

COAL INDIA

December dip: Shipments fall a one-off

India Equity Research | Metals and Mining

Coal India's (CIL) shipments fell (first time since October 2016) 1.2% YoY to 52.8mt in December 2018. Key highlights: 1) SECL's (largest subsidiary) off take & production dipped 6% and 13% YoY, respectively; and 2) inventory continued to pile up for second successive month. Going ahead, we expect SECL to contribute to production as well as off take as operating issues have waned. Hence, we expect CIL to meet our 5.5% YoY off take growth estimate in FY19. Maintain 'BUY' with INR325 target price on attractive valuation of 7.4x FY20E EPS.

YoY shipments decline a one-off

CIL's December off take fell 1.2% YoY to 52.8mt primarily due to operating issues at SECL—largest subsidiary. However, CIL's production volume continued to pick up, surpassing off take for the second successive month. This is expected to increase coal availability in ensuing months. We expect production uptick as our channel checks indicate that local issues at SECL have been resolved. Going by YTD FY19 volume growth of 5.5%, we do not see risk to our FY19 off take estimate of 613mt (5.5% YoY growth).

Imports have not inched up despite lower e-auction volumes

Our channel checks indicate that bulk of the coal has been diverted to the regulated sector. Hence, we expect e-auction volumes to dip to below 10mt in Q3FY19. Despite this, imports declined in November possibly due to likely erosion in e-auction premium. We had highlighted the possibility of this happening in our earlier note (refer to: [Metals & Mining - Coal: Reviving China supply could singe e-auction premium; sector update](#)).

Outlook and valuations: Volume estimates intact; maintain 'BUY'

Despite off take coming off in December, we perceive easing of production issues at CIL as a positive for the company and non-power end users. Going ahead, we expect production at SECL to pick up and see no threat to our FY19 volume estimates. We maintain 'BUY/SP' with target price of INR325 (exit multiple of 10.2x FY20E EPS).

Financials

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	784,112	858,624	1,007,896	1,081,952
EBITDA	124,381	95,663	224,133	264,382
Adjusted Profit	92,815	70,198	172,902	197,978
Diluted equity shares (mn)	6,207	6,207	6,207	6,207
Adjusted diluted EPS (INR)	15.0	11.3	27.9	31.9
EPS Growth (%)	8.0	(24.4)	146.3	14.5
Diluted P/E (x)	15.8	20.9	8.5	7.4
EV/EBITDA (x)	9.5	12.2	5.3	4.8
ROAE (%)	31.0	31.1	88.8	87.5

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 237
Target Price	: INR 325
52-week range (INR)	: 317 / 228
Share in issue (mn)	: 6,207.4
M cap (INR bn/USD mn)	: 1,469 / 21,531
Avg. Daily Vol.BSE/NSE('000)	: 4,877.5

SHARE HOLDING PATTERN (%)

	Current	Q1FY19	Q4FY18
Promoters *	78.3	78.3	78.5
MF's, FI's & BK's	13.0	13.2	12.9
FII's	5.7	5.4	5.5
Others	3.0	3.1	3.1
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	(3.3)	(0.8)	(0.9)
3 months	(13.2)	(2.0)	(11.0)
12 months	(12.3)	3.4	(11.6)

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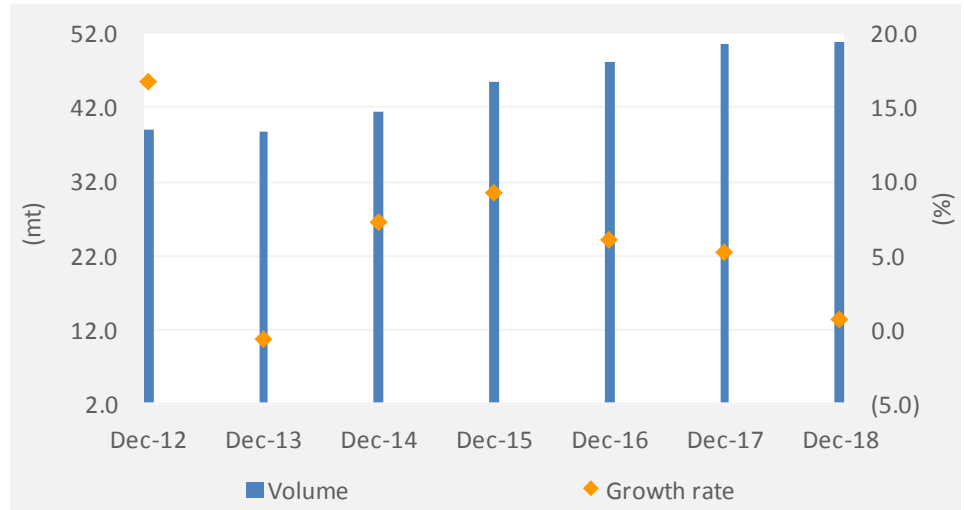
January 2, 2019

