INDIA

BUY

Coal India

Company Update 5 June 2018

CENTRUM

Mining

From black hole to black diamond

We re-instate our coverage on Coal India (CIL) and rate it Buy with a new TP of Rs375. We are enthused by the progress made by CIL in last six months in successfully tackling multiple headwinds around employee wage costs and FSA realisations and we expect CIL to deliver strong earnings growth over FY18-20E led by i) better demand and volume CAGR of 6%, ii) robust FSA pricing on the back of recent price increases and better grade compliance and iii) strong share of e-auction volumes at 18% of total volumes coupled with higher realisations supported by favorable global coal prices. Stock trades at inexpensive valuations of 6x FY19E EV/EBITDA despite attractive return rations and we expect strong case of re-rating as earnings improve. Dividend yield of 7%+ is an added positive.

- **Headwinds are behind and were tackled with several brave moves:** During FY18 CIL was faced with multiple headwinds of i) expected sharp increase in employee costs due to pending wage hikes, ii) FSA realisations remaining low due to quality issues and iii) falling e-auction realisations and premium to linkage coal. CIL was successfully able to tackle these through i) negotiating wage hike for non-executive class at 20% (vs street expectations of 25-30% and workers demand of 40-50%), ii) increasing the coal prices twice through levy of coal evacuation charge (Rs50/t) in Dec'17 and through FSA price hikes of ~9% in Jan'18 (this was well above street's most optimistic estimates) and iii) increased availability in e-auction coal with premium expansion aided by global coal price rally. We believe that several of above moves were considered as very low probability events till two quarters back and though these have now been executed, the market is yet not appreciating their scale and benefits which would be getting accrued over FY19-20E.
- **FSA volumes have bounced back and realisations have expanded with grade slippage issues behind:** In its recent analyst meet, CIL mentioned that grade slippage issues are now behind with i) sharp decline in write-off & provisions expense in P&L in FY18 which indicates towards future expectations of the company on grade slippage, ii) quality review of existing coal mines by the coal controller resulting in net upgradation of grades on an overall basis in FY18 and iii) increased focus of the company in maintaining coal quality which has led to several customers not opting for the third party coal sampling. CIL's FSA volumes have bounced back strongly (up ~8.5% in H2FY18 & 10%+ in Apr-May'18) and FSA realisations expanded to ~Rs1365/t in Q4FY18 (vs ~Rs1200/t average in Q1-Q3FY18).
- **Earnings outlook has improved materially, strong earnings growth in store:** We remain positive on CIL's ability to deliver volume growth led by an all-round focus on production and offtake (higher railway rakes & new railway lines build-up) and factor in total volumes of 620MT/650MT for FY19E/20E. We also expect strong base of e-auction volumes to be maintained and see e-auction volumes at 112MT/117MT in FY19E/20E. We build FSA/E-auction realisations of Rs1325/2000 for FY19E (both lower than Q4FY18 average and hence building in margin of safety). With concerns around cost addressed, we see CIL earnings tracking volumes & realisations and expect adj. EBITDA CAGR of 21% over FY18-20E.
- **Valuations & Risks – Recommend Buy:** CIL stock has remained an underperformer in last two years due to subdued earnings in the face of past headwinds and low confidence of market in its future outlook leading to de-rating. Stock is now trading at FY19E adjusted P/E of 10.4x and EV/EBITDA of 6x and is poised for re-rating with strong earnings growth ahead in our view. We see triggers of better volume growth, improved pricing, increasing auction-linked volumes and attractive dividend yield to pave way for re-rating. We ascribe EV/EBITDA multiple of 7x to FY20E earnings to arrive at our TP of Rs375. Recommend Buy. Key downside risk is unfavorable use of high cash & lower volumes.

