

February 12, 2019

## Q3FY19 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	250		262	
Sales (Rs. m)	1,005,608	1,057,879	1,005,608	1,057,879
% Chng.	-	-	-	-
EBITDA (Rs. m)	275,320	290,862	275,320	290,862
% Chng.	-	-	-	-
EPS (Rs.)	25.0	26.3	24.6	25.7
% Chng.	1.5	2.3	-	-

### Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. bn)	859	962	1,006	1,058
EBITDA (Rs.bn)	129	265	275	291
Margin (%)	15.1	27.6	27.4	27.5
PAT (Rs. bn)	67	149	154	162
EPS (Rs.)	10.8	24.3	25.0	26.3
Gr. (%)	(25.6)	125.1	3.0	5.2
DPS (Rs.)	16.5	10.1	12.6	15.1
Yield (%)	7.4	4.5	5.6	6.8
RoE (%)	30.1	64.8	52.5	46.5
RoCE (%)	26.6	79.2	64.8	57.7
EV/Sales (x)	1.3	1.1	1.0	0.9
EV/EBITDA (x)	8.4	3.9	3.7	3.4
PE (x)	20.7	9.2	8.9	8.5
P/BV (x)	7.0	5.2	4.3	3.7

### Key Data

COAL.BO | COAL IN

52-W High / Low	Rs.317 / Rs.214
Sensex / Nifty	36,154 / 10,831
Market Cap	Rs.1,385bn/ \$ 19,578m
Shares Outstanding	6,207m
3M Avg. Daily Value	Rs.2878.53m

### Shareholding Pattern (%)

Promoter's	72.91
Foreign	5.99
Domestic Institution	17.60
Public & Others	3.50
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(3.9)	(19.1)	(25.8)
Relative	(4.3)	(15.3)	(29.6)

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## Marginal beat, Outlook on volumes remains weak

**Coal India (COAL) reported Q3FY19 earnings marginally above our estimates on the back of better than expected FSA realisations. We note that company changed accounting for provisions related to quality variance by adjusting from revenue against earlier practice of providing as cost. Accordingly, revenues for H1FY19 were revised lower by Rs5bn to account for grade slippage. Against the same, company recognized credit of Rs24mn in the quarter. Hence, we keep our estimates unchanged for FY20e and FY21e as volatile grade and lower E-auction volumes would offset higher pre-grade adjustment realisations.**

**Volumes growth continued to remain dismal due to structural issues related to land acquisition, logistics and statutory clearances. We factor in 4.3%/5.0%/5.5% growth in FY19e/FY20e/FY21e. Given the weak outlook on volumes and deteriorating B/S (resulting in dividend cuts), we reiterate Hold with TP of Rs250, P/E of 10x FY20E.**

- Higher share of FSA volumes restricted the beat on blended level:** Volumes rose 1% YoY to 154mn (PLe:154mn) t. FSA volumes rose 11.5% YoY to 136mn (PLe: 131mn) t. Led by 10% price hike in non-coking coal in January-2018, FSA realisations rose 13% YoY (+2% QoQ) to Rs1,334 (PLe:Rs1,311). E-auction volumes fell 44% YoY to 14.7mn (PLe: 19.0mn) t due to diversion of volumes to power sector and lower production. E-auction realisations rose 43% YoY (↑9 QoQ) to Rs2,847 (PLe:Rs2,650). Washed coal realisations fell 4% YoY (↑10% QoQ) to Rs2,866 (PLe:Rs2,600). Hence, blended realisations came above our estimate at Rs1,520 (PLe:Rs1,502); up 12% YoY/2% QoQ.
- Costs in line; EBITDA above estimate by 3%:** Cash cost (net of OBR and provisions) rose 4% YoY to Rs1,110 (PLe:Rs1,108) due to 9% increase in employee cost and lower scale. Adjusted for OBR adj and provisions, EBITDA rose 45% YoY to Rs79.7bn (PLe:Rs77.3bn). Aided by lower than expected tax rate (35% v/s PLe:36%), Adj. PAT came above our estimate at Rs45.7bn (PLe:Rs43.1bn), up 50% YoY.

