

Coal India | BUY

Adj. PAT +42% YoY; FSA realisation +19% QoQ

Coal India (CIL)'s net profit – adjusted for a one-time gratuity provisioning – stood at INR 62bn (+42% YoY), resulting in FY18 profit growth of 3% YoY (despite a profit decline of 16% in 9MFY18). Notably, the price hikes taken in Dec'17 are reflected in FSA realisations, which grew 19% QoQ to INR 1,403/T, while e-auction realisations improved 31% YoY to INR 2,112/T. FY18 profit growth is led by a) 6.5%/13% YoY growth in FSA /e-auction volumes and b) e-auction realisations growing 20% YoY. The positive impact of coal re-stocking by power plants is clearly evident in higher off-take growth for CIL (6.8% in FY18).

We factor offtake growth of c.7% in FY19-20 for CIL vs. management's target of 8.6% in FY19. While FY18 profit growth has been flattish due to wage provisioning, we estimate high growth in FY19 profits (c.20%), despite factoring only 7% offtake growth (vs. management's target of 8.6%) and lower e-auction prices. With all the negatives of wage provisioning and degradation already factored in FY18 earnings, the benefit of growing volumes and price hike would reflect in FY19/20. We maintain BUY with a DCF-based TP of INR 350, while CIL currently trades at 5x FY20 EV/EBITDA and P/E of 11.8x FY20.

- **4QFY18 adj. PAT +42% YoY as FSA realisation improves:** CIL's 4QFY18 net profit, adjusted for exceptional items stood at INR 62bn (+42% YoY). One-offs were led by INR 73.8bn PF provisioning for employee gratuity expenses of previous years. Profit growth is led by **a)** volume growth (9% YoY for FSA / flattish for e-auction) and **b)** FSA realisations improving 19% QoQ (INR 1,403/T) due to price hikes and 31% YoY growth in e-auction realisations (INR 2,112/T). This compares with INR 1,243/T of average cost of production (adjusted for gratuity one-off).
- **Power plant re-stocking to continue in FY19:** The ongoing coal shortage was triggered by a steady fall in power plant coal stocks since Apr'17 as states delayed coal procurement. Hence, coal stocks fell to a critically low level of 6 days in Sept'17 (16 days in Apr'17), and remain low at 10 days in May'18. This, coupled with lower generation by hydro and wind power in 2QFY18, led to the resurgence of demand from thermal power plants. Hence, we expect continued coal restocking at power plants, along with new plant additions (5GW p.a. from NTPC alone), implying string offtake growth for CIL in FY19 (visible in Mar-Apr'18). Management guides for production/offtake at 630mnT for FY19 (8.6% YoY growth) + and expects to keep e-auction volumes stagnant.
- **Railways rake availability / new lines:** Logistical constraints continue with railways rake availability being 285-290 rakes vs. a requirement of >309 rakes /day. However of the under-development railways corridors, two are expected to be commissioned in CY18 (Tori-Shivpuri and Jharsuguda-Barparlli), while the Mand-Raigarh line is expected only by end-CY19. Each of these lines will add to 30-40mnT of evacuation capability per year. Hence, off-take growth can easily follow production once these lines commission.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	350
Upside/(Downside)	21.1%
Previous Price Target	320
Change	9.4%

Key Data – COAL IN

Current Market Price	INR289
Market cap (bn)	INR1,794.3/US\$26.6
Free Float	13%
Shares in issue (mn)	6,207.4
Diluted share (mn)	6,207.4
3-mon avg daily val (mn)	INR936.1/US\$13.9
52-week range	317/234
Sensex/Nifty	34,906/10,614
INR/US\$	67.4

