Coal India

Your success is our success

Refer to important disclosures at the end of this report

Price rationalization at right time; upgrade to BUY

CMP	Target Price
Rs 309 as of (January 11, 2018)	Rs 359 (▲) 12 months
Rating	**Upside**
BUY (▲)	16.4 %

- Coal India (CIL) has changed its pricing policy and has rationalized prices across grades, resulting in an average price hike of c. 9%. This is expected to increase revenue by Rs64bn annually (Rs19.5bn for remaining part of FY18).
- This move will fully offset the adverse impact of wage revision. However, post the price hike, Coal prices (ex-inland transportation cost) are still 50-60% cheaper compared to imports. Also, e-auction prices are likely to improve.
- Most of the concerns like: grade slippage, e-auction price decline, lower volume growth and wage hikes have abated. We expect business performance to improve with a pick-up in power demand.
- Dividend yield at 6-7% is attractive. We expect dispatches to grow by 5% in FY19, e-auction price to improve and FSA to remain stable. Accordingly, we upgrade our recommendation to BUY with a revised TP of Rs359.

Major concerns recede

CIL has changed it pricing policy for non-coking coal in line with global practice. Coal price will now be based on per unit of Calorific value (Rs/Kcal) instead of band based pricing system from April 1, 2018 onwards. This will improve transparency to customers in pricing. Prices have been increased as follows: G6-G7: 20-22% for power sector and 10-21% for non-power sector; G11-G14: 13-18% for both power and non-power sectors; G8-G9: 3-5% for both power and non-power sectors. Even after the recent price hike, CIL's prices (ex-inland transportation cost) are 50-60% cheaper compared to imports.

With the rise in prices, which will fully offset the impact of wage revision, we believe that all the major concerns for CIL like: grade slippage, e-auction price decline, deceleration in volume growth and wage hikes have now subsided. Going forward, volume growth will catch up on the back of the pick-up in power demand. Also, various cost-control initiatives being undertaken by the CIL management like: closure of underground mines, voluntary retirement schemes, overtime compensation etc will help it in achieving a better operating performance going forward.

Stable business; 6-7% dividend yield is alluring

After incorporating the price hike, we have upgraded our EBITDA/EPS estimates by 24%/21% for FY19E. We have upgraded our target multiple to 8x FY19E EV/EBITDA. Accordingly, we have upgraded our rating to BUY with a revised TP of Rs359 (16% upside), which implies total return of~22-23% with a dividend yield of 6-7%. Stock is currently trading at 8x FY19E EV/EBITDA and 10x FY19E P/E.

Financial Snapshot (Consolidated)

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue	740,416	794,204	798,631	879,012	985,915
EBITDA	172,569	187,113	122,830	163,694	221,450
EBITDA Margin (%)	23.3	23.6	15.4	18.6	22.5
APAT	137,216	142,679	92,800	116,773	147,596
EPS (Rs)	21.7	22.6	14.9	18.8	23.8
EPS (% chg)	(9.2)	4.0	(33.8)	25.8	26.4
ROE (%)	33.2	38.4	29.7	43.9	67.0
P/E (x)	14.2	13.7	20.6	16.4	13.0
EV/EBITDA (x)	8.2	8.4	12.8	10.1	8.3
P/BV (x)	4.8	5.7	6.7	7.8	9.8

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY18E/FY19E (%)	7.4/21.4
Target Price change (%)	14.3
Target Period (Months)	12
Previous Reco	ACCUMULATE

Emkay vs Consensus

EPS Estimates	FY18E	FY19E
Emkay	18.8	23.8
Consensus	16.4	22.5
Mean Consensus TP (12M)		Rs 314

Stock Details

Bloomberg Code	COAL IN
Face Value (Rs)	10
Shares outstanding (mn)	6,207
52 Week H/L	332 / 234
M Cap (Rs bn/USD bn)	1,915 / 30.08
Daily Avg Volume (nos.)	5,112,829
Daily Avg Turnover (US$ mn)	22.5

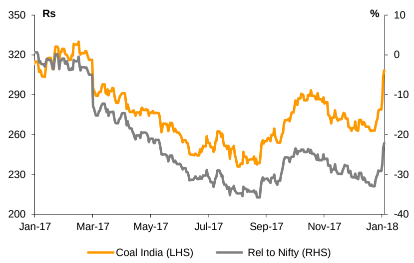
Shareholding Pattern Sep '17

Promoters	78.9%
FIIs	5.6%
DIIs	11.9%
Public and Others	3.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	16	8	19	3
Rel. to Nifty	12	2	10	(20)

