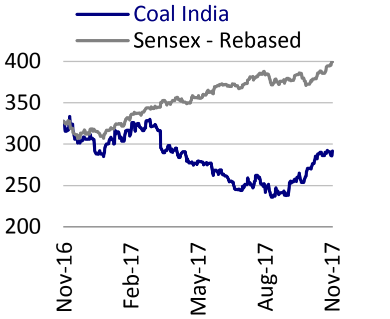
Y/E Mar	2017	2018E	2019E
Net Sales	782.2	828.9	886.7
EBITDA	149.1	165.3	197.0
PAT	92.7	108.7	128.3
EPS (INR)	14.9	17.5	20.7
Gr. (%)	-34.0	17.3	18.1
BV/Sh (INR)	39.5	41.3	43.3
RoE (%)	37.8	42.4	47.7
RoCE (%)	32.2	43.3	48.7
P/E (x)	19.1	16.3	13.8
P/BV (x)	7.2	6.9	6.6

Shareholding pattern (%)

As On	Sep-17	Jun-17	Sep-16
Promoter	78.9	78.9	79.7
DII	11.9	11.5	10.3
FII	5.6	6.4	7.8
Others	3.7	3.3	2.3

FII Includes depository receipts

Stock Performance (1-year)



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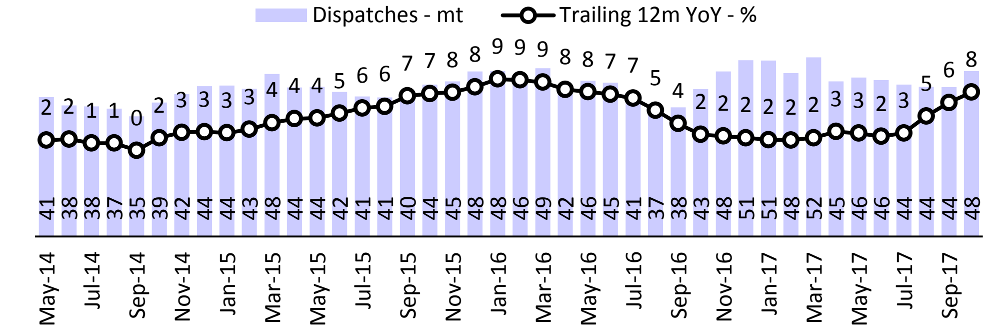
YTD 7mFY18 dispatches are up 8.7% YoY (to 317mt)

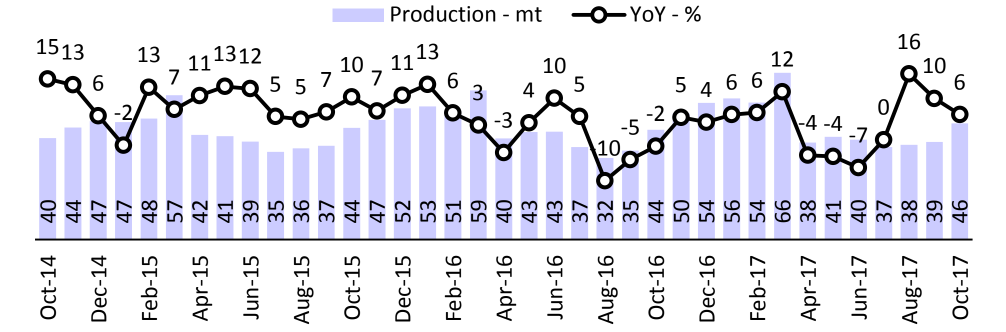
Exhibit 1: COAL's dispatches grew ~12% YoY in October