**Exhibit 1: Q3FY19 Result Overview (Rs m)**

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
<b>Net operating revenue</b>	<b>233,854</b>	<b>207,722</b>	<b>12.6</b>	<b>203,987</b>	<b>661,918</b>	<b>566,551</b>	<b>16.8</b>
Other operating income	16,604	9,348	77.6	14,854	48,088	23,620	103.6
Revenue (including other operating income)	<b>250,458</b>	<b>217,070</b>	<b>15.4</b>	<b>218,840</b>	<b>710,006</b>	<b>590,170</b>	<b>20.3</b>
(Accretion)/Decretion in Stocks	(88)	5,475	(101.6)	13,844	25,391	30,580	(17.0)
Consumption of stores and spares	19,446	17,398	11.8	16,093	51,278	46,665	9.9
Employees' Remuneration & Benefits	95,176	87,441	8.8	89,535	280,693	259,706	8.1
Power & Fuel	6,062	6,072	(0.1)	6,383	18,385	18,854	(2.5)
CSR expenses	367	632	(41.9)	547	1,288	2,828	(54.4)
Repairs	2,980	3,129	(4.8)	3,191	8,983	8,436	6.5
Contractual Expenses	36,275	32,118	12.9	27,358	95,394	88,623	7.6
Miscellaneous expenses	10,568	9,956	6.1	10,568	32,241	29,538	9.1
Overburden Removal Adjustment	11,777	9,226	27.6	8,023	28,635	8,736	
Provision and write off	15	1,837	(99.2)	128	69	13,322	(99.5)
Total Cost of Sales	182,580	173,284	5.4	175,669	542,357	507,288	6.9
<b>EBITDA</b>	<b>67,878</b>	<b>43,787</b>	<b>55.0</b>	<b>43,171</b>	<b>167,649</b>	<b>82,883</b>	<b>102.3</b>
<i>as a % of Sales</i>	<i>29.0</i>	<i>21.1</i>		<i>21.2</i>	<i>25.3</i>	<i>14.6</i>	
Depreciation	8,611	7,476	15.2	8,069	24,132	21,322	13.2
<b>EBIT</b>	<b>59,268</b>	<b>36,311</b>	<b>63.2</b>	<b>35,102</b>	<b>143,517</b>	<b>61,561</b>	<b>133.1</b>
Interest	620	968	(36.0)	8	1,731	3,172	(45.4)
<b>PBT (before other income)</b>	<b>58,648</b>	<b>35,343</b>	<b>65.9</b>	<b>35,094</b>	<b>141,786</b>	<b>58,388</b>	<b>142.8</b>
Other Income	11,633	11,138	4.4	16,084	40,542	37,745	7.4
<b>PBT before extraordinaries</b>	<b>70,281</b>	<b>46,481</b>	<b>51.2</b>	<b>51,178</b>	<b>182,328</b>	<b>96,133</b>	<b>89.7</b>
Exceptional items	-	-		-	-	-	
<b>PBT after extraordinaries</b>	<b>70,281</b>	<b>46,481</b>	<b>51.2</b>	<b>51,178</b>	<b>182,328</b>	<b>96,133</b>	<b>89.7</b>
Provision for Taxation	24,623	16,052	53.4	20,317	67,966	38,487	76.6
<b>Reported PAT</b>	<b>45,658</b>	<b>30,429</b>	<b>50.0</b>	<b>30,861</b>	<b>114,362</b>	<b>57,646</b>	<b>98.4</b>
<b>Adjusted PAT</b>	<b>45,658</b>	<b>30,429</b>	<b>50.0</b>	<b>30,861</b>	<b>114,362</b>	<b>57,646</b>	<b>98.4</b>

