

# COAL INDIA

## Price hike - The last hurrah?

India Equity Research | Metals and Mining

We revise upwards our target price for Coal India (CIL) to INR303 (earlier INR275) following the significant price hike announced by the company ahead of consensus. However, we maintain 'HOLD' on the stock as: 1) risk-reward looks evenly matched with the recent price hike likely to offset the adverse impact of increased wages; 2) absence of additional growth triggers; and 3) E-auction premium expected to progressively decline from current levels of 30% to maintain international price parity. Thus, we raise our FY18/19E EPS by 26%/28% to reflect the price hike, but trim our target P/E multiple to 12.5x (earlier 14.5x).

### Price hike offsets the adverse impact of wage increase

CIL has rationalised prices across grades resulting in an average price hike of ~9%. Management estimates annual incremental impact of INR64bn (INR19.5bn in remaining part of FY18), fully offsetting the adverse impact of increased wages. However, this is expected to merely restore EBITDA/t to FY15 levels of INR377, despite operating leverage benefits. Further, in our view, prevailing e-auction premium of 30% is at risk post the increase in notified prices as the international price parity is adversely impacted.

### See dividend yield as the only trigger

We see limited additional triggers with volume expected to grow ~5-6% YoY and FSA prices likely to remain stable at current levels. Additionally, bulk of EBITDA generated over next two years is likely to be utilised for capital expenditure of INR100-150bn through to FY20E. Hence, we see dividend yield at 4-6% to be the sole trigger over the next two years.

### Outlook and valuations: Fairly valued; maintain 'HOLD'

While we are upbeat on the current price hike taken by CIL as it is expected to restore profitability to pre-wage hike levels, we do not see any additional near term triggers in the stock. Taking cognizance of price hike, we have increased our FY18/19E EPS by 26%/28% but, lowered the ascribable multiple to 12.5x (earlier 14.5x). Maintain 'HOLD/SP' with a revised TP of INR303 (earlier INR 275). At CMP, the stock trades at 12.1x FY20E EPS.

#### Financials

(INR mn)

Year to March	FY17	FY18E	FY19E	FY20E
Net revenue	838,081	861,652	959,042	1,012,803
EBITDA	122,400	158,860	236,903	262,947
Adjusted Profit	92,364	102,310	142,962	147,632
Diluted equity shares (mn)	6,207	6,207	6,207	6,207
Adjusted diluted EPS (INR)	14.9	16.5	23.0	23.8
EPS Growth (%)	7.5	10.8	39.7	3.3
Diluted P/E (x)	19.3	17.4	12.5	12.1
EV/EBITDA (x)	12.3	9.8	7.2	6.7
ROAE (%)	30.9	43.6	68.2	60.2

#### EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

#### MARKET DATA (R: COAL.BO, B: COAL IN)

CMP	: INR 287
Target Price	: INR 303
52-week range (INR)	: 332 / 234
Share in issue (mn)	: 6,207.4
M cap (INR bn/USD mn)	: 1,784 / 28,145
Avg. Daily Vol.BSE/NSE('000)	: 4,616.5

#### SHARE HOLDING PATTERN (%)

	Current	Q2FY18	Q1FY18
Promoters *	78.9	78.9	78.9
MF's, FI's & BK's	11.9	11.5	11.7
FII's	5.6	6.4	6.5
Others	3.7	3.3	3.0
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	8.5	3.5	14.6
3 months	3.9	6.5	11.4
12 months	(6.1)	28.9	48.3

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## Price hike a welcome relief...

We see the price hike taken by CIL as a welcome relief as it fully offsets the adverse impact of wage negotiations finalised in October'17. CIL has increased the notified price for:

1. G6-G7: 20-22% for power sector and 10-21% for non-power sector
2. G8-G9: Comparatively lower at 3-5% for both power and non-power sectors
3. G11-G14: 13-18% for both power and non power sectors

For the other grades, price has declined 3-5 (refer Annexure-1).

Consequent to this price hike, management expects incremental annual revenue of INR64bn, translating into ~INR107/t over 600mt production, implying blended hike of ~9.2% as compared to 6.2% taken in May'16.

Notwithstanding the above, we believe that further upside on the stock looked capped from here as bulk of the EBITDA generated is likely to be utilised in capital expenditure required for enhancing production from current levels.

