VISIT NOTE

COAL INDIA

Valuations lend luster

India Equity Research| Metals and Mining

We met Mr. A K Jha, Chairman, Coal India (CIL), to get an update on the company's strategic initiatives. Key takeaways are: 1) efforts are afoot to meet production target of 660mt by FY20 and 1bt by CY25; 2) grade control measures will improve quality further; and 3) dividend payout will remain healthy. Management's key priority is to ensure there is no coal shortage in India, besides focusing on maintaining profitability. In our view, CIL's dividend yield is likely to sustain at ~6% owing to stable free cash flow despite subdued earnings growth. We trim our target multiple to long-range average of 8.5x (earlier 10.0x) on: 1) OFS risk; and 2) limited earnings growth. While there are some challenges, at 7.3x FY21E EPS, we find valuations compelling. Hence, upgrade to 'BUY' with INR235 (earlier INR263) TP on December-21 EPS.

Focus on boosting volumes reassuring

Management believes, CIL is well placed to meet 7.6% volume CAGR through to FY25E. Key highlights: 1) all the subsidiaries are expected to ramp up production with SECL, MCL, NCL and WCL leading the way; 2) evacuation infrastructure is being augmented with two rail lines completed in FY19; 3) INR100bn capex is being targeted per year to augment production; and 4) off take to non-power sector in FY20E will be boosted as pit-head stocks at power plants stay comfortable.

Stable cash flow and dividend yield: Key positives

We perceive CIL as a good defensive play in the current macro environment. Despite our estimate of mere 4.5% volume growth (CIL's target 9.0%), stable FSA realisation at INR1,380/t and fall in e-auction premium (from 89% in Q4FY19 to 56% in Q4FY20), we expect EPS to remain at INR27 for FY20/FY21E each and cumulative free cashflow of INR225bn through to FY21E. Hence, we expect dividend yield to sustain at ~6%.

Outlook and valuation: Attractive price; upgrade to 'BUY'

We see limited risks to CIL's cash generation ability. On valuation, the stock is trading at the lower end of its 10-years' historical trading multiple of 7.3x FY21E EPS. Taking cognizance of divestment risk and muted earnings growth, we trim exit multiple to 8.5x (earlier 10.0x FY21E EPS). Hence, upgrade to **'BUY/SP'** from 'HOLD/SP' with revised target price of INR235.

Financials **(INR mn)**

Year to March	FY18	FY19E	FY20E	FY21E
Net revenue	852,442	995,469	1,033,845	1,054,345
EBITDA	92,882	249,771	250,294	254,548
Adjusted Profit	70,380	174,630	167,989	165,388
Diluted equity shares (mn)	6,316	6,163	6,163	6,163
Adjusted diluted EPS (INR)	11.1	28.3	27.3	26.8
Diluted P/E (x)	17.7	6.9	7.2	7.3
ROAE (%)	31.0	73.7	54.9	43.7

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
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 197
Target Price	: INR 235
52-week range (INR)	: 300 / 197
Share in issue (mn)	: 6,162.7
M cap (INR bn/USD mn)	: 1,248 / 18,014
Avg. Daily Vol.BSE/NSE('000)	: 7,120.1

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	71.0	71.0	75.2
MF's, FI's & BK's	17.4	19.0	9.8
FII's	9.0	7.1	2.9
Others	2.7	2.9	12.1

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	(19.4)	(5.7)	(12.8)
3 months	(18.9)	(5.4)	(15.9)
12 months	(21.7)	(2.1)	(23.5)

Amit A Dixit
+91 22 6620 3160
amita.dixit@edelweissfin.com

Meera Midha
+91 22 4088 5804
meera.midha@edelweissfin.com

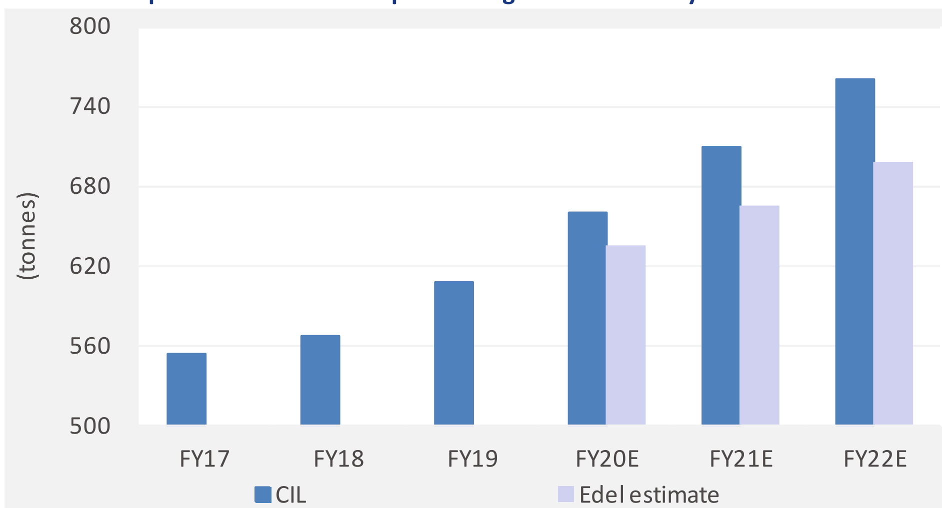
August 2, 2019

CIL expects to ramp up production to 760mt by FY22

Management expects CIL's production to grow at 7.6%CAGR through to FY25E. The endeavor will be to cull imports to the maximum extent possible. Management believes that there is a ready market available by way of imports substitution and CIL can replace almost 55-60mt of imports through production ramp up. As per the management, production in FY20, FY21 and FY22 is expected at 660mt, 710mt and 760mt respectively.

CIL already has a committed long term linkage of nearly 700mtpa from Power and Non-Power sectors of which supply commitments through FSAs account for 572mtpa. Hence, we do not see an issue on demand side. However, we have estimated production growth at 4.8%CAGR through to FY22E given the persistent sub-contracting issues at SECL and production bottlenecks at MCL. Q1FY20 volume and offtake growth have stayed flat suggesting that it would be challenging for CIL to achieve 660mt in FY20E.

Chart 1: CIL's production volume expected to grow to 760mt by FY22E



Source: Company data, Edelweiss research

SECL, MCL, NCL and CCL are the key to CIL's production ramp up plans. In FY19, NCL went past its production target of 100mt, 5 days ahead of closure of FY19, in the process becoming the third subsidiary of CIL to achieve 100mtpa mark after SECL and MCL. SECL on the other hand went past 150mtpa mark. ECL and WCL became 50mtpa subsidiaries for the first time.

In all, CIL achieved 99.7% of the off take target for FY19 with WCL, NCL and BCCL surpassing their off take targets. MCL and SECL on the other hand missed their targets owing to sub-contracting and operating issues respectively.