Target Price			Rs375
CMP*			Rs293
Upside			*28%*
Previous Target			NA
Previous Rating			NA
Price Performance (%)*			
	1M	**6M**	**1Yr**
COAL IN	*7.9*	*10.3*	*10.6*
NIFTY	*(0.3)*	*4.7*	*9.5*

Key Data	
Bloomberg Code	COAL IN
Curr Shares O/S (mn)	6,207.4
Diluted Shares O/S(mn)	6,207.4
Mkt Cap (Rsbn/USDbn)	1816.3/27
52 Wk H / L (Rs)	317/233.7
5 Year H / L (Rs)	447.3/233.7
Daily Vol. (3M NSE Avg.)	3524440

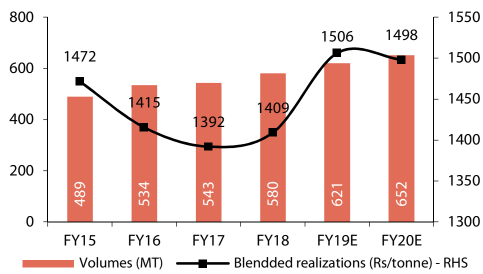
**as on 2 June 2018; Source: Bloomberg, Centrum Research*

Shareholding pattern (%)*

	Mar-18	Dec-17	Sep-17	Jun-17
Promoter	*78.6*	*78.6*	*78.9*	*78.9*
FIIs	*5.5*	*5.8*	*5.6*	*6.4*
Dom. Inst.	*12.9*	*12.2*	*11.9*	*11.5*
Public & Others	*3.1*	*3.5*	*3.7*	*3.3*

*Source: BSE, *as on 2 June 2018*

Volumes and realisations



Source: Company, Centrum Research

Centrum vs. Bloomberg Consensus*

Particulars (Rs bn)	FY19E			FY20E		
	Centrum	BBG	*Chg (%)*	Centrum	BBG	*Chg (%)*
Net Sales	985.5	954.2	*3.3*	1,029.10	1,019.8	*0.9*
EBITDA	257.1	228.0	*12.8*	261.8	250.2	*4.6*
PAT	175.1	157.0	*11.5*	176.7	165.9	*6.5*

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	*HOLD*	*Target Price (Rs)*		
24	1	6	343	375	*9.5*

**as on 2 June 2018, Source: Bloomberg, Centrum Research Estimates*

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Y/E Mar (Rs bn)	Revenue	*YoY (%)*	EBITDA*	*EBITDA (%)*	Adj. PAT	*YoY (%)*	Adj. EPS (Rs)	*RoE (%)*	*RoCE (%)*	PE (x)	EV/EBITDA (x)
FY16	780.1	*5.2*	187.1	*24.0*	142.7	*4.0*	22.6	*38.0*	*39.8*	12.9	7.7
FY17	782.2	*0.3*	122.4	*15.6*	92.7	*(35.0)*	14.9	*31.2*	*32.2*	21.0	13.4
FY18	858.6	*9.8*	169.5	*19.7*	118.5	*27.9*	19.1	*53.7*	*58.8*	15.3	8.2
FY19E	985.5	*14.8*	257.1	*26.1*	175.1	*47.7*	28.2	*82.8*	*101.0*	10.4	6.0
FY20E	1029.1	*4.4*	261.8	*25.4*	176.7	*0.9*	28.5	*72.8*	*87.1*	10.3	5.9

*Source: Company, Centrum Research Estimates, adj. PAT after OB expense removal, *FY18 EBITDA adj. for one time gratuity expenses*

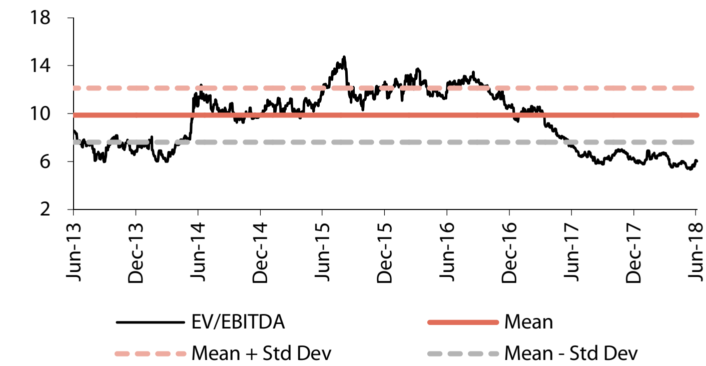
In the interest of timeliness, this document is not edited.

