

# Coal India

Strong earnings revival; Momentum to continue in FY19e/FY20e

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|                |            |
|----------------|------------|
| Rating         | <b>BUY</b> |
| Price          | Rs295      |
| Target Price   | Rs340      |
| Implied Upside | 15.3%      |
| Sensex         | 35,322     |
| Nifty          | 10,736     |

(Prices as on May 31, 2018)

## Trading data

|                            |         |
|----------------------------|---------|
| Market Cap. (Rs bn)        | 1,828.1 |
| Shares o/s (m)             | 6,207.4 |
| 3M Avg. Daily value (Rs m) | 965.6   |

## Major shareholders

|                |        |
|----------------|--------|
| Promoters      | 78.55% |
| Foreign        | 5.48%  |
| Domestic Inst. | 12.86% |
| Public & Other | 3.11%  |

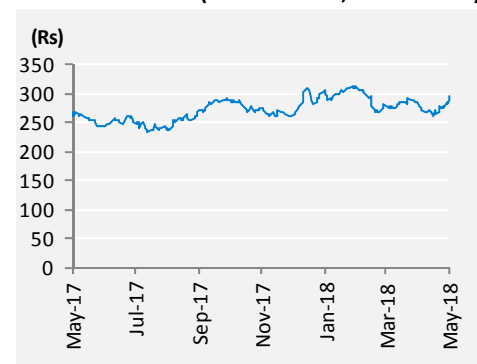
## Stock Performance

| (%)      | 1M  | 6M  | 12M   |
|----------|-----|-----|-------|
| Absolute | 3.8 | 6.6 | 11.8  |
| Relative | 3.3 | 0.1 | (1.6) |

## How we differ from Consensus

| EPS (Rs) | PL   | Cons. | % Diff. |
|----------|------|-------|---------|
| 2019     | 25.6 | 24.8  | 3.2     |
| 2020     | 26.6 | 26.4  | 0.8     |

## Price Performance (RIC: COAL.BO, BB: COAL IN)



Source: Bloomberg

*We attended analyst meet of Coal India (COAL). The key highlights of the meet were i) 9% growth in FY19e offtake at 630mn (PL:620mn) tonnes ii) Confident to realise the benefit of increased FSA prices in FY19e iii) grade slippage bottomed-out as reflected in lower provisions iv) E-auction volumes would remain on upward trajectory in FY19 (sold 106mn t in FY18,+12.7%). Driven by strong outlook on volume growth, full flow of FSA price hike and strength in E-auction prices, we expect EBITDA to grow at CAGR of 18% in FY18-FY20e. We reiterate BUY with TP of Rs340, EV/EBITDA of 6.5x FY20E.*

- **Marked improvement in work on new railway lines:** Railways commissioned 19km stretch out of total length of 44km of Tori-Shivpuri railway in Jharkhand. Rest of the stretch would be operational by Jun'18. It expects to load 16mn t in FY19 against loading capacity of 61mn t. Jharsuguda-Barpali-Sardega line in Odisha completed in Apr'18 with capacity of 42mn t. It would contribute 10mn tonnes in FY19e.
- **Coal grades stabilised:** The process of assessment of grades by Coal Controller's Office (CCO) covered almost all the producing mines in FY18e. This helped in significantly reducing the gap between delivered and notified grade. The same is reflected in 84% YoY fall in provisions made for grade slippage in FY18.
- **E-auction volume to rise in FY19:** E-auction volume rose 13% YoY to 106mn t in FY18. This includes 55mn/30mn/13mn/8mn t through Spot/Special Forward for Power/ Special Forward for Power/Exclusive E-auction windows. Management believes that slowing of demand from power sector post-monsoon would provide ample buffer for E-auction volumes to increase in FY19e.