Table 1: Shipments declined for the first time since October 2016

(mt)	Dec-18	Dec-17	Nov-18	YoY (%)	MoM (%)	YTD19	YTD18	Growth %
Production volume	54.1	54.2	52.1	(0.1)	3.9	412.5	383.5	7.5
Despatch volume	52.8	53.4	51.0	(1.2)	3.5	444.6	421.4	5.5

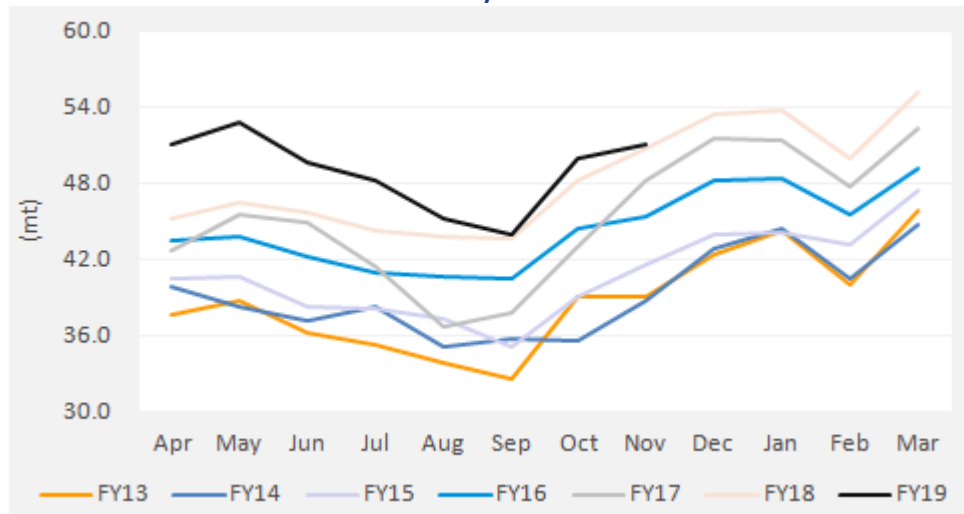
Source: Company data, Edelweiss research

Chart 1: December shipments still higher compared to historic levels



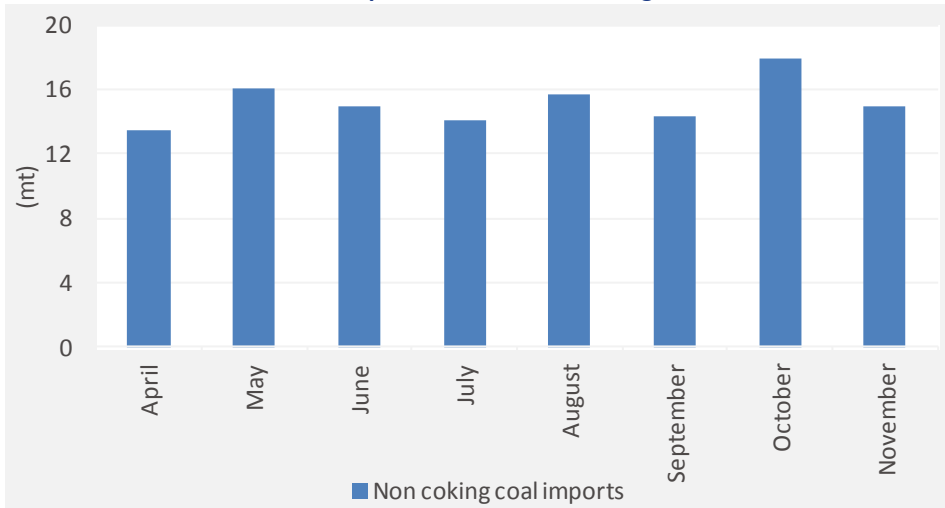
Source: Company, Edelweiss research

Chart 2: YTD19 off take has been reasonably better



Source: Company, Edelweiss research

Chart 3: YTD FY19 thermal coal imports have remained range-bound



Source: Company, Edelweiss research

Company Description

Coal India (CIL) is the world's largest coal reserve holder and producer and also controls ~80% of the Indian coal market. It is going to be the primary beneficiary of the structural deficit of coal in India. Moreover, it is one of the least cost producers of coal in the world.