Source: Company, PL

**Exhibit 2: Operating Metrics**

Y/e March (Rs mn)	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Coal production (m tonnes)	156.0	152.0	2.6	119.6	412.4	383.9	7.4
Coal sales volume (m tonnes)	153.8	152.4	0.9	137.3	444.6	421.4	5.5
<b>Net realisation (Excl. Other Operating Income)</b>	<b>1,520</b>	<b>1,363</b>	<b>11.6</b>	<b>1,485</b>	<b>1,489</b>	<b>1,344</b>	<b>10.7</b>
Realisation (Inc. Other Operating Income)	1,628	1,424	14.3	1,594	1,597	1,400	14.0
Total cost/tonne	1,187	1,137	4.4	1,279	1,220	1,204	1.3
<b>Cash cost/t (excluding OBR and Provisions)</b>	<b>1,110</b>	<b>1,064</b>	<b>4.3</b>	<b>1,220</b>	<b>1,155</b>	<b>1,151</b>	<b>0.3</b>
EBITDA/tonne	441	287	53.6	314	377	197	91.7
<b>Adjusted EBITDA/tonne</b>	<b>518</b>	<b>360</b>	<b>43.9</b>	<b>374</b>	<b>442</b>	<b>249</b>	<b>77.3</b>
<b>Sales volume mix (m tonnes)</b>							
FSA	135.9	121.9	11.5	116.8	383.0	333.6	14.8
E-auction	14.7	26.4	(44.4)	17.7	51.7	76.9	(32.7)
Washed coal	2.9	2.8	5.0	2.4	7.9	8.3	(5.2)
<b>Realisation per tonne (Rs)</b>							
FSA	1,334	1,182	12.9	1,308	1,319	1,201	9.8
E-auction	2,847	1,998	42.5	2,592	2,592	1,736	49.3
Washed coal	2,866	2,975	(3.6)	2,602	2,643	3,060	(13.6)

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>858,624</b>	<b>962,283</b>	<b>1,005,608</b>	<b>1,057,879</b>
YoY gr. (%)	9.5	12.1	4.5	5.2
Cost of Goods Sold	85,090	76,126	82,712	89,890
Gross Profit	773,534	886,157	922,896	967,989
Margin (%)	90.1	92.1	91.8	91.5
Employee Cost	426,336	376,593	377,949	379,310
Other Expenses	192,789	216,153	239,151	264,696
<b>EBITDA</b>	<b>129,245</b>	<b>265,361</b>	<b>275,320</b>	<b>290,862</b>
YoY gr. (%)	(14.5)	105.3	3.8	5.6
Margin (%)	15.1	27.6	27.4	27.5
Depreciation and Amortization	64,246	70,511	75,500	81,136
<b>EBIT</b>	<b>64,999</b>	<b>194,849</b>	<b>199,819</b>	<b>209,726</b>
Margin (%)	7.6	20.2	19.9	19.8
Net Interest	4,318	3,000	3,000	3,000
Other Income	46,583	45,377	47,542	50,369
<b>Profit Before Tax</b>	<b>107,264</b>	<b>237,227</b>	<b>244,361</b>	<b>257,095</b>
Margin (%)	12.5	24.7	24.3	24.3
Total Tax	38,081	87,774	90,413	95,125
Effective tax rate (%)	35.5	37.0	37.0	37.0
<b>Profit after tax</b>	<b>69,184</b>	<b>149,453</b>	<b>153,947</b>	<b>161,970</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>66,861</b>	<b>149,453</b>	<b>153,947</b>	<b>161,970</b>
YoY gr. (%)	(25.6)	123.5	3.0	5.2
Margin (%)	7.8	15.5	15.3	15.3
Extra Ord. Income / (Exp)	2,323	-	-	-
<b>Reported PAT</b>	<b>69,184</b>	<b>149,453</b>	<b>153,947</b>	<b>161,970</b>
YoY gr. (%)	(25.4)	116.0	3.0	5.2
Margin (%)	8.1	15.5	15.3	15.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	69,184	149,453	153,947	161,970
<b>Equity Shares O/s (m)</b>	<b>6,207</b>	<b>6,163</b>	<b>6,163</b>	<b>6,163</b>
<b>EPS (Rs)</b>	<b>10.8</b>	<b>24.3</b>	<b>25.0</b>	<b>26.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>360,723</b>	<b>442,027</b>	<b>532,841</b>	<b>624,196</b>
Tangibles	360,723	442,027	532,841	624,196
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>84,949</b>	<b>119,467</b>	<b>156,999</b>	<b>198,074</b>
Tangibles	84,949	119,467	156,999	198,074
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>275,774</b>	<b>322,560</b>	<b>375,842</b>	<b>426,122</b>
Tangibles	275,774	322,560	375,842	426,122
Intangibles	-	-	-	-
Capital Work In Progress	102,864	111,898	121,988	132,139
Goodwill	-	-	-	-
Non-Current Investments	129,132	139,132	148,132	156,132
Net Deferred tax assets	53,551	53,551	53,551	53,551
Other Non-Current Assets	25,454	26,454	27,454	28,454
<b>Current Assets</b>				
Investments	2,056	2,056	2,056	2,056
Inventories	64,439	70,982	74,623	78,916
Trade receivables	86,892	73,773	76,939	80,809
Cash & Bank Balance	314,751	340,237	367,180	401,732
Other Current Assets	184,313	184,872	185,139	185,466
<b>Total Assets</b>	<b>1,274,917</b>	<b>1,361,207</b>	<b>1,468,597</b>	<b>1,581,069</b>
<b>Equity</b>				
Equity Share Capital	62,074	61,627	61,627	61,627
Other Equity	136,392	201,116	261,719	311,677
<b>Total Networkth</b>	<b>198,466</b>	<b>262,743</b>	<b>323,347</b>	<b>373,304</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	10,612	15,377	15,377	15,377
Provisions	499,031	529,148	568,303	609,552
Other non current liabilities	43,666	46,166	48,666	51,166
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	4,765	-	-	-
Trade payables	45,169	49,624	51,754	54,356
Other current liabilities	457,948	442,346	445,088	460,934
<b>Total Equity &amp; Liabilities</b>	<b>1,274,917</b>	<b>1,361,207</b>	<b>1,468,597</b>	<b>1,581,069</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	110,043	237,227	244,361	257,095
Add. Depreciation	30,468	34,518	37,532	41,075
Add. Interest	-	-	-	-
Less Financial Other Income	46,583	45,377	47,542	50,369
Add. Other	7,991	9,604	9,605	9,068
Op. profit before WC changes	148,502	281,349	291,498	307,238
Net Changes-WC	138,450	(21,465)	(10,756)	2,465
Direct tax	(74,329)	(87,774)	(90,413)	(95,125)
<b>Net cash from Op. activities</b>	<b>212,623</b>	<b>172,110</b>	<b>190,329</b>	<b>214,578</b>
Capital expenditures	(85,293)	(90,338)	(100,905)	(101,506)
Interest / Dividend Income	24,044	26,389	28,363	30,994
Others	(15,514)	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(76,763)</b>	<b>(63,948)</b>	<b>(72,542)</b>	<b>(70,513)</b>
Issue of share cap. / premium	-	(10,500)	-	-
Debt changes	(14,778)	-	-	-
Dividend paid	(123,238)	(74,675)	(93,344)	(112,013)
Interest paid	(370)	-	-	-
Others	2,513	2,500	2,500	2,500
<b>Net cash from Fin. activities</b>	<b>(135,873)</b>	<b>(82,675)</b>	<b>(90,844)</b>	<b>(109,513)</b>
<b>Net change in cash</b>	<b>(12)</b>	<b>25,486</b>	<b>26,943</b>	<b>34,552</b>
Free Cash Flow	297,916	262,447	291,234	316,084

