INDIA

BUY

CENTRUM

Coal India

Company Update 11 October 2018

Mining

Ticking all the right boxes, re-rating imminent; Buy

We reiterate Buy on Coal India (CIL) with revised TP of Rs365 as we expect re-rating with market finally appreciating the structural improvements like improved coal quality, better evacuation, significant increase in auction linked volumes and sharp reduction in working capital which provide strong earnings/cash flow visibility. We also expect strong upside to e-auction realisations given the strong global coal prices, weak rupee and strong underlying demand (from both power & non-power) which is expected to mitigate the headwind of higher diesel prices. Concerns around divestment capping stock returns in near term are overdone as CIL trades at inexpensive valuations of 5.4x FY19E EV/EBITDA despite attractive return ratios and robust dividend yield.

- **CIL's structural operational improvements are yet to get appreciated by market:** CIL has made significant positive strides in its operational parameters (Refer Exhibit 1 on page 2) encompassing i) stabilisation of coal grades with net upgradation in last assessment, ii) improvement in evacuation leading to lowest ever inventory at Sep'18, iii) aggressive FSA price increases to cover increased costs & improve margins, iv) strong traction in auction based volumes and recent improvement in premiums therein, v) improvement in working capital cycle leading to strong cash flow profile and v) aggressive efforts in phasing out the loss making underground mining activities. *We believe that these improvements are structural in nature and have strong positive sensitivity to earnings which the market is conveniently ignoring in our view.* We see strong earnings traction for CIL over FY19-21E led by these structural improvements.
- **Increasing auction linked volumes provide strong upside to earnings:** CIL has done a remarkable job in i) doubling of e-auction volumes over FY15-18E led by multiple routes & aggressive allocation *(e-auction share at 18% in FY18 v/s 10% in FY15)* and ii) achieving strong traction in *linkage auctions for non-regulated sector which accounts for ~60 MT volumes contracted at average premium of 15% and expected to add Rs12bn to EBITDA*. With large upside risk to e-auction realisations led by higher global coal prices, strong domestic demand & weak rupee, we see strong upside to earnings from auction linked volumes whose combined share has gone above 25% and is expected to increase further in medium term.
- **Earnings outlook remains bright despite few near-term headwinds:** CIL is currently facing near-term headwinds of increasing diesel prices (Rs1/ltr diesel price increase increases CoP by Rs1.2bn) and intermittent fall in e-auction volumes as CIL has diverted more coal to power sector (presumable led by shortage of coal at power plants and resultant diktats by GoI). However, we expect this to be mitigated by higher e-auction realisations and increased linkage auction volumes in non-power FSA. We maintain our overall volume estimates at 627MT/658MT for FY19E/20E but marginally reduce our e-auction volume estimates to 94MT/105MT in FY19E/20E. We increase e-auction realisations to Rs2300/2100 for FY19E/20E and adjust our contractual cost estimates higher to factor in higher diesel prices. Our EBITDA estimates for FY19E/20E are revised downwards by 2.5%/3% for FY19E/20E and we expect adj. EBITDA CAGR of 25% over FY18-20E.
- **Valuations & Risks – Robust cash flows to ensure strong dividend yield, Reiterate Buy:** We expect CIL's OCF to average ~Rs200bn during FY19-21E and expect Rs20/sh dividend for FY19E which implies strong 7.3% dividend yield at current levels. Stock is trading at FY19E adjusted P/E of 9.6x and EV/EBITDA of 5.4x which is well below its 5 year mean and is poised for re-rating with strong triggers of better volume growth, improved pricing, increasing auction-linked volumes and attractive dividend yield. Maintain buy with TP of Rs365. Key downside risk is unfavourable use of cash & lower volumes.

Target Price	Rs365
CMP*	Rs274
Upside	*33.2%*
Previous Target	375
Previous Rating	Buy

Price Performance (%)*

	1M	6M	1Yr
COAL IN	*(4.4)*	*(0.2)*	*(2.6)*
NIFTY	*(11.1)*	*(0.8)*	*3.1*

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)	1700.5/22.9
52 Wk H / L (Rs)	317/256
5 Year H / L (Rs)	447.3/233.7
Daily Vol. (3M NSE Avg.)	3938101

**as on 9 October 2018; Source: Bloomberg, Centrum Research*

Shareholding pattern (%)*

	Jun-18	Mar-18	Dec-17	Sep-17
Promoter	*78.3*	*78.6*	*78.6*	*78.9*
FIIs	*5.4*	*5.5*	*5.8*	*5.6*
Dom. Inst.	*13.2*	*12.9*	*12.2*	*11.9*
Public & Others	*3.1*	*3.1*	*3.5*	*3.7*

*Source: BSE, *as on 9 October 2018*

Improvement in key operational attributes

Operational Attribute	Improvements realised in last two years
E-auction Volumes	E-auction sales have doubled during FY15-18 led by multiple auction routes
Linkage Auctions	Linkage auction volumes raised to 10% share with 15% average premium
E-auction Realisations	Improved materially led by global factors & strong demand
FSA Realisations	Beaten market expectations in last one year, can surprise positively in future
Underground Mining	UG mining share down to 6%, 100 UG mines closed in last 5 years, 53 UG mines to be closed in FY19
Evacuation Capability	Improved materially. Inventory in Sep'18 at historic lows

Source: Company, Centrum Research Estimates

Earnings Revision

Particulars (Rs bn)	FY19E			FY20E		
	New	Old	*Chg (%)*	New	Old	*Chg (%)*
Sales	1,018.6	1,013.4	*0.5*	1,061.3	1,059.9	*0.1*
EBITDA	262.8	269.5	*(2.5)*	266.7	275.3	*(3.1)*
EBITDA Margin (%)	25.8	26.6		25.1	26.0	
PAT	177.7	183.4	*(3.1)*	177.5	185.7	*(4.4)*

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs bn)	FY19E			FY20E		
	Centrum	BBG	*Chg (%)*	Centrum	BBG	*Chg (%)*
Net Sales	1,018.6	968.7	*5.2*	1,061.3	1,030.2	*3.0*
EBITDA	262.8	237.7	*10.6*	266.7	254.4	*4.8*
PAT	177.7	162.8	*9.2*	177.5	169.7	*4.6*

Bloomberg Consensus*				Centrum Target Price (Rs)	*Variance (%)*
BUY	SELL	HOLD	Target Price (Rs)		
26	1	5	339	365	*7.7%*

**as on 9 October 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	784.1	*0.5*	124.4	*15.9*	92.8	*(34.9)*	15.0	*31.3*	*32.2*	21.0	13.2
FY18	858.6	*9.5*	169.5	*19.7*	118.5	*27.7*	19.1	*53.4*	*58.4*	14.3	8.2
FY19E	1,018.6	*18.6*	262.8	*25.8*	177.7	*49.9*	28.6	*82.6*	*100.4*	9.6	5.4
FY20E	1,061.3	*4.2*	266.7	*25.1*	177.5	*(0.1)*	28.6	*71.6*	*85.2*	9.6	5.3

*Source: Company, Centrum Research Estimates, *FY18 EBITDA adj. for one time gratuity expenses*

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

CIL's structural operational improvements are yet to get appreciated by market

We believe that market has under-appreciated significant improvements made by CIL in last two years in majority of its key operational attributes which are likely to impact the earnings positively going ahead. We undertake a detailed analysis of these attributes and point out the benefits and earnings sensitivity for CIL from them. We believe that several improvements are structural in nature and have a sustainable benefit for the company which would keep the cash flow generation strong and keep the dividend yield high from CIL.

