

Coal India

Performance Highlights

(₹ cr)	2QFY16	2QFY15	% yoy	1QFY16	% qoq
Net Sales	16,958	15,678	8.2	18,956	(10.5)
EBITDA	3,008	2,556	17.7	4,944	(39.2)
% margin	17.2	15.8	139bp	25.3	(813bp)
Net Profit	2,519	2,188	15.2	3,787	(33)

Source: Company, Angel Research

For 2QFY2016, Coal India (CIL) reported a strong 8% yoy increase in revenue to ₹16,958cr, in line with our estimate of ₹16,833cr. Off-take volumes were marginally ahead of our expectations at 121.8MT (our estimate was of 119.1MT). Off-take was higher in the FSA segment with e-auction and washeries' volumes in line with expectations. FSA realizations were in line with expectations at ₹1,294/T. However, e-auction realizations came in much lower than expected at ₹1,788. Blended realization/tonne came in lower than our expectation at ₹1,392 (1.5% lower than our estimate of ₹1,414), led by the sharply lower e-auction realisation. Blended realisation declined 2% yoy, while off-take increased 10.2% yoy, resulting in an 8.2% increase in net sales. The EBITDA, at ₹3,008cr, came in 3.2% lower than our estimate, resulting in a 140bp improvement in EBITDA margin to 17.2%, marginally lower than our estimate of 17.9%. Net profit at ₹2,544cr was slightly ahead of our estimate of ₹2,445cr.

Outlook and valuation

We reduce our consolidated FY2016 and FY2017 EPS estimates by 12% and 9%, respectively, in view of the lower than expected realizations and increased operating expenses. We expect CIL's production to increase by 7.1% to 530MT in FY2016 (538MT earlier) and 572MT in FY2017 (575 MT earlier). We expect e-auction realization to remain under pressure led by weakness in global commodity prices and increased availability of coal in FY2016. **We value Coal India at 8x FY2017E Adj. EBITDA to arrive at a revised target price of ₹380 (₹400 earlier) and retain our Accumulate rating on the stock.**

Key financials (Consolidated)

Y/E March (₹ Cr)	FY2013	FY2014E	FY2015E	FY2016E	FY2017E
Net Sales	68,303	68,810	72,015	76,167	84,130
% chg	9.4	0.7	4.7	5.8	10.5
Net Profit	17,350	15,110	13,722	14,161	16,314
% chg	17.4	(12.9)	(9.2)	3.2	15.2
FDEPS (₹)	27.5	23.9	21.7	22.4	25.8
OPM (%)	26.5	23.2	21.1	19.9	22.3
P/E (x)	12.3	14.1	15.5	15.1	13.1
P/BV (x)	4.4	5.0	5.3	5.4	5.3
RoE (%)	39.0	33.2	33.1	35.5	41.0
RoCE (%)	22.0	17.1	15.9	15.3	18.6
EV/Sales (x)	1.8	2.3	2.2	2.1	1.9
EV/Adj. EBITDA (x)	5.7	8.2	8.4	9.2	7.5

Source: Company, Angel Research: Note CMP as of November 13, 2015

ACCUMULATE

CMP	₹338
Target Price	₹380
Investment Period	12 months
Stock Info	
Sector	Mining
Market Cap (₹ cr)	2,13,272
Net Debt (₹ cr)	(49,805)
Beta	0.7
52 Week High / Low	447/301
Avg. Daily Volume	46,02,127
Face Value (₹)	10
BSE Sensex	25,611
Nifty	7,762
Reuters Code	COAL.BO
Bloomberg Code	COAL@IN

Shareholding Pattern (%)

Promoters	79.7
MF / Banks / Indian FIs	8.4
FII / NRIs / OCBs	9.0
Indian Public / Others	2.9

Abs. (%)	3m	1yr	3yr
Sensex	(7.0)	(8.3)	37.6
CIL	(10.5)	(2.8)	(2.4)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2016 performance (Consolidated)