Source: MOSL, Company

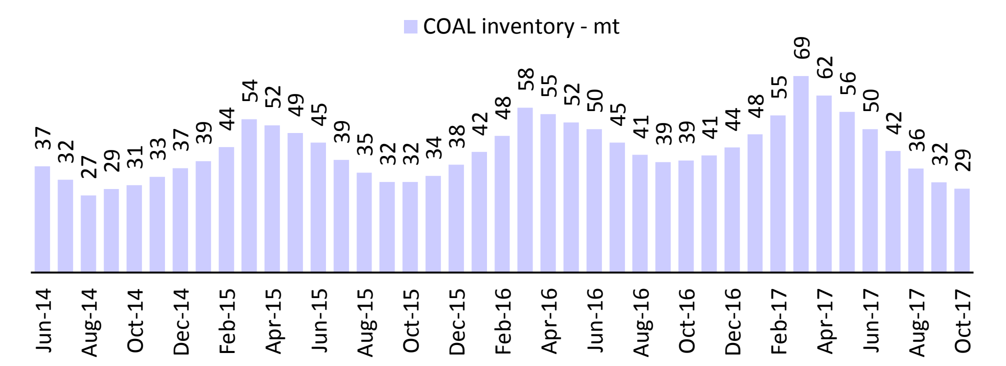
YTD 7mFY18 production is up 1.7% YoY (to 278mt)

Exhibit 2: COAL's production grew ~6% YoY in October



Source: MOSL, Company

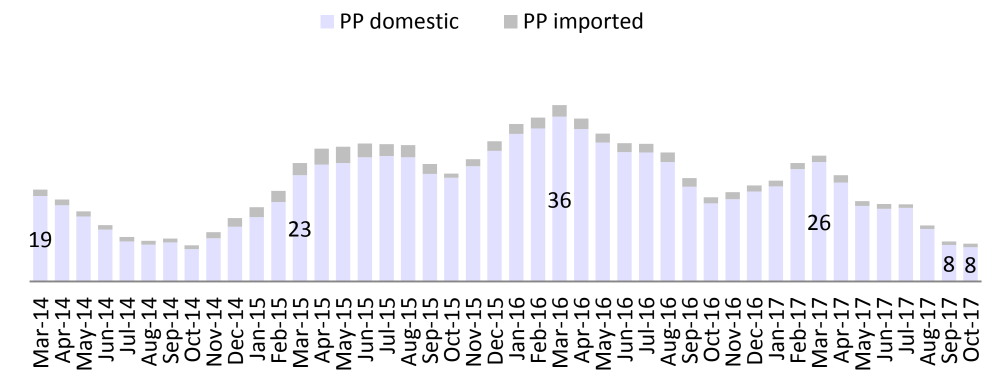
Exhibit 3: COAL's inventories at mines are declining



Source: MOSL, Company

Coal inventories at power plants are at critical levels

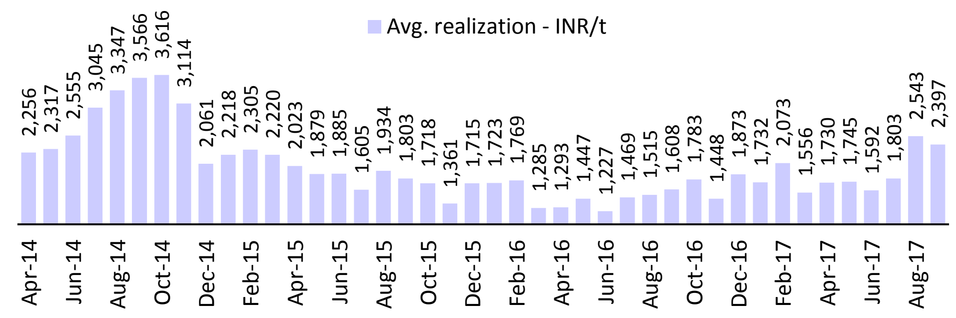
Exhibit 4: COAL's inventories at power plants - mt