Table 1: CIL achieved 99.7% of its target in FY19

	FY19			FY18	YoY Growth	
Company	**AAP Target**	**Achieved**	***% Achieved***	**Achieved**	**Absolute**	***%***
ECL	46.8	50.4	*107.8*	43.6	6.8	*15.5*
BCCL	38.0	33.1	*87.0*	33.4	(0.3)	*(0.9)*
CCL	68.7	68.4	*99.6*	67.5	0.9	*1.4*
NCL	95.0	101.6	*106.9*	96.8	4.8	*5.0*
WCL	49.7	55.6	*111.8*	48.7	6.8	*14.0*
SECL	159.5	156.0	*97.8*	151.1	4.9	*3.3*
MCL	151.5	142.3	*93.9*	138.3	4.0	*2.9*
NEC	0.8	0.8	*89.8*	0.9	(0.1)	*(15.8)*
CIL	**610.0**	**608.1**	***99.7***	**580.3**	**27.9**	***4.8***

Source: Company data, Edelweiss research

In FY20, both MCL and SECL are expected to become 150mtpa plus subsidiaries while production growth both at BCCL and CCL is expected at 16%YoY and 12%YoY respectively. Going ahead, management expects all the subsidiaries to contribute in ramping up production with SECL and MCL continuing to take lead. At this level of production, SECL and MCL individually would become akin to large global companies such as Peabody and China Coal.

Table 2: SECL, MCL and NCL to drive production growth in FY20

(in mnt)	FY19	FY20E	*% chg*
ECL	50	54	*7.1*
BCCL	31	36	*16.1*
CCL	69	77	*11.6*
NCL	102	106	*4.4*
WCL	53	56	*5.7*
SECL	157	170	*8.3*
MCL	144	160	*11.1*
NEC	1	1	*29.9*
Coal India	**607**	**660**	***8.8***

Source: Company, Edelweiss research

Power to remain priority; supply to non-regulated sectors to pick up

Of coal supply target of 660mt in FY19, about 80% of the production would be consumed by power sector only. In FY19, CIL dispatched 491.5mt (up 8%YoY) to power sector, exceeding the target of 489mt. This was done to address the power plants running on critical stock of coal. As on 01 April 2018, 30 linked power plants were running on critical stock. This was brought down to zero by 31 March 2019. Improvement in stocks with power sector has enabled CIL to increase the dispatches to non-power sector from Q4FY19. In the events of Tranche-IV of the linkage auction conducted during FY19, linkage of 33.1mt per annum was secured by the consumers at an average premium of 32.68% of the notified price.

Table 3: Dispatches to non-regulated sectors to increase in FY20

Year	FY19			FY18	YoY Growth	
Sector	AAP Target	Dispatch	*(%)*	Actual	Absolute	*(%)*
Power (Utilities)*	489.0	491.5	*100.5*	454.2	37.3	*8.2*
Steel**	3.7	2.1	*56.1*	3.1	(1.1)	*(33.9)*
Cement	6.3	4.6	*74.1*	4.8	(0.2)	*(4.0)*
Fertilizer	2.6	1.8	*68.1*	1.9	(0.1)	*(4.9)*
Others	106.8	108.3	*101.4*	117.4	(9.1)	*(7.8)*
Dispatch	608.4	608.3	*100.0*	581.5	26.8	*4.6*

Source: Company, Edelweiss research

** Power house despatches in 2018-19 and 2017-18 includes despatches under special forward e-auction to power.*

*** Despatch of washed coking coal & raw coking coal for direct feed, blendable coal to steel plants & to external washeries.*

Ongoing projects to augment evacuation capacity by 370mtpa by FY22E

CIL is strengthening the existing infrastructure in order to meet the higher production target. In aggregate, the projects completed in FY19 and set to be commissioned by FY22 are expected to add ~470mpta of evacuation capacity.

The two major Railway Infrastructure projects that were completed in FY19 are:

1. Tori- Shivpur New BG line (44.37km):

   Built at total cost of INR 22bn, this line caters to North Karnapura area of CCL. The 20km stretch between Tori and Balumath was commissioned in March-18 and Engine run down was done on Balumath-Bukru stretch of 5km in May-18. The remaining stretch of Bakru-Shivpur was commissioned in August-18. The doubling of line up to Balumath with electrification was completed in November-18 while the balance doubling was completed in March-19. This line is capable of evacuating 32mtpa of coal.

2. Jharsuguda-Barpali-Sardega Rail link (50.3km):
   Built at an investment of INR 11bn, this line relates to Basundhara coal fields of MCL. The envisaged evacuation capacity is 70mtpa. The work was completed in April-18 with the Y connection at Jharsuguda completed in August-18. This line is capable of evacuating 70mtpa of coal from MCL.

The three major railway infrastructure projects being undertaken by JV mode are as follows:

1. East Rail Corridor and East West Rail Corridor

   a. East Rail Corridor (distance: 136km) is being executed through SPV (CERL) by IRCON with equity participation from SECL (64%), IRCON (26%) and Government of Chhattisgarh (10%).

   b. East West Rail Corridor (distance: 135km) is being executed through SPV (CEWRL) by IRCON with equity participation from SECL (64%), IRCON (26%) and Government of Chhattisgarh (10%). The target date of completion is December-20.

   Together, these two corridors would be capable of evacuating 180mtpa of coal.

2. The Shivpur- Kathutia rail connectivity is envisaged to be executed by Jharkhand Central Railway Limited with equity participation from CCL (64%), IRCON (26%) AND

Government of Jharkhand (10%). The target date of completion is December-20 and this line will be capable of evacuating 30mtpa of coal from the mines of CCL.

3. MCRL (Mahanadi Coal Railway Limited) has been formed as a SPV with equity participation from MCL (64%), IRCON (26%) and Government of Odisha (10%). The work is expected to be taken up in two phases:

   a. Angul-Balram-Jarpada-Tentuloi link at Talchar CF of MCL (69.1km) which consists of Jharpada-Kalinga-Angul link (14.22km)

   b. Tentuloi- Bhudhapank (136km)

   Together, these two lines would be capable of evacuating 60mtpa of coal.

Apart from these, Railways have taken up their own projects that are likely to be commissioned by end-FY22 and capable of evacuating about 100mt of additional coal.

Table 4: New lines being developed by Railways

Project	Agency	Distance	Timelines
Barkakana- Barwadih-Garwah Road third line	RVNL	291	FY20- 85km, FY21- 100km, FY22- 106km
Jharsuguda-Bilaspur fourth line	SECR	195	
DFC- Dadri to Sonenagar line and extension up to Koderma	DFCCIL		
Third and Fourth lines from Budhapunk to Rajatgarh	ECOR	72	Talcher-Budhapunk (10km) by Feb-19 and Budhapunk-Rajatgarh (62km) by Dec-20
Doubling of line from Singrauli to Shaktinagar via Karaila Road		45	Shaktinagar- Karaila Road-December 2019 Karaila Road-Singrauli- June 2019
Third line from Jharsuguda to Bilaspur			

Source: Company, Edelweiss research

Planned capex of INR 100bn in FY20E

As on date, 120 ongoing projects, having ultimate capacity of 610mtpa and sanctioned capital of INR 729bn are under various stages of implementation. CIL has planned a capital investment of INR 100bn for maintaining its volume growth in FY20. 5 coal projects with a sanctioned capacity of 11.1mt were completed in FY19. We expect these to commence production in FY20, augmenting production at SECL, NCL and CCL.

