

BSE SENSEX	S&P CNX
39,832	11,946
Bloomberg	COAL IN
Equity Shares (m)	6,207
M.Cap.(INRb)/(USD\$)	1558.6 / 22.3
52-Week Range (INR)	303 / 212
1, 6, 12 Rel. Per (%)	-2/-7/-27
12M Avg Val (INR M)	1604
Free float (%)	29.0

CMP: INR253

TP: INR307(+22%)

Buy

Better grades and lower CoP drive outperformance

Valuations attractive; dividend yield of 7-8%; Maintain Buy

- Revenue grew 6% YoY to ~INR285b (our estimate: INR283b) in 4QFY19, led by an increase of **(a)** ~4% YoY in FSA realization (INR1,460/t v/s our estimate of INR1,388), **(b)** 30% in e-auction realization (INR2,754/t v/s our estimate of INR2,619) and **(c)** ~2% in volumes (163.1mt; volume mix was weak). FSA realization was supported by better grade management and mine mix.
- Cash cost (ex-OBR) increased 5% YoY to INR1,110/t due to a higher wage bill (includes INR6.5b for prior-period pension provision and INR3-4b for bonus provisions). Excluding the wage bill, cash cost was down ~4% YoY.
- Adj. EBITDA (ex-OBR) increased 4% YoY to ~INR104b, driven by higher realization and volumes, partly offset by the higher wage bill.
- Adj. PAT was down 2% YoY to INR60.3b (our estimate: INR54.5b) owing to lower other income and a stronger base. The beat to our estimate was driven by lower-than-expected cash cost of production (CoP) and higher-than-expected other income.
- For FY19, adj. EBITDA (ex-OBR) grew 48% YoY to INR300.5b and adj. PAT was up 47% YoY to INR174.6b led by the benefit of price hike, lower cash CoP and volume growth, partly offset by the higher wage bill.

Valuations attractive; Maintain Buy

- COAL has managed to keep its cost under control on the back of productivity measures and shutting down of old mines – we expect this trend to continue. Notably, cash CoP is down ~1% over the last two years. Excluding the wage cost, the decline in cash CoP is even steeper.
- We raise our adj. PAT estimate by ~1%/4% to INR180.1b/INR192b for FY20/21, given higher FSA realization and lower CoP.
- The stock trades attractively at ~4x FY20E EV/adj. EBITDA (v/s historical average of 7x), P/E of ~8x (v/s average of ~14x) and offers a dividend yield of ~7-8%. We value the stock on 5x FY20E EV/EBITDA at INR307. Maintain **Buy**.

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	995.5	1,023.6	1,065.7
EBITDA	300.5	303.5	325.0
PAT	174.6	180.1	192.0
EPS (INR)	28.3	29.2	31.2
Gr. (%)	47.9	3.1	6.6
BV/Sh (INR)	42.9	49.4	56.2
RoE (%)	66.0	59.2	55.4
RoCE (%)	85.7	68.0	62.8
P/E (x)	8.9	8.6	8.1
P/BV (x)	5.9	5.1	4.5

