

Industry Mining
Bloomberg COALIN
BSE CODE 533278

Strong performance continued....

RATING	BUY
CMP	265
Price Target	340
Potential Upside	28%

Rating Change	↔
Estimate Change	↓
Target Change	↔

Stock Info

52wk Range H/L	317/256
Mkt Capital (Rs Cr)	164745
Free float (%)	21%
Avg. Vol 1M (,000)	5537
No. of Shares (Cr.)	621
Promoters Pledged %	0%

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Key Highlights

- ❑ Coal India is the largest producer of coal in the world with production of 567.37mt in FY18. CIL is currently producing around 84% of total coal produce in India and caters to coal requirement of Power, Steel, cement and similar sectors.
- ❑ Company has one of the largest reserve base at 19.8bt and resources of 3.5x the current reserves and operates 369 mines of which 174 are underground and 177 opencast and 18 both.
- ❑ FSA share 85% of total off take (vs. normal average of 80%) for 2nd consecutive quarter leading to lower E-Auction share at 13% (vs. normal average of 18-20%).
- ❑ E-Auction realization continued the high growth trajectory, registering a growth of 61% YoY and 8% QoQ to Rs.2592/t.

2Q FY19 Result Update

Coal India 2QFY19 revenue grew by 22% to Rs.22198 crore on the back of 5% YoY volume growth to 138mt, higher FSA realization at Rs.1308/t (up 7% YoY and flat QoQ) and substantially strong E-Auction realization at Rs.2592 (up 61% YoY and 8% QoQ). EBITDA for the quarter was at Rs.3914 crore (vs. Rs.818 crore in 2QFY19 and Rs.4680 crore in 1QFY19). Provisions for the quarter were high at Rs.730 crore and the same for 1QFY19 and 2QFY18 have also been restated as company has started reporting provisions at gross basis instead of net basis. Accordingly, other income was also higher at Rs.2011 crore due to write back of provisions and higher interest income. Reported PAT for the quarter was at Rs.3085 crore (vs. Rs.370 crore in 2QFY18 and Rs.3786 crore in 1QFY19).

View and Valuation

Coal India delivered good set of numbers in 2QFY19 with sales growing by 22% YoY to Rs.22198 crore on the back of 7% YoY growth in FSA realization to Rs.1308/t and 61% YoY growth in E-Auction realization to Rs.2592/t. Off take volume is expected to be strong in 2HFY19 post monsoon on the back of strong demand from power sector and non power sector due to ongoing coal shortage in the domestic market. Coal inventory at power plants have fell down to 6 days at the end of Oct'18 and plants with super critical stock (less than 4 days of coal inventory) increased to 19 from 12 at the end of Sep'18. On realization front we expect FSA realization to remain strong due to price hike and E-Auction realization are also expected to remain strong on the back of continuous demand of coal in spot market, high spot E-Auction prices (102% over the notified prices for Sep'18) and high international non coking coal prices would also keep E-Auction realization on higher side. However, E-Auction volume is expected to remain under pressure due to supply being diverted to power plants. We maintain our estimates for FY19 and have reduced FY20 Revenue/PAT by 3%/4% due to lower share of E-Auction volume and expect Volume/Revenue/PAT CAGR of 6%/9%/24% over FY18-20e. We value the stock at **Rs.340 (7.2x FY20e EV/adj. EBITDA)** and maintain our **BUY** rating.

Key Risks to our rating and target

- ❑ Sharp fall in international thermal coal prices.
- ❑ Lower than expected volume growth.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	78008	78221	85862	98146	102402
EBITDA	18711	12240	9565	20722	21678
EBITDA (Adj. for provisions)	18711	12240	9565	22182	24597
Adj.PAT	14267	9266	11152	16530	17190
EPS (Rs)	23	15	11	27	28
EPS growth (%)	4%	-34%	-24%	136%	4%
ROE (%)	41%	37%	55%	74%	69%
ROCE (%)	45%	37%	31%	75%	68%
BV	55	40	33	36	40
P/B (X)	6	7	9	7	7
P/E (x)	14	20	25	10	10

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2QFY19 Results
E-Auction volume continues to be impacted by higher FSA share....

