Institutional Equity Research

Coal India

Mining | India

1QFY18 Result Update | August 22, 2017

CMP (Rs)	240
Upside/ (Downside) (%)	25
Bloomberg Ticker	COAL IN
Market Cap. (Rs bn)	1,490
Free Float (%)	21.1
Shares O/S (mn)	6,207

BUY

Target Price: Rs301

Muted Quarterly Performance; Maintain BUY on Improved Outlook

In line with our estimate, Coal India (CIL) has delivered a muted performance in 1QFY18 with its net profit declining by 23.3% YoY to Rs23.5bn. Further, its EBITDA fell by 17.8% YoY to Rs35.2bn primarily due to higher provisioning towards pending wage negotiations and weak Fuel Supply Agreement (FSA) realisations due to grade slippages. On a positive note, its consolidated revenue increased by 4.3% YoY to Rs205bn driven by 3.1% YoY rise in coal off-take, while average realisation remained flat on YoY comparison. Looking ahead, we expect CIL's RoE & RoCE to improve on the back of higher realisation, improvement in margins and optimum utilisation of assets. **Expecting a meaningful revival in demand, we maintain our BUY recommendation on the stock with a Target Price of Rs301.**

Higher Coal Off-take Aids Revenue Growth

CIL's consolidated net sales grew by 4.3% YoY to Rs205bn in 1QFY18, primarily due to higher e-auction volume. Notably, e-auction dispatches grew by 33% YoY to 27.3MT, while FSA dispatches declined by just 0.5% YoY to 107.1MT mainly owing to low demand for coal from the power companies. While FSA realisation decelerated by 3% YoY to Rs1,201/tonne, e-auction realisation grew by 1% YoY to Rs1,586/tonne. Overall dispatches grew by 3.6% YoY to 137.5MT, while blended realisation remained flat at Rs1,335/tonne due to higher proportion of e-auction volume in the overall sales mix.

Elevated Employee Cost Drags Operating Margins

With 460bps YoY contraction in operating margin, CIL's operating profit declined by 17.8% YoY to Rs35.2bn in 1QFY18 primarily due to 5.6% YoY rise in employee cost and provisioning relating to grade slippage. Notably, its reported EBITDA was supported by OBR provisioning reversal to the tune of Rs1.0bn. Notably, higher e-auction volume and flat realisation were offset by lower realisation in FSA volume. However, cost per tonne increased by 9.5% YoY leading to 20.3% YoY decline in EBITDA/tonne.

Outlook & Valuation

Looking ahead, we expect that CIL's off-take would improve from 2HFY18E onwards along with improving e-auction realisations. Further, the full impact of grade slippage is largely over in 1QFY18, which makes us believe that CIL's FSA realisation will also recover hereon. CIL is auctioning linkages, which may result into more profitable e-auction volume. Hence, we expect its volume and realisation to recover in 2HFY18. Moreover, valuations at 11.3x FY19E P/E remain inexpensive. Further, we believe that the current stock price has discounted decline in e-auction coal prices, grade correction and higher wage bill. In our view, CIL is a good defensive play with estimated dividend of Rs14-13/share in FY18 and FY19, translating into dividend yield of ~6% at CMP. **We reiterate our BUY recommendation on the stock with a Target Price of Rs301.**

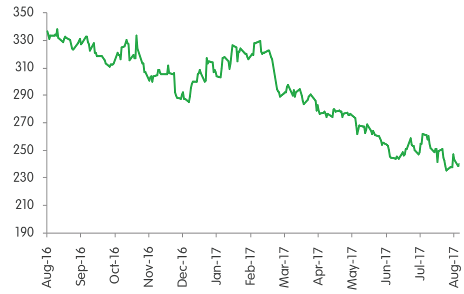
Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Revenue	780,076	782,206	843,944	928,098
EBITDA	187,113	122,399	144,320	172,792
PAT	142,679	92,678	111,889	134,662
EPS (Rs)	22.6	14.7	17.7	21.3
DPS (Rs)	25.1	19.9	15.7	14.2
EBITDA margin (%)	24.0	15.6	17.1	18.6
RoE (%)	38.0	31.2	47.8	58.6
RoCE (%)	34.3	27.2	39.8	48.5
P/E (x)	10.7	16.4	13.6	11.3
P/BV (x)	2.3	2.6	2.6	2.4
Dividend yield (%)	10.4	8.3	6.5	5.9