Table 5: 11.1mt of projects were completed in FY19

Subsidiary	Name of the Project	Type	Sanctioned Capacity (mtpa)	Sanctioned Capital (INR mn)
CCL	Konar OCP	OC	3.5	745
NCL	RCE of Nigahi OCP	OC	5.0	4,866
SECL	RCE of Mahan OCP	OC	0.4	1,600
SECL	Vindhya UG	UG	0.7	697
SECL	Amlai Expn OCP	OC	1.5	1,986
Total			**11.1**	**9,894**

Source: Company, Edelweiss research

In FY19, 2 coal projects with sanctioned capacity of 11.2mt started production at ECL and MCL. Total production was at 2.9mt. We expect the production to further ramp up in FY20.

Table 6: 2 coal projects commenced production in FY19

Subsidiary	Name of Projects	Type	Sanctioned Capacity (mtpa)	Sanctioned Capital (INR mn)	Production in FY19 (mt)
ECL	New Kenda OCP	OC	1.2	1,273	0.1
MCL	Garjanbahal OCP	OC	10.0	13,754	2.8
Total			**11.2**	**15,027**	**2.9**

Source: Company, Edelweiss research

In FY19, 20 projects with total capacity of 87.8mt have been approved. Of these, two mega-projects with cumulative capacity of 50mtpa have been approved for MCL. Maximum number of projects (9) has been approved at WCL. Considering the thrust of developing evacuation infrastructure at MCL, we believe that this subsidiary along with SECL is likely to drive the production growth going ahead.

Table 7: Coal projects sanctioned in FY19

S. No.	Name of Project	Subsidiary	Date of Approval	Sanctioned Capacity (mtpa)	Sanctioned Capital (INR mn)
A. Sanctioned by CIL in FY19					
1	Siduli UG + OG	ECL	5/22/2018	2.3	5,352
2	Tilaboni UG	ECL	2/12/2019	1.9	9,166
3	Nakrakonda Kumardih - B OCP	ECL	8/11/2018	3.0	5,027
4	North Urimari OCP	CCL	3/14/2019	7.5	14,687
5	Dhuptala (Sati UG to OC)	WCL	2/12/2019	2.5	7,110
6	Bharatpur Reorganisation OCP	MCL	11/12/2018	20.0	19,283
7	Lakhanpur Lilari Belpahar OCP	MCL	5/22/2018	30.0	24,348
8	RCE of Chitra East OCP	ECL	8/11/2018	2.5	5,140
9	RPR of Tika Extn OCP	NEC	10/7/2018	0.2	818
	Sub Total (A)			**69.9**	**90,931**
B. Sanctioned by Subsidiary in FY19					
1	Piparwar Phase - I UG	CCL	9/18/2018	0.9	3,259
2	Sharda UG	WCL	4/18/2018	0.4	568
3	Vishnupuri UG to OC	WCL	7/27/2018	2.0	1,926
4	Adasa UG to OC	WCL	11/16/2018	1.5	3,160
5	Ukni Deep OCP	WCL	12/16/2018	2.0	2,371
6	Bellora Naigaon Deep OCP	WCL	12/16/2018	1.0	2,269
7	Mahamaya UG to OC	SECL	5/24/2018	1.5	4,007
8	Jhiria West OCP	SECL	11/28/2018	1.5	3,900
9	Tawa-III UG	WCL	4/10/2018	0.5	1,410
10	RPR Amalgamated Inder Kamptee Deep OCP	WCL	9/22/2018	3.2	2,359
11	RPR Gondegaon Ghatrohan Amalgamated OCP	WCL	4/10/2018	3.5	1,918
	Sub Total (B)			**17.9**	**27,147**
	Total (A + B)			**87.8**	**118,078**

Source: Company, Edelweiss research

During FY19, CIL incurred a mere 77% of its budgeted expenditure. We see this underachievement as an aberration as CIL spent 10% higher than budgeted capex in FY18. BCCL incurred a mere 56% of the budgeted capex while CCL and WCL incurred just 70% of the budgeted capex. Our discussion with the management indicates that CIL would meet its budget for FY20E owing to procurement of equipment and fast tracking progress on key coal production projects.

Table 8: Subsidiary wise capex in FY19

Company	FY19		FY18	
	Budgeted	Actual	Budgeted	Actual
ECL	10,900	8,325	10,500	9,600
BCCL	7,300	4,087	6,500	9,289
CCL	11,000	7,667	6,500	17,023
NCL	11,500	10,751	10,000	6,643
WCL	11,500	8,087	10,500	12,370
SECL	20,500	15,655	19,500	19,652
MCL	16,000	14,146	13,000	13,679
CMPDIL	400	196	400	417
Others	5,900	4,201	8,100	4,673
CIL	**95,000**	**73,115**	**85,000**	**93,346**

Source: Company, Edelweiss research

On equipment front, CIL is planning to spend INR 70bn in over next three years to meet enhanced coal production target in the coming years- 6 draglines, 31 shovels, 300 dumpers and 47 dozers. We expect the equipment ordering to commence Q2FY20 onwards.

We believe that it is imperative for CIL to augment its equipment fleet as Equipment Availability has remained above 90% in FY19, signifying that less maintenance time is available.

Table 9: Key equipment Availability was above 100% in FY19

Equipment	No. of Equipment		Indicated as % of CMPDI Norm			
	As on 1-4-2019	As on 1-4-2018	Availability		Utilisation	
			FY19	FY18	FY19	FY18
Dragline	32	35	92	93	87	80
Shovel	680	695	94	93	70	71
Dumper	2878	2781	112	111	68	69
Dozer	955	969	100	99	52	51
Drill	663	675	106	106	55	53

Source: Company, Edelweiss research

Efforts on grade control have shown results

CIL has been making efforts to improve quality of coal. Now, all the customers have an option for quality assessment of the supplies through independent third party sampling agencies. During FY19, sampled volumes for power and non-power customers went up 73%YoY and 2.3x respectively. As a result of measures taken for quality control, the weighted average of declared and analysed GCV of coal reduced by 28% to 275kcal/kg, well within one GCV band.

Chart 2: Sampled volumes went up in FY19

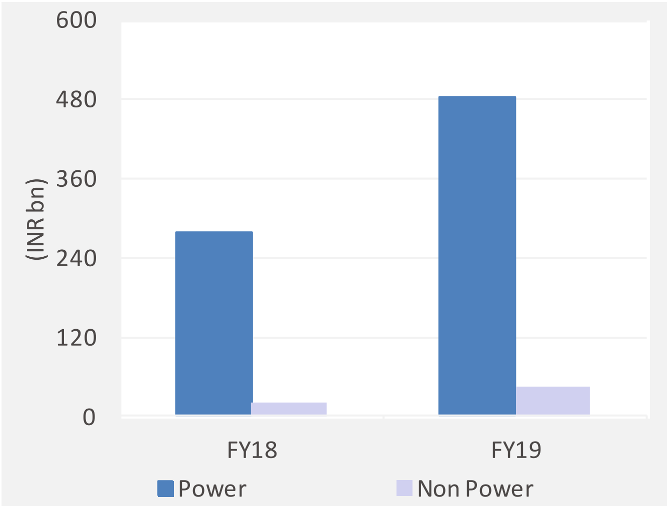
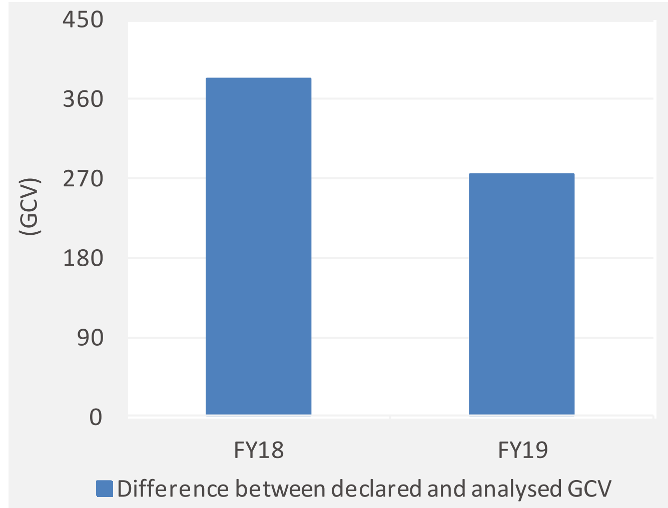