Price Performance

%	1M	6M	12M
Absolute	1.4	4.8	8.0
Relative*	2.2	-0.5	-3.6

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	7,56,443	7,84,112	8,58,624	9,14,461	9,72,285
Sales Growth (%)	5.0	3.7	9.5	6.5	6.3
EBITDA	1,75,437	1,47,700	1,82,230	2,19,539	2,37,752
EBITDA Margin (%)	23.2	18.8	21.2	24.0	24.5
Adjusted Net Profit	1,54,155	1,08,439	1,19,052	1,42,427	1,52,167
Diluted EPS (INR)	24.4	17.5	19.2	22.9	24.5
Diluted EPS Growth (%)	7.1	-28.4	9.8	19.6	6.8
ROIC (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	40.9	36.5	53.7	74.1	81.2
P/E (x)	11.8	16.5	15.1	12.6	11.8
P/B (x)	5.2	7.3	9.0	9.6	9.5
EV/EBITDA (x)	8.2	10.3	8.3	7.7	7.1
Dividend Yield (%)	10.6	6.9	7.1	6.7	6.9

Source: Company data, JM Financial. Note: Valuations as of 30/May/2018

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. 4QFY18 Result Highlights (INR mn)

Coal India	4Q18	4Q17	3Q18	% YoY	% QoQ
MT produced	183	176	152	4.0%	20.7%
MT Sold	159	152	152	4.8%	4.2%
Net Sales from Coal	2,51,087	2,24,164	2,07,085	12.0%	21.2%
Sales/MT	1,581	1,479	1,378	6.8%	14.7%
EBITDA	4,166	49,959	44,648	-91.7%	-90.7%
EBITDA/MT	26	330	293	-92.0%	-91.0%
EBITDA Margins	1.5%	21.5%	20.6%	-1bps	-1bps
PBT	11,521	42,811	46,102	-73.1%	-75.0%
Provision for Income Tax	-1,420	15,606	16,052	-109.1%	-108.8%
Effective Tax Rate	-12.3%	36.5%	34.8%	-133.8%	-135.4%
Reported Profit	12,942	27,206	28,520	-52.4%	-54.6%
Adj Profit	62,417	43,910	28,571	42.1%	118.5%
NPM/MT	393	290	187	35.6%	109.6%

Source: Company, JM Financial

Exhibit 2. Volume growth/Realisations (INR mn)

	4Q18	4Q17	3Q18	% YoY	% QoQ
<u>FSA</u>					
Volume	126	116	122	8.7%	3.7%
% Of volume	80%	77%	80%		
Avg realisation	1,403	1,376	1,182	2.0%	18.8%
<u>E-Auction</u>					
Volume	29.3	29.5	26.4	-0.8%	11.0%
% Of volume	18.4%	19.5%	17.3%		
Avg realisation	2,112	1,611	1,998	31.1%	5.7%

Source: Company, JM Financial

Company background

- Coal India Limited (CIL) was launched in November 1975 with the government taking over private coal mines. With a modest production of 79 million tonnes (MTs) at the year of inception, CIL today is the single largest coal producer in the world. The company produces around 81% of India's overall coal production. Operating through 81 mining areas, CIL is an apex body with seven wholly-owned coal producing subsidiaries, and a mine planning and consultancy subsidiary, spread over eight provincial states of India. CIL, having fulfilled financial and other pre-requisites, was granted the Maharatna recognition in Apr'11.

Exhibit 3. Key revenue variables

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Raw Coal Production (MT)	539	554	567	607	650
Raw Coal Sales (MT)	533	543	580	621	661
Realisation	1,418	1,443	1,480	1,473	1,470
FSA EBITDA/T	266	152	65	178	192
E-Auction EBITDA /T	780	338	647	511	442

Source: Company, JM Financial

Investment rationale

- At CMP, the stock trades at 11.8x FY20 EPS and 5x FY20 EV/EBITDA, while all negatives of wage hike, lower volume growth and flat FSA realisations are already factored in FY18 earnings. We estimate high growth in FY19 profits (c20%), despite factoring only 7% offtake growth (vs. management target of 8.6%) and lower e-auction. With all negatives of wage provisioning, degradation already factored in FY18 earnings, the benefit of growing volumes and price hike will reflect in FY19/20.

Key risks

- Delayed recovery in off-take growth and weakness in FSA/e-auction rates could impact/depress earnings growth.

