

BSE SENSEX  
35,981

S&P CNX  
10,802

CMP: INR234 TP: INR338 (+44%)

Buy



**Stock Info**

Bloomberg	COAL IN
Equity Shares (m)	6,207
M.Cap.(INRb)/(USDb)	1452.2 / 20.7
52-Week Range (INR)	317 / 229
1, 6, 12 Rel. Per (%)	-2/-11/-23
12M Avg Val (INR M)	1330
Free float (%)	21.7

**Financials Snapshot (INR b)**

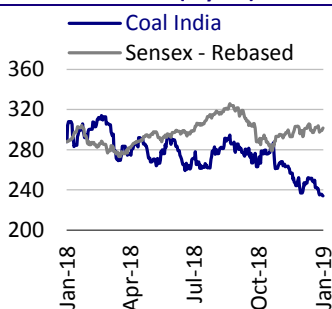
Y/E Mar	2018	2019E	2020E
Net Sales	858.6	977.4	992.5
EBITDA	203.1	242.3	274.4
PAT	118.9	159.5	178.0
EPS (INR)	19.2	25.7	28.7
Gr. (%)	26.3	34.1	11.6
BV/Sh (INR)	32.0	34.5	37.4
RoE (%)	35.4	74.4	76.7
RoCE (%)	58.4	94.3	95.7
P/E (x)	12.2	9.1	8.2
P/BV (x)	7.3	6.8	6.3

**Shareholding pattern (%)**

As On	Sep-18	Jun-18	Sep-17
Promoter	78.3	78.3	78.9
DII	13.0	13.2	11.9
FII	5.7	5.4	5.6
Others	3.0	3.1	3.7

FII Includes depository receipts

**Stock Performance (1-year)**



**Sputtering production growth impacting volumes**

**Reducing estimates by 5-7%; Valuations and dividend yield attractive**

**Lowering volume growth expectation as production sputters**

Coal India's (COAL) coal production growth has started sputtering (Exhibit 2:). It has reached a point where growth of dispatches will suffer not only in FY19E, but also in FY20E. COAL builds inventories during 2H of any financial year in order to meet demand in the 1H of the next financial year, when production is usually lower due to seasonally high heat followed by monsoons. Unfortunately, COAL's inventories are now significantly lower than the historical levels (Exhibit 3:). Our channel checks suggest that COAL is unlikely to surprise positively in the remaining three months of FY19E. SECL is struggling with production growth. Talcher coal fields have inventories but offtake is an issue, while IB valley's mines are suffering from slow land acquisition. Various government agencies and COAL's top management need to work on a war footing to address these issues, else production growth will suffer. Therefore, it has become inevitable that we tone down our expectations. We are reducing our sales estimates by 1%/2% to 612mt/645mt for FY19E/FY20E.

**Power plants restocking demand squeezing high margin E-auction volumes**

Low inventory level at power plants (Exhibit 4:) is another factor that will impact earnings of COAL because more coal will be dispatched to power plants on priority basis, which will leave behind lower tonnage for high margin E-auction (Exhibit 6:). Although low inventories at power plants in FY18 was a result of voluntary destocking during FY17, the lower level in FY15 and FY19 are a result of slower-than-expected growth in domestic coal production (Exhibit 5:). Coal dispatches grew 12% in FY18 and continue to grow at 11% so far in FY19E. Since inventories at power plants remain low, the restocking demand will continue to drive higher demand in FY20E as well. Therefore, we need to reduce E-auction volumes by 3% to 79mt in FY19E and by 25% to 69mt in FY20E. A scarcity of coal for non-power will ensure that E-auction prices remain high. Therefore, we are increasing E-auction realization by 10% to INR2200/t for FY20E, which is still a decline of 12% YoY.

**Reducing earnings by 5-7%; valuations are attractive**

We are reducing adj. EBITDA estimates by 5%/6% to INR242/274b for FY19E/20E on combined impact of reduction in volumes and increase in E-auction prices as discussed above. EPS is reduced by 5%/7% for FY19E/20E. Stock is trading at an attractive valuation i.e. adj. EV/EBITDA of 4.6x/4.1x, P/E of 9.2x/8.3x and dividend yield of 8%/9% at 90% payout ratio in FY19E/20E. Adjusted EBITDA is expected to increase at CAGR of 16% over FY18-20E on high operating leverage driven by 5-6% volume growth and cost reduction on high natural attrition. We maintain BUY and value the stock at INR338/share based on EV/EBTIDA of 6.5x, in line with valuation of mining stocks.