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	18,148	21,643	26,909	24,261	22,198	22.3%	-8.5%	78,221	85,862	9.8%
Other Income	1,023	841	2,000	2,262	2,011	96.5%	-11.1%	5,516	4,658	-16%
COGS	3,075	2,302	770	2,737	2,994	-2.6%	9.4%	5,725	8,509	48.6%
Staff Cost	9,155	8,753	16,654	9,598	8,953	-2.2%	-6.7%	33,514	42,634	27.2%
Power and Fuel	660	607	631	594	638	-3.4%	7.5%	2,558	2,516	-1.6%
Contract. Exp	2,552	3,221	3,895	3,176	2,736	7.2%	-13.9%	12,304	12,767	3.8%
Other Exp	884	996	1,261	1,110	1,057	19.5%	-4.8%	5,359	4,215	-21.3%
Stripping Act	58	923	2,485	883	802	1288%	-9.2%	2,672	3,358	25.7%
Total Exp	17,330	17,025	26,713	19,581	18,284	5.5%	-6.6%	65,981	76,297	15.6%
EBITDA	818	4,618	196	4,680	3,914	378.4%	-16.4%	12,240	9,565	-21.9%
Depreciation	714	751	931	745	807	13.0%	8.3%	2,910	3,066	5.4%
EBIT	104	3,867	(735)	3,935	3,107	2889%	-21.0%	9,330	6,498	-30.3%
PBT	1,028	4,610	1,153	6,087	5,118	397.9%	-15.9%	14,434	10,725	-25.7%
Tax	658	1,605	(142)	2,303	2,032	209.0%	-11.8%	5,166	3,707	-28.2%
PAT	370	3,005	1,296	3,786	3,085	732.7%	-18.5%	9,266	7,019	-24.3%
Adj.PAT	370	3,073	5,428	3,786	3,085	732.7%	-18.5%	9,266	11,152	20.4%

Operating Matrix

FSA	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %
Quantity (mt)	93	113	116	107	105	122	126	130	117	11.7%
Sales (Rs.cr)	12020	14544	15996	12870	12802	14400	17736	17116	15284	19.4%
Realzt. (Rs./t)	1292	1289	1376	1201	1224	1182	1403	1313	1308	6.9%

E-Auction	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %
Quantity (mt)	19	25	30	27	23	26	29	19	18	-24.1%
Sales (Rs.cr)	2570	3939	4756	4325	3757	5268	6181	4657	4583	22.0%
Realzt. (Rs./t)	1348	1564	1611	1586	1614	1998	2112	2399	2592	60.6%

E-Auction volume share continued to be lower for second consecutive quarter

E-Auction volume as %age of total volume continued to be lower at 13% (normal average of 18-20%) and FSA share for the second consecutive quarter continued to be high at 85% (normal average of 80%) due to higher supply to coal starved power plants. This trend is expected to continue going forward as well as priority would be given to cater to demand of power plants (as most of power plants are running at significantly low coal stock).

Dispatches to power sector continue to be strong

Coal dispatched to power sector for 2QFY19 was at 111mt (up 14% YoY) and was 81% (vs. 74% in 2QFY18 and 79% in 1QFY19) of the total dispatches of 137mt. Coal dispatches to power sector are expected to remain strong going ahead too, as coal stock at power plants continue to be low at 6 day as of end of Oct'18 and plants with super critical coal stock (less than 4 days stock) have increased to 19 at the end of Oct'18 (vs.14 on Oct'17 and 12 on Sep'18).Furthermore, import of steam coal has also increased by 33% and 38% YoY to 12.4mt and 13mt in July and Aug'18 respectively.

