



# COAL INDIA

## Ambitious production ramp up

India Equity Research | Metals and Mining



Coal India's (CIL) post-Q4FY19 analyst meet reaffirms our view that volume growth for the company is an uphill task as: 1) 1bn tonne (bt) production delayed by a further two years to FY25; 2) flat YTD May 2019 production growth against 8.9% YoY target; and 3) evacuation infrastructure is not fully geared to handle the increased production. However, we perceive positives in the stock from: 1) INR100bn capex in FY20E is likely to be funded via internal accruals; 2) forward linkages for non-regulated sector are at a healthy premium; and 3) dividend yield is likely to remain at 5%. Hence, we see risk-reward balanced. Maintain 'HOLD' with TP of INR263, implying 10.0x FY21E EPS.

### FY20E production at 660mt looks challenging

In light of the flat YTD May production growth, we believe achieving 8.9% YoY production growth could be challenging as: 1) four of seven subsidiaries, including the biggest SECL, are lagging; and 2) evacuation infrastructure in key subsidiaries—SECL, MCL and CCL (contributing ~70% of incremental production)—is still ramping up. Furthermore, the target of 1btpa production has also been delayed by another two years to FY25. In our view, completion of evacuation infrastructure and sustained production growth at MCL and SECL are key for CIL to achieve the same.

### Key positives: No immediate cost escalation and demand potential

In our view, CIL is still likely to report EPS of INR26-27 over the next two years as: 1) cost of production is expected to remain stable at INR1,225-1,250 on average; and 2) ~120mt import substitution potential. Also, despite capex commitment of INR100-150bn each for the next two years, we believe dividend yield of 5% is feasible.

### Outlook and valuation: Balanced risk-reward; maintain 'HOLD'

While we believe FY20 volume growth of 8.9% is challenging, CIL will benefit from stable realisation as demand uptick in power and non-power sectors is expected to stay firm. With adequate balance sheet strength to fund capex and maintain dividend yield of 5% over the next two years, we believe risk-reward is balanced. We maintain 'HOLD/SP' with TP of INR263/share. The stock is currently trading at 9.7x FY21E EPS.

#### EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

#### MARKET DATA (R: COAL.BO, B: COAL IN)

CMP	: INR 255
Target Price	: INR 263
52-week range (INR)	: 300 / 211
Share in issue (mn)	: 6,162.7
M cap (INR bn/USD mn)	: 1,573 / 22,525
Avg. Daily Vol.BSE/NSE('000)	: 6,569.2

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY19	Q2FY19
Promoters *	72.9	72.9	78.3
MF's, FI's & BK's	17.6	17.6	13.0
FII's	6.0	6.0	5.7
Others	3.5	3.5	3.0
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	0.9	(2.6)	(7.5)
3 months	10.8	3.1	4.5
12 months	(10.0)	5.2	(22.5)

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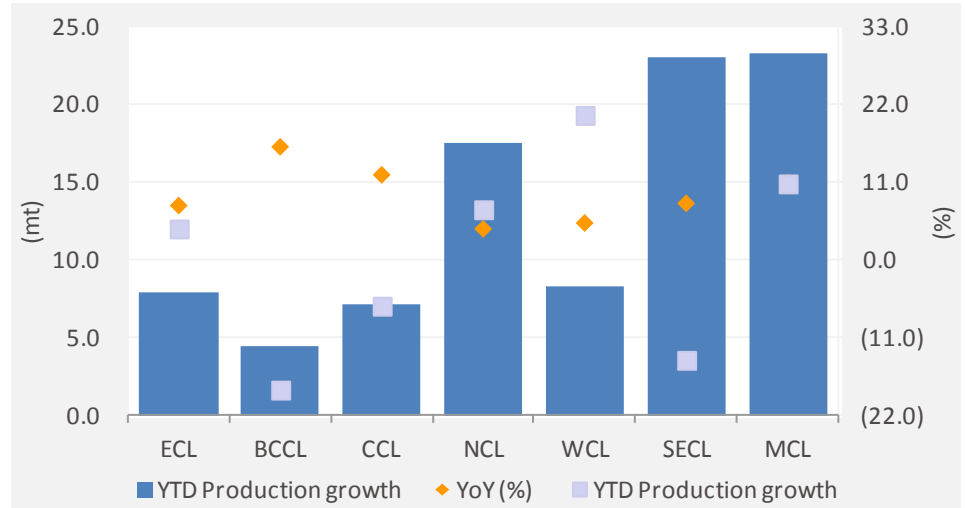
June 17, 2019

