

Coal India (COALIN)

₹ 215

Performs well; but e-auction volume muted

- Coal India reported a healthy set of Q3FY19 numbers albeit lower e-auction volumes acted as a dampener. E-auction volumes were at 14.7 million tonnes (MT), down 44% YoY, 17% QoQ. E-auction realisations came in at ₹ 2847/tonne, up 42% YoY, 10% QoQ
- Sales volumes were at 154 MT, up 1% YoY. FSA volumes during the quarter were at 135.8 MT, up 11% YoY. FSA realisations were at ₹ 1334/tonne (up 13% YoY, 2% QoQ vs. our estimate: ₹ 1315/tonne)
- Topline came in at ₹ 25045.8 crore, up 15% YoY, 14% QoQ, higher than our estimate of ₹ 24545.7 crore. Reported EBITDA came in at ₹ 6787.1 crore, up 55% YoY, 57% QoQ, higher than our estimate of ₹ 4612.9 crore. Corresponding EBITDA margin was at 27.1% (vs. Q3FY18: 20.2%, Q2FY19: 19.7%. Ensuing PAT was at ₹ 4565.7 crore

Coal sales to grow at CAGR of 3.8% during FY18-20E

Over the last couple of months Coal India's monthly sales volume has been on lower YoY. For January 2019, Coal India's production volumes were at 57.2 MT, up 0.9% YoY while sales volumes were at 52.4 MT, down 2.3% YoY. Similarly, for December 2018, Coal India's production volumes were at 54.1 MT, down 0.9% YoY while sales volumes were at 52.8 MT, down 1.2% YoY. On account of the subdued trend witnessed in sales volumes over the last couple of months, we downward revise our FY19E sales volume to 610 MT (from 625 MT earlier) and to 625 MT for FY20E (from 650 MT earlier). We expect coal sales volumes to grow at a CAGR of 3.8% in FY18-20E to 625 MT.

Margins likely to normalise at 22-23%, going forward...

In FY18, the cost structure remained elevated on account of one-offs in employee cost. The employee cost as a percentage of sales increased to 49.7% in FY18 (vs. 42.8% in FY17). Thus, EBITDA margin declined to 11.1% in FY18. Going forward, we expect EBITDA margins to normalise at 22-23% over the next couple of years.

Downward revise e-auction volume estimates, maintain HOLD...

Coal India reported muted e-auction volumes for Q3FY19. E-auction volumes were at 14.7 MT (down 44% YoY, 17% QoQ). Hence, we downward revise e-auction volumes of FY19E to 67.5 MT (from 75 MT earlier) and to 65 MT for FY20E (from 75 MT earlier). On account of the subdued trend in sales volumes over the last couple of months, we downward revise our FY19E sales volume to 610 MT (from 625 MT earlier) and to 625 MT for FY20E (from 650 MT earlier). On account of the muted trend witnessed in higher margin e-auction volumes, we downward revise our EV/EBITDA multiples. We now value the stock at 5.5x FY20E adjusted EV/EBITDA and arrive at a target price of ₹ 225. We have a **HOLD** recommendation on the stock.

Rating matrix		
Rating	:	Hold
Target	:	₹ 225
Target Period	:	12 months
Potential Upside	:	5%

What's Changed?	
Target	Changed from ₹ 285 to ₹ 225
EPS FY19E	Changed from ₹ 22.7 to ₹ 25.3
EPS FY20E	Changed from ₹ 22.8 to ₹ 23.9
Rating	Unchanged

Quarterly Performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	25,046	21,643	15.7	22,198	12.8
Rep. EBITDA	6,788	4,618	47.0	3,914	73.4
EBITDA (%)	27.1	21.3	577bps	17.6	947bps
Rep. PAT	4,566	3,005	51.9	3,086	47.9

Key Financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Total Op. Inc.	78,221	85,862	97,424	98,577
EBITDA	12,240	9,566	22,516	21,327
Net Profit	9,268	7,020	15,698	14,863
EPS (₹)	14.9	11.3	25.3	23.9