Estimate change



TP change



Rating change



Quarterly Performance (Consolidated) – INR m

Y/E March	FY18				FY19				FY18	FY19	FY19	var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales	191,617	181,483	216,433	269,092	240,708	218,840	250,458	285,463	858,624	995,469	283,573	1
Change (%)	4.0	11.9	6.0	16.1	25.6	20.6	15.7	6.1	9.8	15.9	5.4	
Adj. EBITDA	34,151	12,888	55,405	100,646	65,435	51,194	79,655	104,199	203,089	300,483	78,731	32
As of % Sales	17.8	7.1	25.6	37.4	27.2	23.4	31.8	36.5	23.7	30.2	27.8	
Depreciation	6,699	7,146	7,511	9,308	7,452	8,069	8,611	10,372	30,664	34,504	7,049	47
OBR	-1,069	578	9,226	24,847	8,835	8,023	11,777	22,077	33,583	50,712	4,583	
Interest	1,209	1,007	974	1,127	1,103	8	620	1,019	4,318	2,750	1,880	(46)
Other Income	12,066	6,107	8,409	20,002	12,824	16,084	11,633	18,196	46,583	58,737	12,305	48
PBT	39,378	10,264	46,102	11,521	60,869	51,178	70,281	88,927	107,264	271,255	77,525	15
Tax	15,860	6,576	16,052	-1,420	23,025	20,317	24,623	28,659	37,067	96,625	22,983	25
Tax Rate (%)	40.3	64.1	34.8	-1.7	37.8	39.7	35.0	32.2	34.6	35.6	29.6	
Reported PAT	23,518	3,689	30,050	12,942	37,843	30,861	45,657	60,268	70,198	174,630	54,542	10
Adjusted PAT	23,518	3,689	30,050	61,686	37,843	30,861	45,657	60,268	118,942	174,630	54,542	10
Change (%)	-23.3	-38.5	4.2	127.0	60.9	736.7	51.9	-2.3	28.3	46.8	-11.6	

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Other highlights

- Volumes: FSA volumes increased 13% YoY to 142mt. This was at the cost of e-auction volumes, which declined 4% YoY to 16.7mt (share of 11%, the lowest 4Q ever).
- FSA revenues include incentive income of ~INR8-9b v/s INR7b in FY18.
- Employee cost increased ~15% YoY to INR107b due to prior-period pension provision of INR6.5b and bonus provision of ~INR3-4b.
- OBR adjustment was down 11% YoY to INR22.1b.
- Other income was down 9% YoY to INR18.2b

Exhibit 1: Key operating parameters

Y/E March	FY18				FY19				FY18	FY19E	FY19	VAT.	YoY	QoQ
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q						
Volume (m tons)														
Production	118.8	113.0	152.0	183.5	136.9	119.6	156.0	194.4	567.4	606.9	167.1		6%	25%
Sales/Offtake	137.9	131.3	151.7	159.6	153.5	137.3	154.1	163.3	580.5	608.2	167.1	(2.3)	2%	6%
- FSA	107.1	104.6	121.9	126.4	130.4	116.8	135.8	142.4	460.0	525.4	140.6	1.3	13%	5%
- E-auction	27.3	23.3	26.4	29.3	19.4	17.7	14.7	16.7	106.2	68.5	22.2	(24.9)	-43%	14%
- Washed Coal	2.7	2.9	2.8	3.1	2.6	2.4	2.9	3.3	11.5	11.2	3.1	7.8	7%	14%
- others	0.8	0.6	0.7	0.8	0.7	0.7	0.7	1.0	2.9	3.1	1.3	(23.4)	18%	34%
Realization (INR/t)														
- FSA	1,201	1,224	1,182	1,403	1,298	1,282	1,334	1,460	1,257	1,348	1,388	5	4%	9%
- E-auction	1,586	1,614	1,998	2,112	2,399	2,592	2,847	2,754	1,839	2,632	2,619	5	30%	-3%
- Washed Coal	3,649	2,582	2,975	2,923	2,427	2,602	2,866	2,879	3,023	2,713	3,473	(17)	-2%	0%
- others	3,333	3,050	3,179	3,373	2,943	3,182	3,425	3,559	3,249	3,306	2,370	50	6%	4%
Per ton (INR)														
Revenue	1,335	1,331	1,365	1,573	1,460	1,485	1,517	1,636	1,407	1,527	1,599	2	4%	8%
cash EBIDTA	248	98	365	631	426	373	517	638	350	494	471	35	1%	23%
PAT	171	28	198	387	247	225	296	369	205	287	326	13	-4%	25%
Costs	1,087	1,233	1,000	943	1,034	1,113	1,001	997	1,058	1,033	1,128	(12)	6%	0%