CIL, a Maharatna company, is one of the largest public sector companies in India in terms of turnover. Its product portfolio consists largely of thermal coal with the balance being coking coal. The company enjoys a near-monopoly position in the lucrative coal market and is more of a utility player due to assured volume off-take, pseudo regulated pricing and minimal chance of a product price cut, as prices already remain at ~30-35% discount to current international benchmark prices.

It currently operates ~471 mines in India and is also scouting for international mines to increase global presence and assure its resources. It sells ~15% of its production based on the e-Auction route and ~3.5% beneficiated coal (2x realisations of raw coal).

Investment Theme

The government focus on ramping up domestic production (to counter rising imports) will lead to sustainable volume growth for CIL. We believe that CIL will benefit from its prices being lower as compared to imported coal. However, we believe that profitability will be impacted if the company is unable to secure price hike in the near future. Depleting cash balance also poses risk to the sustainability of other income. Nonetheless, dividend yield of ~6-7% through to FY19E is a positive.

Key Risks

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

Higher than expected price hike

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Sector				
Indonesian coal (USD/t)	60.0	55.0	55.0	55.0
India coal demand (mt)	905.9	964.8	1,027.5	1,078.9
Coal imports (mn tonnes)	208.3	176.4	139.1	120.0
Company				
Production (mt)	554	582	628	666
Sales volumes (MT)	543	581	613	650
E-auction volume (mt)	94	101	106	112
Beneficiation volume(mt)	14	18	21	24
Raw Coal volume (mt)	430	458	482	510
E-auction (INR/t)	1,536	1,928	2,184	2,184
Beneficiation (INR/t)	3,753	2,446	2,446	2,446
Raw coal (INR/t)	1,284	1,246	1,366	1,383
Cost of materials(INR/t)	163	171	180	189
Power and fuel (INR)	44	48	51	55
Welfare expenses (INR/t)	9	10	10	11
Repairs per tonne (INR)	26	28	29	30
Contractual exp(INR/t)	202	224	244	266
Misc expenses (INR/t)	64	67	70	74
OBR (INR/t)	65	65	65	65
Provisions (INR/t)	20	20	20	20
Staff costs (INR mn)	335	426	378	376
Blended EBITDA/t (USD/t)	229	165	329	330
Depreciation rate (%)	5.8	5.3	5.3	5.3
Debtor days	56	45	38	43
Inventory days	279	221	302	253
Payable days	121	120	138	105

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	784,112	858,624	1,007,896	1,081,952
Accretion to stock	(12,384)	16,795	29,583	-
Purchase of goods	120,594	110,450	105,666	143,596
Employee costs	335,229	426,336	377,969	376,079
Total SG&A expenses	190,828	184,217	245,136	270,926
Power and Freight	25,465	25,164	25,409	26,969
Total operating expenses	659,732	762,962	783,764	817,569
EBITDA	124,381	95,663	224,133	264,382
Depreciation	29,068	30,664	35,537	43,440
EBIT	95,313	64,999	188,596	220,942
Less: Interest Expense	4,092	4,318	1,128	4,092
Add: Other income	53,242.1	46,583.2	85,166.07	78,639.7
Profit Before Tax	144,463	107,264	272,634	295,490
Less: Provision for Tax	51,648	37,067	99,732	97,512
Reported Profit	92,815	70,198	172,902	197,978
Adjusted Profit	92,815	70,198	172,902	197,978
Shares o/s (mn)	6,207	6,207	6,207	6,207
Adjusted Basic EPS	15.0	11.3	27.9	31.9
Diluted shares o/s (mn)	6,207	6,207	6,207	6,207
Adjusted Diluted EPS	15.0	11.3	27.9	31.9
Adjusted Cash EPS	19.6	16.2	33.6	38.9
Dividend per share (DPS)	19.9	16.5	26.7	16.0
Dividend Payout Ratio(%)	160.8	176.3	116.0	60.6