Relative price chart



Source: Bloomberg

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Exhibit 1: Pithead ROM prices for all subsidiaries except WCL

Grade	Revised Price		Earlier Price		% Power	% Non-Power
	Power	Non-Power	Power	Non-Power		
G2	3,288	3,288	3,450	3,450	-5%	-5%
G3	3,144	3,144	3,210	3,210	-2%	-2%
G4	3,000	3,000	3,000	3,000	0%	0%
G5	2,737	2,737	2,750	2,750	0%	0%
G6	2,317	2,524	1,900	2,280	22%	11%
G7	1,926	2,311	1,600	1,920	20%	20%
G8	1,465	1,757	1,420	1,700	3%	3%
G9	1,140	1,368	1,100	1,320	4%	4%
G10	1,024	1,228	980	1,180	4%	4%
G11	955	1,145	810	970	18%	18%
G12	886	1,063	760	910	17%	17%
G13	817	980	720	860	13%	14%
G14	748	897	650	780	15%	15%
G15	590	708	600	720	-2%	-2%
G16	504	604	530	640	-5%	-6%
G17	447	536	470	570	-5%	-6%

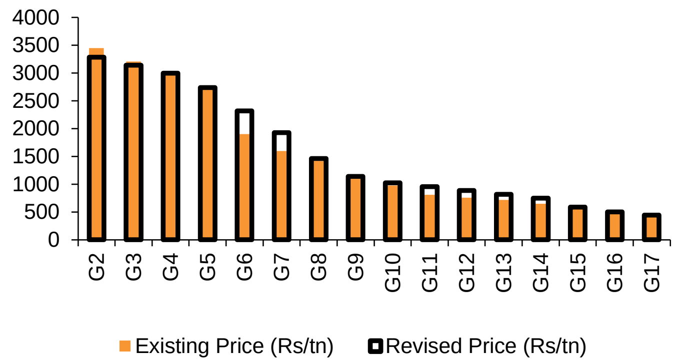
Source: Company, Emkay Research

Exhibit 2: Pithead ROM prices for WCL

Grade	Revised Price		Earlier Price		% Power	% Non-Power
	Power	Non-Power	Power	Non-Power		
G2	3,288	3,288	3,450	3,450	-5%	-5%
G3	3,144	3,144	3,219	3,210	-2%	-2%
G4	3,000	3,000	3,000	3,000	0%	0%
G5	2,737	2,737	2,750	2,750	0%	0%
G6	2,524	2,580	2,280	2,740	11%	-6%
G7	2,311	2,423	1,920	2,300	20%	5%
G8	1,757	2,109	1,700	2,040	3%	3%
G9	1,368	1,642	1,320	1,580	4%	4%
G10	1,228	1,474	1,180	1,420	4%	4%
G11	1,145	1,374	970	1,160	18%	18%
G12	1,063	1,275	910	1,090	17%	17%
G13	980	1,176	860	1,030	14%	14%
G14	897	1,076	780	940	15%	14%
G15	708	850	720	870	-2%	-2%
G16	604	725	640	770	-6%	-6%
G17	536	643	560	680	-4%	-5%

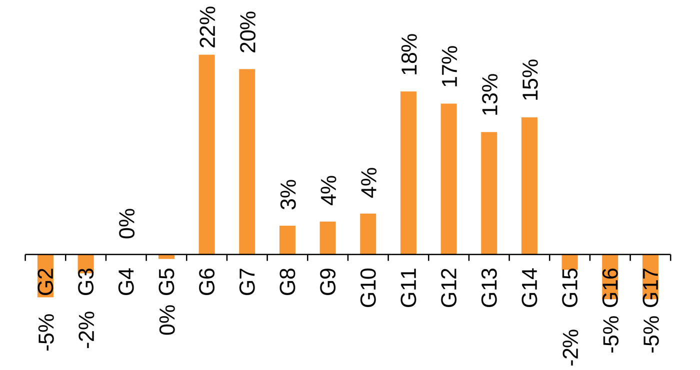
Source: Company, Emkay Research

Exhibit 3: Existing price vs Revised price grade wise



Source: Company, Emkay Research

Exhibit 4: Price rationalization grade wise (% rise/fall)