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	7,56,443	7,84,112	8,58,624	9,14,461	9,72,285
Sales Growth	5.0%	3.7%	9.5%	6.5%	6.3%
Other Operating Income	0	0	0	0	0
Total Revenue	7,56,443	7,84,112	8,58,624	9,14,461	9,72,285
Cost of Goods Sold/Op. Exp	2,21,825	2,32,518	2,71,507	2,67,489	3,12,825
Personnel Cost	2,96,598	3,35,229	3,43,501	3,62,741	3,52,590
Other Expenses	62,582	68,665	61,387	64,691	69,118
EBITDA	1,75,437	1,47,700	1,82,230	2,19,539	2,37,752
EBITDA Margin	23.2%	18.8%	21.2%	24.0%	24.5%
EBITDA Growth	8.1%	-15.8%	23.4%	20.5%	8.3%
Depn. & Amort.	24,664	29,068	30,664	35,130	39,237
EBIT	1,50,773	1,18,633	1,51,566	1,84,408	1,98,515
Other Income	80,943	53,242	46,583	38,124	39,000
Finance Cost	207	4,092	4,318	3,412	3,412
PBT before Excep. & Forex	2,31,509	1,67,783	1,93,831	2,19,119	2,34,103
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,31,509	1,67,783	1,93,831	2,19,119	2,34,103
Taxes	73,148	51,648	37,067	76,692	81,936
Extraordinary Inc./Loss(-)	-15,618	-23,320	-82,744	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	1,42,743	92,815	74,021	1,42,427	1,52,167
Adjusted Net Profit	1,54,155	1,08,439	1,19,052	1,42,427	1,52,167
Net Margin	20.4%	13.8%	13.9%	15.6%	15.7%
Diluted Share Cap. (mn)	6,316.4	6,207.4	6,207.4	6,207.4	6,207.4
Diluted EPS (INR)	24.4	17.5	19.2	22.9	24.5
Diluted EPS Growth	7.1%	-28.4%	9.8%	19.6%	6.8%
Total Dividend + Tax	1,93,462	1,23,656	1,28,032	1,19,369	1,23,259
Dividend Per Share (INR)	30.6	19.9	20.6	19.2	19.9

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	2,31,509	1,67,783	1,93,831	2,19,119	2,34,103
Depn. & Amort.	28,259	29,068	30,664	35,130	39,237
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	75,124	51,469	1,41,889	-1,81,017	-31,553
Others	-22,780	3,403	-52,985	43,657	56,754
Taxes Paid	-73,148	-51,648	-37,067	-76,692	-81,936
Operating Cash Flow	2,38,965	2,00,074	2,76,333	40,198	2,16,605
Capex	0	0	0	0	0
Free Cash Flow	2,38,965	2,00,074	2,76,333	40,198	2,16,605
Inc (-) / Dec in Investments	-66,661	-83,010	-67,668	-71,051	-74,604
Others	-1,09,480	4,820	-23,847	1,773	1,773
Investing Cash Flow	-1,76,140	-78,191	-91,515	-69,278	-72,831
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-2,08,495	-1,54,796	-1,54,796	-1,54,796	-1,49,561
Inc / Dec (-) in Loans	20,096	16,390	-13,560	0	0
Others	-25,201	-52,135	-13,203	0	0
Financing Cash Flow	-2,13,600	-1,90,541	-1,81,559	-1,54,796	-1,49,561
Inc / Dec (-) in Cash	-1,50,776	-68,657	3,259	-1,83,876	-5,787
Opening Cash Balance	5,30,925	3,80,149	3,11,492	3,14,750	1,30,874
Closing Cash Balance	3,80,149	3,11,492	3,14,750	1,30,874	1,25,087