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(7.6)	(9.7)	(28.6)
Relative to Nifty	(5.6)	(13.7)	(41.7)

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	78.9	78.9
Public	21.1	21.1

1 Year Stock Price Performance



*Note: * CMP as on Aug 22, 2017*

Research Analyst: Rupesh Sankhe
Contact: (022) 3320 1606
Email: rupesh.sankhe@relianceada.com

Institutional Equity Research

Coal India

Mining | India

CMP (Rs)	240
Upside/ (Downside) (%)	25
Bloomberg Ticker	COAL IN

BUY

Target Price: Rs301

Risks to the View

- Lower e-auction realisation and off-take could drag margins.
- Lower global prices would keep e-auction realisation under check.

Exhibit 1: Quarterly Performance

(Rs mn)	1QFY18	1QFY17	YoY %	4QFY17	QoQ %
Net operating revenue	**205,678**	**197,281**	**4.3**	**247,802**	**(17.0)**
(Accretion)/Decretion in Stocks	8,817	40		(17,177)	
Consumption of stores and spares	14,806	14,869	(0.4)	22,210	(33.3)
Employees' Remuneration & Benefits	80,716	76,465	5.6	92,291	(12.5)
Power & Fuel	6,178	6,225	(0.8)	6,343	(2.6)
Welfare expenses	1,104	425	159.5	2,272	(51.4)
Repairs	2,916	2,340	24.6	4,742	(38.5)
Contractual Expenses	30,980	28,006	10.6	37,688	(17.8)
Other Expenses	10,742	9,776	9.9	21,972	(51.1)
Overburden Removal Adjustment	(1,069)	2,331	(145.9)	14,843	(107.2)
Provision and write off	1,209	1,193	1.3	12,657	(90.4)
Excise duty	14061.3	12747.8		16086.2	
Total Cost of Sales	**170,458**	**154,418**	**10.4**	**213,926**	**(20.3)**
EBITDA	**35,220**	**42,863**	**(17.8)**	**33,876**	**4.0**
as a % of Sales	17.12	21.73		13.67	
Depreciation	6,699	6,672	0.4	8,498	(21.2)
EBIT	**28,521**	**36,191**	**(21.2)**	**25,378**	**12.4**
Interest	1,210	890	36.0	1,151	5.1
PBT (before other income)	27,311	35,302	(22.6)	24,227	12.7
Other Income	12,066	10,992	9.8	18,558	(35.0)
as a % of Sales	5.9	5.6		7.5	
PBT after extraordinaries	**39,377**	**46,293**	**(14.9)**	**42,784**	**(8.0)**
Provision for Taxation	15,860	15,641	1.4	15,606	1.6
Reported PAT	**23,517**	**30,653**	**(23.28)**	**27,179**	**(13.5)**

Source: Company, RSec Research

Institutional Equity Research

Coal India

Mining | India

CMP (Rs)	240
Upside/ (Downside) (%)	25
Bloomberg Ticker	COAL IN

BUY

Target Price: Rs301

Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net operating revenue	**780,076**	**782,206**	**843,944**	**928,098**
% Change	8.3	0.3	7.9	10.0
Consumption of stores and spares	55,955	57,253	63,605	68,020
Employees' Remuneration & Benefits	301,268	335,143	369,339	399,034
Power & Fuel	24,905	25,581	28,911	31,537
Social overhead	10,822	4,897	5,272	5,729
Repairs	12,417	12,877	13,925	15,389
Contractual Expenses	111,284	123,041	130,101	139,132
Miscellaneous Expenses	39,352	53,589	41,632	45,759
Overburden Removal Adjustment	28,114	26,722	27,755	29,682
Provision and write off	8,846	20,706	19,082	21,024
Total Cost of Sales	**592,963**	**659,807**	**699,624**	**755,306**
EBITDA	**187,113**	**122,399**	**144,320**	**172,792**
as a % of Sales	24.0	15.6	17.1	18.6
Depreciation	28,259	29,101	31,335	33,816
EBIT	**158,854**	**93,298**	**112,985**	**138,975**
Interest	3,862	4,117	4,255	4,277
PBT (before other income)	154,992	89,181	108,730	134,698
as a % of Sales	19.9	11.4	12.9	14.5
Other Income	59,406	55,156	59,524	67,801
PBT after extraordinaries	214,398	144,337	168,255	202,499
Provision for Taxation	71,719	51,660	56,365	67,837
as a % of PBT	33.5	35.8	33.5	33.5
Reported PAT	142,679	92,678	111,889	134,662