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| Key financials (Y/e March) | 2017    | 2018    | 2019E   | 2020E     |
|----------------------------|---------|---------|---------|-----------|
| Revenues (Rs m)            | 782,206 | 858,624 | 960,916 | 1,016,530 |
| Growth (%)                 | 0.3     | 9.8     | 11.9    | 5.8       |
| EBITDA (Rs m)              | 149,121 | 129,245 | 262,694 | 279,980   |
| PAT (Rs m)                 | 92,678  | 70,198  | 158,693 | 165,197   |
| EPS (Rs)                   | 14.9    | 11.3    | 25.6    | 26.6      |
| Growth (%)                 | (33.9)  | (24.3)  | 126.1   | 4.1       |
| Net DPS (Rs)               | 19.9    | 16.5    | 20.0    | 22.0      |

| Profitability & Valuation | 2017 | 2018 | 2019E | 2020E |
|---------------------------|------|------|-------|-------|
| EBITDA margin (%)         | 19.1 | 15.1 | 27.3  | 27.5  |
| RoE (%)                   | 14.8 | 12.2 | 27.0  | 26.3  |
| RoCE (%)                  | 14.5 | 11.8 | 25.6  | 25.0  |
| EV / sales (x)            | 2.0  | 1.8  | 1.6   | 1.6   |
| EV / EBITDA (x)           | 10.3 | 11.9 | 6.0   | 5.7   |
| PE (x)                    | 19.7 | 26.0 | 11.5  | 11.1  |
| P / BV (x)                | 3.1  | 3.2  | 3.0   | 2.8   |
| Net dividend yield (%)    | 6.8  | 5.6  | 6.8   | 7.5   |

Source: Company Data; PL Research

- **New pricing mechanism put on hold:** In January, Coal announced the change of pricing from GCV band to actual calorific value. However, due to misinformation and concerns at user end, it has been put on hold.
- **Met the capex guidance for FY18 and set the guidance high for FY19e:** COAL spent Rs92bn on capex, including Rs7bn invested in JVs. It guided capex of Rs Rs95bn (includes Rs6bn in JVs). Additional capex of Rs5bn for buying railway rakes directly is under review.
- **Investment commences in HURL JV:** COAL has 29.7% stake in Hindustan Urvarak & Rasayan Limited (HURL), a JV along with NTPC, IOC, FCIL and HFCL. HURL would invest Rs210bn on setting up three fertiliser plants in Sindri, Gorakhpur and Barauni. COAL would invest Rs15-16bn for its share in the JV. It expects to make an investment of Rs1.2bn in FY19e against Rs3bn made in FY18.
- **Diesel price impact would be contained by revision of loading charges:** Every Rs1/litre change in diesel price impacts COAL's cost of mining by Rs5.2bn on an annualised basis. Company would pass the increase in cost through revising the loading and transport charges.
- **Continuously rationalising the inefficient mines:** COAL closed 32 underground mines in FY18 due to unprofitable operations and unfeasible working conditions.
- Inventory fell to 44mn tonnes at May-18 end from 55mn tonnes at FY18 end.