#### Financials

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	852,442	995,469	1,029,686	1,054,226
EBITDA	92,882	249,771	235,681	236,122
Adjusted Profit	70,380	174,630	161,512	158,653
Diluted equity shares (mn)	6,207	6,056	6,056	6,056
Adjusted diluted EPS (INR)	11.3	28.8	26.7	26.2
EPS Growth (%)	(24.2)	154.3	(7.5)	(1.8)
Diluted P/E (x)	22.5	8.9	9.6	9.7
EV/EBITDA (x)	13.9	5.0	5.3	5.2
ROAE (%)	31.0	73.7	53.1	42.7

**Chart 1: Four subsidiaries lagging FY20E growth rate**



Source: Company, Edelweiss research

## Q4FY19 analyst meet: Key highlights

### Outlook and guidance

- Management has guided for 1bt production by FY25.
- Management has guided for 660mt of production in FY20, implying 8.9% YoY growth. Of the 660mt, 530mt is expected to be utilised to meet the power demand with 500mt to be catered via the linkage route. 30mt will be auctioned for power plants and 60-70mt will be auctioned for non-regulated players.
- Of the 606mt, subsidiary wise split is: SECL- 170mt, MCL- 160mt, NCL- 106mt, CCL- 77mt, WCL- 56mt, ECL- 54mt, BCCL- 36mt and NEC- 0.8mt.
- Of incremental production of 53mt, MCL (16mt), SECL (13mt) and CCL (8mt) are expected to account for a major share.
- Management perceives sufficient demand potential through import substitution of ~130mt non-coking coal.
- Capex of INR100bn in FY20E, of which INR40bn will be towards equipment.

### Capex

- Management has internally set a long term equipment procurement plan of INR100bn, of which INR40bn will be spent this year. Awarding should be in H2FY20.
  1. Excavators (10-42 cu.m ) – 15-20.
  2. Dump trucks (150t) – 77; INR16bn (part of INR100bn long-term plan).
  3. Dumpers (190t)- 102; INR33bn (part of INR 100bn long-term plan).
  4. Dozers, drilling machine and water sprinklers.
  5. Draglines-6.
- In order to augment evacuation capability, a few projects that are underway are:

1. Doubling of Shivpur-Tori line (single line operational). Current capacity is of 15mtpa with a maximum of 10 rakes per day and six-seven rakes per day are being loaded currently.
  2. Doubling of Jharsuguda- Barpalli line (51km). The single line was commissioned on September 22 catering to 40mt at the expense of INR11bn.
  3. JV of SECL with railways and states to decongest the Howrah-Mumbai line by constructing two lines of 30-40mtpa. While part of this project has been commissioned, balance is expected to be commissioned by March 2021.
  4. The 44km Mand-Raigad line is being developed through which coal will be evacuated once mines in the region are ready for evacuation.
  5. Furthermore, another 14 projects are being planned by railways to remove bottlenecks from operations.
- Management is planning to add mega projects with capacities of 30-40mtpa to augment supplies as older mines near end of reserves.
  - Management has undertaken a pilot project with GAIL and RCF to set up a urea manufacturing plant of 1.2mtpa, which will produce urea from coal on experimental basis at capex of INR140bn.
  - Management has also identified 60 mines which will be equipped with latest state-of-the-art technology like longwall and continuous surface mining. The company does not plan to close any mines even if they make losses unless reserves are exhausted and/or operations become unsafe. CIL will upgrade 18 mines this year where Continuous Surface Miner (CSM) is likely to be introduced. Though these mines may not be profitable still, existing loss is expected to reduce significantly.
  - In order to ensure consistency of quality of coal and reduce ash content, management is planning to construct 18 washeries—nine for coking coal with capacity of 24mt and nine for non-coking coal with 63mt capacity. The washeries are expected to be commissioned by December 2020. Of these, one 10mtpa washery at MCL is under construction, while Letters of Award (LOA) have been issued for three others.