Coal India

Mining | India

CMP (Rs)	240
Upside/ (Downside) (%)	25
Bloomberg Ticker	COAL IN

BUY

Target Price: Rs301

Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Sources of funds				
Share Capital	63,164	62,074	62,074	62,074
Reserves & Surplus	285,168	183,194	160,816	174,282
Net Worth	**348,332**	**245,268**	**222,890**	**236,356**
Debt	49,934	51,570	50,470	50,320
Secured Loans	14,825	13,373	13,373	13,373
Unsecured Loans	35,109	38,197	37,097	36,947
Minority Interest	1,048	3,459	3,459	3,459
TOTAL	**399,313**	**300,297**	**276,819**	**290,135**
Net Block	206,626	220,322	226,987	268,170
CWIP	59,732	103,656	110,000	62,000
Total Fixed assets	**266,357**	**323,978**	**336,987**	**330,170**
Investments	29,061	14,829	16,034	16,034
Inventories	75,692	89,453	81,949	88,315
Debtors	114,476	107,359	111,870	126,328
Cash & Bank balances	**380,149**	**312,298**	**272,478**	**290,473**
Loans and Advances & Others	242,102	285,545	292,045	334,050
Total Current assets	**812,419**	**794,655**	**758,343**	**839,167**
Current liabilities	233,063	328,459	336,671	345,088
Provisions	495,905	532,033	525,201	577,476
Total current liabilities & provisions	**728,969**	**860,492**	**861,872**	**922,563**
Deferred Tax Assets	20,445	27,328	27,328	27,328
TOTAL	**399,313**	**300,297**	**276,819**	**290,135**

Institutional Equity Research

Coal India

Mining | India

CMP (Rs)	240
Upside/ (Downside) (%)	25
Bloomberg Ticker	COAL IN

BUY

Target Price: Rs301

Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net profit before tax	**214,398**	**144,337**	**168,255**	**202,499**
Depreciation	28,259	29,101	31,335	33,816
Other Adjustments	73,288	(68,079)	-	-
OP before working capital changes	**315,945**	**105,359**	**199,590**	**236,316**
Change in working capital	1,163	102,551	(3,333)	(2,138)
Cash generated from operations	317,108	207,909	196,257	234,177
Direct taxes paid	(71,719)	(51,660)	(56,365)	(67,837)
Net cash inflow from oper.	**245,390**	**156,250**	**139,892**	**166,340**
Net cash used in Investing activities	**(78,491)**	**(86,721)**	**(44,344)**	**(27,000)**
Increase/(Decrease) of Loan	5,920	1,636	(1,100)	(150)
Dividend paid	(214,019)	(139,016)	(134,267)	(121,196)
Net cash used in Financing activities	**(208,099)**	**(137,380)**	**(135,367)**	**(121,346)**
Net chg in cash and cash equivalents	(41,200)	(67,852)	(39,819)	17,994
Opening cash and cash equivalents	421,350	380,150	312,298	272,478
Closing cash and cash equivalents	**380,150**	**312,298**	**272,478**	**290,473**

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
EBITDA margin (%)	24.0	15.6	17.1	18.6
RoE (%)	38.0	31.2	47.8	58.6
RoCE (%)	34.3	27.2	39.8	48.5
EV/Sales (x)	1.5	1.6	1.5	1.4
EV/EBITDA (x)	6.4	10.3	9.0	7.4
P/E (x)	10.7	16.4	13.6	11.3
P/BV (x)	2.3	2.6	2.6	2.4
Net Dividend yield (%)	10.4	8.3	6.5	5.9

Institutional Equity Research

Coal India

Mining | India

CMP (Rs)	240
Upside/ (Downside) (%)	25
Bloomberg Ticker	COAL IN

BUY

Target Price: Rs301

Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in . RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/ or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services.RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies).?: No

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/ strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.