**Exhibit 1: Q4FY18 Result Overview (Rs m)**

| Y/e March                                         | Q4FY18         | Q4FY17         | YoY gr. (%)    | Q3FY18         | FY18           | FY17           | YoY gr. (%)   |
|---------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| <b>Net operating revenue</b>                      | <b>251,087</b> | <b>224,164</b> | <b>12.0</b>    | <b>207,085</b> | <b>817,000</b> | <b>754,591</b> | <b>8.3</b>    |
| Other operating income                            | 18,005         | 8,264          | 117.9          | 9,348          | 41,624         | 29,521         | 41.0          |
| <b>Revenue (including other operating income)</b> | <b>269,092</b> | <b>232,428</b> | <b>15.8</b>    | <b>216,433</b> | <b>858,624</b> | <b>784,112</b> | <b>9.5</b>    |
| (Accretion)/Decretion in Stocks                   | (13,785)       | (17,179)       | (19.8)         | 5,475          | 16,795         | (12,384)       | (235.6)       |
| Consumption of stores and spares                  | 21,481         | 22,210         | (3.3)          | 17,548         | 68,296         | 69,685         | (2.0)         |
| Employees' Remuneration & Benefits                | 166,539        | 92,407         | 80.2           | 87,532         | 426,336        | 335,229        | 27.2          |
| Power & Fuel                                      | 6,310          | 6,227          | 1.3            | 6,072          | 25,164         | 25,465         | (1.2)         |
| Welfare expenses                                  | 2,010          | 2,272          | (11.5)         | 632            | 4,838          | 4,897          | (1.2)         |
| Repairs                                           | 5,958          | 4,742          | 25.6           | 3,130          | 14,395         | 12,859         | 11.9          |
| Contractual Expenses                              | 38,954         | 37,690         | 3.4            | 32,211         | 127,670        | 123,030        | 3.8           |
| Other Expenses                                    | 12,613         | 19,259         | (34.5)         | 9,960          | 42,154         | 50,909         | (17.2)        |
| Overburden Removal Adjustment                     | 24,847         | 14,843         | 67.4           | 9,226          | 33,583         | 26,722         | 25.7          |
| Provision and write off                           | 2,211          | 15,354         | (85.6)         | (1,530)        | 3,732          | 23,320         | (84.0)        |
| Total Cost of Sales                               | 267,137        | 197,824        | 35.0           | 170,254        | 762,962        | 659,732        | 15.6          |
| <b>EBITDA</b>                                     | <b>1,955</b>   | <b>34,605</b>  | <b>(94.4)</b>  | <b>46,179</b>  | <b>95,663</b>  | <b>124,381</b> | <b>(23.1)</b> |
| <i>as a % of Sales</i>                            | <i>0.8</i>     | <i>15.4</i>    |                | <i>22.3</i>    | <i>11.7</i>    | <i>16.5</i>    |               |
| Depreciation                                      | 9,308          | 8,472          | 9.9            | 7,511          | 30,664         | 29,068         | 5.5           |
| <b>EBIT</b>                                       | <b>(7,353)</b> | <b>26,133</b>  | <b>(128.1)</b> | <b>38,668</b>  | <b>64,999</b>  | <b>95,313</b>  | <b>(31.8)</b> |
| Interest                                          | 1,127          | 1,146          | (1.6)          | 974            | 4,318          | 4,092          | 5.5           |
| <b>PBT (before other income)</b>                  | <b>(8,480)</b> | <b>24,987</b>  | <b>-</b>       | <b>37,694</b>  | <b>60,681</b>  | <b>91,221</b>  | <b>(33.5)</b> |
| Other Income                                      | 20,002         | 17,824         | 12.2           | 8,409          | 46,583         | 53,242         | (12.5)        |
| <b>PBT before extraordinary</b>                   | <b>11,521</b>  | <b>42,811</b>  | <b>(73.1)</b>  | <b>46,102</b>  | <b>107,264</b> | <b>144,463</b> | <b>(25.7)</b> |
| Exceptional items                                 | -              | -              |                | -              | -              | -              |               |
| <b>PBT after extraordinary</b>                    | <b>11,521</b>  | <b>42,811</b>  | <b>(73.1)</b>  | <b>46,102</b>  | <b>107,264</b> | <b>144,463</b> | <b>(25.7)</b> |
| Provision for Taxation                            | (1,420)        | 15,606         | (109.1)        | 16,052         | 37,067         | 51,648         | (28.2)        |
| <b>Net profit</b>                                 | <b>12,942</b>  | <b>27,206</b>  | <b>(52.4)</b>  | <b>30,050</b>  | <b>70,198</b>  | <b>92,815</b>  | <b>(24.4)</b> |
| <b>Adjusted PAT</b>                               | <b>12,942</b>  | <b>27,206</b>  | <b>(52.4)</b>  | <b>30,050</b>  | <b>70,198</b>  | <b>92,815</b>  | <b>(24.4)</b> |