## Outlook & valuations: Target price raised to INR303 (earlier INR275)

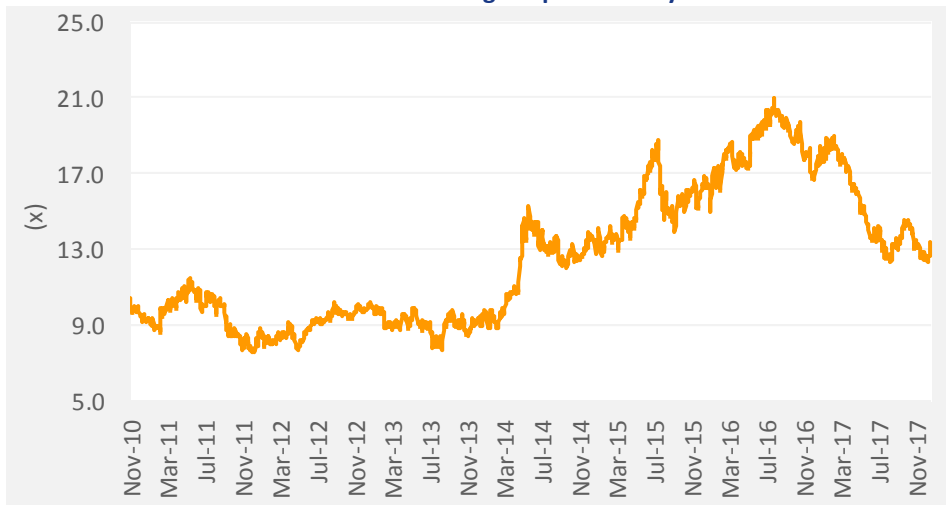
Taking cognizance of revised prices, we have increased our FY18/19E EPS by 26%/28%. We introduce FY20 estimates and build in volume growth of 6% at above-mentioned revised prices. Factoring in higher earnings but limited growth triggers in forecast period, we trim our target multiple to 12.5x from earlier 14.5x (refer Chart 1 and 2 for valuation bands). Our revised TP is pegged at INR303, based on 12.5x FY20E EPS. We maintain 'HOLD/SP' primarily drawing on the dividend yield of 4-6% over the forecast period.

**Table1: We value CIL at INR303**

	<b>FY20E</b>
EPS (Ex-Cash)	23.0
Applicable P/E multiple (x)	12.5
Valuation (Ex cash)	1,788,349
Add: Cash and equivalents	94,354
Equity valuation (INR mn)	<b>1,882,702</b>
Shares (mn)	6,207
Value per share (INR)	<b>303</b>

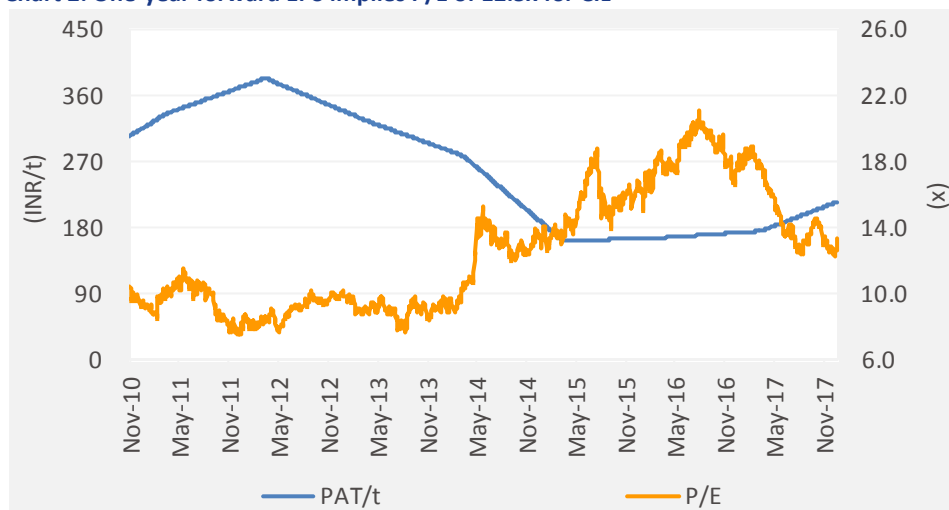
Source: Edelweiss research

Chart 1: CIL traded at 12.6x EPS on an average in past seven years



Source: Bloomberg, Edelweiss research

Chart 2: One-year forward EPS implies P/E of 12.5x for CIL



Source: Bloomberg, Edelweiss research

## Change in Estimates

	FY18E			FY19E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	861,652	837,742	2.9	959,042	899,291	6.6	Estimates revised post
EBITDA	158,860	134,929	17.7	236,903	180,012	31.6	Price hike taken by CIL
EBITDA Margin	18.4	16.1		24.7	20.0		
Adjusted PAT	102,310	81,056	26.2	142,962	111,560	28.1	
Net Profit margin	11.9	9.7		14.9	12.4		
Capex	85,000	80,136	6.1	150,000	99,168	51.3	