Exhibit 1: Sensitivity Analysis (FY19E)

Sensitivity to key variables	***% change***	***% impact on EBITDA***	***% impact on EPS***
Sales volume	*1*	*2.2*	*2.1*
Realization	*1*	*2.5*	*2.4*

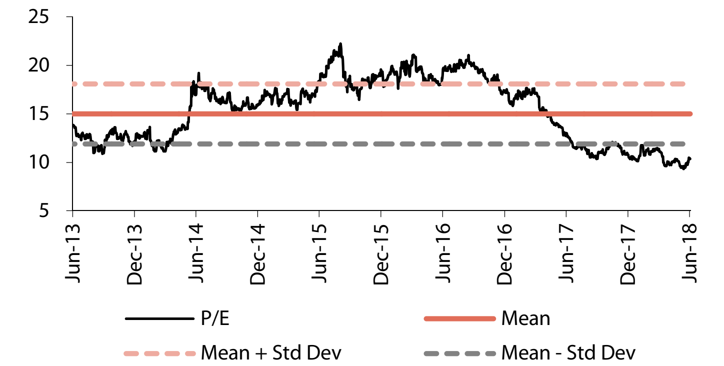
Source: Company, Centrum Research Estimates

Exhibit 2: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: Comparative Valuations

Company	**Mkt Cap (USD mn)**	***CAGR FY18-FY20E (%)***			***EBITDA Margin (%)***			**PE (x)**			**EV/EBITDA (x)**			***RoE (%)***			***Div Yield (%)***		
		Rev.	***EBITDA***	***PAT***	***FY18***	***FY19E***	***FY20E***	**FY18**	**FY19E**	**FY20E**	**FY18**	**FY19E**	**FY20E**	***FY18***	***FY19E***	***FY20E***	***FY18***	***FY19E***	***FY20E***
Coal India*	**27,113**	***9.5***	***24.3***	***22.1***	***19.7***	***26.1***	***25.4***	**15.3**	**10.4**	**10.3**	**8.2**	**6.0**	**5.9**	***53.7***	***82.8***	***72.8***	***6.0***	***6.8***	***6.8***
Ch. Shenhua Energy	63,144	*(1.6)*	*(2.5)*	*(3.1)*	*40.7*	*39.9*	*40.0*	8.2	8.8	9.5	5.0	5.0	5.2	*15.4*	*14.5*	*13.1*	*4.6*	*4.4*	*5.1*
Yanzhou Coal Mining	9,496	*7.6*	*1.6*	*(2.9)*	*29.1*	*28.2*	*25.9*	5.6	6.9	7.8	7.3	6.7	8.1	*17.6*	*16.4*	*13.8*	*5.7*	*4.9*	*5.2*
China Coal Energy	8,939	*(0.3)*	*6.1*	*9.4*	*20.0*	*22.9*	*22.7*	14.3	10.6	11.2	9.8	8.3	8.4	*4.0*	*4.6*	*4.4*	*1.5*	*2.7*	*3.0*
CONSOL Energy	1,281	*4.6*	*3.4*	*13.9*	*26.6*	*27.6*	*26.0*	12.8	10.2	12.5	4.6		5.6		*14.0*	*9.0*	*0.0*		

*Source: Bloomberg consensus,*Centrum Research Estimates, EBITDA CAGR is for adj. EBITDA*

Exhibit 5: Valuation

(Rs bn)	**Mar'20E**
Adj. EBITDA (adj. for OBR)	294.4
Exp EV/EBITDA Multiple (x)	7.0
Expected EV	2,061
Add Cash+Investments	277
Less Debt	13.3
Mkt Cap Expected	2,325
Fair Value	2,325
No. of Shares (bn)	6.2
Fair Value (Rs)	**375**