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## Operating metrics

	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Production</b>	494	539	554	573	618	657	696
YoY (%)	7.2	9.0	2.9	3.3	7.9	6.3	6.0

### Coal Sales (m tons)

Linkages	426	448	430	460	516	558	589
Proportion (%)	87.0	83.9	79.2	79.3	84.3	86.6	86.6
E-Auction	47	67	94	106	79	69	72
Proportion (%)	9.6	12.5	17.4	18.3	12.9	10.6	10.6
Beneficiated coal	12	14	14	11	14	15	16
Proportion (%)	2.4	2.7	2.6	2.0	2.3	2.3	2.3
Others	5	5	5	2	3	3	3
Proportion (%)	0.9	0.9	0.9	0.4	0.6	0.5	0.5
<b>Total</b>	<b>489</b>	<b>534</b>	<b>543</b>	<b>580</b>	<b>612</b>	<b>645</b>	<b>680</b>
YoY (%)	3.8	9.2	1.6	6.8	5.5	5.4	5.4

### Realization (Rs/t)

Raw Coal (FSA)	1,327	1,309	1,301	1,257	1,321	1,323	1,324
E-auction coal	2,450	1,839	1,536	1,839	2,500	2,200	2,000
Beneficiated Coal	2,348	2,328	3,049	3,023	2,877	2,877	2,877
Others	2,593	2,611	2,914	3,249	2,877	2,877	2,877
<b>Average</b>	<b>1,472</b>	<b>1,415</b>	<b>1,393</b>	<b>1,409</b>	<b>1,518</b>	<b>1,460</b>	<b>1,439</b>
% YoY	0.8	(3.8)	(1.6)	1.2	7.7	(3.8)	(1.4)

### Cost Composition (% of Revenue)

Stores & Spares	9.8	9.1	8.9	8.0	7.7	7.9	8.1
Staff cost	40.3	38.0	42.8	41.1	37.0	36.2	34.5
Contractual Exp	11.5	14.3	15.7	14.9	14.8	16.1	17.5
Overburden Removal Adj	5.2	3.6	3.4	3.9	3.4	1.5	1.5
Others	9.9	11.6	13.4	12.5	15.7	12.2	12.3
<b>Total Costs</b>	<b>76.6</b>	<b>76.5</b>	<b>84.2</b>	<b>80.3</b>	<b>78.6</b>	<b>73.8</b>	<b>73.9</b>
<b>EBIDTA Margins</b>	<b>23.4</b>	<b>23.5</b>	<b>15.8</b>	<b>19.7</b>	<b>21.4</b>	<b>26.2</b>	<b>26.1</b>

### Financials (Rs/ton)

Adj. Revenues	1,515	1,459	1,443	1,480	1,597	1,539	1,519
<b>Adj. EBIDTA</b>	<b>432</b>	<b>403</b>	<b>277</b>	<b>350</b>	<b>396</b>	<b>425</b>	<b>419</b>
PBT	441	403	269	312	378	394	384
<b>PAT</b>	<b>280</b>	<b>267</b>	<b>173</b>	<b>205</b>	<b>261</b>	<b>276</b>	<b>269</b>

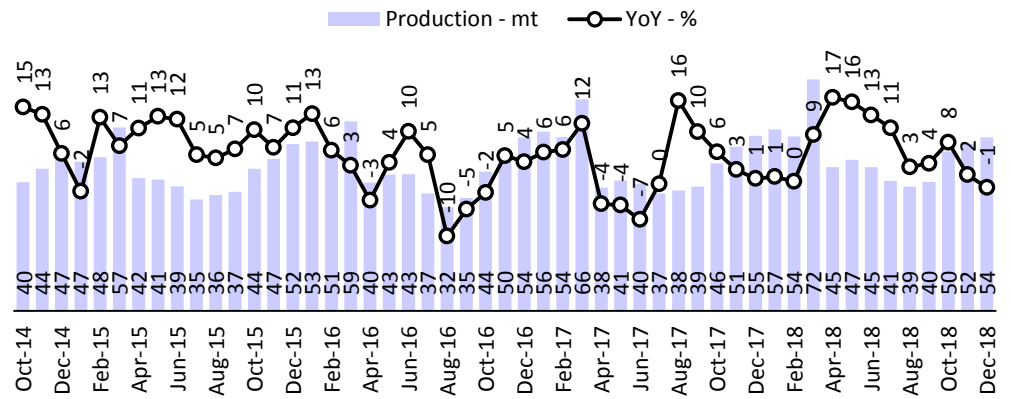
### Exhibit 1: Target Price calculations – INR million