Chart 3: GCV difference has come down within one GCV band



Source: Company, Edelweiss research

Further, results above declared grades increased to 28% in FY19 compared 17% in FY18. This resulted in reduction of quality complaints from 26 in FY18 to 20 in FY19.

Chart 4: Sampling results above declared grades have gone up

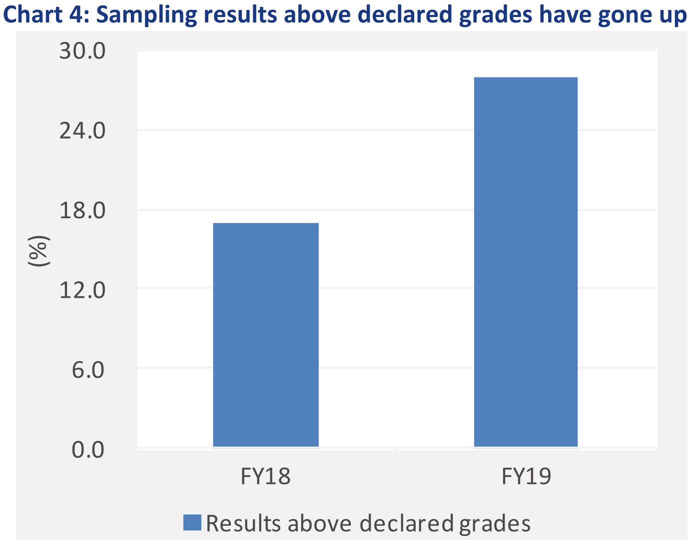
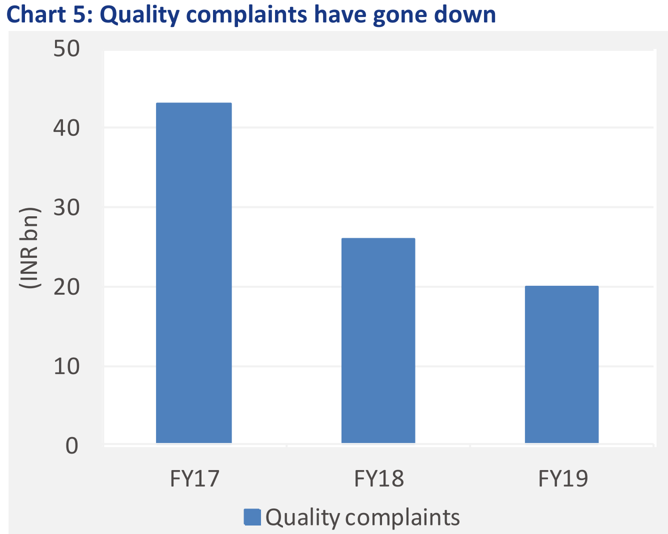


Chart 5: Quality complaints have gone down



Source: Company, Edelweiss research

Going ahead, we see further scope of improvement on grade front as CIL strengthens the control measures and more washed coal is produced. This is expected to improve realisation further.

Washeries need to be fast tracked

Despite the CIL's endeavor to enhance production of washed coal, we find progress on setting up new Coal Washeries slow and capacity utilization of existing Coal Washeries (particularly coking coal) low.

Currently, CIL is operating 16 Coal Washeries with total capacity of 36.8mtpa. Out of which 12 are coking and balance 4 are non-coking with a capacity of 20.58mtpa and 16.22mtpa respectively.

The total washed coal production from these existing washeries for FY19 was 13mtpa, implying an average capacity utilization of 35%. However, production of washed coking coal was a mere 1.4mt, implying a capacity utilization of just 7%. In case of washed non-coking coal, capacity utilization was at 71%. We see headroom in enhancing the capacity utilization of both non-coking coal and coking coal washeries from the current levels.

Table 10: Coking coal washeries are running at low utilisation

Company	Washed coal (Coking)	
	FY19	FY18
ECL	-	-
BCCL	0.6	0.8
CCL	0.8	1.1
NCL	-	-
WCL	-	-
SECL	-	-
MCL	-	-
NEC	-	-
CIL	**1.4**	**1.9**

Source: Company, Edelweiss research

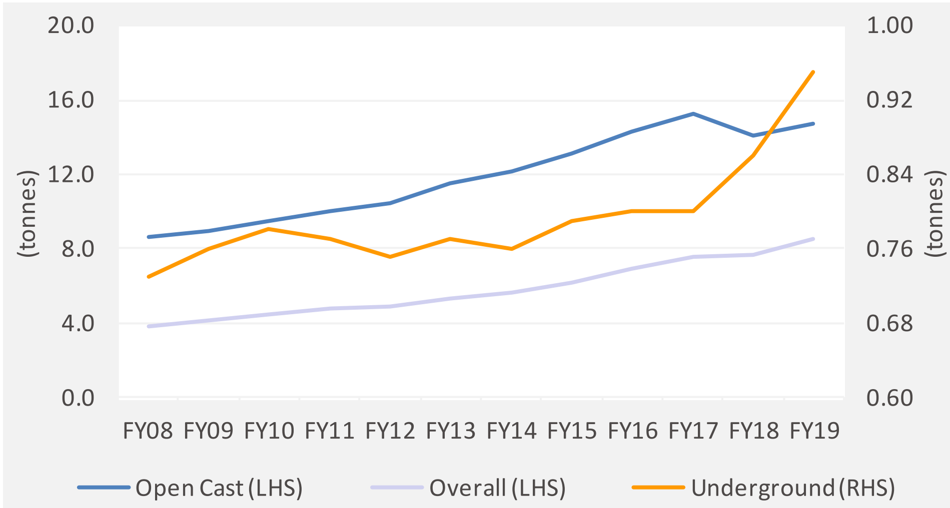
In order to enhance the beneficiation capacity, CIL is setting up 18 new washeries with the latest technology with an aggregate capacity of 91.1mtpa. Of these, 9 are coking coal washeries with a total capacity of 28.1mtpa. One coking coal washery with capacity of 1.6mtpa was commissioned in FY18. Another 9 washeries are being set up with an aggregate capacity of 63mtpa.

We believe that enhanced supply of washed coal will help CIL to improve the grades and realizations further.

Manpower productivity has improved continuously

CIL has progressively improved the employee productivity. Output per man-shift (OMS) has gone up from 3.79 in FY08 to 8.51 in FY19 largely led by mechanization in underground operations.