Source: Company, Emkay Research

Exhibit 5: Segment wise coal production

Production	Dec'18	Dec'17	Nov'18	% YoY	% MoM	YTDFY18	YTDFY17	% YoY
ECL	4.36	4.65	3.88	-6.2%	12.4%	28.11	28.58	-1.6%
BCCL	3.22	3.27	2.71	-1.5%	18.8%	21.97	25.78	-14.8%
CCL	5.68	6.72	6.08	-15.5%	-6.6%	37.30	40.86	-8.7%
NCL	8.65	8.56	8.03	1.1%	7.7%	67.44	59.21	13.9%
WCL	4.72	4.79	4.37	-1.5%	8.0%	27.75	26.75	3.7%
SECL	14.41	13.73	13.33	5.0%	8.1%	101.70	97.49	4.3%
MCL	13.49	12.41	12.82	8.7%	5.2%	99.30	98.88	0.4%
NEC	0.11	0.07	0.06	54.8%	76.6%	0.37	0.25	46.8%
CIL	54.64	54.20	51.28	0.8%	6.5%	383.94	377.80	1.6%

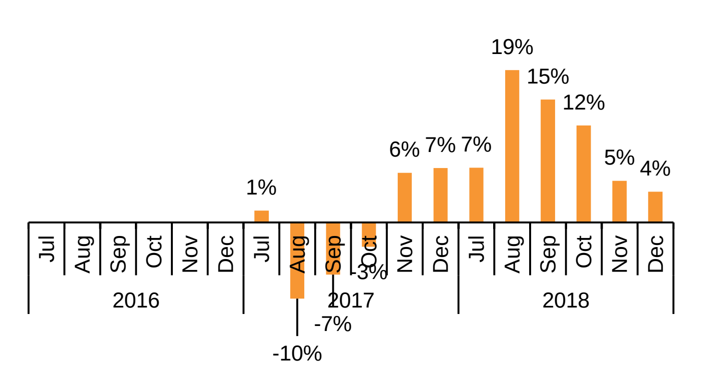
Source: Company, Emkay Research

Exhibit 6: Segment wise coal offtake

Offtake	Dec'18	Dec'17	Nov'18	% YoY	% MoM	YTDFY18	YTDFY17	% YoY
ECL	4.21	4.32	3.78	-2.5%	11.4%	29.63	31.68	-6.5%
BCCL	2.93	3.32	2.67	-11.7%	9.7%	23.77	25.48	-6.7%
CCL	6.07	5.97	6.06	1.7%	0.2%	49.32	42.13	17.1%
NCL	8.98	8.18	8.69	9.8%	3.3%	71.00	60.31	17.7%
WCL	4.75	4.03	4.38	17.9%	8.4%	35.19	27.03	30.2%
SECL	13.71	13.20	12.89	3.9%	6.4%	110.92	99.19	11.8%
MCL	12.69	12.37	12.15	2.6%	4.4%	101.10	105.44	-4.1%
NEC	0.09	0.07	0.06	28.6%	50.0%	0.49	0.51	-3.0%
CIL	53.43	51.46	50.68	3.8%	5.4%	421.42	391.77	7.57%

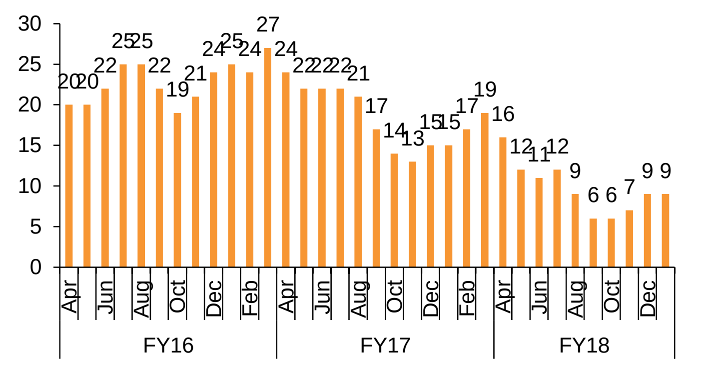
Source: Company, Emkay Research

Exhibit 7: Coal offtake rises by 4% yoy in Dec (high base effect)