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Adjusted EBIDTA	210,472	211,621	215,423	150,634	203,089	242,293	274,414	284,818
Target EV/EBITDA (x)						6.5	6.5	6.5
Target EV						1,574,902	1,783,692	1,851,315
Net debt		-471,951	-383,904	-410,544	-333,893	-316,289	-316,289	-295,705
Target Equity value						1,908,796	2,099,981	2,147,020
<b>TP (INR/share)</b>						<b>308</b>	<b>338</b>	<b>346</b>

Source: MOSL

Production growth is sputtering at a time when it is most needed

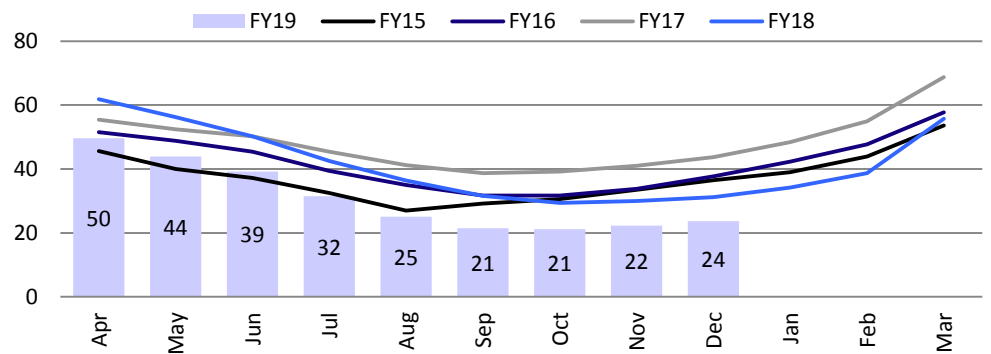
**Exhibit 2: Coal India's monthly production**



Source: MOSL, Company

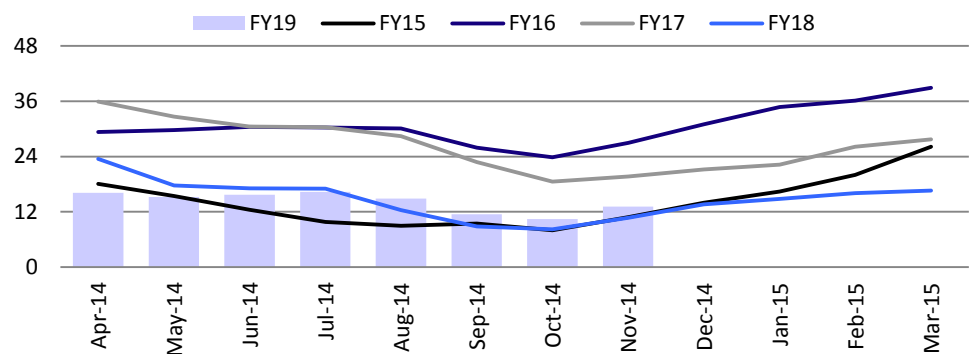
Coal India's low inventories are a lead indicator for slow dispatch growth in 1HFY20