Source: Company, Centrum Research Estimates

Quarterly financials, Key Performance Indicators

Exhibit 6: Quarterly Financials

Particulars (Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Sales	**1,77,961**	**1,56,451**	**1,96,667**	**2,24,234**	**1,84,043**	**1,74,785**	**2,07,085**	**2,51,087**
Decretion/accretion of stock	40	7,169	(2,413)	(17,177)	8,817	16,289	5,475	(13,785)
Cost of material consumed	14,869	14,892	17,663	22,210	14,806	14,461	17,548	21,481
Employee remuneration & benefits	76,465	84,069	82,318	92,291	80,716	91,550	87,532	92,699
Power & fuel	6,225	6,518	6,495	6,343	6,178	6,605	6,072	6,310
Welfare expenses	425	1,244	956	2,272	1,104	1,092	632	2,010
Repairs	2,340	2,768	3,027	4,742	2,916	2,391	3,130	5,958
Contractual expenses	28,006	23,666	33,681	37,688	30,980	25,525	32,211	38,954
Other expenses	9,777	10,253	11,587	21,972	10,742	8,841	9,960	12,613
Overburden removal adjustment	2,331	1,425	8,124	14,843	(1,069)	578	9,226	24,847
Operating Profit (Core EBITDA)	**42,548**	**7,426**	**38,549**	**33,870**	**35,220**	**12,310**	**46,179**	**75,795**
Depreciation	6,672	6,921	7,011	8,498	6,699	7,146	7,511	9,308
EBIT	**35,877**	**506**	**31,538**	**25,372**	**28,521**	**5,164**	**38,668**	**66,487**
Interest	890	970	1,107	1,151	1,210	1,007	974	1,127
Other Revenue/Income	11,306	14,125	11,167	18,558	12,066	6,107	8,409	20,002
Other Exceptional Items	-	-	-	-	-	-	-	73,840
Profit Before Tax	**46,293**	**13,661**	**41,598**	**42,779**	**39,377**	**10,264**	**46,102**	**11,521**
Tax	15,641	7,660	12,754	15,606	15,860	6,576	16,052	(1,420)
Tax rate (%)	*34*	*56*	*31*	*36*	*40*	*64*	*35*	*(12)*
Profit After Tax	**30,653**	**6,002**	**28,845**	**27,173**	**23,517**	**3,689**	**30,050**	**12,942**
Growth (%)								
Net Sales	*(6.1)*	*(7.7)*	*3.7*	*8.2*	*17.6*	*(11.1)*	*(7.6)*	*36.4*
EBITDA	*(12.0)*	*(75.3)*	*(20.0)*	*(39.2)*	*374.3*	*(68.1)*	*36.3*	*115.2*
Adj. PAT	*(14.8)*	*(76.4)*	*(22.4)*	*(38.2)*	*291.8*	*(87.2)*	*10.6*	*(45.0)*
Margin (%)								
EBITDA	*23.9*	*4.7*	*19.6*	*15.1*	*19.1*	*7.0*	*22.3*	*30.2*
EBIT	*20.2*	*0.3*	*16.0*	*11.3*	*15.5*	*3.0*	*18.7*	*26.5*
PAT	*17.2*	*3.8*	*14.7*	*12.1*	*12.8*	*2.1*	*14.5*	*5.2*
Key Drivers								
Coal Production (MT)	*125.7*	*104.4*	*147.7*	*176.4*	*118.8*	*113.0*	*152.0*	*183.5*
Coal Sales (MT)	*133.2*	*115.9*	*142.7*	*151.5*	*137.4*	*131.6*	*152.4*	*158.9*
Blended realizations/tonne (Rs)	*1336*	*1350*	*1378*	*1480*	*1339*	*1328*	*1359*	*1581*

Source: Company, Centrum Research

Exhibit 7: Key Performance Indicators

Assumptions	FY15	FY16	FY17	FY18	FY19E	FY20E
Volumes (MT)						
Total coal	489.4	534.4	543.2	580.0	620.6	651.6
Raw coal (FSA)	426.0	447.7	429.8	460.0	486.8	511.3
E-auction coal	46.9	66.3	94.2	106.2	111.7	117.3
Washed coal	12.0	14.3	14.0	11.5	18.6	19.5
Realizations (Rs/tonne)						
Total Coal	1,472	1,415	1,392	1,409	1,506	1,498
Raw coal (FSA)	1,311	1,295	1,284	1,246	1,325	1,338
E-auction coal	2,450	1,858	1,536	1,839	2,000	1,900
Washed coal	2,348	2,328	3,049	3,023	3,000	3,000