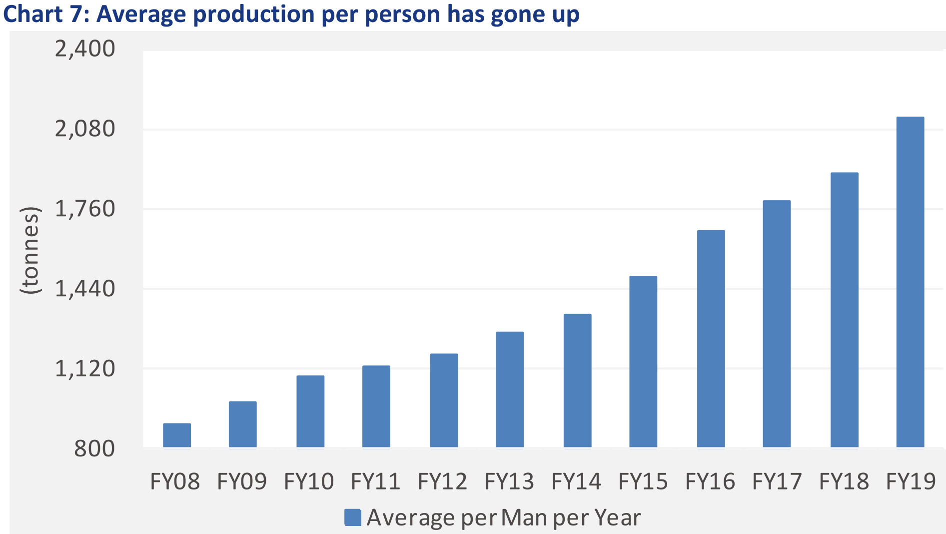
Chart 6: Output per man-shift has gone up progressively



Source: Company, Edelweiss research

Output per person has gone up 8%CAGR (FY08-19) to 2126 in FY19- marking another year of successive growth.

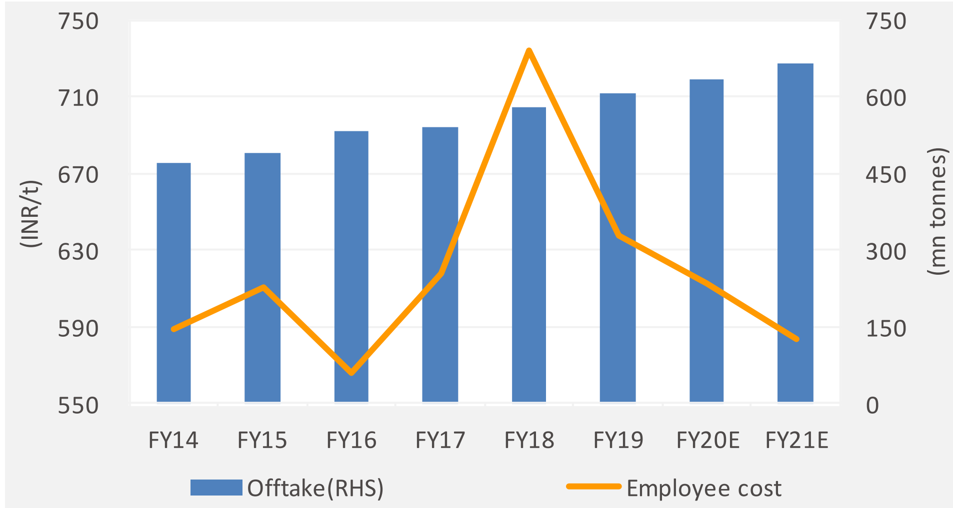
Chart 7: Average production per person has gone up



Source: Company, Edelweiss research

Despite recent wage cost hike, we expect FY21E wage cost/tonne below INR 600 in FY21E- for the first time since FY16.We believe that per unit wage cost would decline further as headcount goes down and the next wage settlement is due only after five years.

Chart 8: Employee cost per tonne expected to decline significantly

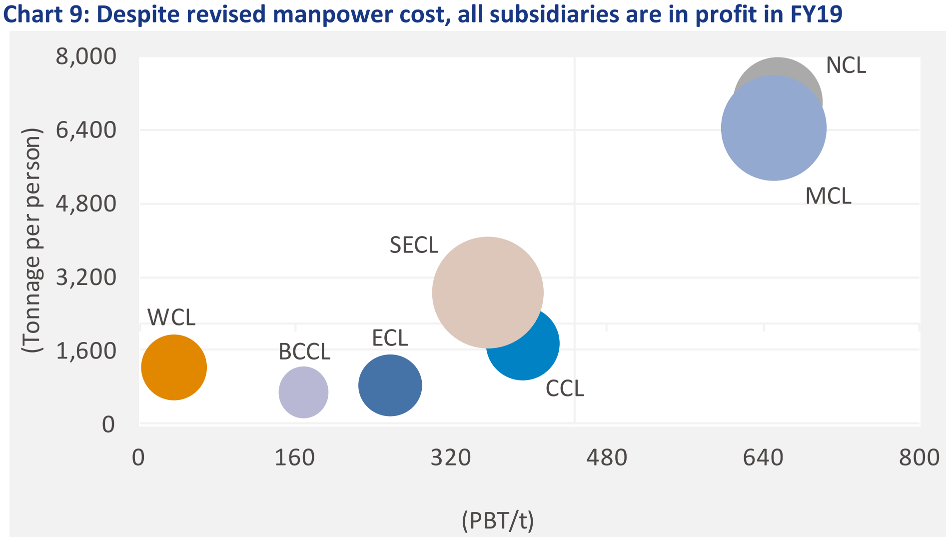


Source: Company, Edelweiss research

All the subsidiaries reported profit in FY19

Despite the higher wage cost, all the subsidiaries reported profit in FY19. MCL and NCL are the most profitable and efficient subsidiaries while SECL and CCL are closer to average for the company owing to higher proportion of underground operations- 9% against CIL average of 5%. BCCL, despite having the highest proportion of profitable coking coal still suffers from lower productivity owing to higher number of employees.

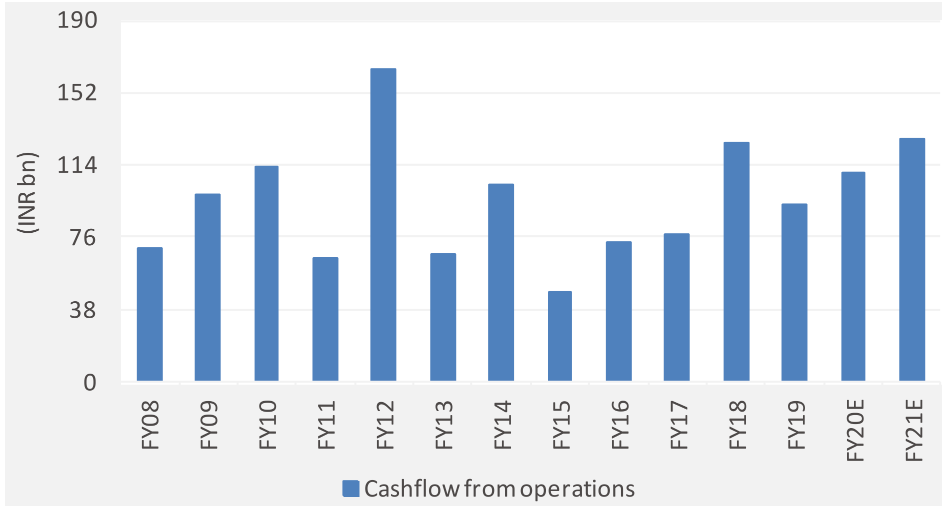
Chart 9: Despite revised manpower cost, all subsidiaries are in profit in FY19



Source: Company, Edelweiss research

We expect free cashflow operations to ramp up to INR 128bn by FY21E primarily due to operating leverage benefits despite e-auction premium expected to decline.