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<b>Net Revenue</b>	<b>269,092</b>	<b>240,708</b>	<b>218,840</b>	<b>250,458</b>
YoY gr. (%)	15.8	25.6	20.6	15.4
Raw Material Expenses	-	-	-	-
Gross Profit	269,092	240,708	218,840	250,458
Margin (%)	100.0	100.0	100.0	100.0
<b>EBITDA</b>	<b>1,955</b>	<b>56,600</b>	<b>43,171</b>	<b>67,878</b>
YoY gr. (%)	(95.5)	2,795.1	(23.7)	57.2
Margin (%)	0.7	23.5	19.7	27.1
Depreciation / Depletion	9,308	7,452	8,069	8,611
<b>EBIT</b>	<b>(7,353)</b>	<b>49,148</b>	<b>35,102</b>	<b>59,268</b>
Margin (%)	(2.7)	20.4	16.0	23.7
Net Interest	1,127	1,103	8	620
Other Income	20,002	12,824	16,084	11,633
<b>Profit before Tax</b>	<b>11,521</b>	<b>60,869</b>	<b>51,178</b>	<b>70,281</b>
Margin (%)	4.3	25.3	23.4	28.1
Total Tax	(1,420)	23,025	20,317	24,623
Effective tax rate (%)	(12.3)	37.8	39.7	35.0
<b>Profit after Tax</b>	<b>12,942</b>	<b>37,843</b>	<b>30,861</b>	<b>45,658</b>
Minority interest	(1)	(1)	(2)	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>12,942</b>	<b>37,843</b>	<b>30,861</b>	<b>45,658</b>
YoY gr. (%)	(52.4)	60.9	733.2	50.0
Margin (%)	4.8	15.7	14.1	18.2
Extra Ord. Income / (Exp)	1	1	2	-
<b>Reported PAT</b>	<b>12,943</b>	<b>37,845</b>	<b>30,863</b>	<b>45,658</b>
YoY gr. (%)	(52.4)	60.9	734.2	50.0
Margin (%)	4.8	15.7	14.1	18.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>12,943</b>	<b>37,845</b>	<b>30,863</b>	<b>45,658</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