Y/E March (₹ cr)	2QFY16	2QFY15	% yoy	1QFY16	% qoq	FY2015	FY2014	% yoy
Net sales	16,958	15,678	8.2	18,956	(10.5)	72,015	68,810	4.7
Other operating income	532	486	9.4	562	(5.3)	2,105	1,798	17.1
Total Income	17,490	16,164	8.2	19,518	(10.4)	74,120	70,608	5.0
Raw material expenses	2,356	2,423	(2.8)	2,180	8.1	6,726	7,115	(5.5)
(% of Net Sales)	13.9	15.5		11.5		9.3	10.3	
Staff cost	7,530	7,287	3.3	7,185	4.8	29,859	27,769	7.5
(% of Net Sales)	44.4	46.5		37.9		41.5	40.4	
Power & Fuel	654	585	11.7	588	11.1	2,347	2,282	2.9
(% of Net Sales)	3.9	3.7		3.1		3.3	3.3	
Social Overhead	186	129	44.7	177	5.1	405	735	(44.8)
(% of Net Sales)	1.1	0.8		0.9		0.6	1.1	
Contractual Expenses	2,254	1,626	38.6	2,490	(9.5)	8,513	6,828	24.7
(% of Net Sales)	13.3	10.4		13.1		11.8	9.9	
Other Expenses	1,501	1,558	(3.6)	1,953	(23.1)	8,935	8,118	10.1
(% of Net Sales)	8.9	9.9		10.3		12.4	11.8	
Total expenditure	14,481	13,608	6.4	14,574	(0.6)	56,785	52,847	7.5
(% of Net Sales)	85.4	86.8		76.9		78.9	76.8	
EBIDTA	3,008	2,556	17.7	4,944	(39.2)	17,335	17,761	(2.4)
EBITDA margin (%)	17.2	15.8		25.3		23.4	25.2	
Interest	2	1	42.1	4	(62.3)	7	58	(87.4)
Depreciation	586	536	9.3	558	5.2	2,320	1,996	16.2
Other income	1,431	1,536	(6.8)	1,447	(1.1)	6,571	7,172	(8.4)
Exceptional items	25	5	414.6	(23)	(209.6)	5	1	254.6
Profit before tax	3,877	3,559	8.9	5,807	(33.2)	21,584	22,880	(5.7)
Margin (%)	22.2	22.0		29.8		29.1	32.4	
Tax	1,333	1,367	(2.5)	2,043	(34.8)	7,857	7,768	1.2
% of PBT	34.4	38.4		35.2		36.4	34.0	
Rep. Net income	2,544	2,192	16.0	3,764	(32.4)	13,727	15,112	(9.2)
Margin (%)	14.5	13.6		19.3		18.5	21.4	
Adjusted net income	2,519	2,188	15.2	3,787	(33.5)	1,37,217	1,51,103	(9.2)

Source: Company, Angel Research

Exhibit 2: Consolidated – 2QFY2016 Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	16,958	16,833	0.7
EBITDA	3,008	3,106	(3.2)
EBITDA margin (%)	17.2	17.9	(65bp)
Adjusted PAT	2,519	2,445	3.0

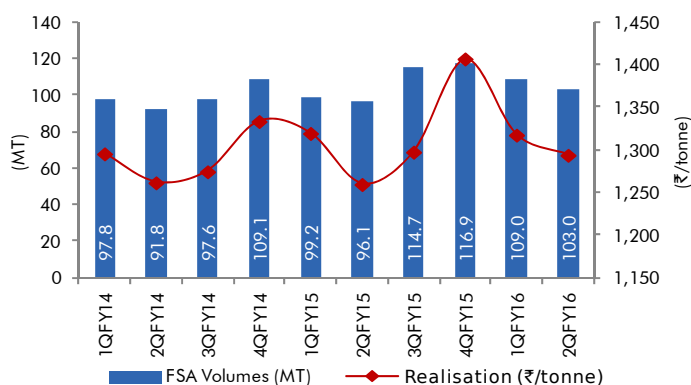
Source: Company, Angel Research

Result highlights

Higher E-auction volumes offset by lower realisation

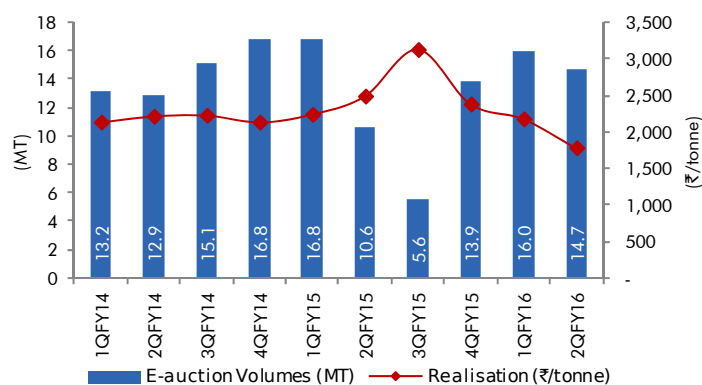
Coal India's total revenue increased 8.2% yoy to ₹16,958cr, in line with our estimate of ₹16,833cr. While production was slightly below our estimate at 108.2MT for the quarter (vs. our estimate of 110.6MT), off-take volumes were marginally ahead of our expectations at 121.8MT (our estimate was of 119.1MT). Off-take was higher in the FSA segment with e-auction and washeries volumes in line with expectations. FSA realizations were in line with expectations at ₹1,294/T. However, e-auction realizations came in much lower than expected at ₹1,788. This was partially offset by better than expected washeries realizations of ₹2,328.