Chart 10: Expect CIL's free cashflow to exceed INR 125bn by FY21E



Source: Company, Edelweiss research

Our estimates are still lower compared to consensus

We find a clear dichotomy between stock price movement and consensus estimates over last year. While consensus EBITDA and EPS estimates have been trimmed a mere 5% and 4% respectively, the stock price has gone down 21%. Understandably, some of it has to do with the overhang of potential OFS, however, we still find the stock reaction disconnected with the earnings estimates revision.

Chart 11: Consensus EPS vs. stock price movement

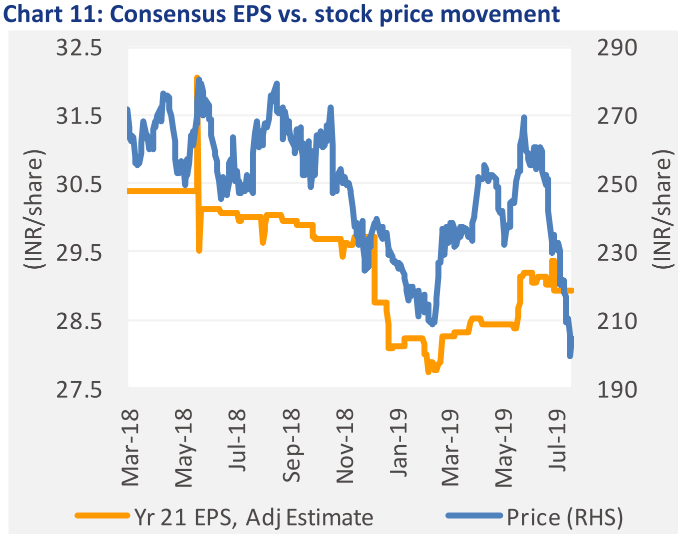
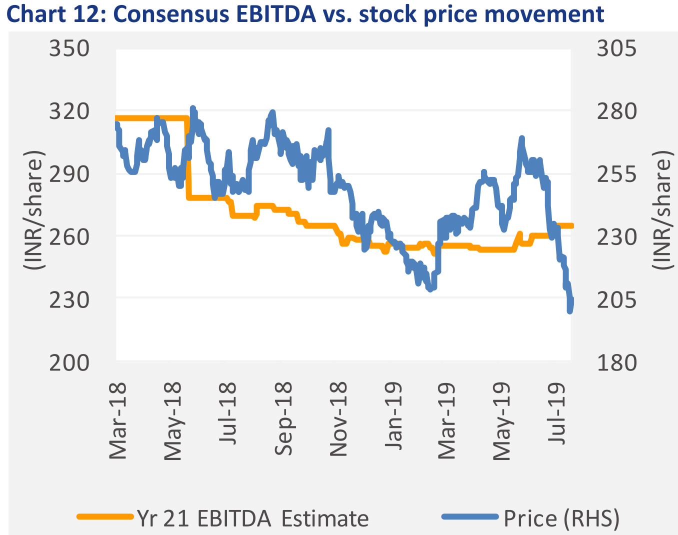


Chart 12: Consensus EBITDA vs. stock price movement



Source: Company, Edelweiss research

Our FY21E estimates are still at a discount of 4% and 7% on EBITDA and EPS compared to consensus possibly due to the assumption of declining e-auction premium and lower than guided production volume. That said, see a good possibility of consensus estimates at slight risk.

Table 11: Our FY21E EPS is slightly lower compared to consensus

INR bn	FY20E			FY21E		
	Edelweiss	Consensus	% diff	Edelweiss	Consensus	% diff
Revenue	1,033,845	1,024,570	0.9	1,054,345	1,073,522	(1.8)
EBITDA	250,294	252,356	(0.8)	254,548	264,545	(3.8)
EBITDA margin	24.2	24.6		24.1	24.6	
PAT	167,989	171,080	(1.8)	165,388	177,149	(6.6)
PAT margin	16.2	16.7		15.7	16.5	
EPS	27.3	27.8	(1.9)	26.8	28.9	(7.2)

Source: Company, Edelweiss research

Valuations: Attractive and compelling

CIL's stock is trading at the lower end of its historic trading range (2 year fwd)- P/E of 7.3x and EV/EBITDA of 3.4x. Compared to global peerset, CIL is now trading at discount for the first time in past two years.

Chart 13: P/E band- CIL vs peers

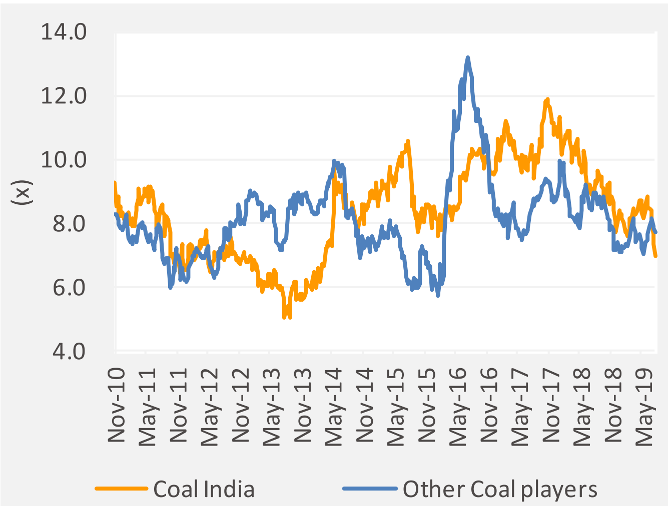
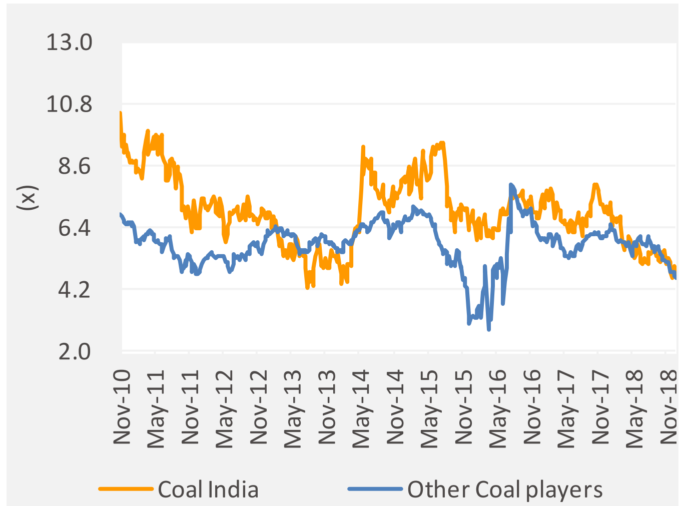


Chart 14: EV/EBITDA band- CIL vs peers



Source: Company, Edelweiss research

Further, the stock has given much lower returns compared to peers in past 1 month due to concerns around the divestment by the government and six fatalities recently reported at MCL. As against a mere 3% decline for peerset, CIL stock has gone down 19% in past one month. In longer run, however, CIL has performed better compared to peers and global thermal coal price.