Source: MOSL, CEA

Realization remains healthy due to domestic coal shortage

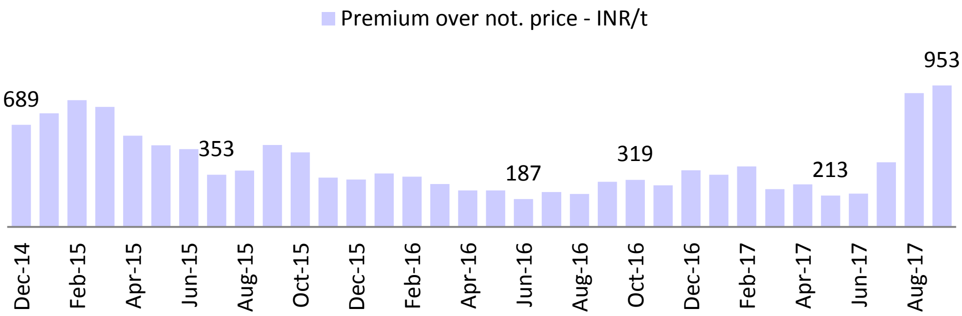
Exhibit 5: COAL's e-auction realization



Source: MOSL, ICMW

E-auction premium over notified price is at multi-year highs...

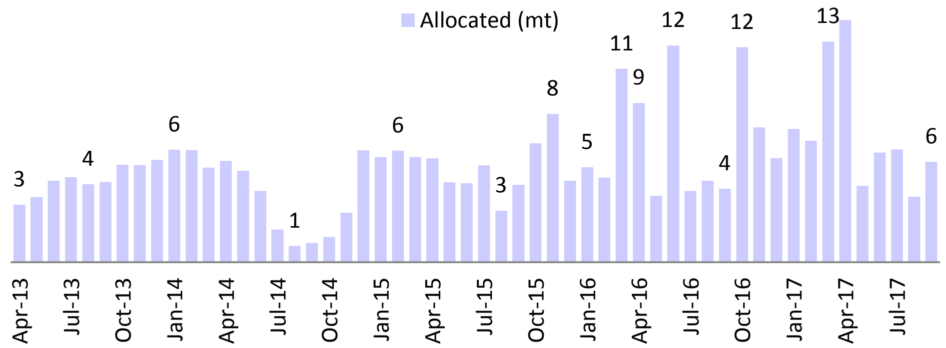
Exhibit 6: COAL's e-auction premium over notified price



Source: MOSL, ICWM

...But at some cost to volumes

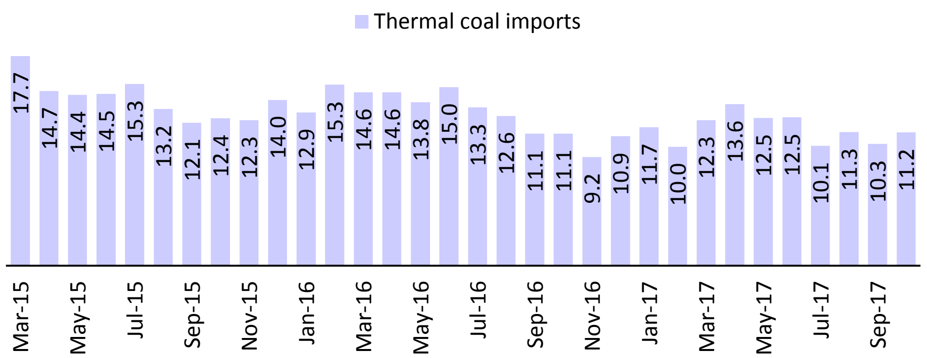
Exhibit 7: COAL's e-auction allocated volumes - mt



Source: MOSL, ICWM

Thermal coal imports continue to decline, but the run-rate of decline is moderating

Exhibit 8: Thermal coal imports - mt



Source: MOSL, ICWM

Coal-based generation growth moderates to just ~3% YoY in October

Exhibit 9: Electricity generation

	MTD Oct 28th		
MU	**2016**	**2017**	**YoY %**
Coal	70,517	71,997	2.1
Hydro	9,936	10,258	3.2
Nuclear	2,804	2,798	-0.2
Others	6,406	7,298	13.9
Generation	**89,663**	**92,351**	**3**