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	3,49,379	2,45,181	1,98,466	1,86,097	1,88,703
Share Capital	63,164	62,074	62,074	62,074	62,074
Reserves & Surplus	2,86,216	1,83,107	1,36,392	1,24,023	1,26,629
Preference Share Capital	0	0	0	0	0
Minority Interest	0	3,459	3,625	3,625	3,625
Total Loans	24,115	40,505	26,945	26,945	26,945
Def. Tax Liab. / Assets (-)	-64,424	-1,02,007	-1,35,328	-1,35,328	-1,35,328
Total - Equity & Liab.	3,09,070	1,87,138	93,707	81,339	83,945
Net Fixed Assets	2,66,357	3,23,966	3,78,638	4,14,559	4,49,926
Gross Fixed Assets	4,94,164	5,36,854	5,87,510	6,58,561	7,33,165
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	2,86,851	3,15,918	3,46,582	3,81,712	4,20,949
Capital WIP	59,044	1,03,030	1,37,710	1,37,710	1,37,710
Investments	1,37,614	1,32,794	1,56,641	1,54,869	1,53,096
Current Assets	6,59,887	6,19,385	6,04,310	6,14,967	6,48,191
Inventories	75,692	89,453	64,439	97,795	1,21,018
Sundry Debtors	1,14,476	1,24,763	86,892	1,14,583	1,21,929
Cash & Bank Balances	3,80,149	3,11,492	3,14,751	1,30,874	1,25,087
Loans & Advances	218	125	37	1,33,522	1,41,966
Other Current Assets	89,352	93,553	1,38,192	1,38,192	1,38,192
Current Liab. & Prov.	7,54,788	8,89,007	10,45,882	11,03,056	11,67,268
Current Liabilities	32,972	38,843	45,169	48,331	51,714
Provisions & Others	7,21,816	8,50,164	10,00,713	10,54,725	11,15,554
Net Current Assets	-94,901	-2,69,622	-4,41,572	-4,88,089	-5,19,077
Total - Assets	3,09,070	1,87,138	93,707	81,338	83,944

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	20.4%	13.8%	13.9%	15.6%	15.7%
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.7
Leverage Factor (x)	3.0	3.9	5.5	6.7	7.2
RoE	40.9%	36.5%	53.7%	74.1%	81.2%

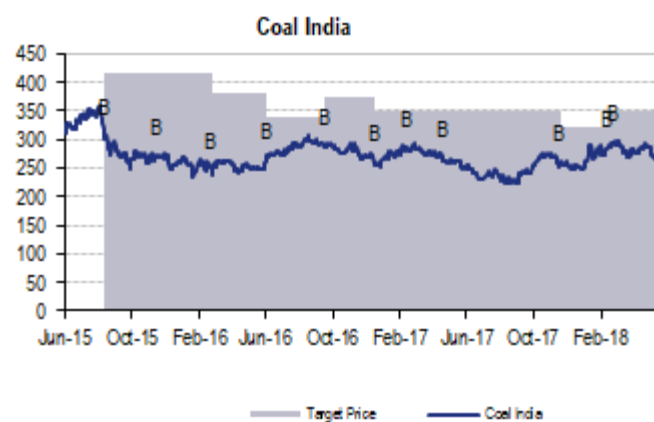
Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	55.3	39.5	32.0	30.0	30.4
ROIC	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	40.9%	36.5%	53.7%	74.1%	81.2%
Net Debt/Equity (x)	-1.0	-1.1	-1.5	-0.6	-0.5
P/E (x)	11.8	16.5	15.1	12.6	11.8
P/B (x)	5.2	7.3	9.0	9.6	9.5
EV/EBITDA (x)	8.2	10.3	8.3	7.7	7.1
EV/Sales (x)	1.9	1.9	1.8	1.9	1.7
Debtor days	55	58	37	46	46
Inventory days	37	42	27	39	45
Creditor days	21	22	24	25	26

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
13-Aug-15	Buy	415	
16-Nov-15	Buy	415	0.0
23-Feb-16	Buy	380	-8.4
1-Jun-16	Buy	340	-10.5
15-Sep-16	Buy	375	10.3
15-Dec-16	Buy	350	-6.7
13-Feb-17	Buy	350	0.0
18-Apr-17	Buy	350	0.0
17-Nov-17	Buy	320	-8.6
13-Feb-18	Buy	350	9.4
21-Feb-18	Buy	350	0.0

Recommendation History



APPENDIX I

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(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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Rating	Meaning
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