Realization continued to be strong

E-Auction realization for the quarter came in at Rs.2592/t (up 61% YoY and 8% QoQ) , increase in realization is on account of continued coal shortage in the domestic market and reduction in supply through E-Auction route by Coal India due to more being routed through FSA have also increased the realization. Though, FSA realization was flat QoQ at Rs.1308/t due to higher supply to power plants, but realization increased by 7% YoY.

Other highlights

Other income and provisions for the quarter increased to Rs.2011 crore and Rs.730 crore and the same figures for 1QFY19 and 2QFY18 were also restated as company have started reporting provision on gross basis as compare to earlier practice of reporting at net basis. Furthermore, higher interest income due to increase in cash and cash equivalents also contributed to higher other income.

Exhibit: Monthly Coal Production Trend

pick up in production after monsoon....

Monthly Production (mt)

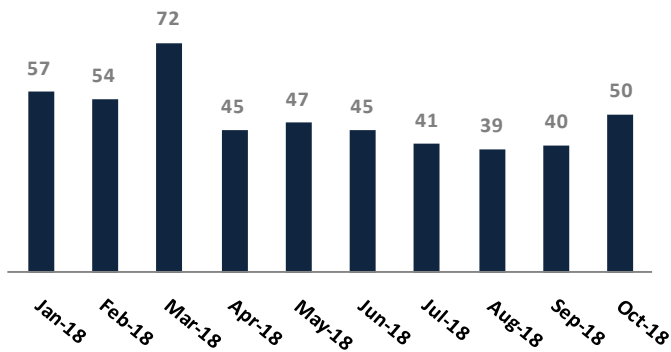


Exhibit: Monthly Coal Offtake Trend

off take and production volume at same level after a while....

Monthly Off take (mt)

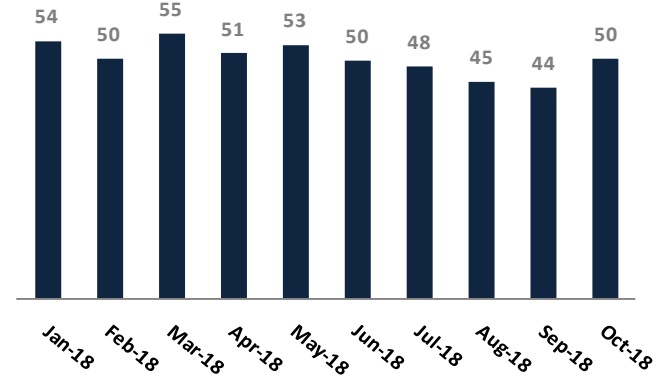


Exhibit: Dispatches to Power Sector Trend

dispatches fell in Aug-Sep'18 due to overall fall in off take led by monsoon....

Monthly Dispatches to Power Sector (mt)

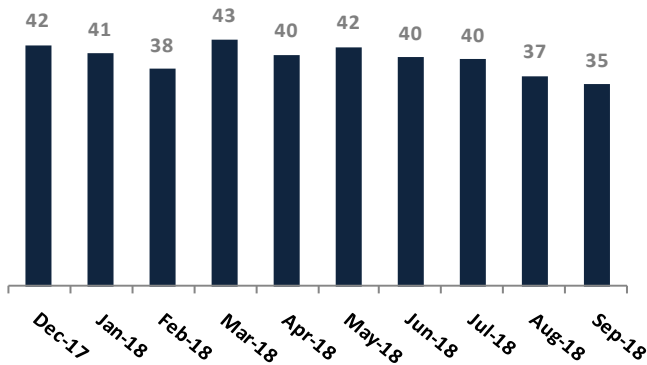


Exhibit: Coal Inventory at Power Plants

continuous fall in coal stock at power plants....