Exhibit 1: Snapshot of improvement in key operational attributes which impact earnings positively

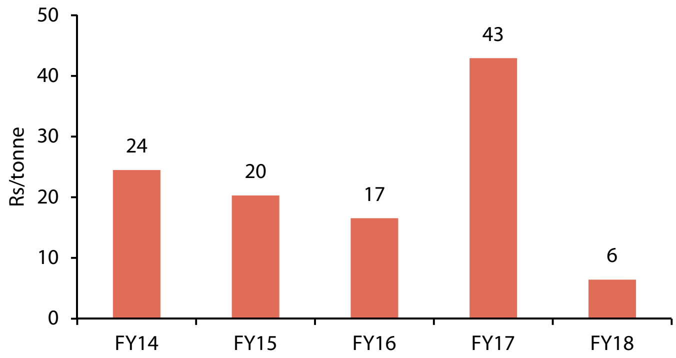
S. No	Operational Attribute	Improvements realised in last two years	Outcome of improvement	Reference Chart	Impact on earnings (FY19 onwards)	Earnings Sensitivity
1	Coal Quality	Mine quality has seen stabilisation now after earlier downgrades. *FY19 re-gradation of mines resulted in net upgrades in quantity terms*	Consumers not opting for 3rd party sampling anymore. Provisions/write-offs have tapered off	Exhibit 2,3	Positive. Likely to increase EBITDA/t by Rs15-20/t	1% increase in FSA realisations increase EBITDA by 2.5%
2	Evacuation Capability	Improved materially as new railway lines commissioned & rake availability increased	*Sep'18 Coal Inventory lowest ever in 10 years despite high production base*	Exhibit 4	Positive. 10 MT inventory reduction to supplement earnings & Cash flows	10 MT inventory reduction to increase EBITDA/Cash flows by 1.5%/7%
3	E-auction allocation	*E-auction sales have doubled during FY15-18.* E-auction down YoY in H1FY19 but expected to recover in H2	Multiple routes of auction has helped e-auction sales	Exhibit 5,6	Positive. Higher e-auction share increases earnings profile. Short-term dip in e-auction volumes not a concern.	1% increase in e-auction volumes result in EBITDA increase of 0.8%
4	Linkage Auctions	Absorbed well by market, premiums increasing	*10%+ volumes in FSA are now auction linked. Latest tranche have fetched high premiums ranging from 20%-40%*	Exhibit 7,8	Positive	Total linkage auction volumes signed till date to result in additional EBITDA of Rs12bn annually
5	E-auction realisations	Improved materially led by global factors & strong demand	*E-auction realisations have strong upside risk with rupee depreciation*	Exhibit 9,10	Positive. High co-relation of e-auction prices to global coal prices and strong underlying demand is expected to keep realisations high.	1% increase in e-auction realisations increase EBITDA by 0.8%
6	FSA Realisations	Beaten market expectations in last one year, can surprise positively in future	Cost inflation passed through swiftly	Exhibit 11,12	Positive	1% increase in FSA realisations increases EBITDA by 2.5%
7	Underground Mining	UG mining share down to 6%, 100 UG mines closed in last 5 years, 53 UG mines to be closed in FY19	*Aggressive closure plans can rundown UG share further, lift EBITDA*	Exhibit 13,14	Positive	Every 1 MT drop in UG mine would add Rs1bn to EBITDA
8	Improved working capital cycle	Reduced inventory days by 8 days, debtor days by 16 days over FY16-18	*Strong cash flow generation seen in FY17/18 despite muted P&L earnings*	Exhibit 18,19	Positive	NA
9	Diesel Price increase	NA	Every Rs1/ltr diesel price rise increases the contractual expense by Rs1.2bn	Exhibit 15	Negative	FY19 Diesel price increase likely to be Rs12-15/ltrs resulting in additional contractual expense of Rs15-18bn (~6% of EBITDA)

Source: Company, Centrum Research Estimates

Coal quality issues are behind, provisions & write-offs have tapered down

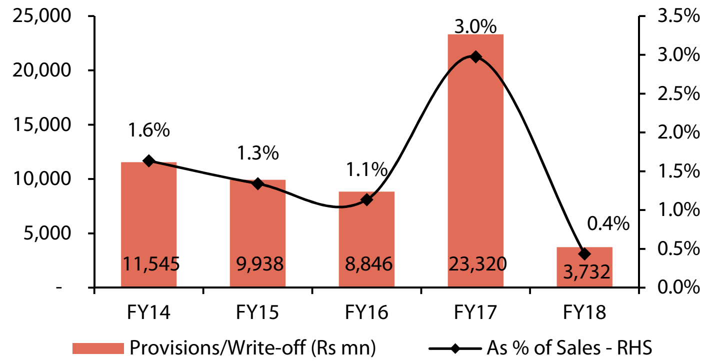
CIL has faced coal quality issues in the past and several disputes between CIL and its consumers on the same was a norm till few years back. However, CIL together with pro-active steps by Ministry of Coal (MoC) has addressed this issue by taking steps for undertaking third party sampling and then re-gradation of mines done by Coal Controller Organisation (CCO). We note that CIL's 177 mines were downgraded in FY17 by CCO but the downgrades reduced significantly in FY18 and hence the provisions/write-offs that CIL had to book in its P&L for possible grade slippages in the past has now been reduced to a significantly low number. CIL has also increased its surface mining proportion over time to 47% share in FY18 which has helped improve the quality of coal. We believe that CIL has been able to add Rs15-20/t at EBITDA level from FY18 onwards with its quality issues getting addressed for good and this is a long term positive event which has got almost unnoticed by the market.

Exhibit 2: Provisions/write-off per tonne of coal sales



Source: Company, Centrum Research

Exhibit 3: Provisions/write-offs have tapered off from FY18

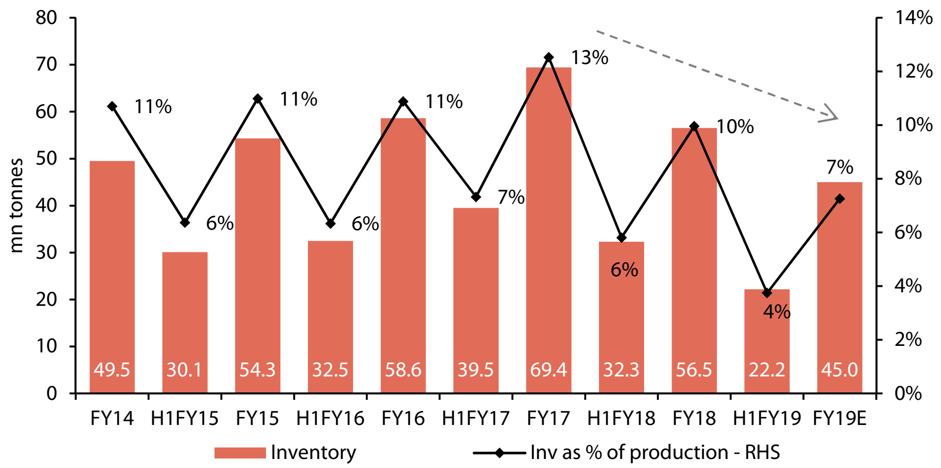


Source: Company, Centrum Research

Evacuation Capability has improved – positive impact on cash flows likely

CIL has made significant efforts in improving the evacuation capabilities by way of build-up and start of new railway lines, upgradation of rapid loading systems, allocation of more rakes and improved efficiency at individual mine level evacuation. This has resulted in lowest coal inventory level ever for CIL as at Sep'18 of only 22 MT (~4% of annual production). We expect CIL to end FY19 with an inventory of 45 MT (~7% of annual production) which would be significantly lower than long term average of 11%. This is expected to prop up the earnings and cash flows for CIL in FY19 & beyond.