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	14.4	19.0	8.5	9.0
Target P/E	15.1	19.9	8.9	9.4
Adj. EV/EBITDA	7.1	8.1	4.2	5.2
P/BV	5.4	6.7	4.9	5.6
RoNW	33.5	29.9	67.9	71.3
RoCE	37.8	35.4	57.5	61.9

Stock data	
Particular	Amount
Market Capitalization	₹ 133459 crore
Total Debt (FY18)	₹ 1531 crore
Cash and Investments (FY18)	₹ 31475 crore
EV	₹ 103515 crore
52 week H/L	317 / 214
Equity capital	₹ 6207.4 crore
Face value	₹ 10

Price performance (%)				
Return %	1M	3M	6M	12M
Coal India	-7.6	-14.5	-17.5	-24.5

Research Analyst
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Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Total Operating Income	25,045.8	24,545.7	21,643.3	15.7	22,198.1	12.8	Topline came in higher than our estimates
Other Income	1,163.3	1,400.0	840.9	38.3	2,011.3	-42.2	
Employee Expenses	9,517.6	9,226.8	8,753.2	8.7	8,953.5	6.3	
Raw Material Expenses	1,935.8	2,152.9	2,302.3	-15.9	2,993.7	-35.3	
Power & Fuel	606.2	692.0	607.2	-0.2	638.3	-5.0	
Contractual Expenses	3,627.5	4,229.0	3,221.1	12.6	2,735.8	32.6	
Overburden Removal adj	1,177.7	938.1	922.6	27.7	802.3	46.8	
Other Expenses	1,393.1	2,694.1	1,219.1	14.3	2,160.3	-35.5	
EBITDA	6,787.8	4,612.9	4,617.8	47.0	3,914.2	73.4	EBITDA came in higher than our estimates
EBITDA Margin (%)	27.1	18.8	21.3	577bps	17.6	947bps	EBITDA margin came in higher than our estimates
Depreciation	861.1	849.0	751.1	14.6	806.9	6.7	
Interest	62.0	50.0	97.4	-36.4	0.8	7,645.0	
Exceptional Item	-	-	-	-	-	-	
PBT	7,028.1	5,113.9	4,610.2	52.4	5,117.8	37.3	
Total Tax	2,462.3	1,687.6	1,605.0	53.4	2,031.7	21.2	
PAT	4,565.7	3,426.3	3,005.0	51.9	3,086.1	47.9	PAT came in higher than our estimates
Key Metrics							
Coal Sales (million tonne)	154	154	152	1.5	137	12.2	

Source: Company, ICICI Direct Research

Change in estimates

₹ Crore)	FY19E				FY20E			
	FY18	New	Old	%Change	New	Old	% Change	
Total Op. Income	85,862	97,424	96,818	0.6	98,577	102,524	-3.9	
EBITDA	9,566	22,516	20,818	8.2	21,327	20,949	1.8	
EBITDA Margin (%)	11.1	23.1	21.5	161 bps	21.6	20.4	120 bps	
PAT	7,020	15,698	14,085	11.5	14,863.2	14,125	5.2	
EPS (₹)	11.3	25.3	22.7	11.5	23.9	23.9	5.2	
E-auction volume	106	68	75	-10.0	65	75	-13.3	
Overall Sales volume	580	610	625	-2.4	625	650	-3.8	

Source: Company, ICICI Direct Research

Assumptions

	Current			Earlier		Comments
	FY18	FY19E	FY20E	FY19E	FY19E	
Total coal sales volume (million tonne)	580	610	625	625	650	Downward revise sales volume estimates
E-auction coal sales volume (million tonne)	106	68	65	80	85	Downward revise e-auction volume estimates