Source: Company, Centrum Research Estimates

Financials

Exhibit 8: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	**7,80,076**	**7,82,206**	**8,58,624**	**9,85,451**	**10,29,126**
Materials cost	55,956	57,253	85,090	92,868	99,461
% of revenues	*7.2*	*7.3*	*9.9*	*9.4*	*9.7*
Employee cost	3,01,268	3,35,143	3,52,496	3,60,000	3,74,400
% of revenues	*38.6*	*42.8*	*41.1*	*36.5*	*36.4*
Others	2,35,740	2,67,412	2,51,535	2,75,502	2,93,464
% of revenues	*30.2*	*34.2*	*29.3*	*28.0*	*28.5*
EBITDA	**1,87,113**	**1,22,399**	**1,69,503**	**2,57,082**	**2,61,801**
EBITDA margin (%)	*24.0*	*15.6*	*19.7*	*26.1*	*25.4*
Depreciation & Amortisation	28,259	29,101	30,664	36,208	40,695
EBIT	**1,58,854**	**93,298**	**1,38,839**	**2,20,874**	**2,21,106**
Interest expenses	3,862	4,117	4,318	4,534	4,760
PBT from operations	**1,54,992**	**89,181**	**1,34,521**	**2,16,340**	**2,16,346**
Other income	59,406	55,156	46,583	48,912	51,358
Exceptional items*	-	-	73,840	-	-
PBT	**2,14,398**	**1,44,337**	**1,07,264**	**2,65,253**	**2,67,704**
Taxes	71,719	51,660	37,067	90,186	91,019
Effective tax rate (%)	*33*	*36*	*35*	*34*	*34*
Reported PAT	**1,42,679**	**92,678**	**70,198**	**1,75,067**	**1,76,683**
Adjusted PAT	**1,42,679**	**92,678**	**1,18,521**	**1,75,067**	**1,76,684**

*Source: Company, Centrum Research Estimates, *onetime gratuity expense in FY18*

Exhibit 9: Key Ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Growth Ratio (%)					
Revenue	*5.2*	*0.3*	*9.8*	*14.8*	*4.4*
EBITDA	*7.9*	*(34.6)*	*38.5*	*51.7*	*1.8*
Adjusted PAT	*4.0*	*(35.0)*	*27.9*	*47.7*	*0.9*
Margin Ratios (%)					
EBITDA	*24.0*	*15.6*	*19.7*	*26.1*	*25.4*
PBT from operations	*19.9*	*11.4*	*15.7*	*22.0*	*21.0*
Adjusted PAT	*18.3*	*11.8*	*13.8*	*17.8*	*17.2*
Return Ratios (%)					
ROE	*38.0*	*31.2*	*53.7*	*82.8*	*72.8*
ROCE	*39.8*	*32.2*	*58.8*	*101.0*	*87.1*
Turnover Ratios (days)					
Gross block turnover ratio (x)	2.2	2.9	2.6	2.4	2.1
Debtors	54	50	37	43	43
Inventory	35	42	27	29	29
Creditors	15	18	19	19	19
Cash conversion cycle	74	74	45	53	53
Solvency Ratio (x)					
Net debt-equity	(1.1)	(1.3)	(1.5)	(1.2)	(1.0)
Debt-equity	0.0	0.1	0.1	0.1	0.1
Interest coverage ratio	0.0	0.0	0.0	0.0	0.0
Gross debt/EBITDA	0.1	0.2	0.1	0.1	0.1
Current Ratio	2.3	1.6	1.3	1.4	1.3
Per share Ratios (Rs)					
Adjusted EPS	22.6	14.9	19.1	28.2	28.5
BVPS	55.1	39.5	31.6	36.5	41.7
CEPS	27.1	19.6	16.2	34.0	35.0
DPS	27.4	19.9	16.5	20.0	20.0
Dividend payout %	*121.3*	*133.3*	*145.9*	*70.9*	*70.3*
Valuation (x)*					
P/E (adjusted)	12.9	21.0	15.3	10.4	10.3
P/BV	5.3	8.0	9.3	8.0	7.0
EV/EBITDA	7.7	13.4	8.2	6.0	5.9
Dividend yield %	*9.4*	*6.3*	*6.0*	*6.8*	*6.8*
5 Yr Avg AOCF/EV yield %	*9.7*	*8.1*	*10.7*	*9.8*	*10.4*