Exhibit 4: CIL's September'18 inventory at its historical low

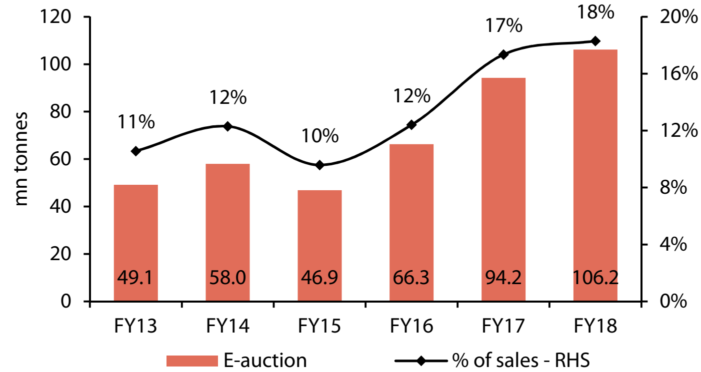


Source: Company, Centrum Research estimates

E-auction allocation has been increased through multiple auction routes

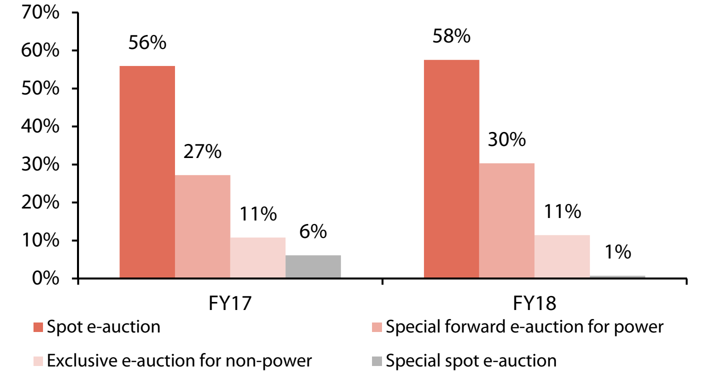
CIL has been able to ramp-up its e-auction volume share significantly and more than doubled its e-auction sales volumes from 47 MT in FY15 to 106 MT in FY18. This has been well above the most optimistic estimates on street and has been a result of CIL opening up special e-auction windows in last two years like i) special forward e-auction for power, ii) exclusive e-auction for non-power and iii) special spot e-auction. We note that the new windows opened now account for 40%+ share in volumes and believe that CIL is in a very strong position to realise strong profitability from higher e-auction volumes which the management has guided to be sustainable at 100-110 MT range for FY19E. CIL had seen a dip in e-auction volumes in H1FY19 due to increased allocation of linkage coal for power sector but management remains confident of maintaining e-auction volumes.

Exhibit 5: E-auction volumes have doubled in last 3 years



Source: Company, Centrum Research

Exhibit 6: New auction windows have helped drive volumes

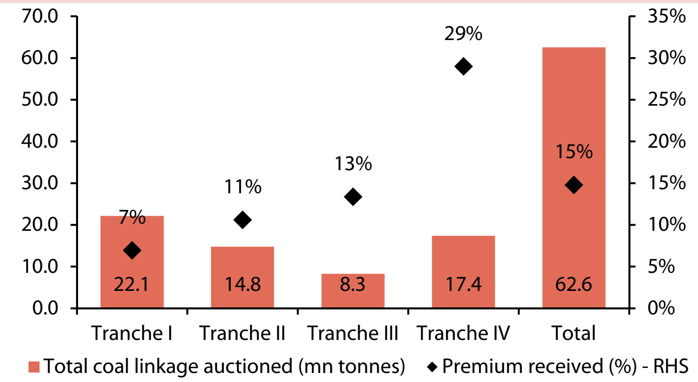


Source: Company, Ministry of Coal, Centrum Research

Linkage coal auctions have picked up pace and now accounts for 10% of overall volumes, to add Rs12bn to EBITDA

CIL came out with a policy of allocating linkages to non-power sector on auction basis few years back and since then has conducted four tranches of coal linkage auctions. The linkage auctions allow for supply of coal on 5-year basis at a fixed premium (which is decided on bidding basis) to the base price of FSA coal for non-regulated sector. We note that premium paid by consumers of non-regulated sector has consistently gone up from tranche 1 to 4 and average premium stands at 15%. The total quantity for linkage auction coal stands at ~63 MT currently which is 10% of total CIL FY19 dispatches. We expect the premium realised to fetch ~Rs200/t additional realisation for CIL and hence expect an annual additional revenue run-rate of Rs12bn for CIL from H2FY19. We also expect the linkage auction volumes to further increase as more coal is allocated for auctions.

Exhibit 7: Linkage auction coal quantity stands at 63MT with 15% average premium



Source: Company, Ministry of Coal, Centrum Research Estimates

Exhibit 8: CIL to realise additional EBITDA of Rs12bn from linkage auction coal supplies

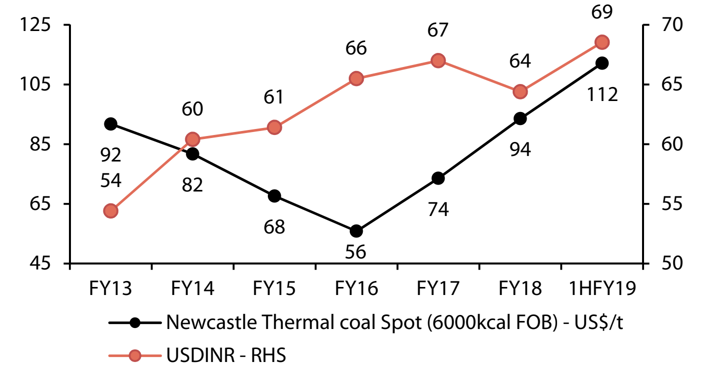
Impact of new Coal Linkage auctions	
Total Coal contracted on Linkage auctions (mn tonnes)	62.6
Average Premium (%)	15%
Likely increase in realisations (Rs/t)	200
Total incremental Rev/EBITDA (Rs mn)	12,520