Source: Company, ICICI Direct Research

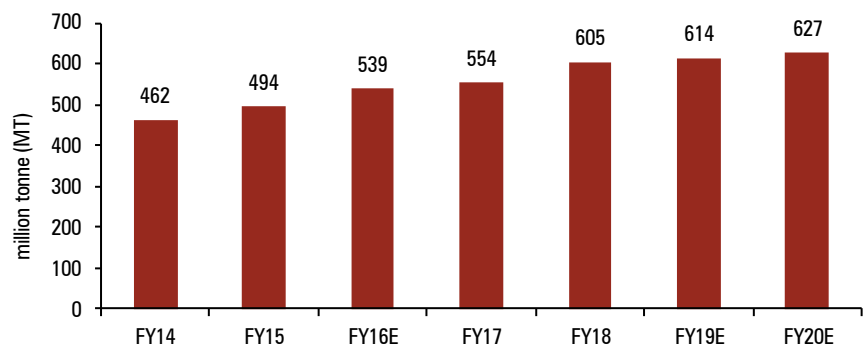
Company Analysis

Coal India (CIL), the mining major, is one of the largest coal producers in the world with coal production of 567.4 MT in FY18 (provisional). The company supplies coal to sectors like power, steel, cement, defence, fertiliser, etc. As of March 31, 2013, CIL operated 462 mines in 81 mining areas across eight states in India, including 169 open cast mines, 270 underground mines and 23 mixed mines (that include both open cast as well as underground mines). CIL has seven wholly-owned coal producing subsidiaries and one mine planning and consultancy.

Government thrust on augmenting output augurs well for company

One of the key thrust areas of the government has been on augmenting domestic coal production. The government's focal point is on reducing coal imports. Hence, it has remained focused on enhancing CIL's production.

Exhibit 1: Coal production trend

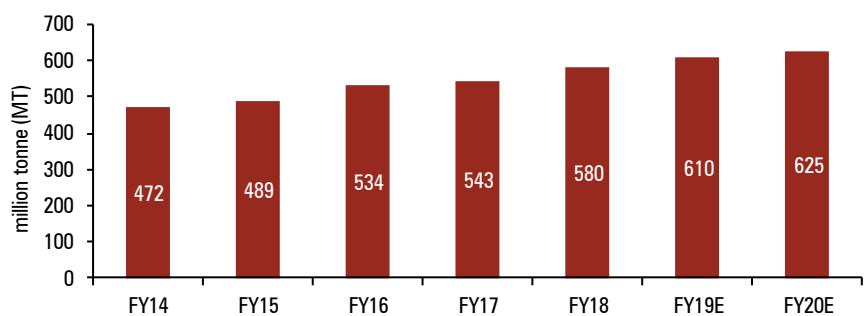


Source: Company, ICICI Direct Research

Coal sales to grow at CAGR of 3.8% during FY18-20E

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Exhibit 2: Coal sales volume trend

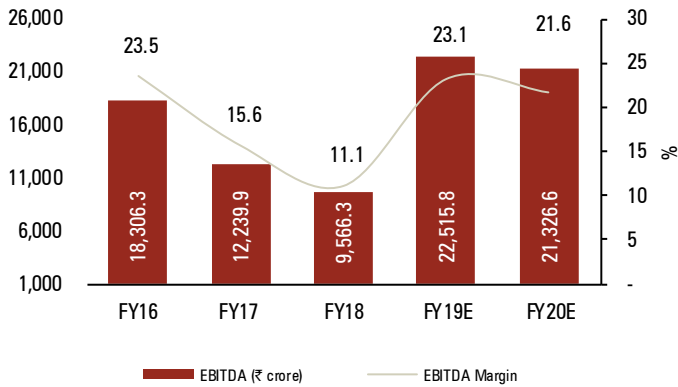


Source: Company, ICICI Direct Research

Going forward, margins likely to normalise at 22-23%, going forward...