**Key Financial Metrics**

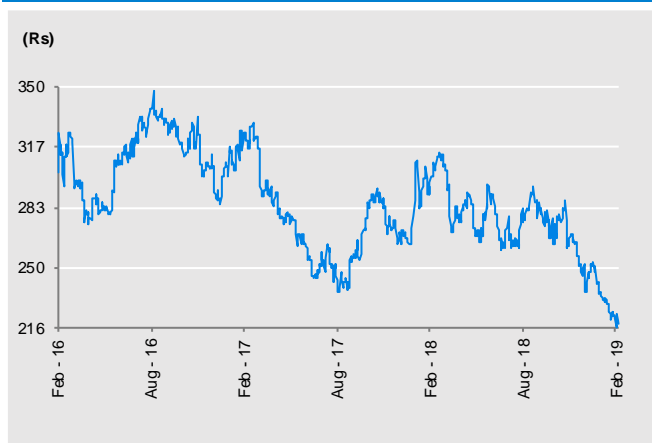
Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	10.8	24.3	25.0	26.3
CEPS	21.1	35.7	37.2	39.4
BVPS	32.0	42.6	52.5	60.6
FCF	48.0	42.6	47.3	51.3
DPS	16.5	10.1	12.6	15.1
<b>Return Ratio(%)</b>				
RoCE	26.6	79.2	64.8	57.7
ROIC	10.1	19.5	18.7	18.4
RoE	30.1	64.8	52.5	46.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(1.5)	(1.2)	(1.1)	(1.0)
Net Working Capital (Days)	45	36	36	36
<b>Valuation(x)</b>				
PER	20.7	9.2	8.9	8.5
P/B	7.0	5.2	4.3	3.7
P/CEPS	10.6	6.3	6.0	5.7
EV/EBITDA	8.4	3.9	3.7	3.4
EV/Sales	1.3	1.1	1.0	0.9
Dividend Yield (%)	7.4	4.5	5.6	6.8

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY18	FY19E	FY20E	FY21E
Raw coal prod (mn tn)	567	608	641	677
Coal despatches (mn tn)	580	608	641	677
Vol sold under FSA/MoU (mn tn)	460	528	566	601
Vol sold under E-auction (mn tn)	106	65	60	60
Beneficiated coal vol (mn tn)	11	11	12	12
Vol sold to power utilities (mn tn)	453			
Real. / tonne (Rs)	1,409	1,476	1,459	1,453
Total cost per tonne (Rs)	1,215	1,315	1,205	1,198
Cash cost per tonne (Rs)	1,166	1,257	1,146	1,138
Employee cost / tonne (Rs)	605	751	619	589
EBITDA / tonne (Rs)	165	377	370	371
OBR adj / tonne (Rs)	48	59	59	59

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-18	BUY	365	285
2	29-May-18	BUY	340	282
3	1-Jun-18	BUY	340	295
4	10-Jul-18	BUY	340	261
5	13-Aug-18	BUY	340	279
6	5-Oct-18	BUY	340	273
7	12-Nov-18	BUY	330	264
8	26-Dec-18	Hold	270	248
9	7-Jan-19	Hold	262	235

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,710	1,389
2	Ambuja Cement	Hold	220	218
3	Coal India	Hold	262	235
4	Heidelberg Cement India	BUY	200	150
5	Hindalco Industries	Accumulate	280	209
6	Hindustan Zinc	Hold	275	268
7	Jindal Steel & Power	BUY	230	129
8	JK Lakshmi Cement	Hold	320	305
9	JSW Steel	BUY	360	279
10	NMDC	Reduce	86	95
11	Shree Cement	Hold	16,800	15,918
12	Steel Authority of India	Hold	50	53
13	Tata Steel	BUY	780	469
14	The Ramco Cements	Hold	600	574
15	Ultratech Cement	Hold	3,725	3,791

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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