Source: Company, Ministry of Coal, Centrum Research Estimates

E-auction realisations have improved and have large upside risk

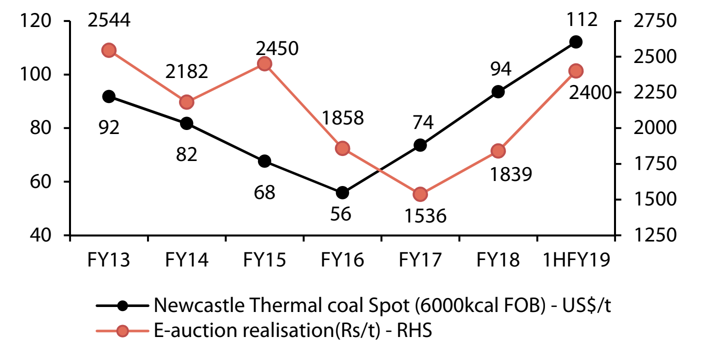
We see large upside risk to e-auction prices as global coal prices have continued to improve and have more than doubled in USD terms in last three years. Additionally, weak rupee is increasing the imported cost of coal. We expect e-auction realisations to increase materially in H2FY19 and see upside risk to our estimates of Rs2300/Rs2100/t for FY19E/20E if the global coal prices and Rs/USD don't see material reversal. We note that e-auction realisations for CIL have trended at a discount of ~50% to global FOB coal price (6000 Kcal grade) but currently the discount is ~70% and hence we expect e-auction realisations to surprise positively in H2FY19. Every 1% increase in e-auction realisations increases CIL's EBITDA by 0.8%.

Exhibit 9: Global coal prices have increased significantly



Source: Bloomberg, Company, Centrum Research

Exhibit 10: CIL's e-auction realisations have followed global coal price trend

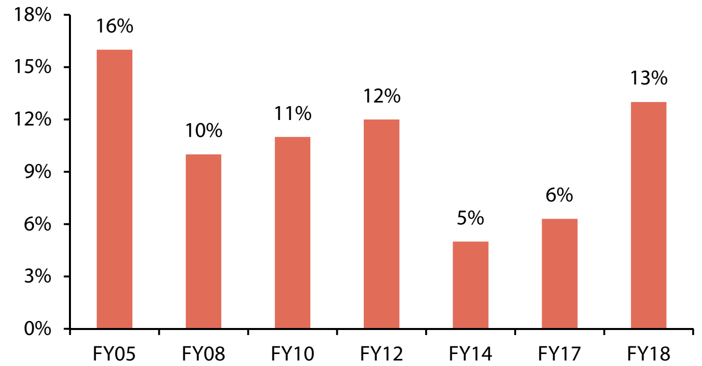


Source: Bloomberg, Company, Centrum Research

FSA realisations have been increased when needed despite street's apprehensions

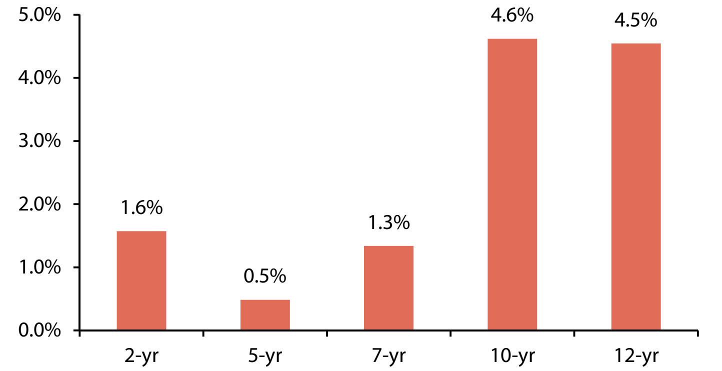
CIL has been able to take FSA coal price increase every two years thereby covering for its cost increase and has also adjusted the pricing across grades to suit its cost structure and margins. We believe that street has traditionally remained sceptical on CIL's ability to take price increases but has been surprised positively more often than not. We expect CIL to go for appropriate price hikes at regular intervals to offset its cost inflation and hence we believe that CIL can also take price hike in medium term to offset the higher cost resulting from sharp increase in diesel prices. We also note that higher supplies by CIL to the power sector and rationalisation of coal supply chain (through coal swapping between plants to reduce freight on coal) has resulted in optimisation of energy cost for large power producers like NTPC which helps in better absorption of any increase in FSA prices from CIL.

Exhibit 11: FSA realisations have been increased every two years



Source: Company, Centrum Research

Exhibit 12: CIL's FSA realisation CAGR trend

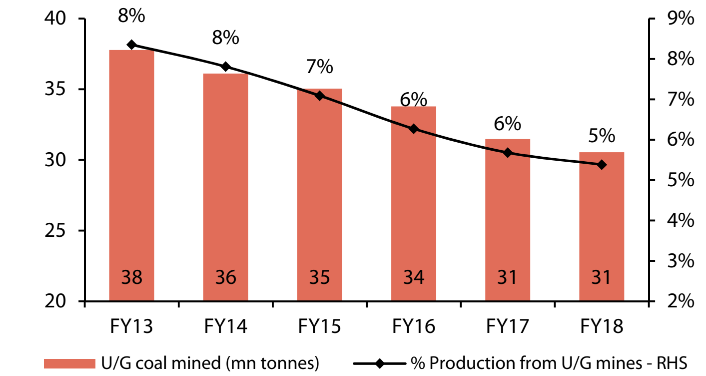


Source: Company, Centrum Research

Underground mining continues to get reduced thereby cutting losses

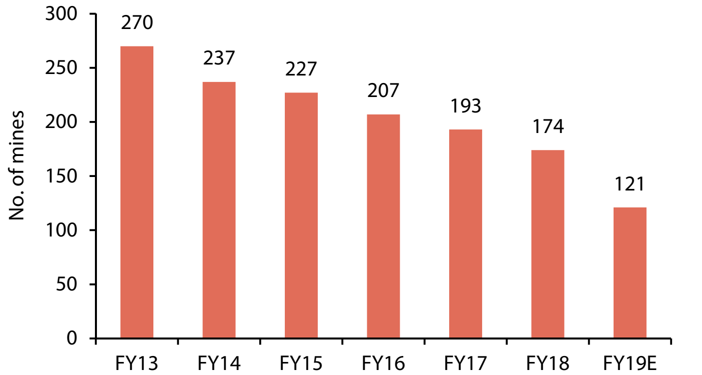
CIL has been having large number of loss making operational underground (UG) mines historically which continues to be a drag on profitability. We estimate that CIL loses more than Rs1000/t on majority of these mines and there has been a conscious effort by the company to close the non-economical UG mines. As per CIL's annual report the operational UG mines reduced to 174 at FY18-end (vs 250 at FY13) and company plans to close 53 UG mines in FY19. The share of UG mine in total volumes has fallen to 5% in FY18 (from 8% in FY13) and we believe that UG mine production could fall to below 20 MT by FY21E which could add ~Rs10bn to the EBITDA.