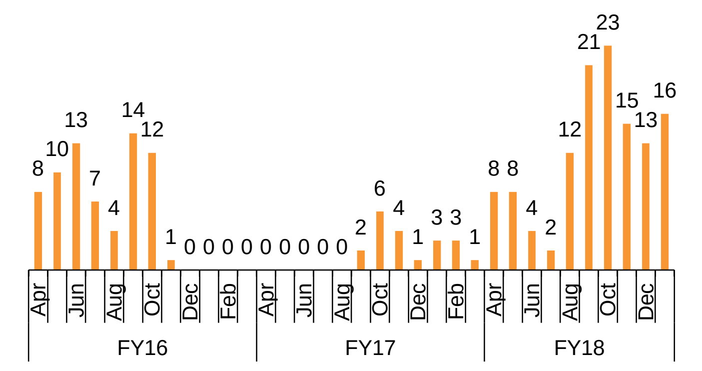
Source: Company, Emkay Research

Exhibit 8: No. of days of coal inventory at record low level to 9 days



Source: Company, Emkay Research

Exhibit 9: 16 plants with 20GW capacity facing critical to super critical inventory issue as on 8th Jan 2018



Source: Company, Emkay Research

Exhibit 10: 15% of India's total power capacity is under stress due to non-availability of coal as on 8th Jan 2018

Region	State	Super Critical	Critical	Capacity MW
Northern	Haryana	1	0	1200
	Rajasthan	1	2	4400
Western	Gujarat	4		3632
	Madhya Pradesh	1	1	2530
	Maharashtra	2	3	6670
Southern	Tamilnadu	0	1	1830

Source: Company, Emkay Research

Power plants still under enormous pressure

As of 8th January 2018, there are a total of 16 plants facing critical to super-critical level of coal inventory at their sites. These plants represent 15% of India's total power generating capacity. Maharashtra faces the maximum burnout followed by Gujarat.

Estimate revision and valuation

We are assuming 6% increase in Blended realization in FY18 and 6.5% in FY19. With the hike in price offsetting the impact of wage revision, we believe that all the major concerns for the company are now in the rear view mirror. Going forward, we expect a stable growth in the company's business.

Exhibit 11: Key assumptions

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Dispatch (in million tonne)	489	534	543	579	608
Blended Realization	1,472	1,415	1,392	1,481	1,578
EBITDA/Tonne (Ex Overburden)	431	390	389	433	529

Source: Company, Emkay Research

Exhibit 12: Changes in earnings estimates

All fig in Rs mn	FY18E			FY19E		
(except % and EPS)	Old	New	% Chg.	Old	New	% Chg.
EBITDA	866,184	879,012	1.48%	943,129	985,915	4.54%
EBITDA margins, %	*150,866*	*163,694*	*8.50%*	*178,570*	*221,450*	*24.01%*
Net profits	17.4	18.6	+120 bps	18.9	22.5	+360 bps
EPS	108,532	116,773	7.59%	121,460	147,596	21.52%

Source: Emkay Research

At CMP of Rs309, the stock trades at 8.3x FY19E EV/EBITDA (Ex-OBR) and 13x FY19E EPS. We have upgraded our multiple from 7.5x to 8x FY19E EV/EBITDA (ex-OBR) and value the cash separately. Accordingly we have upgraded our recommendation to BUY with a revised TP of Rs359. We are assuming dividend to be at Rs22/share and Rs27/share for FY18 and FY19E, respectively.

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue	**740,416**	**794,204**	**798,631**	**879,012**	**985,915**
Expenditure	**567,847**	**607,091**	**675,801**	**715,319**	**764,465**
EBITDA	**172,569**	**187,113**	**122,830**	**163,694**	**221,450**
Depreciation	23,198	28,259	29,091	33,496	39,932
EBIT	**149,371**	**158,854**	**93,739**	**130,198**	**181,518**
Other Income	66,491	59,406	54,818	53,213	49,876
Interest expenses	73	3,862	4,097	1,634	1,634
PBT	**215,789**	**214,398**	**144,460**	**181,778**	**229,760**
Tax	78,573	71,719	51,660	65,005	82,163
Extraordinary Items	50	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	**137,266**	**142,679**	**92,800**	**116,773**	**147,596**
Adjusted PAT	**137,216**	**142,679**	**92,800**	**116,773**	**147,596**