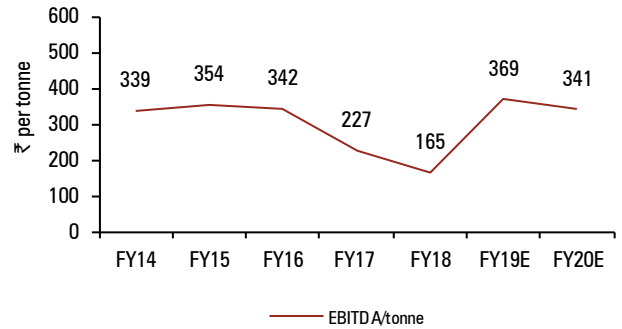
In FY18, the cost structure remained elevated on account of one-offs in employee cost. The employee cost as a percentage of sales increased to 49.7% in FY18 (vs. 42.8% in FY17). Thus, EBITDA margin declined to 11.1% in FY18. Going forward, we expect EBITDA margins to normalise at 22-23% over the next couple of years. The EBITDA/tonne is likely to remain in the range of ₹ 369-341/tonne during FY19E and FY20E, increasing from ₹ 165/tonne in FY18.

Exhibit 3: EBITDA margins trend



Source: Company, ICICI Direct Research

Exhibit 4: ...corresponding EBITDA/tonne*

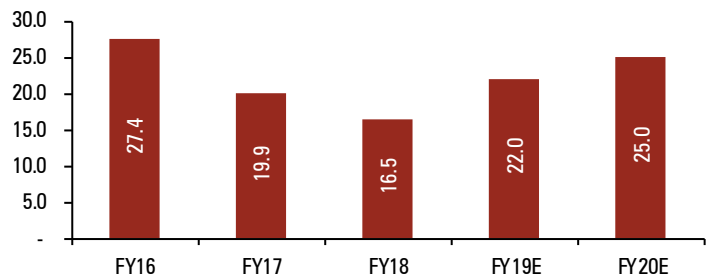


Source: Company, ICICI Direct Research, *-including other operating income

Healthy dividend to sustain...

Over the years, CIL has had a robust dividend paying policy. In FY18, CIL declared a dividend of ₹ 16.5/share. We expect the dividend per share to increase during the next couple of years. We expect per share dividend of ₹22/share for FY19E, ₹25/share of FY20E. Recently, CIL also proposed a buyback of up to 4.46 crore shares at a price of ₹ 235/share for a maximum amount of ₹ 1050 crore through the tender offer process.

Exhibit 5: Dividend per share (DPS)



Source: Company, ICICI Direct Research

Outlook and Valuation

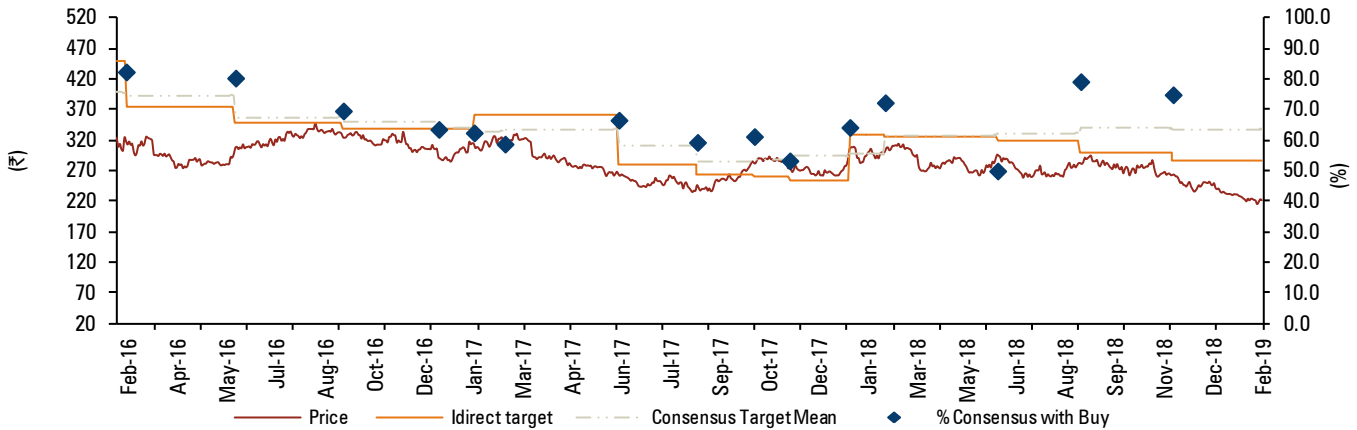
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Exhibit 6: Valuation matrix