Coal Inventory at Power Plants (Days)

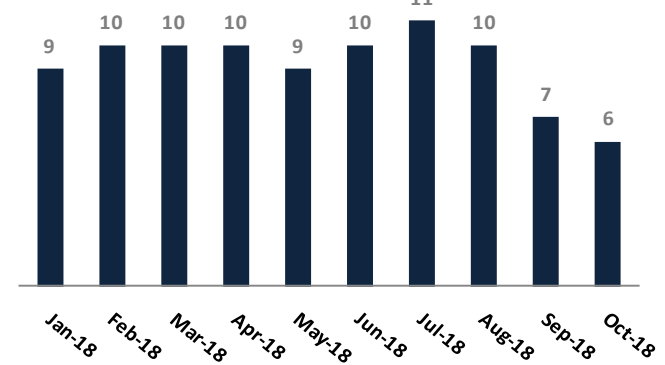


Exhibit: FSA Volume and Realization Trend

■ FSA (mt) ▲ Realization (Rs./t)

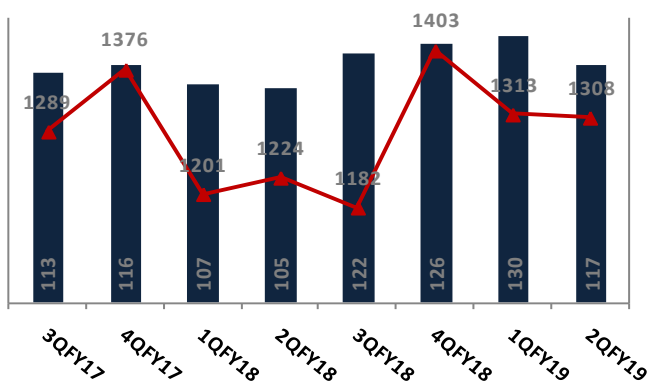


Exhibit: E-Auction Volume and Realization Trend

■ E-Auction (mt) ▲ Realization (Rs./t)

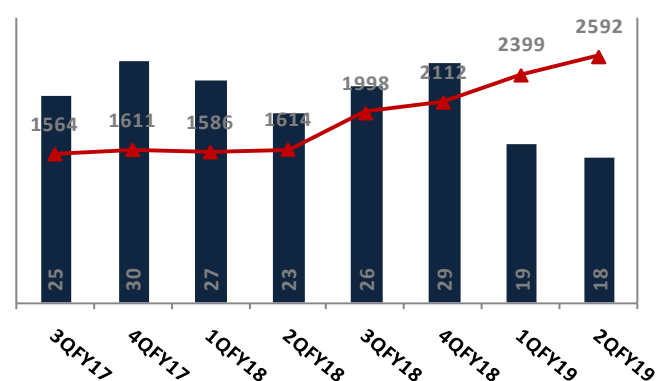


Exhibit: Quarterly Coal Production Trend

expected to pick up from hereon as monsoon season falls behind....

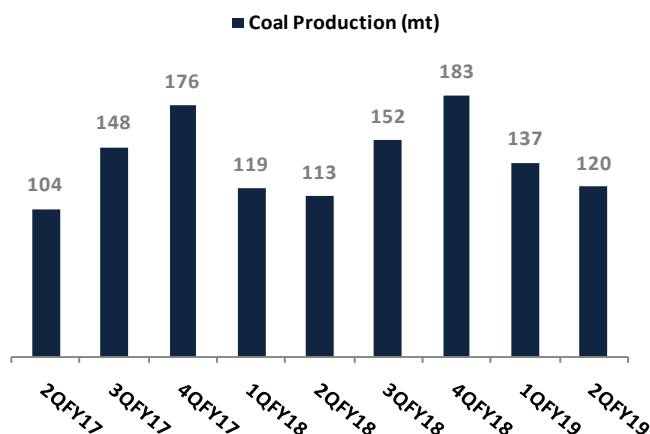


Exhibit: Quarterly Coal Offtake Trend

YoY growth rate moderated to 4% due to high base in 2QFY18....