## Annexure

Table 1: Pithead ROM prices for all subsidiaries except WCL

Grade	Revised prices		Earlier prices		% change	
	Power	Non Power	Power	Non Power	Power	Non Power
G2	3,288	3,288	3,450	3,450	(4.7)	(4.7)
G3	3,144	3,144	3,210	3,210	(2.1)	(2.1)
G4	3,000	3,000	3,000	3,000	-	-
G5	2,737	2,737	2,750	2,750	(0.5)	(0.5)
G6	2,317	2,524	1,900	2,280	21.9	10.7
G7	1,926	2,311	1,600	1,920	20.4	20.4
G8	1,465	1,757	1,420	1,700	3.2	3.4
G9	1,140	1,368	1,100	1,320	3.6	3.6
G10	1,024	1,228	980	1,180	4.5	4.1
G11	955	1,145	810	970	17.9	18.0
G12	886	1,063	760	910	16.6	16.8
G13	817	980	720	860	13.5	14.0
G14	748	897	650	780	15.1	15.0
G15	590	708	600	720	(1.7)	(1.7)
G16	504	604	530	640	(4.9)	(5.6)
G17	447	536	470	570	(4.9)	(6.0)

Source: Company data, Edelweiss research

Table 2: Pithead ROM prices for WCL

Grade	Revised prices		Earlier prices		% change	
	Power	Non Power	Power	Non Power	Power	Non Power
G2	3,288	3,288	3,450	3,450	(4.7)	(4.7)
G3	3,144	3,144	3,219	3,210	(2.3)	(2.1)
G4	3,000	3,000	3,000	3,000	-	-
G5	2,737	2,737	2,750	2,750	(0.5)	(0.5)
G6	2,524	2,580	2,280	2,740	10.7	(5.8)
G7	2,311	2,423	1,920	2,300	20.4	5.3
G8	1,757	2,109	1,700	2,040	3.4	3.4
G9	1,368	1,642	1,320	1,580	3.6	3.9
G10	1,228	1,474	1,180	1,420	4.1	3.8
G11	1,145	1,374	970	1,160	18.0	18.4
G12	1,063	1,275	910	1,090	16.8	17.0
G13	980	1,176	860	1,030	14.0	14.2
G14	897	1,076	780	940	15.0	14.5
G15	708	850	720	870	(1.7)	(2.3)
G16	604	725	640	770	(5.6)	(5.8)
G17	536	643	560	680	(4.3)	(5.4)

Source: Company data, Edelweiss research

## Company Description

Coal India (CIL) is the world's largest coal reserve holder and producer and also controls ~80% of the Indian coal market. It is going to be the primary beneficiary of the structural deficit of coal in India. Moreover, it is one of the least cost producers of coal in the world.

CIL, a Maharatna company, is one of the largest public sector companies in India in terms of turnover. Its product portfolio consists largely of thermal coal with the balance being coking coal. The company enjoys a near-monopoly position in the lucrative coal market and is more of a utility player due to assured volume off-take, pseudo regulated pricing and minimal chance of a product price cut, as prices already remain at ~30-35% discount to current international benchmark prices.

It currently operates ~471 mines in India and is also scouting for international mines to increase global presence and assure its resources. It sells ~15% of its production based on the e-Auction route and ~3.5% beneficiated coal (2x realisations of raw coal).

## Investment Theme

The government focus on ramping up domestic production (to counter rising imports) will lead to sustainable volume growth for CIL. We believe that CIL will benefit from its prices being lower as compared to imported coal. However, we believe that profitability will be impacted if the company is unable to secure price hike in the near future. Depleting cash balance also poses risk to the sustainability of other income. Nonetheless, dividend yield of ~4-6% over next two years is a positive.