Source: MOSL, CEA

Financials and Valuations

Income Statement								(INR Million)
Y/E Mar	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Net Sales	**697,718**	**706,075**	**741,201**	**780,073**	**782,206**	**828,919**	**886,668**	**945,097**
Change (%)	9.3	1.2	5.0	5.2	0.3	6.0	7.0	6.6
EBITDA	**227,544**	**210,472**	**211,621**	**211,148**	**149,121**	**165,349**	**196,958**	**234,869**
EBITDA Margin (%)	32.6	29.8	28.6	27.1	19.1	19.9	22.2	24.9
Depreciation	50,147	52,830	61,465	56,373	55,823	41,560	43,803	46,025
EBIT	**177,397**	**157,643**	**150,156**	**154,775**	**93,298**	**123,788**	**153,155**	**188,844**
Interest	452	580	73	3,862	4,117	3,575	3,611	3,647
Other Income	72,777	71,719	65,706	59,406	55,156	39,596	36,411	32,925
Extraordinary items	69	14	50	0	0	0	0	0
PBT	**249,790**	**228,795**	**215,839**	**210,319**	**144,337**	**159,809**	**185,954**	**218,122**
Tax	76,227	77,679	78,573	71,719	51,660	51,123	57,627	65,415
Tax Rate (%)	30.5	34.0	36.4	34.1	35.8	32.0	31.0	30.0
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	**173,564**	**151,116**	**137,266**	**138,601**	**92,678**	**108,686**	**128,327**	**152,707**
Adjusted PAT	**176,624**	**159,881**	**137,266**	**138,601**	**92,678**	**108,686**	**128,327**	**152,707**
Change (%)	9.3	-9.5	-14.1	1.0	-33.1	17.3	18.1	19.0

Balance Sheet								(INR Million)
Y/E Mar	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Share Capital	63,164	63,164	63,164	63,164	62,074	62,074	62,074	62,074
Reserves	421,556	360,881	340,367	285,168	183,194	194,062	206,895	222,166
Net Worth	**484,720**	**424,045**	**403,531**	**348,332**	**245,268**	**256,136**	**268,969**	**284,240**
Debt	10,778	1,715	4,019	11,921	30,078	30,078	30,078	30,078
Deferred Tax	-22,550	-19,717	-19,591	-20,445	-27,328	-27,328	-27,328	-27,328
Total Capital Employed	**473,584**	**406,678**	**388,617**	**340,855**	**251,477**	**262,346**	**275,179**	**290,449**
Gross Fixed Assets	390,107	414,795	448,080	234,137	276,883	336,883	396,883	456,883
Less: Acc Depreciation	255,449	266,951	286,929	26,824	55,984	85,364	116,545	149,525
Net Fixed Assets	**134,658**	**147,844**	**161,150**	**207,314**	**220,900**	**251,519**	**280,339**	**307,358**
Capital WIP	34,960	43,158	51,594	59,044	103,078	123,078	143,078	163,078
Investments	0	0	0	73	106	106	106	106
Current Assets	**1,023,540**	**831,704**	**873,074**	**841,406**	**809,377**	**753,250**	**730,614**	**712,646**
Inventory	56,178	55,681	61,838	75,692	89,453	68,130	72,877	77,679
Debtors	104,802	82,410	85,219	114,476	107,359	97,653	104,457	111,340
Cash & Bank	646,310	561,644	559,060	483,872	413,982	388,882	354,696	325,042
Loans & Adv, Others	216,250	131,969	166,958	167,367	198,584	198,584	198,584	198,584
Curr Liabs & Provns	**719,573**	**616,028**	**697,201**	**766,982**	**881,984**	**865,608**	**878,958**	**892,739**
Curr. Liabilities	719,573	616,028	697,201	766,982	881,984	865,608	878,958	892,739
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	**303,967**	**215,676**	**175,873**	**74,425**	**-72,607**	**-112,358**	**-148,344**	**-180,093**
Total Assets	**473,584**	**406,678**	**388,617**	**340,855**	**251,477**	**262,346**	**275,179**	**290,449**