Source: MOFSL, Company

Exhibit 2: Target Price calculations

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Adjusted EBIDTA	210,472	211,621	215,423	150,634	203,089	300,483	303,502
Target EV/EBITDA (x)							5.0
Target EV							1,517,509
Net debt	-559,930	-555,040	-471,951	-383,904	-410,544	-419,599	-376,235
Target Equity value							1,893,744
TP (INR/share)							307

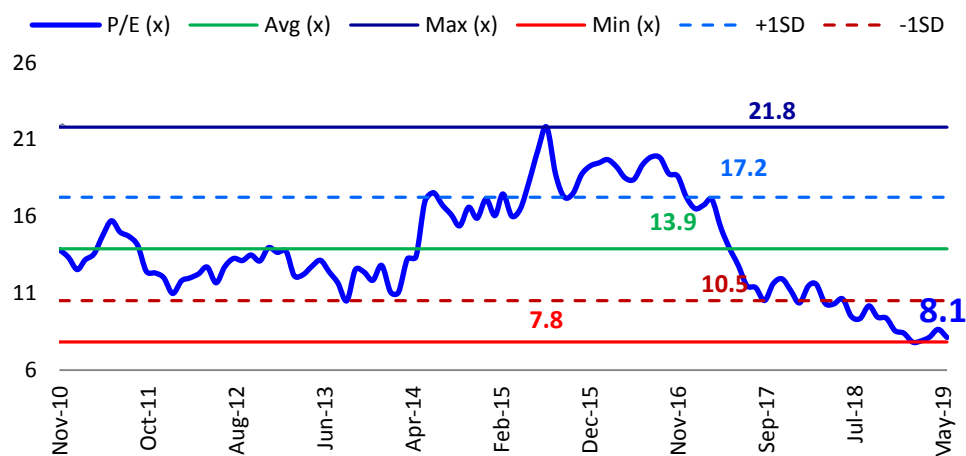
Source: MOFSL

Exhibit 3: Adjusted P&L

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue	741,201	780,073	783,719	858,624	995,469	1,023,584	1,065,691
Power FSA	511,628	537,007	494,293	529,901	662,357	699,565	734,539
Non Power FSA	72,150	69,584	86,547	63,029	102,148	102,150	102,150
Eauction/MoU	157,423	173,481	202,879	265,695	230,964	221,868	229,002
Sales (mt)	489	534	543	580	608	645	680
YoY (%)	3.8	9.2	1.6	6.8	4.9	6.1	5.4
Power FSA	385	409	380	424	471	499	524
Share (%)	79	76	70	73	77	77	77
Non Power FSA	41	40	50	36	55	55	55
Eauction/MoU	63	86	113	120	83	91	101
Revenue per ton	1,515	1,459	1,443	1,480	1,637	1,587	1,567
YoY (%)	1.2	-3.6	-1.1	2.6	10.6	-3.0	-1.2
Power FSA	1,328	1,314	1,301	1,250	1,407	1,402	1,402
Non Power FSA	1,777	1,758	1,738	1,752	1,864	1,857	1,857
Eauction/MoU	2,484	2,013	1,793	2,214	2,791	2,435	2,263
Cost of Mining (ex. OB)	529,580	564,649	633,085	655,535	694,986	720,082	740,733
CoP per ton	1,082	1,056	1,166	1,130	1,143	1,116	1,089
YoY (%)	3.0	-2.4	10.4	-3.1	1.1	-2.3	-2.4
Labor & social OH	617	584	626	616	644	599	563
Contract	174	208	227	220	220	236	243
R&M	171	155	152	143	144	143	142
Others	120	109	161	151	134	138	140
Adjusted EBITDA	211,621	215,423	150,634	203,089	300,483	303,502	324,957
Power FSA	94,569	105,197	51,209	50,682	124,551	142,615	163,932
Share (%)	45	49	34	25	41	47	50
Non Power FSA	28,215	27,772	28,491	22,363	39,539	40,748	42,237
Share (%)	13	13	19	11	13	13	13
Eauction/MoU	88,837	82,454	70,933	130,044	136,393	120,139	118,788
Share (%)	42	38	47	64	45	40	37
EBITDA per ton	432	403	277	350	494	471	478