Exhibit 13: Underground mining share has consistently reduced



Source: Company, Centrum Research

Exhibit 14: 100 underground mines have been phased out in last 5 years and another 53 expected to shut down in FY19

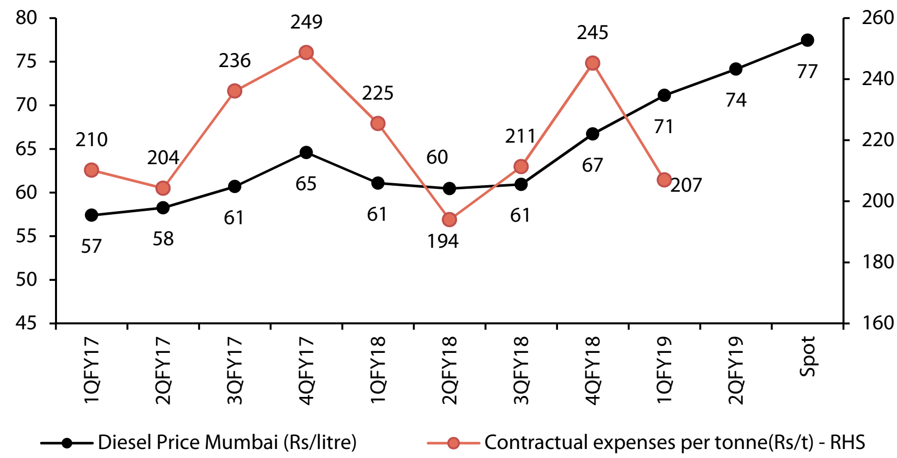


Source: Company, Centrum Research Estimates

Diesel price increase likely to be mitigated with increased earnings on auction linked sales & higher e-auction realisations

CIL has a pass through clause for increase in diesel prices for its contractual expenses related to the mining activities and Rs1/ltr increase in diesel costs increases the contractual expense by Rs1.2bn. We note that average diesel price for H1FY19 has increased by Rs10/ltr (vs FY18 average) and H2FY19 price might remain similar to marginally lower given the recent cuts announced by GoI. However, weak rupee and strong crude are likely to keep diesel prices high in near future and hence we estimate increase in contractual expenses by Rs12bn for CIL in FY19E from Rs10/ltr increase in diesel prices. While this amount is ~5% of CIL EBITDA, we don't expect any material negative impact on earnings as this is likely to get mitigated by higher realisations on e-auction sales which has benefitted from weak rupee and strong coal prices (5% increase in e-auction realisation results in 4% increase in EBITDA) and increased linkage auction sales in H2. On a net basis, we expect diesel price increase to get mitigated by higher earnings from auction linked volumes.

Exhibit 15: Diesel price increase in FY19 to increase contractual expenses

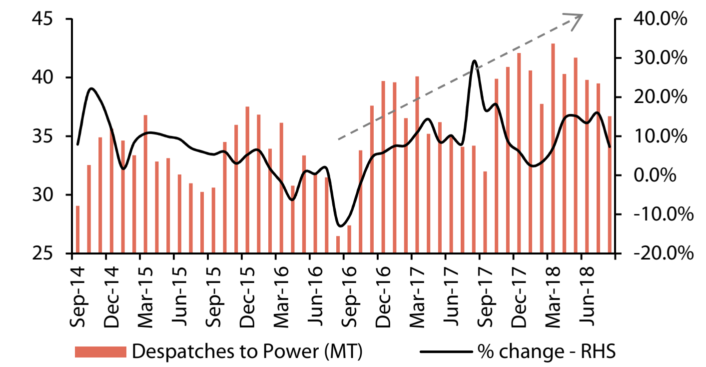


Source: Bloomberg, Company, Centrum Research

Concerns over higher allocation to power sector are overdone

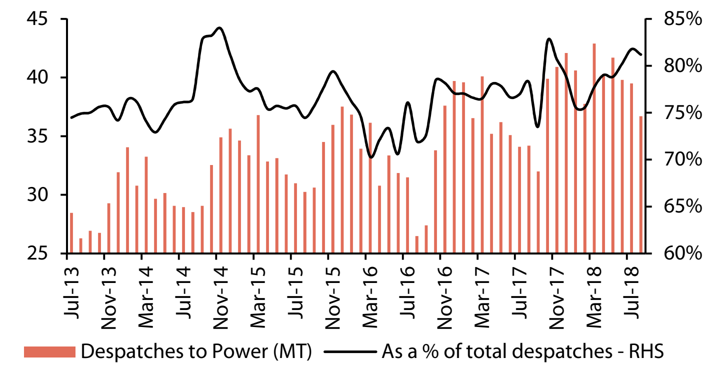
We understand that market is concerned over higher allocation of coal by CIL to the power sector in last few months under the FSA linkages thereby diverting/reducing a portion of volumes from the e-auction route. However, we believe that such concerns are overdone since e-auction share has consistently improved over the last four years and CIL has opened several routes within the e-auction window which allows it to better market and sell the coal in e-auction. We expect higher allocation of coal to power sector being a temporary phenomenon led by high power demand currently due to several factors (pre-election demand, lower renewable power generation etc) and don't expect a material risk to e-auction share over the medium term. We also note that supplies to power sector have averaged at 77% in last five years and share in H1FY19 (Apr-Aug'18) stood at 80% which is not too high. We expect increased demand from power sector in the exclusive e-auction route for power which could also support e-auction volumes. Overall, we expect e-auction share to be at 15%/16% in FY19E/20E (vs 18% in FY18).

Exhibit 16: Despatches to power sector have grown



Source: Ministry of Coal, Company, Centrum Research

Exhibit 17: Power sector supplies at 80% of total currently



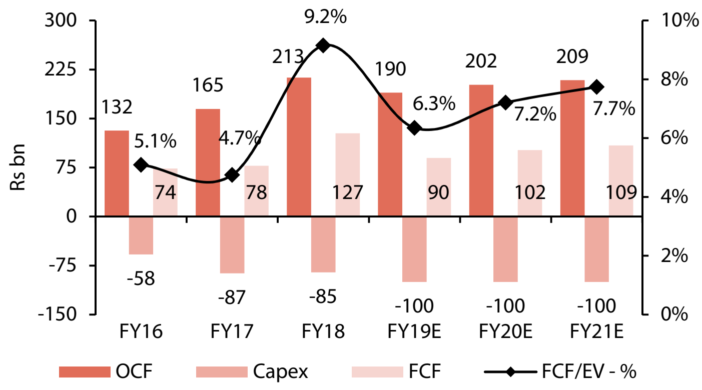
Source: Ministry of Coal, Company, Centrum Research

Strong cash flow generation => increase in dividend yield

CIL expected to generate strong cash flows led by robust earnings and tight working capital management

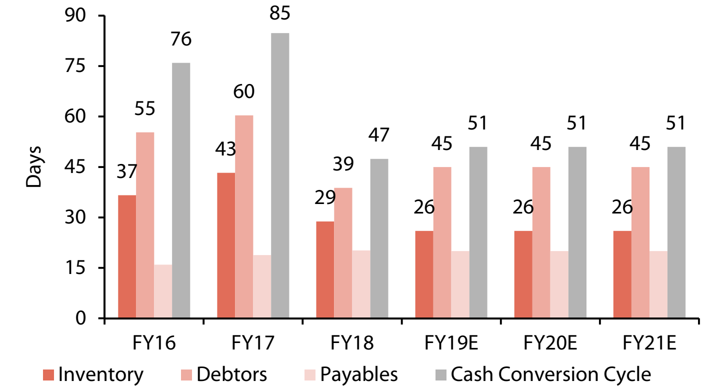
CIL is expected to continue generating strong cash flows led by robust earnings and significant and sustainable reduction in working capital cycle and we expect OCF to average ~Rs200bn during FY19-21E. CIL has seen sharp reduction in inventory and debtors which is sustainable in nature as company continues to strive hard to keep inventories low and debtors remain under check. We factor in annual capex of Rs100bn and see FCF generation of ~Rs100bn annually which implies that the stock is trading at FCF yield of 7% on FY20E basis.