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	84.1	88.9	77.8	75.6
Depreciation	3.7	3.6	3.5	4.0
Interest Expense	0.5	0.5	0.1	0.4
EBITDA margins	15.9	11.1	22.2	24.4
Net Profit margins	11.8	8.2	17.2	18.3

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	0.5	9.5	17.4	7.3
EBITDA	(5.7)	(23.1)	134.3	18.0
PBT	(9.2)	(25.7)	154.2	8.4
Adjusted Profit	6.1	(24.4)	146.3	14.5
EPS	8.0	(24.4)	146.3	14.5

Metals and Mining

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	62,074	62,074	62,074	62,074	
Reserves & Surplus	183,106	136,391	121,652	199,632	
Shareholders' funds	245,181	198,465	183,727	261,706	
Minority Interest	3,459	3,625	3,625	3,625	
Long term borrowings	2,948	10,544	10,544	10,544	
Short term borrowings	27,130	4,765	4,765	4,765	
Total Borrowings	30,078	15,309	15,309	15,309	
Long Term Liabilities	486,406	554,332	607,259	663,405	
Def. Tax Liability (net)	(27,328)	(53,551)	(53,551)	(53,551)	
Sources of funds	737,796	718,181	756,369	890,495	
Gross Block	539,520	624,520	724,520	924,520	
Net Block	237,537	275,479	344,932	501,492	
Capital work in progress	85,852	102,864	85,852	85,852	
Intangible Assets	577	295	295	295	
Total Fixed Assets	323,966	378,638	431,080	587,640	
Non current investments	127,660	154,586	154,586	154,586	
Cash and Equivalents	316,627	316,806	295,777	227,687	
Inventories	89,452	64,438	46,943	88,927	
Sundry Debtors	124,763	86,892	96,648	103,749	
Loans & Advances	125	37	37	37	
Other Current Assets	168,232	219,969	219,969	219,969	
Current Assets (ex cash)	382,572	371,336	363,597	412,682	
Trade payable	38,843	45,169	55,582	59,012	
Other Current Liab	374,186	458,016	458,016	458,016	
Total Current Liab	413,029	503,185	513,598	517,028	
Net Curr Assets-ex cash	(30,457)	(131,849)	(150,001)	(104,346)	
Uses of funds	737,796	718,181	756,369	890,495	
BVPS (INR)	39.5	32.0	29.6	42.2	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	92,815	70,198	172,902	197,978	
Add: Depreciation	29,068	30,664	35,537	43,440	
Interest (Net of Tax)	2,629	2,826	715	2,742	
Others	27,981	30,669	52,212	53,405	
Less: Changes in WC	(5,943)	(101,393)	(18,152)	45,656	
Operating cash flow	158,435	235,749	279,519	251,909	
Less: Capex	76,000	85,000	100,000	200,000	
Free Cash Flow	82,435	150,749	179,519	51,909	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Coal India	21,531	8.5	7.4	5.3	4.8	88.8	87.5
Bumi Resources Tbk PT	475	1.8	1.5	-	-	50.4	39.8
China Coal Energy Co Ltd	7,825	11.7	12.0	8.2	8.1	6.0	5.6
Peabody Energy Corp	-	10.0	13.4	2.5	3.3	12.3	8.3
Median	-	9.2	9.7	3.9	4.0	31.4	24.1
AVERAGE	-	8.0	8.6	4.0	4.0	39.4	35.3

Source: Edelweiss research

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		158,435	235,749	279,519	251,909
Financing cash flow		(175,980)	(138,517)	(200,548)	(119,999)
Investing cash flow		4,546	(108,847)	(100,000)	(200,000)
Net cash Flow		(12,998)	(11,615)	(21,030)	(68,090)
Capex		(76,000)	(85,000)	(100,000)	(200,000)
Dividend paid		(149,248)	(123,749)	(200,548)	(119,999)