Table 12: CIL stock has declined more compared to peers in last one month

	Absolute returns				
Company name	**5D**	**1M**	**3M**	**6M**	**12M**
Thermal coal (del China)- 5500 kcal	**(1.9)**	**2.0**	**(14.1)**	**(17.9)**	**(30.7)**
Consol Energy	13.9	13.7	(4.4)	(26.3)	(48.9)
Indo Tambangraya Megah Tbk	(0.6)	(5.5)	(12.4)	(24.0)	(42.3)
Adaro Energy Tbk PT	(2.0)	(14.9)	(6.1)	(10.9)	(38.1)
China Shenhua Energy Co Ltd	0.0	(6.6)	(7.3)	(29.6)	(55.8)
Datong Coal Industry Co Ltd	(3.5)	(5.3)	(10.6)	(21.1)	(12.2)
Yang Quan Coal Industry Group Co Ltd	(1.8)	(3.6)	(10.6)	5.2	(10.6)
New Hope Corp Ltd	(2.0)	(8.9)	(13.4)	4.6	(13.8)
Whitehaven Coal Ltd	(0.4)	(7.0)	(5.2)	(36.7)	(20.1)
China Coal Energy Co Ltd	(2.6)	1.1	(12.6)	(23.4)	(28.9)
Average	**0.2**	**(3.4)**	**(9.1)**	**(17.3)**	**(28.2)**
Coal India	(3.5)	(19.1)	(20.0)	(9.6)	(25.5)

Source: Company, Edelweiss research

We value CIL at INR 235

We keep our estimates broadly unchanged and roll over to Dec-20 earnings. We trim our target P/E multiple of the long term average of 8.5x (earlier 10x) on potential risk from Government of India divesting its stake through OFS. Our revised TP comes to INR 235/share (earlier INR 263). The stock is currently trading at 7.3x FY21E EPS.

Table 13: We value CIL at INR 235

	Dec-20
EPS (Ex-Cash)	21.0
Applicable P/E multiple (x)	8.5
Valuation (Ex cash)	1,097,818
Add: Cash and equivalents	339,044
Equity valuation (INR mn)	**1,436,862**
Shares (mn)	6,163
Value per share (INR)	**235**

Source: Company, Edelweiss research

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

Government's focus on ramping-up domestic production (to counter rising imports) will lead to sustainable volume growth for CIL. Further, commissioning of railway lines will augment evacuation capabilities. We believe, the company will benefit from its prices being lower compared to imported coal. Additionally, CIL is also likely to gain from grade control measures. However, potential OFS by the Government of India remains an overhang. Nonetheless, dividend yield of ~6-7% through to FY21E is a positive.

Key Risks

Government of India's OFS

Lower-than-expected new FSA demand.

Loss of volume-linked incentive.

Lower-than-expected volume growth.

Sharp increase in costs without immediate increase in prices.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
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	2,345	2,060
Beneficiation (INR/t)	2,931	2,584	3,106	3,262
Raw coal (INR/t)	1,257	1,343	1,394	1,397
Cost of materials(INR/t)	117	120	133	133
Power and fuel (INR)	43	40	40	40
Welfare expenses (INR/t)	8	7	7	7
Repairs per tonne (INR)	25	24	24	24
Contractual exp(INR/t)	220	220	237	237
Misc expenses (INR/t)	72	78	78	78
OBR (INR/t)	58	83	84	84
Provisions (INR/t)	1	2	16	17
Staff costs (INR mn)	426	388	390	388
Blended EBITDA/t (USD/t)	160	410	292	282
Depreciation rate (%)	9.4	8.6	8.6	8.6
Debtor days	40	22	20	21
Inventory days	221	170	161	164
Payable days	156	195	190	190

Income statement (INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	852,442	995,469	1,033,845	1,054,345
Accretion to stock	16,795	8,562	-	-
Purchase of goods	110,174	120,726	134,240	140,288
Employee costs	426,218	387,701	389,640	387,691
Total SG&A expenses	181,209	204,278	234,151	245,148
Power and Freight	25,164	24,431	25,520	26,669
Total operating expenses	759,560	745,698	783,550	799,797
EBITDA	92,882	249,771	250,294	254,548
Depreciation	30,627	34,504	42,317	50,927
EBIT	62,255	215,268	207,977	203,620
Less: Interest Expense	4,301	2,750	4,092	4,092
Add: Other income	49,748.8	58,737.3	57,053.68	57,370.65
Profit Before Tax	107,703	271,255	260,939	256,899
Less: Provision for Tax	37,323	96,625	92,950	91,511
Reported Profit	70,380	174,630	167,989	165,388
Adjusted Profit	70,380	174,630	167,989	165,388
Shares o /s (mn)	6,316	6,163	6,163	6,163
Adjusted Basic EPS	11.1	28.3	27.3	26.8
Diluted shares o/s (mn)	6,316	6,163	6,163	6,163
Adjusted Diluted EPS	11.1	28.3	27.3	26.8
Adjusted Cash EPS	16.0	33.9	34.1	35.1
Dividend per share (DPS)	16.5	13.1	13.1	13.1
Dividend Payout Ratio(%)	174.8	57.0	57.1	58.0

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating expenses	89.1	74.9	75.8	75.9
Depreciation	3.6	3.5	4.1	4.8
Interest Expense	0.5	0.3	0.4	0.4
EBITDA margins	10.9	25.1	24.2	24.1
Net Profit margins	8.3	17.5	16.2	15.7

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	8.7	16.8	3.9	2.0
EBITDA	(25.3)	168.9	0.2	1.7
PBT	(25.4)	151.9	(3.8)	(1.5)
Adjusted Profit	(24.2)	148.1	(3.8)	(1.5)
EPS	(24.2)	154.3	(3.8)	(1.5)

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	277,767	347,296
Shareholders' funds	201,787	264,539	339,394	408,923
Minority Interest	3,625	4,068	4,068	4,068
Long term borrowings	10,544	14,723	14,723	14,723
Short term borrowings	4,833	7,377	7,305	7,305
Total Borrowings	15,377	22,099	22,027	22,027
Long Term Liabilities	555,492	585,665	639,271	695,215
Def. Tax Liability (net)	(53,551)	(42,692)	(42,692)	(42,692)
Sources of funds	**722,730**	**833,679**	**962,068**	**1,087,542**
Gross Block	359,981	441,470	541,470	641,470
Net Block	275,446	325,758	383,441	432,514
Capital work in progress	102,727	96,229	116,229	136,229
Intangible Assets	295	739	739	739
Total Fixed Assets	378,468	422,726	500,409	569,482
Non current investments	161,532	168,574	168,574	168,574
Cash and Equivalents	316,806	328,742	342,478	374,655
Inventories	64,438	55,839	62,457	63,695
Sundry Debtors	62,578	54,986	61,048	62,258
Loans & Advances	37	5,023	5,023	5,023
Other Current Assets	217,297	248,607	258,607	268,607
Current Assets (ex cash)	344,350	364,454	387,135	399,584
Trade payable	69,744	68,155	71,591	74,816
Other Current Liab	408,682	382,662	367,662	352,662
Total Current Liab	478,426	450,817	439,253	427,478
Net Curr Assets-ex cash	(134,075)	(86,363)	(52,118)	(27,894)
Uses of funds	**722,730**	**833,679**	**962,068**	**1,087,542**
BVPS (INR)	31.9	42.9	55.1	66.4