Source: Company Data, PL Research

**Exhibit 2: Operating Metrics**

| Y/e March                                                 | Q4FY18       | Q4FY17       | YoY gr. (%) | Q3FY18       | FY18         | FY17         | YoY gr. (%) |
|-----------------------------------------------------------|--------------|--------------|-------------|--------------|--------------|--------------|-------------|
| Coal production (m tonnes)                                | 183.5        | 176.4        | 4.0         | 152.0        | 567.4        | 554.1        | 2.4         |
| Coal sales volume (m tonnes)                              | 158.9        | 151.5        | 4.8         | 152.4        | 580.3        | 543.3        | 6.8         |
| <b>Rs/tonne analysis on aggregate volumes</b>             |              |              |             |              |              |              |             |
| <b>Net realisation (excluding other operating income)</b> | <b>1,581</b> | <b>1,479</b> | <b>6.8</b>  | <b>1,359</b> | <b>1,408</b> | <b>1,389</b> | <b>1.4</b>  |
| Realisation (including other operating income)            | 1,694        | 1,534        | 10.4        | 1,420        | 1,480        | 1,443        | 2.5         |
| Total cost/tonne                                          | 1,682        | 1,305        | 28.8        | 1,117        | 1,315        | 1,214        | 8.3         |
| EBITDA/tonne                                              | 12           | 228          | (94.6)      | 303          | 165          | 229          | (28.0)      |
| <b>Sales volume mix (m tonnes)</b>                        |              |              |             |              |              |              |             |
| FSA                                                       | 126.4        | 116.3        | 8.7         | 121.9        | 460.0        | 429.8        | 7.0         |
| E-auction                                                 | 29.3         | 29.5         | (0.8)       | 26.4         | 106.2        | 94.2         | 12.7        |
| Washed coal                                               | 3.1          | 3.7          | (15.4)      | 2.8          | 11.5         | 14.0         | (17.8)      |
| <b>Realisation per tonne (Rs)</b>                         |              |              |             |              |              |              |             |
| FSA                                                       | 1,403        | 1,376        | 2.0         | 1,182        | 1,257        | 1,301        | (3.4)       |
| E-auction                                                 | 2,112        | 1,611        | 31.1        | 1,998        | 1,839        | 1,536        | 19.7        |
| Washed coal                                               | 2,923        | 3,927        | (25.6)      | 2,975        | 3,023        | 3,049        | (0.9)       |

Source: Company Data, PL Research

### Income Statement (Rs m)

| Y/e March                  | 2017           | 2018           | 2019E          | 2020E            |
|----------------------------|----------------|----------------|----------------|------------------|
| <b>Net Revenue</b>         | <b>782,206</b> | <b>858,624</b> | <b>960,916</b> | <b>1,016,530</b> |
| Raw Material Expenses      | 57,253         | 85,090         | 77,678         | 85,385           |
| Gross Profit               | 724,954        | 773,534        | 883,238        | 931,145          |
| Employee Cost              | 335,143        | 426,336        | 370,273        | 371,606          |
| Other Expenses             | 240,690        | 217,953        | 250,271        | 279,558          |
| <b>EBITDA</b>              | <b>149,121</b> | <b>129,245</b> | <b>262,694</b> | <b>279,980</b>   |
| Depr. & Amortization       | 55,823         | 64,246         | 69,118         | 75,529           |
| Net Interest               | 4,117          | 4,318          | 3,000          | 3,001            |
| Other Income               | 55,156         | 46,583         | 49,868         | 48,848           |
| <b>Profit before Tax</b>   | <b>144,337</b> | <b>107,264</b> | <b>240,444</b> | <b>250,298</b>   |
| Total Tax                  | 51,660         | 37,067         | 81,751         | 85,101           |
| <b>Profit after Tax</b>    | <b>92,677</b>  | <b>70,198</b>  | <b>158,693</b> | <b>165,197</b>   |
| Ex-Od items / Min. Int.    | —              | —              | —              | —                |
| <b>Adj. PAT</b>            | <b>92,678</b>  | <b>70,198</b>  | <b>158,693</b> | <b>165,197</b>   |
| <b>Avg. Shares O/S (m)</b> | <b>6,207.4</b> | <b>6,207.4</b> | <b>6,207.4</b> | <b>6,207.4</b>   |
| <b>EPS (Rs.)</b>           | <b>14.9</b>    | <b>11.3</b>    | <b>25.6</b>    | <b>26.6</b>      |