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	31.0	31.1	88.8	87.5
ROACE (%)	46.4	45.0	130.3	124.0
Inventory Days	279	221	150	173
Debtors Days	56	45	33	34
Payable Days	121	120	136	146
Cash Conversion Cycle	213	145	48	61
Current Ratio	1.7	1.4	1.3	1.2
Gross Debt/EBITDA	24.2	16.0	6.8	5.8
Gross Debt/Equity	12.1	7.6	8.2	5.8
Adjusted Debt/Equity	12.1	7.6	8.2	5.8
Net Debt/Equity	(115.2)	(149.2)	(149.7)	(80.0)
Interest Coverage Ratio	2,329.4	1,505.3	16,723.9	5,399.6

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	1.0	1.2	1.4	1.3
Fixed Asset Turnover	3.4	3.3	3.2	2.6
Equity Turnover	2.6	3.8	5.2	4.8

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	15.0	11.3	27.9	31.9
Y-o-Y growth (%)	8.0	(24.4)	146.3	14.5
Adjusted Cash EPS (INR)	19.6	16.2	33.6	38.9
Diluted P/E (x)	15.8	20.9	8.5	7.4
P/B (x)	6.0	7.4	8.0	5.6
EV / Sales (x)	1.7	1.6	1.4	1.3
EV / EBITDA (x)	9.5	12.2	5.3	4.8
Dividend Yield (%)	8.4	7.0	11.3	6.8

Additional Data

Directors Data

Shri S Bhattacharya	Chairman-cum-Managing-Director	Shri Chandan Kumar Dey	Director Finance
Shri S.Saran	Technical Director	Shri R Mohan Das	Personnel & Industrial Relation Director
Shri S N Prasad	Marketing Director	Shri Vivek Bharadwaj	Government Nominee Director
Shri Rajesh Kumar Sinha	Government Nominee Director		

Auditors - De Chakraborty & Sen

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Republic of india	72.92	Life insurance corp	8.33
Icici prudential ass	1.06	Hdfc asset managemen	1.04
Vanguard group inc/t	0.81	Blackrock inc	0.52
Reliance capital tru	0.49	Sbi funds management	0.42
Jpmorgan chase & co	0.23	Icici prudential lif	0.23

**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	BUY	SP	M	Hindalco Industries	BUY	SO	M
Hindustan Zinc	BUY	SO	L	Jindal Stainless Ltd	BUY	SO	H
Jindal Steel & Power	BUY	SO	M	JSW Steel	BUY	SO	M
NMDC	BUY	SO	M	Steel Authority of India	BUY	SP	M
Tata Steel	BUY	SO	M	Vedanta	BUY	SO	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, 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
31-Dec-18	Metals and Mining	CY19: Expect the unexpected; <i>Sector Update</i>		
26-Dec-18	Metals and Mining	LME aluminium: A slip, but not a slide; <i>Sector Update</i>		
21-Dec-18	Metals and Mining	November non-ferrous volumes – Uptick evident; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

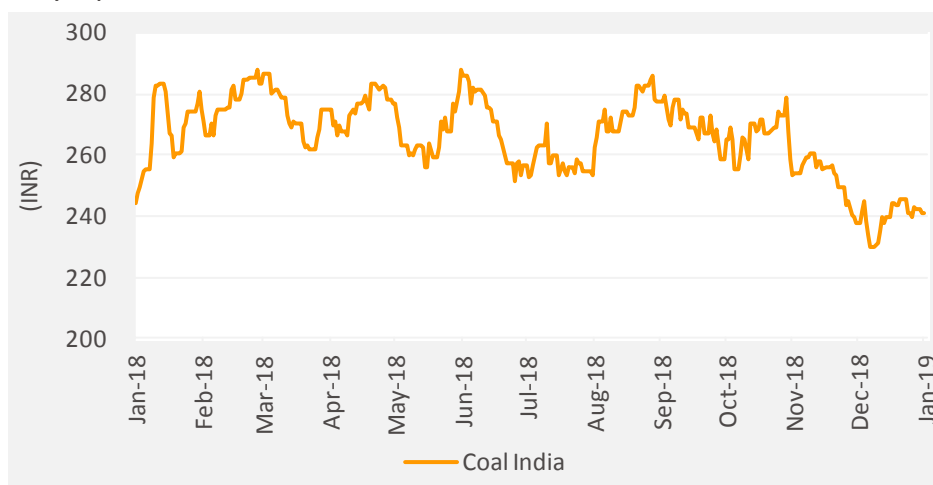
Edelweiss Research Coverage Universe

	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
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



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