Exhibit 3: FSA volumes stable, realisation declines



Source: Company, Angel Research

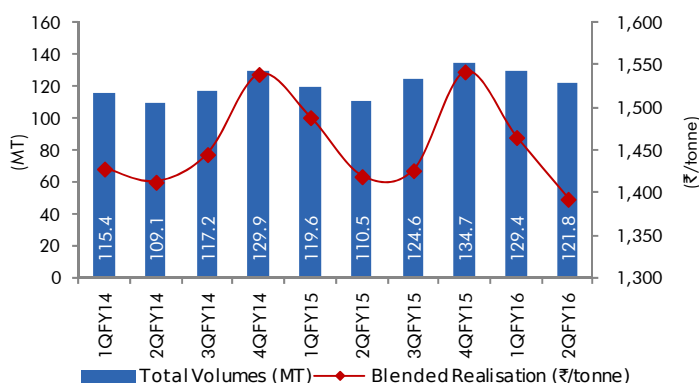
Exhibit 4: E-auction volume in line with expectations



Source: Company, Angel Research

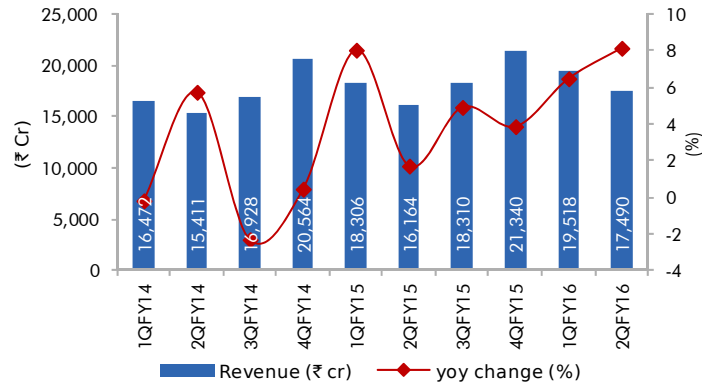
Blended realization/tonne came in lower than our expectation at ₹1,392 (1.5% lower than our estimate of ₹1,414), led by the sharply lower e-auction realisation. Blended realisation declined 2% yoy, while off-take increased 10.2% yoy, resulting in an 8.2% increase in net sales.

Exhibit 5: Off-take volume stable, realisation declines



Source: Company, Angel Research

Exhibit 6: Revenue growth picks up to 8.2%



Source: Company, Angel Research

Higher expenses offset by lower material costs

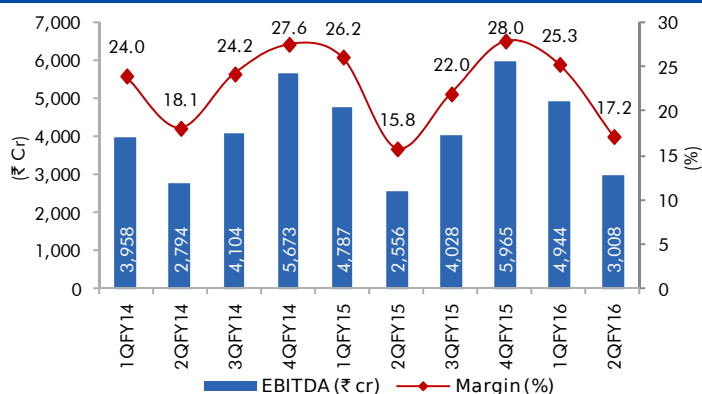
Higher staff and other expenses offset lower than expected material and overburden expenses resulting in an EBITDA of ₹3,008cr, as against our estimate of ₹3,106cr. EBITDA margin improved 140bp to 17.2%, but was marginally lower than our estimate of 17.9%. The Net profit at ₹2,544cr was slightly ahead of our expectations (our estimate was of ₹2,445cr) led by lower than expected tax expenses and marginally higher than expected other income.