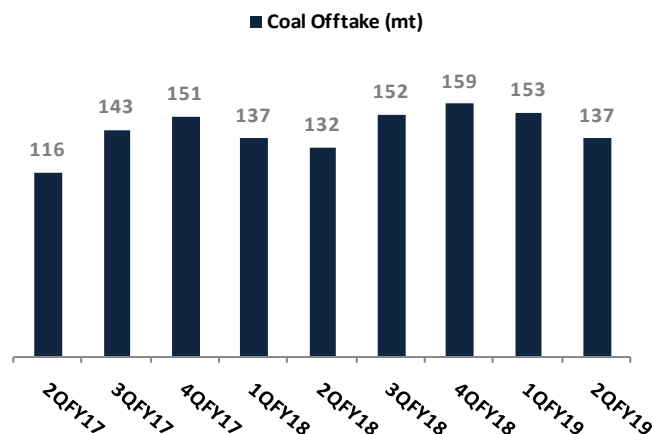


Exhibit: Net sales and Blended Realization Trend

13% YoY growth in blended realization....

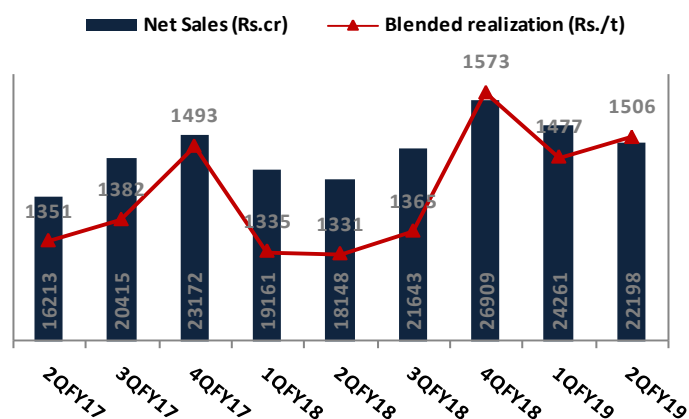


Exhibit: EBITDA and EBITDA Margin Trend

EBITDA margin fell by 1% QoQ due to higher than expected cost in inventories of goods and stock in trade....

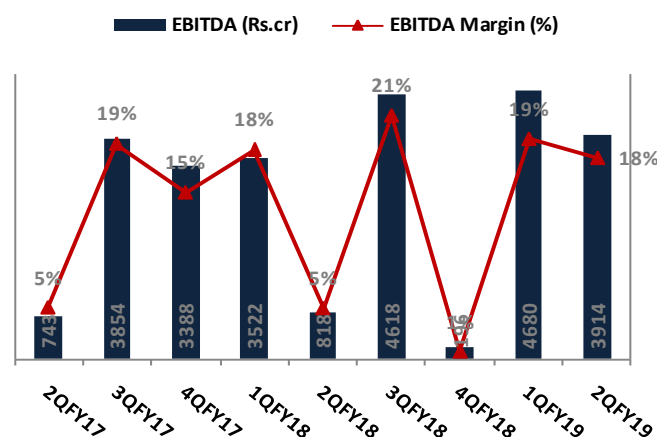


Exhibit: PAT and PAT Margin Trend

higher tax rate led to 2% fall in PAT margin as compare to 1% fall in EBITDA margin....