## Key Risks

- Lower than expected new FSA demand
- Loss of volume-linked incentive
- Lower than expected volume growth
- Sharp increase in costs without immediate increase in prices
- Higher than expected price hike

## Financial Statements

### Key Assumptions

Year to March	FY17	FY18E	FY19E	FY20E
<b>Macro</b>				
GDP(Y-o-Y %)	6.5	6.8	7.4	7.4
Inflation (Avg)	4.5	4.0	4.5	4.5
Repo rate (exit rate)	6.3	5.8	5.8	5.8
USD/INR (Avg)	67.1	65.0	66.0	67.0
<b>Sector</b>				
Indonesian coal (USD/t)	60.0	55.0	55.0	55.0
India coal demand (mt)	905.9	964.8	1,027.5	1,078.9
Coal imports (mn tonnes)	208.3	176.4	139.1	120.0
<b>Company</b>				
Production (mt)	554	582	628	666
Sales volumes (MT)	543	597	630	668
E-auction volume (mt)	94	105	111	117
Beneficiation volume(mt)	14	18	21	24
Raw Coal volume (mt)	430	471	495	523
E-auction (INR/t)	1,536	1,651	1,768	1,768
Beneficiation (INR/t)	3,753	3,091	3,091	3,091
Raw coal (INR/t)	1,284	1,245	1,342	1,342
Cost of materials(INR/t)	163	171	180	189
Power and fuel (INR)	44	48	52	55
Welfare expenses (INR/t)	9	10	10	11
Repairs per tonne (INR)	26	28	29	30
Contractual exp(INR/t)	202	228	248	270
Misc expenses (INR/t)	64	67	70	74
OBR (INR/t)	65	65	65	65
Provisions (INR/t)	20	20	20	20
Staff costs (INR mn)	335	363	361	359
Blended EBITDA/t (USD/t)	225	266	376	394
Depreciation rate (%)	5.8	5.2	5.2	5.2
Debtor days	48	45	43	44
Inventory days	181	292	228	233
Payable days	79	116	88	97

### Income statement

(INR mn)

Year to March	FY17	FY18E	FY19E	FY20E
Net revenue	838,081	861,652	959,042	1,012,803
Accretion to stock	(12,382)	-	-	-
Purchase of goods	179,098	107,620	139,970	148,402
Employee costs	335,143	362,874	360,724	358,921
Total SG&A expenses	188,242	205,354	193,024	212,399
Power and Freight	25,581	26,945	28,421	30,134
Total operating expenses	715,681	702,792	722,139	749,857
EBITDA	122,400	158,860	236,903	262,947
Depreciation	29,101	30,145	36,231	45,295
EBIT	93,299	128,715	200,672	217,651
Add: Other income	54,841.4	28,216.87	16,730.68	6,812.8
Less: Interest Expense	4,117	4,229	4,026	4,117
Profit Before Tax	144,023	152,702	213,376	220,347
Less: Provision for Tax	51,660	50,392	70,414	72,715
Reported Profit	92,364	102,310	142,962	147,632
Adjusted Profit	92,364	102,310	142,962	147,632
Shares o /s (mn)	6,207	6,207	6,207	6,207
Adjusted Basic EPS	14.9	16.5	23.0	23.8
Diluted shares o/s (mn)	6,207	6,207	6,207	6,207
Adjusted Diluted EPS	14.9	16.5	23.0	23.8
Adjusted Cash EPS	19.6	21.3	28.9	31.1
Dividend per share (DPS)	19.9	15.8	22.1	7.1
Dividend Payout Ratio(%)	161.6	116.0	116.0	36.2

### Common size metrics

Year to March	FY17	FY18E	FY19E	FY20E
Operating expenses	85.4	81.6	75.3	74.0
EBITDA margins	14.6	18.4	24.7	26.0
Net Profit margins	11.0	11.9	14.9	14.6

### Growth ratios (%)

Year to March	FY17	FY18E	FY19E	FY20E
Revenues	7.4	2.8	11.3	5.6
EBITDA	(7.2)	29.8	49.1	11.0
PBT	(9.5)	6.0	39.7	3.3
Adjusted Profit	5.6	10.8	39.7	3.3
EPS	7.5	10.8	39.7	3.3