Source: MOFSL

Exhibit 4: Coal India P/E – x



Source: Bloomberg, Company

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	706,075	741,201	780,073	783,719	858,624	995,469	1,023,584	1,065,691
Change (%)	1.2	5.0	5.2	0.5	9.6	15.9	2.8	4.1
EBITDA	210,472	211,621	211,148	150,634	203,089	300,483	303,502	324,957
EBITDA Margin (%)	29.8	28.6	27.1	19.2	23.7	30.2	29.7	30.5
Depreciation	52,830	61,465	56,373	55,823	64,246	85,216	93,664	98,104
EBIT	157,643	150,156	154,775	94,811	138,843	215,268	209,838	226,854
Interest	580	73	3,862	4,117	4,318	2,750	2,778	2,806
Other Income	71,719	65,706	59,406	55,156	46,583	58,737	50,204	50,204
Extraordinary items	14	50	0	0	-73,844	0	0	0
PBT	228,795	215,839	210,319	145,850	107,264	271,255	257,264	274,252
Tax	77,679	78,573	71,719	51,660	37,067	96,625	77,179	82,276
Tax Rate (%)	34.0	36.4	34.1	35.4	34.6	35.6	30.0	30.0
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	151,116	137,266	138,601	94,190	70,198	174,630	180,085	191,977
Adjusted PAT	159,881	137,266	138,601	94,190	118,942	174,630	180,085	191,977
Change (%)	-9.5	-14.1	1.0	-32.0	26.3	46.8	3.1	6.6

Balance Sheet							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	63,164	63,164	63,164	62,074	62,074	61,627	61,627	61,627
Reserves	360,881	340,367	285,168	183,194	136,392	202,912	242,531	284,765
Net Worth	424,045	403,531	348,332	245,268	198,466	264,539	304,158	346,393
Debt	1,715	4,019	11,921	30,078	15,309	22,027	22,027	22,027
Deferred Tax	-19,717	-19,591	-20,445	-27,328	-53,551	-42,692	-42,692	-42,692
Total Capital Employed	406,678	388,617	340,855	251,477	163,849	247,943	287,562	329,796
Gross Fixed Assets	414,795	448,080	234,137	276,883	325,733	405,051	485,051	565,051
Less: Acc Depreciation	266,951	286,929	26,824	55,984	84,805	119,308	156,212	193,115
Net Fixed Assets	147,844	161,150	207,314	220,900	240,928	285,742	328,839	371,935
Capital WIP	43,158	51,594	59,044	103,078	137,710	136,984	136,984	136,984
Investments	0	0	73	106	3,443	4,622	4,622	4,622
Current Assets	831,704	873,074	841,406	809,377	839,286	857,149	893,655	956,259
Inventory	55,681	61,838	75,692	89,453	64,439	55,839	78,521	81,752
Debtors	82,410	85,219	114,476	107,359	86,892	54,986	112,174	116,788
Cash & Bank	561,644	559,060	483,872	413,982	425,854	441,626	398,262	453,022
Loans & Adv, Others	131,969	166,958	167,367	198,584	262,102	304,697	304,697	304,697
Curr Liabs & Provns	616,028	697,201	766,982	881,984	1,057,518	1,036,554	1,076,538	1,140,004
Curr. Liabilities	616,028	697,201	766,982	881,984	1,057,518	1,036,554	1,076,538	1,140,004
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	215,676	175,873	74,425	-72,607	-218,232	-179,405	-182,883	-183,745
Total Assets	406,678	388,617	340,855	251,477	163,849	247,943	287,562	329,796