### Cash Flow Abstract (Rs m)

| Y/e March           | 2017      | 2018      | 2019E     | 2020E     |
|---------------------|-----------|-----------|-----------|-----------|
| C/F from Operations | 158,469   | 169,578   | 173,447   | 215,203   |
| C/F from Investing  | (52,120)  | (40,653)  | (57,531)  | (64,728)  |
| C/F from Financing  | (166,949) | (127,876) | (151,259) | (166,675) |
| Inc. / Dec. in Cash | (60,600)  | 1,049     | (35,343)  | (16,200)  |
| Opening Cash        | 48,764    | 35,799    | 36,849    | 1,505     |
| Closing Cash        | 35,799    | 36,849    | 1,505     | (14,695)  |
| FCFF                | 141,911   | 136,946   | 124,471   | 159,601   |
| FCFE                | 160,068   | 133,931   | 124,471   | 159,601   |

### Key Financial Metrics

| Y/e March               | 2017    | 2018    | 2019E   | 2020E   |
|-------------------------|---------|---------|---------|---------|
| <b>Growth</b>           |         |         |         |         |
| Revenue (%)             | 0.3     | 9.8     | 11.9    | 5.8     |
| EBITDA (%)              | (30.7)  | (13.3)  | 103.3   | 6.6     |
| PAT (%)                 | (35.0)  | (24.3)  | 126.1   | 4.1     |
| EPS (%)                 | (33.9)  | (24.3)  | 126.1   | 4.1     |
| <b>Profitability</b>    |         |         |         |         |
| EBITDA Margin (%)       | 19.1    | 15.1    | 27.3    | 27.5    |
| PAT Margin (%)          | 11.8    | 8.2     | 16.5    | 16.3    |
| RoCE (%)                | 14.5    | 11.8    | 25.6    | 25.0    |
| RoE (%)                 | 14.8    | 12.2    | 27.0    | 26.3    |
| <b>Balance Sheet</b>    |         |         |         |         |
| Net Debt : Equity       | (0.5)   | (0.5)   | (0.4)   | (0.4)   |
| Net Wrkng Cap. (days)   | (1,544) | (1,014) | (1,222) | (1,147) |
| <b>Valuation</b>        |         |         |         |         |
| PER (x)                 | 19.7    | 26.0    | 11.5    | 11.1    |
| P / B (x)               | 3.1     | 3.2     | 3.0     | 2.8     |
| EV / EBITDA (x)         | 10.3    | 11.9    | 6.0     | 5.7     |
| EV / Sales (x)          | 2.0     | 1.8     | 1.6     | 1.6     |
| <b>Earnings Quality</b> |         |         |         |         |
| Eff. Tax Rate           | 35.8    | 34.6    | 34.0    | 34.0    |
| Other Inc / PBT         | 38.2    | 43.4    | 20.7    | 19.5    |
| Eff. Depr. Rate (%)     | 19.0    | 17.5    | 15.6    | 14.4    |
| FCFE / PAT              | 172.7   | 190.8   | 78.4    | 96.6    |

Source: Company Data, PL Research.

### Balance Sheet Abstract (Rs m)

| Y/e March                | 2017           | 2018           | 2019E          | 2020E          |
|--------------------------|----------------|----------------|----------------|----------------|
| Shareholder's Funds      | 586,518        | 565,036        | 608,623        | 645,998        |
| Total Debt               | 30,145         | 27,130         | 27,130         | 27,130         |
| Other Liabilities        | 13,884         | 14,286         | 14,860         | 15,201         |
| <b>Total Liabilities</b> | <b>630,547</b> | <b>606,452</b> | <b>650,612</b> | <b>688,329</b> |
| Net Fixed Assets         | 323,978        | 373,527        | 426,684        | 481,608        |
| Goodwill                 | —              | —              | —              | —              |
| Investments              | 9,694          | 9,694          | 9,694          | 9,694          |
| Net Current Assets       | 269,548        | 195,904        | 186,907        | 169,700        |
| Cash & Equivalents       | 317,433        | 318,482        | 283,139        | 266,939        |
| Other Current Assets     | 482,357        | 506,533        | 518,982        | 534,203        |
| Current Liabilities      | 530,241        | 629,111        | 615,213        | 631,441        |
| Other Assets             | 27,328         | 27,328         | 27,328         | 27,328         |
| <b>Total Assets</b>      | <b>630,547</b> | <b>606,452</b> | <b>650,612</b> | <b>688,329</b> |