### Operations

- Management is hopeful of hitting 660mt production volume target in FY20E as production is expected to pick up in H2. CIL's production rose from 1.3mt/day in Q2FY19 (total 120mt) to 2.25mt/day in Q4FY19 (total 194mt).
- Of 608mt dispatches in FY19, 488mt was to the power sector, including 13mt sold to power players via auctions. Off take to non-regulated sectors via linkage was 60-70mt.
- At May end, while stocks at power plants were at 28-29mt, those at collieries were 40mt.
- SECL's production was down YTD May 2019 due to teething issue at Dipka (35mtpa) mine and damage to mine geometry in high production period of Q4FY19. There are no issues at Gevra (45mtpa) and Kasmunda (40mtpa) mines.
- CIL currently operates 364 mines, of which 40 contribute to 75% of production, while 75 mines contribute to 86% of production. Hence, balance 290 mines contribute merely 14% to production.

- Average grade for non-coking coal was between G10 and G12. This is due to lower quality coal at major subsidiaries—MCL - G10 to G13, SECL-G5 to G12, NCL- G9 to G10, despite better grades available from ECL and CCL.
- CIL is scouting for Australian and Canadian coking coal mines to acquire a minority stake in the same to aid supply of coking coal to India. However, the project is still at a nascent stage. It will take CIL almost a year to come to a definite conclusion on the same.
- While e-auction volumes fell to 68mt in FY19 from 106mt in FY18, 76% of FSAs for non-regulated sectors at notified prices have shifted to market-linked prices, resulting in premium of 140% over notified prices.
- Wage cost for FY19 was at INR387bn, of which INR1.7bn was a one-time cost due to 7% contribution towards a new pension scheme. Wage cost may rise marginally in FY20 owing to higher interest rates of the pension scheme, but is largely expected to remain stable.
- Contractual costs for FY19, excluding fuel costs, trended down and should continue to do so in FY20 as well.
- While four tranches of forward auctions have been concluded, the fifth tranche should commence from August catering to FSAs lapsing up to March 2020. This will account for 20% incremental production in FY20E.
- CIL has undertaken rationalisation of linkages to minimise lead distances and the process for the same is underway.

## Company Description

Coal India Limited (CIL) is an India-based holding company. The Company is a coal mining company, which is engaged in the production and sale of coal. The Company offers products, including Coking Coal, Semi Coking Coal, Non-Coking Coal, Washed and Beneficiated Coal, Middlings, Rejects, Coal Fines/Coke Fines, and Tar/Heavy Oil/Light Oil/Soft Pitch. Its Middlings are used in power generation, brick manufacturing units and cement plants. The Washed and Beneficiated Coal products are used in the manufacturing of hard coke for steel making and power generation. Its Semi Coking Coal products are used as blend-able coal in steel making, merchant coke manufacturing and other metallurgical industries. Its Non-Coking Coal products are used for cement, fertilizer, glass, ceramic, paper, chemical and brick manufacturing, and for other heating purposes. CIL operates through approximately 82 mining areas spread over eight provincial states of India.

## Investment Theme

We see waning e-auction premium as a threat to profitability. Further, volume growth might get further muted if imports scale up owing to international prices (particularly for Indonesian 4200 kcal coal) coming down in the recent times. Slow progress on evacuation infrastructure is another concern. We see dividend yield of 6-7% as support for the stock.