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18E	FY19E	FY20E	
Share capital	62,074	62,074	62,074	62,074	
Reserves & Surplus	183,193	155,321	132,463	226,584	
Shareholders' funds	245,267	217,396	194,537	288,658	
Minority Interest	3,459	3,573	3,573	3,573	
Short term borrowings	27,130	1,140	1,140	1,140	
Long term borrowings	2,948	2,948	2,948	2,948	
Total Borrowings	30,078	4,088	4,088	4,088	
Long Term Liabilities	486,794	498,995	511,877	525,542	
Def. Tax Liability (net)	(101,957)	(101,957)	(101,957)	(101,957)	
<b>Sources of funds</b>	<b>663,641</b>	<b>622,095</b>	<b>612,118</b>	<b>719,904</b>	
Gross Block	539,520	624,520	774,520	974,520	
Net Block	237,499	280,954	394,723	549,428	
Capital work in progress	85,901	85,901	85,901	85,901	
Intangible Assets	578	578	578	578	
Total Fixed Assets	323,978	367,433	481,202	635,906	
Cash and Equivalents	317,433	230,582	94,354	37,961	
Inventories	89,452	82,624	91,963	97,118	
Sundry Debtors	107,359	106,231	118,238	124,866	
Loans & Advances	125	125	125	125	
Other Current Assets	93,632	93,632	93,632	93,632	
Current Assets (ex cash)	290,568	282,612	303,958	315,741	
Trade payable	39,002	29,485	38,348	40,658	
Other Current Liab	356,187	356,187	356,187	356,187	
Total Current Liab	395,190	385,672	394,535	396,846	
Net Curr Assets-ex cash	(104,622)	(103,060)	(90,578)	(81,105)	
<b>Uses of funds</b>	<b>663,641</b>	<b>622,095</b>	<b>612,118</b>	<b>719,904</b>	
BVPS (INR)	39.5	35.0	31.3	46.5	

Free cash flow		(INR mn)			
Year to March	FY17	FY18E	FY19E	FY20E	
Reported Profit	92,364	102,310	142,962	147,632	
Add: Depreciation	29,101	30,145	36,231	45,295	
Interest (Net of Tax)	2,640	2,834	2,697	2,759	
Others	(45,745)	9,368	10,185	10,906	
Less: Changes in WC	(80,108)	1,562	12,483	9,473	
Operating cash flow	158,469	143,096	179,593	197,120	
Less: Capex	76,000	85,000	150,000	200,000	
<b>Free Cash Flow</b>	<b>82,469</b>	<b>58,096</b>	<b>29,593</b>	<b>(2,880)</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Coal India	28,145	17.4	12.5	9.8	7.2	43.6	68.2
Bumi Resources Tbk PT	1,451	-	-	4.6	4.1	(3.3)	66.8
China Coal Energy Co Ltd	10,735	20.5	20.3	8.9	9.0	4.5	4.2
Peabody Energy Corp	-	-	17.9	3.8	5.3	13.3	5.7
Median	-	8.7	15.2	6.7	6.2	8.9	36.2
AVERAGE	-	9.5	12.7	6.8	6.4	14.5	36.2

Source: Edelweiss research

Cash flow metrics				
Year to March	FY17	FY18E	FY19E	FY20E
Operating cash flow	158,469	143,096	179,593	197,120
Investing cash flow	4,546	(85,288)	(150,000)	(200,000)
Financing cash flow	(175,980)	(144,659)	(165,821)	(53,512)
Net cash Flow	(12,965)	(86,851)	(136,228)	(56,392)
Capex	(76,000)	(85,000)	(150,000)	(200,000)
Dividend paid	(149,248)	(118,669)	(165,821)	(53,512)

## Profitability and efficiency ratios

Year to March	FY17	FY18E	FY19E	FY20E
ROAE (%)	30.9	43.6	68.2	60.2
ROACE (%)	46.3	62.3	101.8	90.1
Inventory Days	181	292	228	233
Debtors Days	48	45	43	44
Payable Days	79	116	88	97
Cash Conversion Cycle	150	221	182	179
Current Ratio	1.5	1.3	1.0	0.9
Gross Debt/EBITDA	24.6	2.6	1.7	1.6
Gross Debt/Equity	12.1	1.9	2.1	1.4
Adjusted Debt/Equity	12.1	1.9	2.1	1.4
Net Debt/Equity	(115.5)	(102.5)	(45.6)	(11.6)
Interest Coverage Ratio	2,266.0	3,043.4	4,984.4	5,286.3