Exhibit 18: CIL is expected to continue generating strong cash flows led by robust earnings and…



Source: Company, Centrum Research Estimates

Exhibit 19: …sustainable reduction in cash conversion cycle

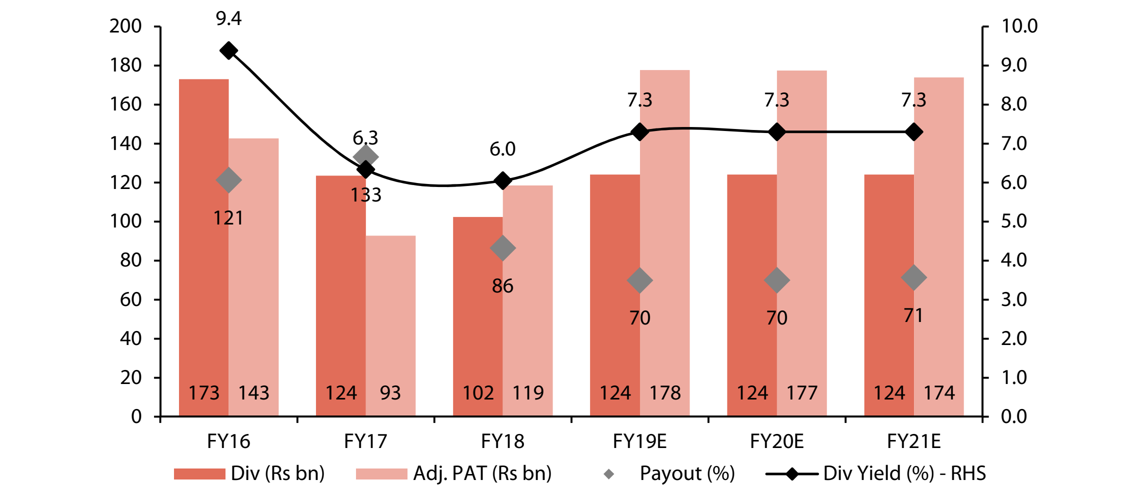


Source: Company, Centrum Research Estimates

Dividend yield expected to remain strong despite assuming lower payouts on higher earnings base in FY19-20E

CIL has a strong track record of consistent dividend payments and the payout ratios have ranged between 85%-135% in the last three years on lower base of earnings. With earnings expected to improve materially and cash flow generation remaining strong, we expect CIL to be in a comfortable position to maintain its dividends and we expect Rs20/sh dividend for FY19E which implies strong 7.3% dividend yield at current levels. We see net cash position of CIL getting maintained at Rs300bn over the next few years after accounting for Rs100bn annual capex and Rs20/sh annual dividends.

Exhibit 20: CIL dividend yield expected at 7%



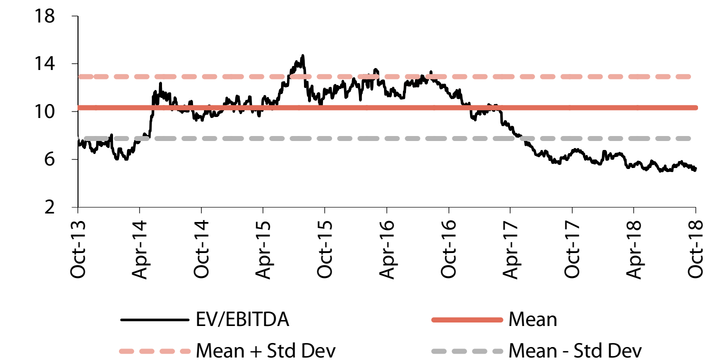
Source: Company, Centrum Research Estimates

Exhibit 21: 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*

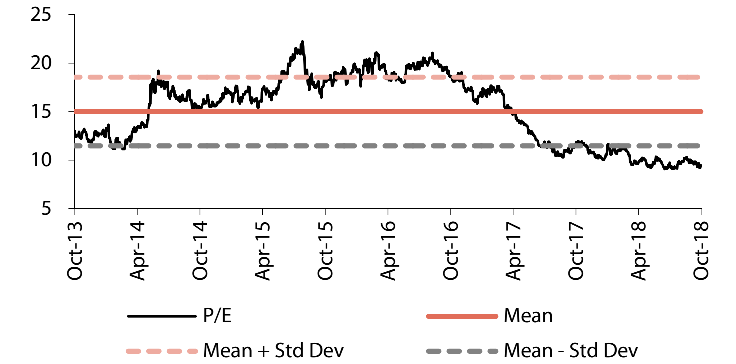
Source: Company, Centrum Research Estimates

Exhibit 22: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 23: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 24: Comparative Valuations

Company	Mkt Cap (USD bn)	*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*	**23.0**	***11.2***	***25.4***	***22.4***	***19.7***	***25.8***	***25.1***	**14.3**	**9.6**	**9.6**	**8.2**	**5.4**	**5.3**	***53.4***	***82.6***	***71.6***	***6.0***	***7.3***	***7.3***
Peabody Energy Corp	4.3	*(4.1)*	*(13.4)*	*(19.9)*	*26.2*	*26.1*	*21.4*	11.4	9.1	13.3	2.3	3.1	4.0	*17.6*	*13.1*	*6.1*	*0.0*	*1.3*	*1.4*
Whitehaven Coal	4.1	*(3.6)*	*(9.0)*	*(13.5)*	*42.4*	*46.6*	*37.8*	6.8	8.5	13.5	4.2	4.9	7.8	*15.9*	*18.5*	*10.8*	*9.4*	*8.5*	*4.7*
Arch Coal Inc	1.8	*(3.3)*	*(3.6)*	*(12.5)*	*17.6*	*17.5*	*17.5*	7.9	8.4	8.2	4.3	4.2	4.5	*33.8*	*36.0*	*27.3*	*1.3*	*1.7*	*1.7*
Shougang Fushan Resources Group	1.1	*5.8*	*6.1*	*5.1*	*54.4*	*56.2*	*54.7*	8.3	7.7	8.0	2.2	2.0	2.7	*7.1*	*7.1*	*6.8*	*6.0*	*6.6*	*5.7*
Banpu PCL	3.0	*1.6*	*7.6*	*22.0*	*23.9*	*27.0*	*26.8*	12.0	7.8	8.2	8.6	6.9	8.7	*9.6*	*12.9*	*12.1*	*3.5*	*4.3*	*4.6*
CONSOL Energy Inc	1.1	*4.8*	*6.0*	*12.7*	*26.6*	*30.1*	*27.3*	12.8	8.0	11.3	4.6	3.9	4.8		*29.0*	*17.0*	*0.0*		
China Coal Energy	8.8	*4.1*	*11.6*	*18.2*	*20.0*	*23.5*	*23.0*	14.3	8.7	9.5	9.8	7.2	7.8	*4.0*	*5.8*	*5.1*	*1.5*	*3.2*	*3.2*
Yanzhou Coal Mining	7.3	*9.7*	*7.4*	*1.3*	*29.1*	*30.5*	*27.9*	5.6	5.1	6.0	7.3	5.3	7.1	*17.6*	*17.1*	*14.9*	*5.7*	*6.1*	*5.4*
China Shenhua Energy	58.2	*(0.8)*	*(1.7)*	*(4.1)*	*40.7*	*40.3*	*40.0*	8.2	7.6	8.3	5.0	4.3	4.9	*15.4*	*14.4*	*13.0*	*4.6*	*5.5*	*5.7*