## Key Risks

- Lower than expected new FSA demand
- Loss of volume-linked incentive
- Lower than expected volume growth
- Rise in international coal prices
- Sharp increase in costs without immediate increase in prices

## Financial Statements

### Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
<b>Macro</b>				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
<b>Company</b>				
Production (mt)	567	607	634	663
Sales volumes (MT)	581	609	636	664
E-auction volume (mt)	106	64	66	69
Beneficiation volume(mt)	15	16	16	19
Raw Coal volume (mt)	460	531	554	577
E-auction (INR/t)	1,839	2,828	2,828	2,828
Beneficiation (INR/t)	2,931	2,931	2,931	2,931
Raw coal (INR/t)	1,242	1,330	1,381	1,381
Cost of materials(INR/t)	171	180	189	198
Power and fuel (INR)	48	51	54	58
Welfare expenses (INR/t)	10	10	11	11
Repairs per tonne (INR)	28	29	30	32
Contractual exp(INR/t)	224	243	262	287
Misc expenses (INR/t)	67	70	74	77
OBR (INR/t)	65	65	65	65
Provisions (INR/t)	20	20	20	20
Staff costs (INR mn)	426	388	390	388
Blended EBITDA/t (USD/t)	160	410	269	255
Depreciation rate (%)	5.2	5.2	5.2	5.2
Debtor days	40	22	21	21
Inventory days	221	170	159	163
Payable days	156	195	189	190

### Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	852,442	995,469	1,029,686	1,054,226
Accretion to stock	16,795	8,562	-	-
Purchase of goods	110,174	120,726	135,208	141,292
Employee costs	426,218	387,701	389,640	387,691
Total SG&A expenses	181,209	204,278	243,624	262,439
Power and Freight	25,164	24,431	25,533	26,682
Total operating expenses	759,560	745,698	794,005	818,104
EBITDA	92,882	249,771	235,681	236,122
Depreciation	30,627	34,504	40,624	48,444
EBIT	62,255	215,268	195,057	187,678
Less: Interest Expense	4,301	2,750	4,092	4,092
Add: Other income	49,748.8	58,737.3	59,913.61	62,850.61
Profit Before Tax	107,703	271,255	250,878	246,437
Less: Provision for Tax	37,323	96,625	89,366	87,784
Reported Profit	70,380	174,630	161,512	158,653
Adjusted Profit	70,380	174,630	161,512	158,653
Shares o /s (mn)	6,207	6,056	6,056	6,056
Adjusted Basic EPS	11.3	28.8	26.7	26.2
Diluted shares o/s (mn)	6,207	6,056	6,056	6,056
Adjusted Diluted EPS	11.3	28.8	26.7	26.2
Adjusted Cash EPS	16.3	34.5	33.4	34.2
Dividend per share (DPS)	16.5	13.1	13.1	13.1
Dividend Payout Ratio(%)	175.8	54.9	59.4	60.4

### Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating expenses	89.1	74.9	77.1	77.6
Depreciation	3.6	3.5	3.9	4.6
Interest Expense	0.5	0.3	0.4	0.4
EBITDA margins	10.9	25.1	22.9	22.4
Net Profit margins	8.3	17.5	15.7	15.0

### Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	8.7	16.8	3.4	2.4
EBITDA	(25.3)	168.9	(5.6)	0.2
PBT	(25.4)	151.9	(7.5)	(1.8)
Adjusted Profit	(24.2)	148.1	(7.5)	(1.8)
EPS	(24.2)	154.3	(7.5)	(1.8)