### Quarterly Financials (Rs m)

| Y/e March                | Q1FY18         | Q2FY18         | Q3FY18         | Q4FY18         |
|--------------------------|----------------|----------------|----------------|----------------|
| <b>Net Revenue</b>       | <b>191,617</b> | <b>181,483</b> | <b>216,433</b> | <b>269,092</b> |
| <b>EBITDA</b>            | <b>35,220</b>  | <b>12,310</b>  | <b>46,179</b>  | <b>1,955</b>   |
| % of revenue             | 18.4           | 6.8            | 21.3           | 0.7            |
| Depr. & Amortization     | 6,699          | 7,146          | 7,511          | 9,308          |
| Net Interest             | (10,856)       | (5,101)        | (7,434)        | (18,874)       |
| Other Income             | 12,066         | 6,107          | 8,409          | 20,002         |
| <b>Profit before Tax</b> | <b>39,377</b>  | <b>10,264</b>  | <b>46,102</b>  | <b>11,521</b>  |
| Total Tax                | 15,860         | 6,576          | 16,052         | (1,420)        |
| <b>Profit after Tax</b>  | <b>23,517</b>  | <b>3,693</b>   | <b>30,049</b>  | <b>12,941</b>  |
| <b>Adj. PAT</b>          | <b>23,517</b>  | <b>3,693</b>   | <b>30,049</b>  | <b>12,941</b>  |

### Key Operating Metrics

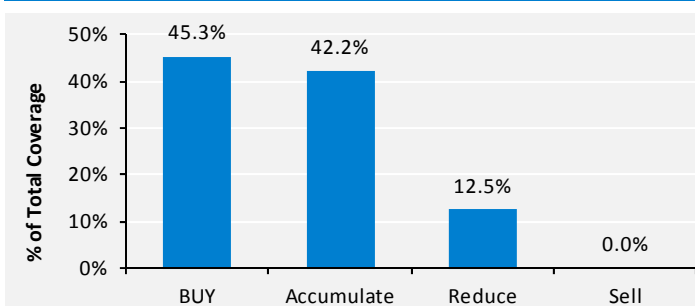
| Y/e March                           | 2017  | 2018  | 2019E | 2020E |
|-------------------------------------|-------|-------|-------|-------|
| Raw coal prod (mn tn)               | 554   | 567   | 620   | 662   |
| Coal despatches (mn tn)             | 543   | 580   | 620   | 662   |
| Vol sold under FSA/MoU (mn tn)      | 430   | 460   | 530   | 571   |
| Vol sold under E-auction (mn tn)    | 94    | 106   | 75    | 75    |
| Beneficiated coal vol (mn tn)       | 14    | 11    | 12    | 12    |
| Vol sold to power utilities (mn tn) | 425   | —     | —     | —     |
| Real. / tonne (Rs)                  | 1,393 | 1,409 | 1,457 | 1,443 |
| Total cost per tonne (Rs)           | 1,110 | 1,215 | 1,315 | 1,184 |
| Cash cost per tonne (Rs)            | 1,057 | 1,166 | 1,258 | 1,125 |
| Employee cost / tonne (Rs)          | 559   | 605   | 751   | 597   |
| EBITDA / tonne (Rs)                 | 225   | 165   | 364   | 364   |
| OBR adj / tonne (Rs)                | 52    | 48    | 59    | 59    |

Source: Company Data, PL Research.

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**Rating Distribution of Research Coverage**

**PL's Recommendation Nomenclature**

|                          |                                                      |
|--------------------------|------------------------------------------------------|
| <b>BUY</b>               | : Over 15% Outperformance to Sensex over 12-months   |
| <b>Accumulate</b>        | : Outperformance to Sensex over 12-months            |
| <b>Reduce</b>            | : Underperformance to Sensex over 12-months          |
| <b>Sell</b>              | : Over 15% underperformance to Sensex over 12-months |
| <b>Trading Buy</b>       | : Over 10% absolute upside in 1-month                |
| <b>Trading Sell</b>      | : Over 10% absolute decline in 1-month               |
| <b>Not Rated (NR)</b>    | : No specific call on the stock                      |
| <b>Under Review (UR)</b> | : Rating likely to change shortly                    |

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**ANALYST CERTIFICATION**

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