	Op. Inc. (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	Adj. EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY15	74,120	7.7	22.4	-6.3	2.8	4.7	34.7	36.4
FY16	78,010	5.2	22.6	0.8	9.5	4.5	42.1	45.0
FY17	78,221	0.3	14.9	-33.9	14.4	7.1	37.8	33.5
FY18	85,862	9.8	11.3	-24.3	19.0	8.1	35.4	29.9
FY19E	97,424	13.5	25.3	123.6	8.5	4.2	57.5	67.9
FY20E	98,577	1.2	23.9	-5.3	9.0	5.2	61.9	71.3

Source: Company, ICICI Direct Research

Recommendation history Vs consensus chart



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Aug-16	CIL signs an agreement with Solar Energy Corporation of India (SECI) for setting up solar power plant of 1000 MW capacity. In the first phase, it will set up 2x100 MW solar power plant in Madhya Pradesh while in the second phase it will set up 600 MW in Madhya Pradesh, Chhattisgarh, West Bengal and Maharashtra
Sep-16	Coal India signs agreement with Solar Energy Corporation of India (SECI) for setting up solar power plant of 1000 MW capacity. In the first phase, it will set up 2x100 MW solar power plant in Madhya Pradesh; while in the second phase it will set up 600 MW in Madhya Pradesh, Chhattisgarh, West Bengal and Maharashtra
Sep-16	Coal India considers acquiring coal assets in countries like Indonesia, Australia and South Africa
Sep-16	Coal India asks for alternative coal blocks from the Mozambique government since it did not find any commercially viable reserves in the block that it was allotted a few years ago
Sep-16	Coal India announces a one-time offer of 20 million tonnes (MT) of coal through special spot e-auction
Oct-16	Coal India buys back 10.89 crore fully paid up equity shares at ₹ 335/share an outgo totalling ~₹ 3,650 crore
Nov-16	Coal India enters into a joint venture agreement between NTPC, Fertilizers Corporation of India (FCIL), Indian Oil Corporation (IOCL) and Hindustan Fertilizer Corporation of India (HFCL). The joint venture would revive the Sindhri and Gorakhpur units of FCIL along with the Barauni fertilizer unit of HFCL
Jan-17	Two of CIL's subsidiaries raise coal prices. Bharat Coking Coal hikes coking coal prices by ~20% over current prices while linking steel grade and direct feed coal prices to price of washed coking coal, which are fixed on import parity price. CIL's Central Coalfields increased prices of coking coal by subsuming the washery recovery charge, which was charged separately in case of non-linked washery grade coking coal
Mar-17	The board of directors of Coal India approve an interim dividend of ₹ 18.75/share for FY17. The government, which holds ~79% stake, is likely to receive ~₹ 9200 crore from the dividend payout. CIL fixed March 15 as record date while date of payment of interim dividend is from March 21
Mar-17	Coal India announces second interim dividend of ₹ 1.15/share. The date of payment of dividend is on and from March 31, 2017. The company through second dividend will shell out ₹ 714 crore, out of which the government will receive ₹ 563 crore in form of dividend and ₹ 145 crore in form of dividend distribution tax (DDT)

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position	Change
1	Government of India	12-Jun-2018	72.9	4,525.68M	-137.99M
2	Life Insurance Corporation of India	30-09-2018	9.0	556.95M	0
3	Reliance Nippon Life Asset Management Limited	31-12-2018	1.9	115.60M	+85.18M
4	LIC Mutual Fund Asset Management Company Ltd.	30-09-2018	1.3	82.79M	0
5	ICICI Prudential Asset Management Co. Ltd.	31-12-2018	1.2	74.30M	+16.39M
6	HDFC Asset Management Co., Ltd.	31-12-2018	1.2	73.29M	+8.00M
7	The Vanguard Group, Inc.	31-12-2018	0.8	49.97M	+0.12M
8	Capital World Investors	31-12-2018	0.7	45.81M	+38.00M
9	SBI Funds Management Pvt. Ltd.	31-12-2018	0.5	30.17M	+3.62M
10	Goldman Sachs Asset Management (India) Private Ltd.	31-03-2018	0.5	29.41M	+0.07M