**Exhibit 3: Coal inventories at Coal India (in mt)**



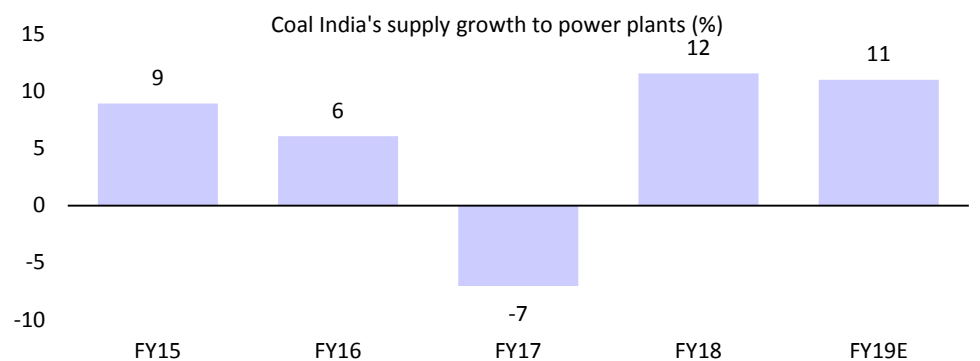
Source: MOSL, Company

**Exhibit 4: Coal inventories at power plants remain low (in mt)**



Source: MOSL, Company

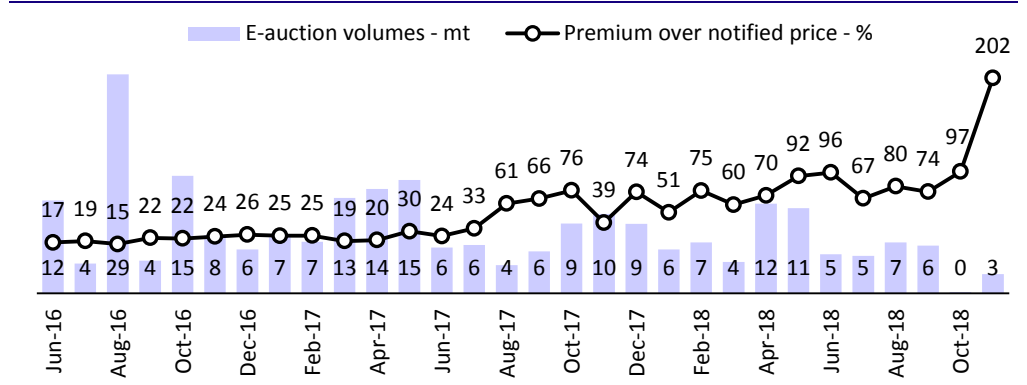
**Exhibit 5: Coal India's supply growth to power plants**



Source: MOSL, Company

E-auction volumes are dwindling, while premiums are rising

Exhibit 6: E-auction volumes



Source: MOSL, Company

Exhibit 7: Adjusted P&L – INR m

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>706,075</b>	<b>741,201</b>	<b>780,073</b>	<b>783,719</b>	<b>858,624</b>	<b>977,389</b>	<b>992,539</b>	<b>1,032,721</b>
Power FSA	461,456	511,628	537,007	494,293	529,901	639,734	690,908	725,449
Non Power FSA	74,138	72,150	69,584	86,547	63,029	82,543	91,714	100,885
Eauction/MoU	170,481	157,423	173,481	202,879	265,695	255,112	209,917	206,388
<b>Sales (mt)</b>	<b>472</b>	<b>489</b>	<b>534</b>	<b>543</b>	<b>580</b>	<b>612</b>	<b>645</b>	<b>680</b>
YoY (%)	1.6	3.8	9.2	1.6	6.8	5.5	5.4	5.4
Power FSA	354	385	409	380	424	471	508	534
Share (%)	75	79	76	70	73	77	79	78
Non Power FSA	42	41	40	50	36	45	50	55
Eauction/MoU	75	63	86	113	120	96	87	91
<b>Revenue per ton</b>	<b>1,497</b>	<b>1,515</b>	<b>1,459</b>	<b>1,443</b>	<b>1,480</b>	<b>1,597</b>	<b>1,539</b>	<b>1,519</b>
YoY (%)	-0.4	1.2	-3.6	-1.1	2.6	7.9	-3.6	-1.3
Power FSA	1,304	1,328	1,314	1,301	1,250	1,359	1,359	1,359
Non Power FSA	1,747	1,777	1,758	1,738	1,752	1,834	1,834	1,834
Eauction/MoU	2,263	2,484	2,013	1,793	2,214	2,647	2,421	2,261
<b>Cost of Mining (ex. OB)</b>	<b>495,603</b>	<b>529,580</b>	<b>564,649</b>	<b>633,085</b>	<b>655,535</b>	<b>735,096</b>	<b>718,125</b>	<b>747,904</b>
<b>CoP per ton</b>	<b>1,051</b>	<b>1,082</b>	<b>1,056</b>	<b>1,166</b>	<b>1,130</b>	<b>1,201</b>	<b>1,113</b>	<b>1,100</b>
YoY (%)	3.7	3.0	-2.4	10.4	-3.1	6.3	-7.3	-1.2
Labor & social OH	604	617	584	626	616	599	564	530
Contract	145	174	208	227	220	236	247	266
R&M	170	171	155	152	143	147	146	149
Others	132	120	109	161	151	219	157	155
<b>Adjusted EBIDTA</b>	<b>210,472</b>	<b>211,621</b>	<b>215,423</b>	<b>150,634</b>	<b>203,089</b>	<b>242,293</b>	<b>274,414</b>	<b>284,818</b>
Power FSA	89,602	94,569	105,197	51,209	50,682	74,431	124,991	138,448
Share (%)	43	45	49	34	25	31	46	49
Non Power FSA	29,546	28,215	27,772	28,491	22,363	28,492	36,045	40,393
Share (%)	14	13	13	19	11	12	13	14
Eauction/MoU	91,324	88,837	82,454	70,933	130,044	139,370	113,378	105,977
Share (%)	43	42	38	47	64	58	41	37
<b>EBITDA per ton</b>	<b>446</b>	<b>432</b>	<b>403</b>	<b>277</b>	<b>350</b>	<b>396</b>	<b>425</b>	<b>419</b>