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	62,074	61,627	61,627	61,627	
Reserves & Surplus	139,713	202,911	274,161	336,955	
Shareholders' funds	201,787	264,539	335,789	398,582	
Minority Interest	3,625	4,068	4,068	4,068	
Long term borrowings	10,544	14,723	14,723	14,723	
Short term borrowings	4,765	7,305	7,305	7,305	
Total Borrowings	15,309	22,027	22,027	22,027	
Long Term Liabilities	555,560	585,737	638,676	693,998	
Def. Tax Liability (net)	(53,551)	(42,692)	(42,692)	(42,692)	
<b>Sources of funds</b>	<b>722,730</b>	<b>833,679</b>	<b>957,869</b>	<b>1,075,984</b>	
Gross Block	619,459	704,275	854,275	1,004,275	
Net Block	275,446	325,758	435,134	536,690	
Capital work in progress	102,727	96,229	96,229	96,229	
Intangible Assets	295	739	739	739	
Total Fixed Assets	378,468	422,726	532,102	633,658	
Non current investments	161,532	168,574	168,574	168,574	
Cash and Equivalents	316,806	328,742	329,727	346,599	
Inventories	64,438	55,839	62,206	63,688	
Sundry Debtors	62,578	54,986	60,802	62,251	
Loans & Advances	37	5,023	5,023	5,023	
Other Current Assets	217,297	248,607	248,607	248,607	
Current Assets (ex cash)	344,350	364,454	376,638	379,569	
Trade payable	69,744	68,155	72,107	75,351	
Other Current Liab	408,682	382,662	382,662	382,662	
Total Current Liab	478,426	450,817	454,769	458,013	
Net Curr Assets-ex cash	(134,075)	(86,363)	(78,131)	(78,444)	
<b>Uses of funds</b>	<b>722,730</b>	<b>833,679</b>	<b>957,869</b>	<b>1,075,984</b>	
BVPS (INR)	32.5	43.7	55.4	65.8	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	70,380	174,630	161,512	158,653	
Add: Depreciation	30,627	34,504	40,624	48,444	
Interest (Net of Tax)	2,811	1,771	2,634	2,634	
Others	5,187	53,928	50,305	52,688	
Less: Changes in WC	(103,619)	47,712	8,232	(313)	
Operating cash flow	212,623	217,120	246,844	262,732	
Less: Capex	85,000	120,000	150,000	150,000	
<b>Free Cash Flow</b>	<b>127,623</b>	<b>97,120</b>	<b>96,844</b>	<b>112,732</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Coal India	22,525	9.6	9.7	5.3	5.2	53.1	42.7
Bumi Resources Tbk PT	566	2.2	2.2	14.5	15.4	28.4	24.9
China Coal Energy Co Ltd	7,976	13.0	12.0	7.3	7.1	5.4	5.3
Peabody Energy Corp	2,326	9.8	20.3	3.1	3.4	6.7	3.4
Median	-	9.7	10.9	6.3	6.2	17.5	15.1
AVERAGE	-	8.6	11.1	7.5	7.8	23.4	19.1

Source: Edelweiss research

Cash flow metrics				
Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	212,623	217,120	246,844	262,732
Financing cash flow	(135,873)	(89,141)	(95,859)	(95,859)
Investing cash flow	(76,763)	(140,536)	(150,000)	(150,000)
Net cash Flow	(12)	(12,558)	985	16,872
Capex	(85,000)	(120,000)	(150,000)	(150,000)
Dividend paid	(123,749)	(95,859)	(95,859)	(95,859)

## Profitability and efficiency ratios

Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	31.0	73.7	53.1	42.7
ROACE (%)	44.9	107.2	78.1	63.7
Inventory Days	221	170	159	163
Debtors Days	40	22	21	21
Payable Days	156	195	189	190
Cash Conversion Cycle	105	(3)	(9)	(7)
Current Ratio	1.4	1.5	1.6	1.6
Gross Debt/EBITDA	16.5	8.8	9.3	9.3
Gross Debt/Equity	7.5	8.2	6.5	5.5
Adjusted Debt/Equity	7.5	8.2	6.5	5.5
Net Debt/Equity	(146.8)	(114.2)	(90.5)	(80.6)
Interest Coverage Ratio	1,447.5	7,826.8	4,767.0	4,586.7

## Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	1.2	1.3	1.1	1.0
Fixed Asset Turnover	3.3	3.3	2.7	2.2
Equity Turnover	3.8	4.2	3.4	2.8

## Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	11.3	28.8	26.7	26.2
Y-o-Y growth (%)	(24.2)	154.3	(7.5)	(1.8)
Adjusted Cash EPS (INR)	16.3	34.5	33.4	34.2
Diluted P/E (x)	22.5	8.9	9.6	9.7
P/B (x)	7.9	5.8	4.6	3.9
EV / Sales (x)	1.5	1.2	1.2	1.2
EV / EBITDA (x)	13.9	5.0	5.3	5.2
Dividend Yield (%)	6.5	5.1	5.1	5.1