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	63,164	62,074	62,074	62,074	62,074
Reserves & surplus	2,85,168	1,83,194	1,34,070	1,64,504	1,96,556
Shareholders' fund	3,48,332	2,45,268	1,96,144	2,26,578	2,58,630
Total Debt	11,921	30,078	15,309	14,309	13,309
Def tax liab. (net)	(20,445)	(27,328)	(53,551)	(53,551)	(53,551)
Minority interest	1,048	3,459	3,625	3,625	3,625
Total Liabilities	**3,40,855**	**2,51,477**	**1,61,529**	**1,90,963**	**2,22,015**
Gross Block	2,47,613	2,93,986	3,62,596	4,52,596	5,42,596
Less: Acc. Depreciation	26,789	55,909	86,573	1,22,781	1,63,475
Net Block	2,20,825	2,38,077	2,76,023	3,29,815	3,79,121
Capital WIP	45,532	85,901	1,02,864	1,12,864	1,22,864
Net Fixed Assets	2,66,357	3,23,978	3,78,887	4,42,680	5,01,985
Investments	29,061	14,829	15,086	15,086	15,086
Inventories	75,692	89,453	64,439	77,404	80,814
Sundry debtors	1,14,476	1,07,359	86,892	1,16,106	1,21,221
Cash	3,80,149	3,12,298	3,12,181	2,76,374	2,75,401
Loans & Advances	25,935	28,585	45,894	51,602	53,876
Other assets	2,16,167	2,56,960	3,15,667	3,24,864	3,33,389
Total Current Asset	8,12,419	7,94,655	8,25,073	8,46,350	8,64,701
Trade payables	32,972	39,002	45,169	51,602	53,876
Other current Liab.	2,38,105	3,10,949	3,65,182	3,77,817	3,92,026
Provisions	4,95,905	5,32,033	6,47,167	6,83,733	7,13,855
Net Current Assets	45,437	(87,329)	(2,32,445)	(2,66,803)	(2,95,056)
Total Assets	**3,40,855**	**2,51,477**	**1,61,529**	**1,90,963**	**2,22,015**

Source: Company, Centrum Research Estimates

Exhibit 11: Key Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Operating profit bef working capital changes	2,36,989	1,87,680	95,663	2,57,082	2,61,801
Changes in working capital	(26,697)	60,216	1,18,941	(1,449)	27,281
Cash flow from operations	**1,31,538**	**1,58,470**	**1,77,538**	**1,65,447**	**1,98,062**
Adj. OCF (OCF - Interest)	1,27,676	1,54,352	1,73,220	1,60,913	1,93,302
Net Capex	57,857	86,761	85,573	1,00,000	1,00,000
Adj. FCF	69,819	67,591	87,647	60,913	93,302
Cash flow from investments	**81,542**	**4,546**	**(39,248)**	**(51,088)**	**(48,642)**
Cash flow from financing	**(1,95,874)**	**(1,75,980)**	**(1,38,408)**	**(1,50,166)**	**(1,50,393)**
Net change in cash	**17,206**	**(12,964)**	**(118)**	**(35,807)**	**(973)**

Source: Company, Centrum Research Estimates

Appendix A

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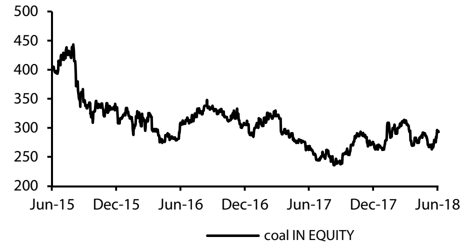
Coal India price chart



Source: Bloomberg, Centrum Research

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		Coal India
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