*Source: Bloomberg consensus, *Centrum Research Estimates, EBITDA CAGR is for adj. EBITDA, FY18 = CY17 for global coal companies*

Exhibit 25: Valuation

(Rs bn)	Mar'20E
Adj. EBITDA (adj. for OBR)	306.1
Ascribed EV/EBITDA Multiple (x)	6.5
Expected EV	1,990
Add Cash+Investments	302.2
Less Debt	13.4
Mkt Cap Expected	2,279
Fair Value	2,279
No. of Shares (bn)	6.2
Fair Value (Rs)	**365**

Source: Company, Centrum Research Estimates

Key risks to our thesis

- **Lower auction linked volumes due to large diversion to regulated sector under linkages:** We have built in e-auction volume share of 15%/16% in FY19E/20E (vs 18% share in FY18) and we also expect CIL to effectively supply the linkage auction volumes (which is 10% of total share now). However, there have been instances of CIL diverting more coal for linkages to the regulated sector (which fetch the lowest realisations) and lower the auction linked volume share. Hence, there can be risk to earnings if the auction linked volumes are lower than expected.

- **Unfavourable capital allocation:** CIL has Rs300bn of cash and any wrong capital allocation can hurt the interest of minority shareholders and also dilute the return profile. Probable unfavourable cash allocation routes could be i) cross holding in other PSU's (not done as yet by CIL), ii) large investments in set-up of renewable and non-renewable power plants (some of these plans are under works) and iii) investments into unrelated fields.

- **Further increase in diesel prices:** We have built in ~Rs10/ltr increase in average diesel prices for FY19E/20E (vs FY18) but further increase could put pressure on costs which would necessitate a price hike by CIL to mitigate the impact. This can put the earnings at risk if the price hikes don't materialise in a timely manner.

- **Contingent liabilities:** There are large claims not recognised as debt reported by CIL in the annual report under the contingent liabilities segment and these are due towards central govt., state govt., CPSE and others. Some of these demands are related to excess mining and mining without appropriate clearances as alleged by various state government as per CIL's annual report. While the probability of any claim becoming real might be low but in case of any recoveries/penalties/payments by CIL towards the same, there could be a risk to earnings and cash depletion.

Quarterly financials, Key Performance Indicators

Exhibit 26: Quarterly Financials

Particulars (Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net Sales	**1,56,451**	**1,96,667**	**2,24,234**	**1,84,043**	**1,74,785**	**2,07,085**	**2,51,087**	**2,25,978**
Decretion/accretion of stock	7,169	(2,413)	(17,177)	8,817	16,289	5,475	(13,785)	11,635
Cost of material consumed	14,892	17,663	22,210	14,806	14,461	17,548	21,481	15,739
Employee remuneration & benefits	84,069	82,318	92,291	80,716	91,550	87,532	92,699	95,982
Power & fuel	6,518	6,495	6,343	6,178	6,605	6,072	6,310	5,940
Welfare expenses	1,244	956	2,272	1,104	1,092	632	2,010	375
Repairs	2,768	3,027	4,742	2,916	2,391	3,130	5,958	2,811
Contractual expenses	23,666	33,681	37,688	30,980	25,525	32,211	38,954	31,761
Other expenses	10,253	11,587	21,972	10,742	8,841	9,960	12,613	11,105
Overburden removal adjustment	1,425	8,124	14,843	(1,069)	578	9,226	24,847	8,835
Operating Profit (Core EBITDA)	**7,426**	**38,549**	**33,870**	**35,220**	**12,310**	**46,179**	**75,795**	**57,325**
Depreciation	6,921	7,011	8,498	6,699	7,146	7,511	9,308	7,452
EBIT	**506**	**31,538**	**25,372**	**28,521**	**5,164**	**38,668**	**66,487**	**49,872**
Interest	970	1,107	1,151	1,210	1,007	974	1,127	1,103
Other Revenue/Income	14,125	11,167	18,558	12,066	6,107	8,409	20,002	12,100
Other Exceptional Items	0	0	0	0	0	0	73840	73842
Profit Before Tax	**13,661**	**41,598**	**42,779**	**39,377**	**10,264**	**46,102**	**11,521**	**60,869**
Tax	7,660	12,754	15,606	15,860	6,576	16,052	(1,420)	23,025
Tax rate (%)	56.1	30.7	36.5	40.3	64.1	34.8	(12.3)	37.8
Profit After Tax	**6,002**	**28,845**	**27,173**	**23,517**	**3,689**	**30,050**	**12,942**	**37,843**
Growth (%)								
Net Sales	*(7.7)*	*3.7*	*8.2*	*17.6*	*(11.1)*	*(7.6)*	*36.4*	*9.1*
EBITDA	*(75.3)*	*(20.0)*	*(39.2)*	*374.3*	*(68.1)*	*36.3*	*115.2*	*24.1*
Adj. PAT	*(76.4)*	*(22.4)*	*(38.2)*	*291.8*	*(87.2)*	*10.6*	*(45.0)*	*25.9*
Margin (%)								
EBITDA	*4.7*	*19.6*	*15.1*	*19.1*	*7.0*	*22.3*	*30.2*	*25.4*
EBIT	*0.3*	*16.0*	*11.3*	*15.5*	*3.0*	*18.7*	*26.5*	*22.1*
PAT	*3.8*	*14.7*	*12.1*	*12.8*	*2.1*	*14.5*	*5.2*	*16.7*
Key Drivers								
Coal Production (MT)	104.4	147.7	176.4	118.8	113.0	152.0	183.5	136.9
Coal Sales (MT)	115.9	142.7	151.5	137.4	131.6	152.4	158.9	153.5
Blended realizations/tonne (Rs)	1,350	1,378	1,480	1,339	1,328	1,359	1,581	1,472

Source: Company, Centrum Research

Exhibit 27: Key Performance Indicators

Assumptions	FY15	FY16	FY17	FY18	FY19E	FY20E
Volumes (MT)						
Total coal	489.4	534.4	543.2	580.3	626.7	658.0
Raw coal (FSA)	426.0	447.7	429.8	460.0	516.7	536.1
E-auction coal	46.9	66.3	94.2	106.2	94.0	105.3
Washed coal	12.0	14.3	14.0	11.5	12.5	13.2
Realizations (Rs/tonne)						
Total Coal	1,472	1,415	1,392	1,408	1,514	1,502
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	2,300	2,100
Washed coal	2,348	2,328	3,049	3,023	3,000	3,000