## Additional Data

### Directors Data

Shri A K Jha	Chairman-cum-Managing-Director	Shri Chandan Kumar Dey	Director Finance
Shri B Dayal	Technical Director	Shri R P Srivastava	Personnel
Shri S N Prasad	Marketing Director	Shrimati Reena Sinha Puri	Government Nominee Director
Shri Rajesh Kumar Sinha	Government Nominee Director		

Auditors - Chaturvedi & Co

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Government of india	70.96	Life insurance corp	9.65
Reliance capital tru	1.51	Hdfc asset managemen	1.19
Blackrock	0.87	Vanguard group	0.86
Capital group compan	0.74	Sbi funds management	0.52
Icici prudential ass	0.43	Jpmorgan chase & co	0.38

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
07 Dec 2018	The President Of India Acting Through Ministry Of Coal	Sell	137993783.00

*\*in last one year*



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Coal India	HOLD	SP	M	GMDC	BUY	SO	H
Hindalco Industries	BUY	SO	M	Hindustan Zinc	HOLD	SU	L
Jindal Stainless Ltd	BUY	SO	H	Jindal Steel & Power	BUY	SO	M
JSW Steel	HOLD	SP	M	NMDC	HOLD	SP	M
Steel Authority of India	REDUCE	SU	M	Tata Steel	HOLD	SP	M
Vedanta	HOLD	SP	M				

**ABSOLUTE RATING**

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

**RELATIVE RETURNS RATING**

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

**RELATIVE RISK RATING**

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

**SECTOR RATING**

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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## Coverage group(s) of stocks by primary analyst(s): Metals and Mining

Coal India, GMDC, Hindalco Industries, Hindustan Zinc, Jindal Stainless Ltd, Jindal Steel & Power, JSW Steel, NMDC, Steel Authority of India, Tata Steel, Vedanta

### Recent Research

Date	Company	Title	Price (INR)	Recos
11-Jun-19	<b>Metals &amp; Mining</b>	Euphoria likely to be short-lived; <i>Sector Update</i>		
10-Jun-19	<b>Metals &amp; Mining</b>	Uneasy lies the calm; <i>Sector Update</i>		
06-Jun-19	<b>Metals &amp; Mining</b>	Ferrous on a sticky wicket; <i>Sector Update</i>		

### Distribution of Ratings / Market Cap

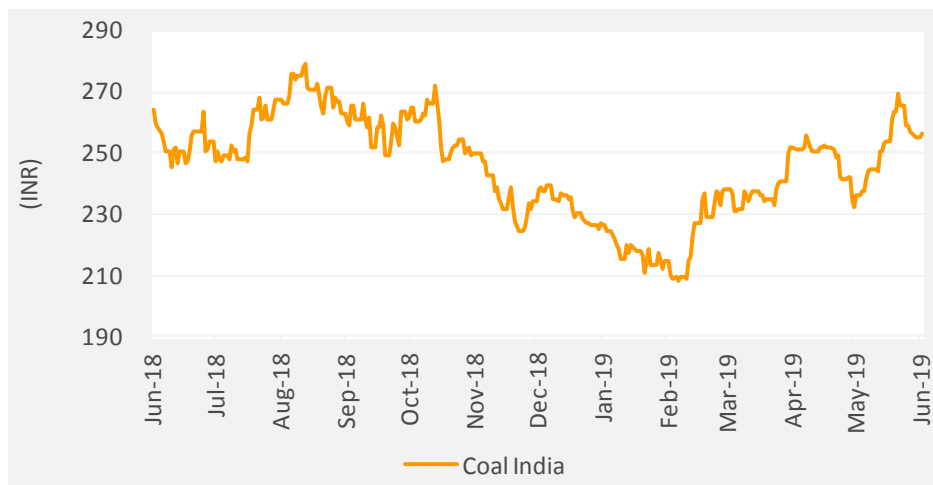
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart



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