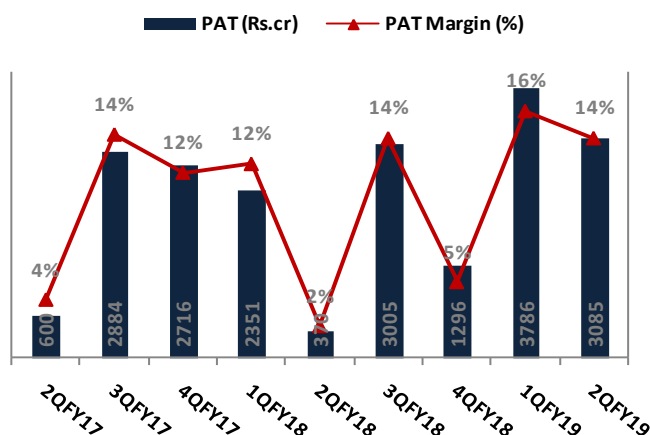
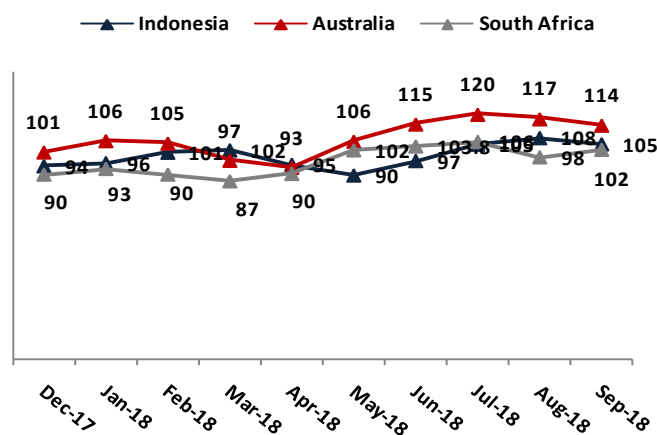


Exhibit: International Coal Price Trend

international prices continue to be on higher side....



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	6,316	6,316	6,316	6,316	6,207	6,207	6,207	6,207
Reserves	42,156	36,088	34,037	28,517	18,319	13,639	15,644	18,310
Networth	48,472	42,404	40,353	34,833	24,527	19,847	21,852	24,517
Debt	1,078	171	402	1,192	3,008	1,531	1,531	1,531
Other Non Cur Liab	34,282	37,168	41,498	46,273	48,679	55,433	67,599	70,342
Total Capital Employed	49,550	42,576	40,755	36,025	27,535	21,378	23,383	26,048
Net Fixed Assets (incl CWIP)	16,962	19,100	21,274	26,636	32,398	37,864	44,162	45,121
Non Cur Investments	1,400	1,188	963	966	969	1,303	920	920
Other Non Cur Asst	3,511	3,728	4,601	4,017	4,995	8,921	6,738	5,909
Non Curr Assets	21,873	24,016	26,838	40,502	47,816	58,677	71,800	70,200
Inventory	5,618	5,568	6,184	7,569	8,945	6,444	7,366	7,685
Debtors	10,480	8,241	8,522	11,448	10,736	8,689	9,932	10,363
Cash & Bank	62,236	52,390	53,093	38,015	31,230	31,475	27,440	34,800
Other Curr Assets	21,358	14,028	15,905	15,295	17,352	22,206	25,367	26,457
Curr Assets	99,692	80,227	83,703	72,327	68,263	68,814	70,105	79,306
Creditors	837	805	921	3,297	3,900	4,517	5,163	5,387
Provisions (both)	51,591	39,191	44,204	49,591	53,203	64,717	67,019	69,926
Other Curr Liab	-	-	-	3,988	4,557	5,416	6,190	6,459
Curr Liabilities	37,670	24,435	28,223	30,425	39,519	50,319	50,561	52,754
Net Curr Assets	62,022	55,792	55,481	41,901	28,744	18,496	19,544	26,552
Total Assets	121,565	104,242	110,541	112,828	116,079	127,492	141,905	149,506