Financials and Valuations

Ratios

Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR)								
EPS	**28.0**	**25.3**	**21.7**	**22.6**	**14.9**	**17.5**	**20.7**	**24.6**
Cash EPS	35.9	33.7	31.5	31.5	23.9	24.2	27.7	32.0
Book Value	76.7	67.1	63.9	55.1	39.5	41.3	43.3	45.8
DPS	14.0	29.0	20.7	27.4	19.9	13.1	15.5	18.5
Payout (incl. Div. Tax.)	56.7	130.3	112.9	145.5	163.0	90.0	90.0	90.0
Valuation(x)								
P/E				12.6	19.1	16.3	13.8	11.6
Price / Book Value				5.2	7.2	6.9	6.6	6.2
EV/EBITDA				6.0	9.3	8.5	7.3	6.3
Dividend Yield (%)				9.6	7.0	4.6	5.4	6.5
EV /ton of Reserves				59.7	63.7	64.9	66.4	67.8
Profitability Ratios (%)								
RoE	35.8	35.6	34.0	41.0	37.8	42.4	47.7	53.7
RoCE	39.5	34.4	34.5	39.9	32.2	43.3	48.7	54.9
RoIC	-57.0	-51.3	-45.5	-49.9	-25.6	-32.7	-44.7	-62.9
Turnover Ratios (%)								
Asset Turnover (x)	1.5	1.7	1.9	2.3	3.1	3.2	3.2	3.3
Debtors (No. of Days)	55	43	42	54	50	43	43	43
Inventory (No. of Days)	29	29	30	35	42	30	30	30
Creditors (No. of Days)	4	4	5	15	18	5	5	5
Leverage Ratios (%)								
Net Debt/Equity (x)	-1.3	-1.3	-1.4	-1.4	-1.6	-1.4	-1.2	-1.0

Cash Flow Statement (INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Adjusted EBITDA	227,544	210,472	211,621	211,148	149,121	165,349	196,958	234,869
Non cash opr. exp (inc)	18,457	20,597	21,428	25,840	38,558	39,596	36,411	32,925
(Inc)/Dec in Wkg. Cap.	-68,387	2,442	6,487	-26,697	60,216	2,472	-10,822	-10,949
Tax Paid	-86,520	-88,264	-95,721	-78,754	-89,427	-51,123	-57,627	-65,415
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	**91,094**	**145,247**	**143,815**	**131,538**	**158,469**	**156,294**	**164,919**	**191,430**
(Inc)/Dec in FA & CWIP	-24,540	-41,164	-49,014	-57,857	-86,761	-80,000	-80,000	-80,000
Free cash flows	**66,554**	**104,083**	**94,801**	**73,681**	**71,707**	**76,294**	**84,919**	**111,430**
(Pur)/Sale of Invt	-4,136	-13,799	9,615	-1	-50	0	0	0
Others	56,433	64,754	52,871	50,349	34,642	0	0	0
CF from Inv. Activity	**27,758**	**9,791**	**13,472**	**-7,508**	**-52,170**	**-80,000**	**-80,000**	**-80,000**
Inc/(Dec) in Net Worth	0	0	0	0	-45,531	0	0	0
Inc / (Dec) in Debt	-2,287	-12,634	1,935	9,902	18,169	0	0	0
Interest Paid	-452	-580	-73	-207	-306	-3,575	-3,611	-3,647
Divd Paid (incl Tax) & Others	-75,781	-240,289	-152,119	-205,569	-148,311	-97,818	-115,494	-137,436
CF from Fin. Activity	**-78,520**	**-253,503**	**-150,257**	**-195,874**	**-175,980**	**-101,393**	**-119,105**	**-141,083**
Inc/(Dec) in Cash	**40,332**	**-98,465**	**7,030**	**-71,844**	**-69,681**	**-25,099**	**-34,186**	**-29,654**
Add: Opening Balance	601,842	646,310	561,644	559,060	483,872	413,982	388,882	354,696
Closing Balance	**642,174**	**547,845**	**568,674**	**487,216**	**414,190**	**388,882**	**354,696**	**325,042**

NOTES

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