Financials and Valuations

Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)								
EPS	25.3	21.7	22.6	15.2	19.2	28.3	29.2	31.2
Cash EPS	33.7	31.5	31.5	24.2	29.5	42.2	44.4	47.1
Book Value	67.1	63.9	55.1	39.5	32.0	42.9	49.4	56.2
DPS	29.0	20.7	27.4	19.9	16.5	13.1	19.0	20.2
Payout (incl. Div. Tax.)	129.5	112.9	145.5	160.3	103.3	55.5	78.0	78.0
Valuation(x)								
P/E	11.4	16.7	12.9	19.3	14.8	8.9	8.6	8.1
Price / Book Value	4.3	5.7	5.3	7.4	8.9	5.9	5.1	4.5
EV/EBITDA	6.0	8.2	6.4	9.5	6.6	3.8	3.9	3.5
Dividend Yield (%)	10.1	5.7	9.4	6.8	5.8	5.2	7.5	8.0
EV /ton of Reserves	57.9	79.7	63.1	65.9	62.1	52.1	54.1	51.6
Profitability Ratios (%)								
RoE	35.6	34.0	41.0	38.4	35.4	66.0	59.2	55.4
RoCE	34.4	34.5	39.9	32.7	58.4	85.7	68.0	62.8
RoIC	-51.3	-45.5	-49.9	-26.2	-27.2	-37.5	-50.0	-61.4
Turnover Ratios (%)								
Asset Turnover (x)	1.7	1.9	2.3	3.1	5.2	4.0	3.6	3.2
Debtors (No. of Days)	43	42	54	50	37	40	40	40
Inventory (No. of Days)	29	30	35	42	27	28	28	28
Creditors (No. of Days)	4	5	15	18	19	18	18	18
Leverage Ratios (%)								
Net Debt/Equity (x)	-1.3	-1.4	-1.4	-1.6	-2.1	-1.6	-1.2	-1.2

Cash Flow Statement

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
(INR Million)								
Adjusted EBITDA	210,472	211,621	211,148	150,634	203,089	300,483	303,502	324,957
Non cash opr. exp (inc)	20,597	21,428	25,840	37,046	-54,587	-93,514	25,031	29,395
(Inc)/Dec in Wkg. Cap.	2,442	6,487	-26,697	60,216	138,450	63,491	-96,646	-5,579
Tax Paid	-88,264	-95,721	-78,754	-89,427	-74,329	-96,625	-77,179	-82,276
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	145,247	143,815	131,538	158,469	212,623	173,836	154,708	266,498
(Inc)/Dec in FA & CWIP	-41,164	-49,014	-57,857	-86,761	-85,293	-78,591	-80,000	-80,000
Free cash flows	104,083	94,801	73,681	71,707	127,330	95,245	74,708	186,498
(Pur)/Sale of Invt	-13,799	9,615	-1	-50	-3,332	-1,180	0	0
Others	78,554	43,256	47,005	34,433	23,747	26,296	25,173	20,809
CF from Inv. Activity	23,590	3,857	-10,852	-52,379	-64,878	-53,474	-54,827	-59,191
Inc/(Dec) in Net Worth	0	0	0	-45,531	0	-11,678	0	0
Inc / (Dec) in Debt	-12,634	1,935	9,902	18,169	-14,778	6,718	0	0
Interest Paid	-580	-73	-207	-306	-370	-2,750	-2,778	-2,806
Divd Paid (incl Tax) & Others	-240,289	-152,119	-205,569	-148,311	-120,725	-96,878	-140,466	-149,742
CF from Fin. Activity	-253,503	-150,257	-195,874	-175,980	-135,873	-104,589	-143,244	-152,547
Inc/(Dec) in Cash	-84,665	-2,585	-75,188	-69,890	11,872	15,773	-43,364	54,760
Add: Opening Balance	646,310	561,644	559,060	483,872	413,982	425,854	441,626	398,262
Closing Balance	561,644	559,060	483,872	413,982	425,854	441,626	398,262	453,022

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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