Source: Reuters, ICICI Direct Research

Shareholding Pattern

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoters	78.6	78.9	78.3	78.3	72.9
Others	21.5	21.1	21.7	21.7	27.1

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Reliance Nippon Life Asset Management Limited	+294.80M	+85.18M	Government of India	-477.60M	-137.99M
Capital World Investors	+131.52M	+38.00M	Capital Research Global Investors	-5.31M	-1.54M
ICICI Prudential Asset Management Co. Ltd.	+56.71M	+16.39M	Sydivest	-2.90M	-0.82M
HDFC Asset Management Co., Ltd.	+27.69M	+8.00M	Allianz Global Investors GmbH	-1.09M	-0.30M
Mirae Asset Global Investments (India) Pvt. Ltd.	+19.60M	+5.66M	Franklin Templeton Asset Management (India) Pvt. Ltd.	-1.02M	-0.29M

Source: Reuters, ICICI Direct Research

Financial summary (Consolidated)

Profit and loss statement		(₹ crore)			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Total Operating Income	78220.6	85862.4	97423.8	98576.6	
Growth (%)	0.3	9.8	13.5	1.2	
Total Operating Expenditure	65980.7	76296.2	74908.0	77250.0	
EBITDA	12239.9	9566.3	22515.8	21326.6	
Growth (%)	-33.1	-21.8	135.4	-5.3	
Depreciation	2910.1	3066.4	3715.6	3947.4	
Interest	411.7	431.8	375.4	300.4	
Other Income	5515.6	4658.3	5005.0	5105.1	
Exceptional Item	-	-	-	-	
PBT	14433.7	10726.4	23429.7	22183.8	
Total Tax	5166.0	3706.7	7731.8	7320.7	
PAT	9267.7	7019.8	15697.9	14863.2	
Growth (%)	-35.1	-24.3	123.6	-5.3	
Adj EPS (₹)	14.9	11.3	25.3	23.9	

Source: Company, ICICI Direct Research

Balance sheet		(₹ crore)			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Liabilities					
Equity Share Capital	6,207.4	6,207.4	6,207.4	6,207.4	
Reserve and Surplus	18,319.4	13,639.2	21,105.4	17,811.9	
Total Shareholders funds	24526.8	19846.6	27312.8	24019.3	
Total Debt	3007.8	1530.9	0.0	0.0	
Minority Interest	345.9	362.5	362.5	362.5	
Total Liabilities	27880.5	21740.0	27675.3	24381.8	
Assets					
Gross Block	58688.9	65525.0	74200.9	82416.6	
Less: Acc Depreciation	34881.2	37947.5	41686.0	45633.4	
Net Block	23807.7	27577.4	32514.9	36783.2	
CWIP	8590.1	10286.4	11633.4	15917.7	
Investments	1482.9	1508.6	3008.6	3008.6	
Inventory	8945.3	6443.9	14342.8	8259.2	
Debtors	10735.9	8689.2	11692.5	13140.7	
Loans and Advances	11715.9	14155.5	14296.3	14482.0	
Other Current Assets	16838.7	22000.6	10624.1	22375.0	
Cash	31229.8	31475.1	26478.2	8504.2	
Total Current Assets	79465.5	82764.3	77433.9	66761.1	
Current Liabilities	25575.9	30089.4	31180.0	31537.8	
Provisions	62622.4	75662.4	71090.5	71906.2	
Current Liabilities & Prov	88198.4	105751.8	102270.5	103443.9	
Net Current Assets	-8732.9	-22987.5	-24836.6	-36682.8	
Others	2732.8	5355.1	5355.1	5355.1	
Application of Funds	27880.5	21740.0	27675.3	24381.7	