Source: Company, Centrum Research Estimates

Financials

Exhibit 28: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	**7,80,076**	**7,84,112**	**8,58,624**	**10,18,581**	**10,61,328**
Materials cost	55,956	57,301	85,090	98,330	1,06,344
% of revenues	*7.2*	*7.3*	*9.9*	*9.7*	*10.0*
Employee cost	3,01,268	3,35,229	3,52,492	3,65,000	3,83,250
% of revenues	*38.6*	*42.8*	*41.1*	*35.8*	*36.1*
Others	2,35,740	2,67,201	2,51,535	2,92,489	3,05,072
% of revenues	*30.2*	*34.1*	*29.3*	*28.7*	*28.7*
EBITDA	**1,87,113**	**1,24,381**	**1,69,507**	**2,62,761**	**2,66,662**
EBITDA margin (%)	*24.0*	*15.9*	*19.7*	*25.8*	*25.1*
Depreciation & Amortisation	28,259	29,068	30,664	36,058	40,554
EBIT	**1,58,854**	**95,313**	**1,38,843**	**2,26,704**	**2,26,108**
Interest expenses	3,862	4,092	4,318	4,534	4,760
PBT from operations	**1,54,992**	**91,221**	**1,34,525**	**2,22,170**	**2,21,347**
Other income	59,406	53,242	46,583	47,049	47,520
Exceptional items *	-	-	73,844	-	-
PBT	**2,14,398**	**1,44,463**	**1,07,264**	**2,69,219**	**2,68,867**
Taxes	71,719	51,648	37,067	91,534	91,415
Effective tax rate (%)	*33*	*36*	*35*	*34*	*34*
PAT	**1,42,679**	**92,815**	**70,198**	**1,77,684**	**1,77,452**
Minority/Associates	-	(18)	4	-	-
Reported PAT	**1,42,679**	**92,798**	**70,202**	**1,77,684**	**1,77,452**
Adjusted PAT	**1,42,679**	**92,815**	**1,18,524**	**1,77,684**	**1,77,452**

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

Exhibit 29: Key Ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Growth Ratio (%)					
Revenue	*5.2*	*0.5*	*9.5*	*18.6*	*4.2*
EBITDA	*7.9*	*(33.5)*	*36.3*	*55.0*	*1.5*
Adjusted PAT	*4.0*	*(34.9)*	*27.7*	*49.9*	*(0.1)*
Margin Ratios (%)					
EBITDA	*24.0*	*15.9*	*19.7*	*25.8*	*25.1*
PBT from operations	*19.9*	*11.6*	*15.7*	*21.8*	*20.9*
Adjusted PAT	*18.3*	*11.8*	*13.8*	*17.4*	*16.7*
Return Ratios (%)					
ROE	*38.0*	*31.3*	*53.4*	*82.6*	*71.6*
ROCE	*39.8*	*32.2*	*58.4*	*100.4*	*85.2*
ROIC	*NM*	*NM*	*NM*	*NM*	*NM*
Turnover Ratios (days)					
Gross block turnover ratio (x)	2.2	2.9	2.6	2.5	2.1
Debtors	54	58	37	42	42
Inventory	35	42	27	24	24
Creditors	15	18	19	19	19
Cash conversion cycle	74	82	45	48	48
Solvency Ratio (x)					
Net debt-equity	(1.1)	(1.3)	(1.5)	(1.2)	(1.1)
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	1.4	1.4	1.4
Per share Ratios (Rs)					
Adjusted EPS	22.6	15.0	19.1	28.6	28.6
BVPS	55.1	39.5	32.0	37.3	42.6
CEPS	27.1	19.6	16.2	34.4	35.1
DPS	27.4	19.9	16.5	20.0	20.0
Dividend payout %	*121.3*	*133.1*	*145.9*	*69.9*	*70.0*
Valuation (x)*					
P/E (adjusted)	12.9	21.0	14.3	9.6	9.6
P/BV	5.3	8.0	8.5	7.3	6.4
EV/EBITDA	7.7	13.2	8.2	5.4	5.3
Dividend yield %	*9.4*	*6.3*	*6.0*	*7.3*	*7.3*
5 Yr Avg AOCF/EV yield %	*9.7*	*8.1*	*11.3*	*11.7*	*12.4*

Source: Company, Centrum Research Estimates, NM- Not Meaningful

Exhibit 30: 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	1,83,107	1,36,392	1,69,443	2,02,263
Shareholders' fund	3,48,332	2,45,181	1,98,466	2,31,518	2,64,337
Total Debt	11,921	30,145	15,377	14,377	13,377
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**	**2,51,457**	**1,63,917**	**1,95,969**	**2,27,788**
Gross Block	2,47,613	2,94,279	3,60,723	4,50,723	5,40,723
Less: Acc. Depreciation	26,789	56,165	84,949	1,21,006	1,61,561
Net Block	2,20,825	2,38,113	2,75,774	3,29,716	3,79,162
Capital WIP	45,532	85,852	1,02,864	1,12,864	1,22,864
Net Fixed Assets	2,66,357	3,23,966	3,78,638	4,42,580	5,02,026
Investments	29,061	14,829	15,086	15,086	15,086
Inventories	75,692	89,453	64,439	68,092	70,914
Sundry debtors	1,14,476	1,24,763	86,892	1,17,852	1,22,736
Cash	3,80,149	3,11,492	3,14,751	3,01,268	3,00,123
Loans & Advances	25,935	28,656	45,894	52,379	54,549
Other assets	2,16,167	2,57,667	3,15,667	3,27,774	3,35,914
Total Current Asset	8,12,419	8,12,030	8,27,642	8,67,364	8,84,236
Trade payables	32,972	38,843	45,169	52,379	54,549
Other current Liab.	2,38,105	3,11,278	3,65,114	3,82,667	3,96,234
Provisions	4,95,905	5,49,246	6,47,167	6,94,016	7,22,777
Net Current Assets	45,437	(87,337)	(2,29,808)	(2,61,698)	(2,89,324)
Total Assets	**3,40,855**	**2,51,457**	**1,63,917**	**1,95,969**	**2,27,788**

Source: Company, Centrum Research Estimates

Exhibit 31: Key Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Operating profit bef working capital changes	2,36,989	1,90,336	1,48,502	2,62,761	2,66,662
Changes in working capital	(26,697)	63,688	1,38,450	18,407	26,482
Cash flow from operations	**1,31,538**	**1,64,608**	**2,12,623**	**1,89,634**	**2,01,729**
Adj. OCF (OCF - Interest)	1,27,676	1,60,517	2,08,306	1,85,101	1,96,969
Net Capex	57,857	86,761	85,293	1,00,000	1,00,000
Adj. FCF	69,819	73,755	1,23,013	85,101	96,969
Cash flow from investments	**81,542**	**4,546**	**(76,763)**	**(52,951)**	**(52,480)**
Cash flow from financing	**(1,95,874)**	**(1,75,980)**	**(1,35,873)**	**(1,50,166)**	**(1,50,393)**
Net change in cash	**17,206**	**(6,825)**	**(12)**	**(13,483)**	**(1,145)**

Source: Company, Centrum Research Estimates

CENTRUM

Appendix A

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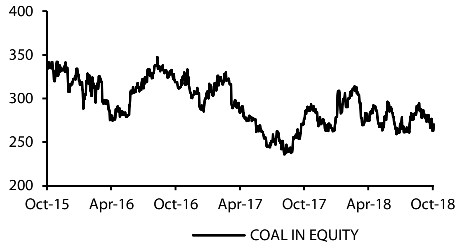
Coal India price chart



Source: Bloomberg, Centrum Research

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		Coal India
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Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
Buy	Upside > 20%	Upside > 15%	Upside > 10%
Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
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