Free cash flow (INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	70,380	174,630	167,989	165,388
Add: Depreciation	30,627	34,504	42,317	50,927
Interest (Net of Tax)	2,811	1,771	2,634	2,634
Others	3,713	3,763	50,900	53,310
Less: Changes in WC	(103,619)	47,712	34,245	24,224
Operating cash flow	211,149	166,955	229,595	248,037
Less: Capex	85,293	73,393	120,000	120,000
Free Cash Flow	**125,856**	**93,561**	**109,595**	**128,037**

Cash flow metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	211,149	166,955	229,595	248,037
Financing cash flow	(135,642)	(101,516)	(95,859)	(95,859)
Investing cash flow	(77,469)	(82,658)	(120,000)	(120,000)
Net cash Flow	(1,962)	(17,220)	13,736	32,177
Capex	85,293	73,393	120,000	120,000
Dividend paid	(123,012)	(99,468)	(95,859)	(95,859)

Profitability and efficiency ratios

Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	31.0	73.7	54.9	43.7
ROACE (%)	44.7	107.1	80.8	65.2
Inventory Days	221	170	161	164
Debtors Days	40	22	20	21
Payable Days	156	195	190	190
Cash Conversion Cycle	105	(3)	(9)	(5)
Current Ratio	1.4	1.5	1.7	1.8
Gross Debt/EBITDA	16.6	8.8	8.8	8.7
Gross Debt/Equity	7.5	8.2	6.4	5.3
Adjusted Debt/Equity	7.5	8.2	6.4	5.3
Net Debt/Equity	(146.7)	(114.2)	(93.3)	(85.4)
Interest Coverage Ratio	1,447.5	7,826.8	5,082.8	4,976.3

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	1.2	1.3	1.2	1.0
Fixed Asset Turnover	3.3	3.3	2.9	2.6
Equity Turnover	3.8	4.2	3.4	2.8

Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	11.1	28.3	27.3	26.8
Y-o-Y growth (%)	*(24.2)*	*154.3*	*(3.8)*	*(1.5)*
Adjusted Cash EPS (INR)	16.0	33.9	34.1	35.1
EV / Sales (x)	1.1	0.9	0.9	0.8
EV / EBITDA (x)	10.2	3.6	3.6	3.4

Peer comparison valuation

	Market cap	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
Name	(USD mn)	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Coal India	18,014	7.2	7.3	3.6	3.4	54.9	43.7
Bumi Resources Tbk PT	525	2.0	2.0	14.2	15.1	28.4	24.9
China Coal Energy Co Ltd	7,583	12.4	11.5	7.1	7.0	5.4	5.3
Peabody Energy Corp	1,991	11.3	39.6	2.7	3.1	6.0	1.3
Median	-	9.3	9.4	5.4	5.2	17.2	15.1
AVERAGE	-	5.0	5.3	4.7	4.8	9.9	3.9

Source: Edelweiss research

Additional Data

Directors Data

Shri A K Jha	Chairman-cum-Managing-Director	Shri Sanjiv Soni	Director - Finance
Shri B Dayal	Director - Technical	Shri R P Srivastava	Director - Personnel
Shri S N Prasad	Director - Marketing	Smt. Reena Sinha Puri	Government Nominee Director
Shri Rajesh Kumar Sinha	Government Nominee Director	Ms. Loretta Mary Vas	Independent Director
Dr. S.B. Agnihotri	Independent Director	Dr. D.C. Panigrahi	Independent Director
Dr. Khanindra Pathak	Independent Director	Shri Vinod Jain	Independent Director
Shri V K Thakral	Independent Director	Shri B L Gajipara	Independent Director

Auditors - M/s RAY & RAY

*as per last annual report

Holding – Top10

	Perc. Holding		Perc. Holding
Government of india	70.96	Reliance capital tru	1.49
Hdfc asset managemen	1.41	Blackrock	0.89
Vanguard group	0.85	Capital group compan	0.74
Sbi funds management	0.45	Icici prudential ass	0.43
Lazard ltd	0.42	Jpmorgan chase & co	0.42

*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	BUY	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

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400**,** Email*: research@edelweissfin.com*

Aditya Narain
Head of Research
aditya.narain@edelweissfin.com

ADITYA NARAIN

Digitally signed by ADITYA NARAIN
DN: c=IN, o=EDELWEISS SECURITIES LIMITED, ou=SERVICE, 2.5.4.20=3dc92af943d52d778c99d69c48a8e0c89e548e5001b4f8141cf423fd58c07b02, postalCode=400011, st=MAHARASHTRA, serialNumber=e0576796072ad1a3266c27990f20bf0213f69235fc3f1bcd0fa1c30092792c20, cn=ADITYA NARAIN
Date: 2019.08.02 17:54:14 +05'30'

Coverage group(s) of stocks by primary analyst(s):

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
01-Aug-19	**Vale**	Relief for iron ore supplies in sight; *Global Pulse*		Not Rated
01-Aug-19	**ArcelorMittal**	Compressed spreads dent profitability; *Global Pulse*		Not Rated
26-Jul-19	**Vedanta**	Production ramp-up key; *Result Update*	164	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

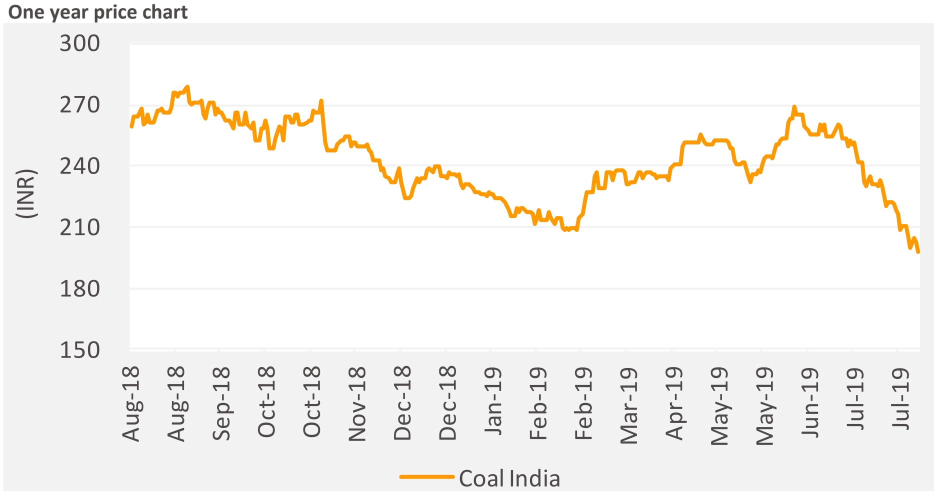
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

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

One year price chart



DISCLAIMER

Edelweiss Securities Limited ("ESL" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No.INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance .The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or 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 or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative 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 or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the “Order”); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”).

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.