Source: Company, ICICI Direct Research

Cash flow statement		(₹ crore)			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	9267.7	7019.8	15697.9	14863.2	
Add: Depreciation	2910.1	3066.4	3715.6	3947.4	
Add: Interest	411.7	431.8	375.4	300.4	
(Inc)/dec in Current Assets	-5530.2	-3053.5	333.5	-7301.2	
Inc/(dec) in CL and Prov.	13171.7	17553.4	-3481.3	1173.4	
CF from operating activities	20231.1	25017.9	16641.1	12983.2	
(Inc)/dec in Investments	1419.1	-25.8	-1500.0	0.0	
(Inc)/dec in Fixed Assets	-11053.0	-8532.4	-10000.0	-12500.0	
Others	-447.1	-2605.8	0.0	0.0	
CF from investing activities	-10081.0	-11164.0	-11500.0	-12500.0	
Issue/(Buy back) of Equity	-109.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	1817.3	-1476.9	-1530.9	0.0	
Interest Paid	-411.7	-431.8	-375.4	-300.4	
Dividend paid & dividend tax	-14706.4	-11983.4	-17430.4	-18156.6	
Others	-3823.2	283.0	9198.7	0.0	
CF from financing activities	-17233.0	-13609.1	-10138.0	-18457.0	
Net Cash flow	-7083.0	244.8	-4996.9	-17973.8	
Opening Cash	38312.8	31229.8	31475.1	26478.2	
Closing Cash	31229.8	31475.1	26478.2	8504.2	

Source: Company, ICICI Direct Research

Key ratios		(₹ crore)			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
Adj EPS	14.9	11.3	25.3	23.9	
Cash EPS	19.6	16.2	31.3	30.3	
BV	39.5	32.0	44.0	38.7	
DPS	19.9	16.5	24.0	25.0	
Cash Per Share	50.3	50.7	42.7	13.7	
Operating Ratios (%)					
EBITDA Margin	15.6	11.1	23.1	21.6	
PBT / Total Operating income	18.5	12.5	24.0	22.5	
PAT Margin	11.8	8.2	16.1	15.1	
Inventory days	40	34	40	43	
Debtor days	52	39	45	50	
Creditor days	124	134	120	120	
Return Ratios (%)					
Adj RoE	37.8	35.4	57.5	61.9	
Adj RoCE	33.5	29.9	67.9	71.3	
RoIC	33.2	32.3	56.7	61.0	
Valuation Ratios (x)					
P/E	14.4	19.0	8.5	9.0	
Adj. EV / EBITDA	7.1	8.1	4.2	5.2	
EV / Net Sales	1.4	1.2	1.1	1.3	
Market Cap / Sales	1.7	1.6	1.4	1.4	
Price to Book Value	5.4	6.7	4.9	5.6	
Solvency Ratios					
Debt/EBITDA	0.2	0.2	0.0	0.0	
Debt / Equity	0.1	0.1	0.0	0.0	
Current Ratio	0.9	0.8	0.8	0.6	
Quick Ratio	0.8	0.7	0.6	0.6	

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Metals & Mining)

	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	TP (₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Coal India	215	225	Hold	133459	11.3	25.3	23.9	19.0	8.5	9.0	8.1	4.2	5.2	29.9	67.9	71.3	35.4	57.5	61.9
Hindalco	200	212	Buy	44540	19.9	24.8	22.5	10.1	8.1	8.9	5.8	5.6	5.6	9.4	10.4	9.5	8.1	9.6	7.9
Hindustan Zinc	255	260	Hold	107738	22.0	20.2	23.0	11.7	12.7	11.2	7.0	7.8	6.4	34.0	32.8	31.8	25.8	24.8	23.8
JSW Steel	272	315	Buy	65748	25.3	32.7	31.6	10.8	8.3	8.6	6.9	5.9	6.1	17.9	20.2	16.5	21.8	25.4	20.1
Vedanta	163	145	Sell	60424	20.0	18.4	22.4	8.1	8.9	7.3	3.8	4.0	3.7	15.4	13.2	13.8	11.7	10.9	12.2
Tata Steel	465	550	Buy	42813	71.3	70.5	68.9	6.5	6.6	6.8	6.2	5.8	5.7	11.0	11.5	10.8	13.4	11.7	10.5

Source: Company, ICICI Direct Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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