Balance Sheet

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	63,164	63,164	62,074	62,074	62,074
Reserves & surplus	340,367	275,812	224,085	183,740	132,746
Net worth	**403,531**	**338,976**	**286,159**	**245,814**	**194,820**
Minority Interest	**658**	**1,048**	**3,446**	**3,446**	**3,446**
Loan Funds	**4,019**	**11,921**	**2,968**	**2,968**	**2,968**
Net deferred tax liability	(19,596)	(20,445)	(26,108)	(26,108)	(26,108)
Total Liabilities	**388,612**	**331,499**	**266,466**	**226,121**	**175,126**
Net block	**161,150**	**205,494**	**250,647**	**307,151**	**417,219**
Investment	**28,134**	**29,019**	**46,635**	**51,299**	**56,429**
Current Assets	**844,940**	**810,183**	**794,735**	**734,826**	**599,232**
Cash & bank balance	530,925	383,128	345,722	265,058	72,332
Other Current Assets	52,277	133,356	142,366	156,695	175,752
Current liabilities & Provision	**697,206**	**750,252**	**825,551**	**867,155**	**897,753**
Net current assets	**147,734**	**59,931**	**(30,816)**	**(132,329)**	**(298,521)**
Misc. exp	0	0	0	0	0
Total Assets	**388,612**	**331,499**	**266,466**	**226,121**	**175,126**

Cash Flow

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
PBT (Ex-Other income) (NI+Dep)	**149,348**	**154,992**	**89,642**	**128,565**	**179,884**
Other Non-Cash items	43,321	0	0	0	0
Chg in working cap	6,487	(59,994)	59,004	20,849	(26,534)
Operating Cashflow	**77,323**	**55,400**	**130,174**	**119,538**	**112,753**
Capital expenditure	(49,014)	(61,308)	(39,055)	(90,000)	(150,000)
Free Cash Flow	**28,309**	**(5,908)**	**91,119**	**29,538**	**(37,247)**
Investments	57,957	(885)	(17,616)	(4,664)	(5,130)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	**75,434**	**(2,787)**	**(1,853)**	**(41,450)**	**(105,254)**
Equity Capital Raised	0	0	(1,090)	0	0
Loans Taken / (Repaid)	1,935	7,901	(8,952)	0	0
Dividend paid (incl tax)	(155,963)	(208,302)	(144,527)	(157,118)	(198,591)
Other Financing Cash Flow	3,844	0	0	0	0
Financing Cashflow	**(150,257)**	**(204,262)**	**(158,666)**	**(158,752)**	**(200,225)**
Net chg in cash	**2,500**	**(151,649)**	**(30,345)**	**(80,664)**	**(192,726)**
Opening cash position	528,425	534,777	376,067	345,722	265,058
Closing cash position	**530,925**	**383,128**	**345,722**	**265,058**	**72,332**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin	23.3	23.6	15.4	18.6	22.5
EBIT Margin	20.2	20.0	11.7	14.8	18.4
Effective Tax Rate	36.4	33.5	35.8	35.8	35.8
Net Margin	18.5	18.0	11.6	13.3	15.0
ROCE	54.3	60.6	49.7	74.5	115.3
ROE	33.2	38.4	29.7	43.9	67.0
RoIC	(71.1)	(93.5)	(77.0)	(120.5)	(827.5)

Per Share Data (Rs)	FY15	FY16	FY17	FY18E	FY19E
EPS	21.7	22.6	14.9	18.8	23.8
CEPS	25.4	27.1	19.6	24.2	30.2
BVPS	63.9	53.7	46.1	39.6	31.4
DPS	20.7	27.4	19.9	21.6	27.3

Valuations (x)	FY15	FY16	FY17	FY18E	FY19E
PER	14.2	13.7	20.6	16.4	13.0
P/CEPS	12.1	11.4	15.7	12.7	10.2
P/BV	4.8	5.7	6.7	7.8	9.8
EV / Sales	1.9	2.0	2.0	1.9	1.9
EV / EBITDA	8.2	8.4	12.8	10.1	8.3
Dividend Yield (%)	6.7	8.9	6.4	7.0	8.9

Gearing Ratio (x)	FY15	FY16	FY17	FY18E	FY19E
Net Debt/ Equity	(1.3)	(1.1)	(1.2)	(1.1)	(0.4)
Net Debt/EBIDTA	(3.1)	(2.0)	(2.8)	(1.6)	(0.3)
Working Cap Cycle (days)	(188.9)	(148.5)	(172.1)	(165.0)	(137.3)

Growth (%)	FY15	FY16	FY17	FY18E	FY19E
Revenue	5.0	7.3	0.6	10.1	12.2
EBITDA	(2.3)	8.4	(34.4)	33.3	35.3
EBIT	(4.6)	6.3	(41.0)	38.9	39.4
PAT	(9.2)	3.9	(35.0)	25.8	26.4