## Operating ratios

Year to March	FY17	FY18E	FY19E	FY20E
Total Asset Turnover	1.2	1.3	1.6	1.5
Fixed Asset Turnover	3.7	3.3	2.8	2.1
Equity Turnover	2.8	3.7	4.6	4.1

## Valuation parameters

Year to March	FY17	FY18E	FY19E	FY20E
Adj. Diluted EPS (INR)	14.9	16.5	23.0	23.8
Y-o-Y growth (%)	7.5	10.8	39.7	3.3
Adjusted Cash EPS (INR)	19.6	21.3	28.9	31.1
Diluted P/E (x)	19.3	17.4	12.5	12.1
P/B (x)	7.3	8.2	9.2	6.2
EV / Sales (x)	1.8	1.8	1.8	1.7
EV / EBITDA (x)	12.3	9.8	7.2	6.7
Dividend Yield (%)	6.9	5.5	7.7	2.5

## Additional Data

### Directors Data

Shri S Bhattacharya	Chairman-cum-Managing-Director	Shri Chandan Kumar Dey	Director Finance
Shri S.Saran	Technical Director	Shri R Mohan Das	Personnel & Industrial Relation Director
Shri S N Prasad	Marketing Director	Shri Vivek Bharadwaj	Government Nominee Director
Shri Rajesh Kumar Sinha	Government Nominee Director		

Auditors - De Chakraborty & Sen

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Government of india	78.55	Life insurance corp	7.74
Vanguard group	0.71	Blackrock	0.55
Reliance capital tru	0.49	Icici prudential ass	0.43
Icici prudential lif	0.32	Jpmorgan chase & co	0.24
Fmr llc	0.22	Sbi funds management	0.22

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
28 Mar 2017	The President of India	Sell	15933351.00
30 Jan 2017	The President of India	Sell	41223086.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Coal India	HOLD	SP	M	Hindalco Industries	BUY	SO	M
Hindustan Zinc	BUY	SO	L	Jindal Steel & Power	BUY	SO	M
JSW Steel	BUY	SO	M	NMDC	BUY	SO	M
Steel Authority of India	REDUCE	SU	M	Tata Steel	BUY	SO	M
Vedanta	BUY	SO	M				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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## Coverage group(s) of stocks by primary analyst(s): Metals and Mining

Coal India, Hindalco Industries, Hindustan Zinc, Jindal Steel & Power, JSW Steel, NMDC, Steel Authority of India, Tata Steel, Vedanta

### Recent Research

Date	Company	Title	Price (INR)	Recos
04-Jan-18	NMDC	Right price at the right time; Company Update	149	Buy
26-Dec-17	Jindal Steel and Power	Volume-led growth imminent; Company Update	193	Buy
14-Dec-17	Metals & Mining	Zinc: Curtailed supply to bolster prices; Sector Update		

### Distribution of Ratings / Market Cap

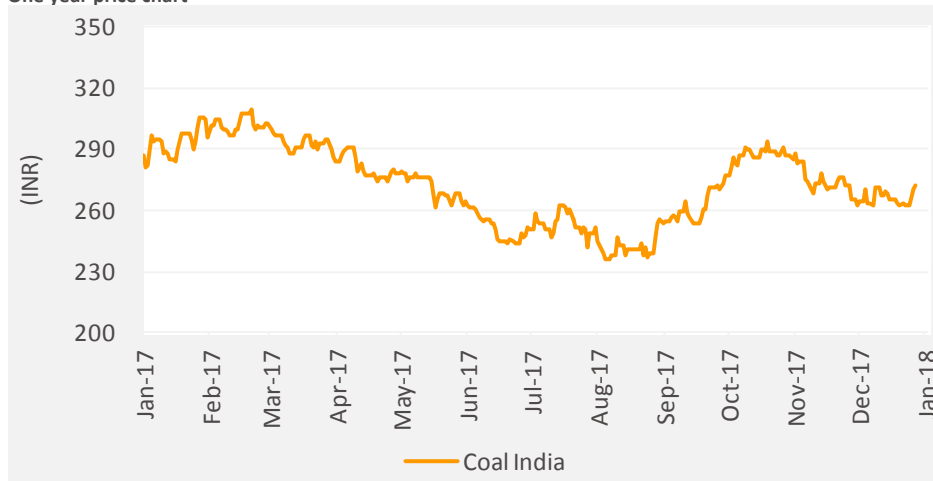
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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