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	68,303	68,810	74,120	78,008	78,221	85,862	98,146	102,402
Change (%)	9%	1%	8%	5%	0%	10%	14%	4%
Other Income	8,747	8,969	6,571	5,941	5,516	4,658	8,656	8,876
EBITDA	18,084	15,963	17,335	18,711	12,240	9,565	20,722	21,678
Adj. EBITDA (Adj. for provision)	18,084	15,963	17,335	18,711	12,240	9,565	22,182	24,597
Change (%)	15%	-12%	9%	8%	-35%	-22%	117%	5%
Margin (%)	26%	23%	23%	24%	16%	11%	21%	21%
Depr & Amor.	1,813	1,996	2,320	2,826	2,910	3,066	3,203	4,041
EBIT	16,271	13,967	15,016	15,885	9,330	6,498	17,520	17,637
Int. & other fin. Cost	45	58	7	386	412	432	446	461
EBT	24,973	22,878	21,579	21,440	14,434	10,725	25,729	26,053
Exp Item	-	-	-	-	-	-	-	-
Tax	7,623	7,768	7,857	7,172	5,166	3,707	9,200	8,863
Minority Int & P/L share of Ass.	-	-	-	(1)	(2)	0	1	-
Reported PAT	17,357	15,112	13,727	14,267	9,266	7,019	16,530	17,190
Adjusted PAT	17,357	15,112	13,727	14,267	9,266	11,152	16,530	17,190
Change (%)	17%	-13%	-9%	4%	-35%	-24%	136%	4%
Margin(%)	25%	22%	19%	18%	12%	13%	17%	17%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	36%	36%	34%	0.41	37%	55%	74%	69%
ROCE	33%	33%	37%	45%	37%	31%	75%	68%
Asset Turnover	0.56	0.66	0.67	0.69	0.67	0.67	0.69	0.68
Debtor Days	56	44	42	54	50	37	37	37
Inv Days	30	30	30	35	42	27	27	27
Payable Days	4	4	5	15	18	19	19	19
Int Coverage	360	241	2,051	41	23	15	39	38
P/E	12.6	14.2	15.3	14.4	19.6	25.1	10.0	9.6
Price / Book Value	4.5	5.0	5.2	5.9	7.3	8.7	7.4	6.6
EV/EBITDA	8.7	10.1	9.0	8.9	12.3	15.2	6.7	6.0
EV/adj. EBITDA (Adj. for provision)	8.7	10.1	9.0	8.9	12.3	15.2	6.2	5.3
FCF per Share	10.5	16.5	15.0	11.7	11.6	20.5	17.0	36.0
Div Yield	3%	10%	6%	8%	7%	6%	8%	8%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	24,979	22,880	21,584	21,439	14,432	11,004	25,729	26,053
(inc)/Dec in Working Capital	(6,839)	244	649	(2,670)	6,022	13,845	(125)	5,654
Non Cash Op Exp	(379)	227	1,721	2,260	4,336	3,846	3,649	4,501
Int Paid (+)	45	58	7	21	31	37	446	461
Tax Paid	(8,652)	(8,826)	(9,572)	(7,875)	(8,943)	(7,433)	(9,200)	(8,863)
others								
CF from Op. Activities	9,109	14,525	14,382	13,154	15,847	21,262	20,053	27,345
(inc)/Dec in FA & CWIP	(2,454)	(4,116)	(4,901)	(5,786)	(8,676)	(8,529)	(9,501)	(5,000)
Free Cashflow	6,655	10,408	9,480	7,368	7,171	12,733	10,552	22,345
(Pur)/Sale of Inv	(5,022)	6,221	509	8,905	5,667	(1,551)	383	-
others								
CF from Inv. Activities	(1,833)	8,580	894	8,154	455	(7,676)	(9,118)	(5,000)
inc/(dec) in NW	-	-	-	-	(3,650)	-	-	-
inc/(dec) in Debt	(229)	(1,263)	193	990	1,817	(1,478)	-	-
Int. Paid	(45)	(58)	(7)	(21)	(31)	(37)	(446)	(461)
Div Paid (inc tax)	(7,907)	(24,243)	(15,596)	(20,830)	(15,103)	(12,324)	(14,525)	(14,525)
others								
CF from Fin. Activities	(7,852)	(25,350)	(15,026)	(19,587)	(17,598)	(13,587)	(14,971)	(14,985)
Inc(Dec) in Cash	(575)	(2,246)	250	1,721	(1,296)	(1)	(4,036)	7,360
Add: Opening Balance	12,260	11,685	9,439	3,156	4,876	4,194	31,475	27,440
Closing Balance	11,685	9,439	9,689	4,876	3,580	4,193	27,439	34,800

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