Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Coal India

Strong earnings revival; Momentum to continue in FY19e/FY20e

Analyst Meet Update

June 01, 2018

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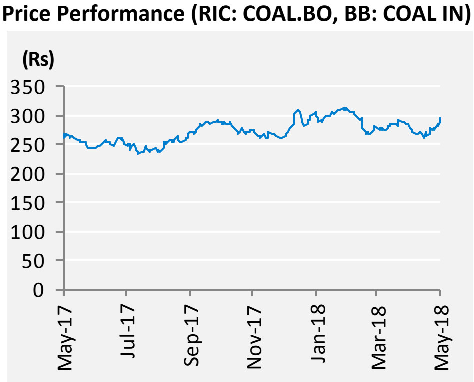
Rating	**BUY**
Price	Rs295
Target Price	Rs340
Implied Upside	15.3%
Sensex	35,322
Nifty	10,736

(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 (PLe: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 reflcted 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. (%)
Net operating revenue	**251,087**	**224,164**	***12.0***	**207,085**	**817,000**	**754,591**	***8.3***
Other operating income	18,005	8,264	*117.9*	9,348	41,624	29,521	*41.0*
Revenue (including other operating income)	**269,092**	**232,428**	***15.8***	**216,433**	**858,624**	**784,112**	***9.5***
(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*
EBITDA	**1,955**	**34,605**	***(94.4)***	**46,179**	**95,663**	**124,381**	***(23.1)***
as a % of Sales	*0.8*	*15.4*		*22.3*	*11.7*	*16.5*	
Depreciation	9,308	8,472	*9.9*	7,511	30,664	29,068	*5.5*
EBIT	**(7,353)**	**26,133**	***(128.1)***	**38,668**	**64,999**	**95,313**	***(31.8)***
Interest	1,127	1,146	*(1.6)*	974	4,318	4,092	*5.5*
PBT (before other income)	**(8,480)**	**24,987**	-	**37,694**	**60,681**	**91,221**	***(33.5)***
Other Income	20,002	17,824	*12.2*	8,409	46,583	53,242	*(12.5)*
PBT before extraordinaries	**11,521**	**42,811**	***(73.1)***	**46,102**	**107,264**	**144,463**	***(25.7)***
Exceptional items	-	-		-	-	-	
PBT after extraordinaries	**11,521**	**42,811**	***(73.1)***	**46,102**	**107,264**	**144,463**	***(25.7)***
Provision for Taxation	(1,420)	15,606	*(109.1)*	16,052	37,067	51,648	*(28.2)*
Net profit	**12,942**	**27,206**	***(52.4)***	**30,050**	**70,198**	**92,815**	***(24.4)***
Adjusted PAT	**12,942**	**27,206**	***(52.4)***	**30,050**	**70,198**	**92,815**	***(24.4)***

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*
Rs/tonne analysis on aggregate volumes							
Net realisation (excluding other operating income)	**1,581**	**1,479**	***6.8***	**1,359**	**1,408**	**1,389**	***1.4***
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)*
Sales volume mix (m tonnes)							
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)*
Realisation per tonne (Rs)							
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
Net Revenue	**782,206**	**858,624**	**960,916**	**1,016,530**
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
EBITDA	**149,121**	**129,245**	**262,694**	**279,980**
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
Profit before Tax	**144,337**	**107,264**	**240,444**	**250,298**
Total Tax	51,660	37,067	81,751	85,101
Profit after Tax	**92,677**	**70,198**	**158,693**	**165,197**
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	**92,678**	**70,198**	**158,693**	**165,197**
Avg. Shares O/S (m)	**6,207.4**	**6,207.4**	**6,207.4**	**6,207.4**
EPS (Rs.)	**14.9**	**11.3**	**25.6**	**26.6**

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
Total Liabilities	**630,547**	**606,452**	**650,612**	**688,329**
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
Total Assets	**630,547**	**606,452**	**650,612**	**688,329**

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

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Revenue	**191,617**	**181,483**	**216,433**	**269,092**
EBITDA	**35,220**	**12,310**	**46,179**	**1,955**
% 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
Profit before Tax	**39,377**	**10,264**	**46,102**	**11,521**
Total Tax	15,860	6,576	16,052	(1,420)
Profit after Tax	**23,517**	**3,693**	**30,049**	**12,941**
Adj. PAT	**23,517**	**3,693**	**30,049**	**12,941**

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
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
Profitability				
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
Balance Sheet				
Net Debt : Equity	(0.5)	(0.5)	(0.4)	(0.4)
Net Wrkng Cap. (days)	(1,544)	(1,014)	(1,222)	(1,147)
Valuation				
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
Earnings Quality				
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.

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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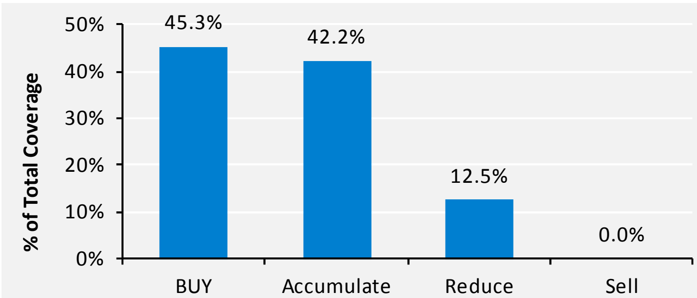
Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

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

SREESANKAR RADHAKRISHNAN

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