Source: MOSL

**Exhibit 8: Indian coal demand and supply model (mt)**

	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
<b>Production + imports</b>	<b>795</b>	<b>806</b>	<b>819</b>	<b>834</b>	<b>910</b>	<b>959</b>	<b>1,011</b>	<b>1,068</b>
Coal India	494	534	554	567	612	645	680	751
SCCL	53	60	61	65	67	70	72	75
Captive mines	62	46	58	57	60	63	67	70
Imports	186	166	146	145	170	180	192	172
<b>Dispatches</b>	<b>784</b>	<b>805</b>	<b>808</b>	<b>847</b>	<b>910</b>	<b>959</b>	<b>1,011</b>	<b>1,068</b>
Power	542	562	575	596	639	672	708	748
Non-power	242	243	233	251	272	287	303	320
Coal India	489	531	543	580	612	645	680	751
<i>Growth YoY</i>	<i>3.8%</i>	<i>8.6%</i>	<i>2.2%</i>	<i>6.8%</i>	<i>5.6%</i>	<i>5.4%</i>	<i>5.3%</i>	<i>10.5%</i>
Power	385	415	425	454	479	508	530	586
Non-power	104	117	118	126	133	137	149	165
SCCL	53	59	61	65	67	70	72	75
Power	39	47	52	54	56	58	60	63
Non-power	13	11	10	11	12	12	12	12
Captive mines	63	46	58	58	60	63	67	70
Power	27	19	32	32	34	36	38	39
Non-power	36	27	26	25	26	28	29	31
Imports	179	168	146	145	170	180	192	172
Power	91	81	66	56	70	70	80	60
Non-power	88	87	80	89	100	110	112	112
<b>Inventories at user end</b>	<b>23</b>	<b>39</b>	<b>28</b>	<b>16</b>	<b>17</b>	<b>19</b>	<b>20</b>	<b>22</b>
Power	23	39	28	16	16	17	18	19
Non-power					1	2	3	3
Inventory increase/(decrease)	11	16	1	-12	1	2	2	2
Power	11	16	1	-12	0	1	1	1
Non-power					1	1	1	1
<b>Consumption</b>	<b>773</b>	<b>789</b>	<b>807</b>	<b>859</b>	<b>909</b>	<b>957</b>	<b>1,009</b>	<b>1,066</b>
Power (real)	531	546	574	608	639	671	707	747
Non-power (apparent)	242	243	233	251	271	286	302	319

Source: CEA; MOSL

**Exhibit 9: Power: Coal consumption model**

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Power Generation (b kwh)	850	904	953	1,011	1,107	1,169	1,236	1,299	1,384	1,471	1,563	1,661
YoY (%)	7.8%	6.3%	5.4%	6.1%	9.5%	5.6%	5.8%	5.1%	6.5%	6.3%	6.3%	6.3%
Conv Power generation (b kwh)	822	868	910	963	1,045	1,103	1,154	1,201	1,255	1,313	1,377	1,444
YoY (%)	7.3%	5.6%	4.8%	5.9%	8.5%	5.5%	4.6%	4.1%	4.5%	4.6%	4.8%	4.9%
elasticity with GDP	0.8	0.8	0.8	0.9	1.2	0.7	0.6	0.6	0.6	0.6	0.6	0.7
Coal based gen. (b kwh)	535	585	659	714	800	862	910	951	994	1,045	1,101	1,163
YoY (%)	4.0%	9.2%	12.7%	8.3%	12.1%	7.7%	5.6%	4.5%	4.5%	5.1%	5.4%	5.6%
Specific Cons.(kg/kwh)	0.723	0.714	0.690	0.686	0.664	0.633	0.630	0.639	0.642	0.642	0.642	0.642
imports in supply (%)	7.8	10.8	13.8	16.2	17.2	14.8	11.5	9.3	11.0	10.4	11.3	8.0
<b>Consumption (mt)</b>	<b>387</b>	<b>418</b>	<b>455</b>	<b>489</b>	<b>531</b>	<b>546</b>	<b>574</b>	<b>608</b>	<b>639</b>	<b>671</b>	<b>707</b>	<b>747</b>
YoY (%)	5.4	7.9	8.9	7.7	8.6	2.7	5.1	6.0	5.0	5.1	5.4	5.6

Source: CEA; MOSL





NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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