Quarterly (Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue	162,464	204,146	247,802	191,617	181,483
EBITDA	7,857	38,549	33,876	35,220	12,310
EBITDA Margin (%)	**4.8**	**18.9**	**13.7**	**18.4**	**6.8**
PAT	6,122	28,845	27,161	23,512	3,688
EPS (Rs)	**1.0**	**4.6**	**4.4**	**3.8**	**0.6**

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Promoters	79.7	79.8	78.9	78.9	78.9
FIIs	7.8	6.9	6.5	6.4	5.6
DIIs	10.2	10.8	11.7	11.5	11.9
Public and Others	2.3	2.5	3.0	3.3	3.7

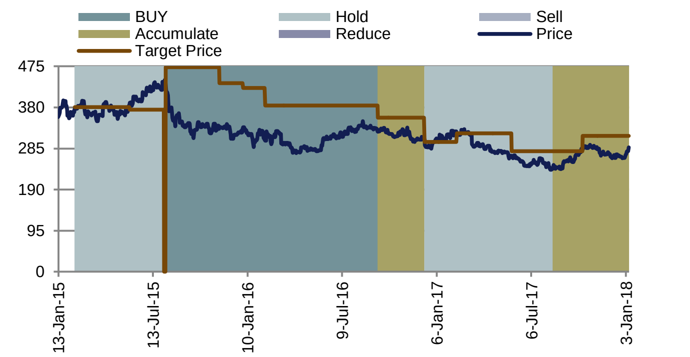
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
13-Nov-17	275	314	12m	Accumulate	Goutam Chakraborty
2-Nov-17	291	314	12m	Accumulate	Goutam Chakraborty
1-Nov-17	287	314	12m	Accumulate	Goutam Chakraborty
12-Oct-17	282	314	12m	Accumulate	Goutam Chakraborty
11-Sep-17	257	279	12m	Accumulate	Goutam Chakraborty
5-Sep-17	254	279	12m	Accumulate	Goutam Chakraborty
16-Aug-17	238	279	12m	Accumulate	Goutam Chakraborty
30-Jun-17	244	279	12m	Hold	Goutam Chakraborty
29-May-17	267	279	12m	Hold	Goutam Chakraborty
2-May-17	275	320	12m	Hold	Goutam Chakraborty
5-Apr-17	290	320	12m	Hold	Goutam Chakraborty
13-Feb-17	321	320	12m	Hold	Goutam Chakraborty
3-Feb-17	326	300	12m	Hold	Goutam Chakraborty
2-Jan-17	300	300	12m	Hold	Goutam Chakraborty
27-Dec-16	289	300	12m	Hold	Goutam Chakraborty
13-Dec-16	306	300	12m	Hold	Goutam Chakraborty
3-Oct-16	328	356	12m	Accumulate	Goutam Chakraborty
15-Sep-16	324	356	12m	Accumulate	Goutam Chakraborty
1-Aug-16	326	384	12m	Buy	Goutam Chakraborty
4-Jul-16	318	384	12m	Buy	Goutam Chakraborty
2-Jun-16	307	384	12m	Buy	Goutam Chakraborty
2-May-16	289	384	12m	Buy	Goutam Chakraborty
2-Mar-16	311	384	12m	Buy	Goutam Chakraborty
12-Feb-16	303	384	12m	Buy	Goutam Chakraborty
2-Feb-16	319	425	12m	Buy	Goutam Chakraborty
5-Jan-16	326	425	12m	Buy	Goutam Chakraborty
1-Jan-16	334	425	12m	Buy	Goutam Chakraborty
2-Dec-15	338	436	12m	Buy	Goutam Chakraborty
17-Nov-15	332	436	12m	Buy	Goutam Chakraborty
3-Nov-15	326	473	12m	Buy	Goutam Chakraborty
5-Oct-15	330	473	12m	Buy	Goutam Chakraborty
2-Sep-15	344	473	12m	Buy	Goutam Chakraborty
6-Aug-15	431	473	12m	Buy	Goutam Chakraborty
6-Aug-15	431	473	12m	Accumulate	Amit Golchha
3-Aug-15	432	-	12m	UR	Amit Golchha
29-May-15	391	375	12m	Hold	Amit Golchha
13-Feb-15	378	381	12m	Hold	Amit Golchha

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date:
Dissemination Date:

Sources for all charts and tables are Emkay Research unless otherwise specified.

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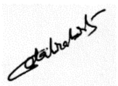

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