Exhibit 7: Quarterly performance trend

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
Realisation (₹/tonne)	1,428	1,412	1,445	1,539	1,488	1,419	1,426	1,542	1,465	1,392
EBITDA (₹/tonne)	343	256	350	393	358	187	279	401	339	203

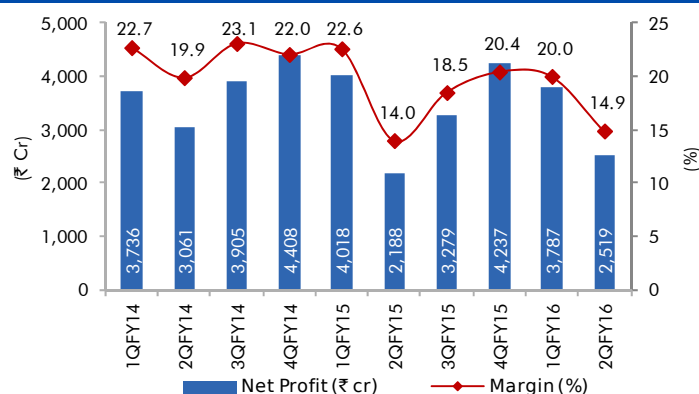
Source: Company, Angel Research

Exhibit 8: EBITDA margin improves 140bp yoy



Source: Company, Angel Research

Exhibit 9: Net profit improves 15% yoy



Source: Company, Angel Research

Investment arguments

Strong production growth to drive revenues

Coal India's production increased ~7% yoy in FY2015 to 494MT, as against a muted growth of 2.3% in FY2014. Off-take growth also picked up to 3.8% yoy in FY2015 as against 1.4% in FY2014. According to the Coal Ministry, with rising demand for power, demand for coal is estimated to increase to 1.6bn tonne by the year FY2020. CIL has already finalised plans to achieve targeted production of 925MT by FY2020 and is planning to increase production to 1bn tonne. The target production implies a ~13% CAGR growth in production over FY2015-20. We believe the production growth target is a bit too optimistic and expect CIL's production to grow at a CAGR of ~8%.

Operating efficiencies and low realisations to help improve margins

CIL's net realisation is significantly lower than the landed price of imported coal, providing enough cushion against any decline in international coal prices. The gap also provides ample scope for CIL to pass on any cost escalations. The increasing share of washed coal will also help improve realizations. Further, technological and infrastructural enhancements, coupled with operating efficiencies from rising production will help to keep production costs low.

Outlook and valuation

We reduce our consolidated FY2016 and FY2017 EPS estimates by 12% and 9%, respectively, in view of the lower than expected realizations and increased operating expenses. We expect CIL's production to increase by 7.1% to 530MT in FY2016 (538MT earlier) and 572MT in FY2017 (575MT earlier). We expect auction realization to remain under pressure led by weakness in global commodity prices and increased availability of coal in FY2016.

We value Coal India at 8x FY2017E Adj. EBITDA to arrive at a target price of ₹380 (₹400 earlier) and retain our Accumulate rating on the stock.

Exhibit 10: Valuation

EV/EBITDA	(₹ cr)
FY2017E Adj. EBITDA	23,545
Multiple (x)	8.0
Total EV	1,89,299
Net Cash	50,375
Minority Interest	66
Equity Value	2,39,609
Target price (₹)	380

Source: Angel Research

Company background

Incorporated in 1973, Coal India Ltd (CIL) is a 'Maharatna' company under the Ministry of Coal, Government of India and is the single largest coal producing company in the world with reserves of 65bn tonne. CIL accounts for ~80% of India's overall coal production and commands ~74% of the Indian coal market. The company produced 494MT and dispatched 489MT of raw coal in FY2015. At the end of FY2015, CIL had 430 mines (227 underground, 175 opencast and 28 mixed mines) and 15 coal washeries (12 coking coal and 3 non-coking coal).

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	68,303	68,810	72,015	76,167	84,130
% chg	9.4	0.7	4.7	5.8	10.5
Total Expenditure	50,219	52,847	56,785	61,034	65,369
Raw Material Expenses	6,556	7,115	6,726	8,656	9,618
Personnel	27,321	27,769	29,859	30,944	32,881
Power & Fuel Cost	2,333	2,282	2,347	2,551	2,817
Other Expenses	14,009	15,681	17,853	18,884	20,053
EBITDA	18,084	15,963	15,230	15,133	18,761
% chg	15.4	(11.7)	(4.6)	(0.6)	24.0
(% of Net Sales)	26.5	23.2	21.1	19.9	22.3
Depreciation	1,813	1,996	2,320	2,479	2,708
EBIT	16,271	13,967	12,910	12,654	16,053
% chg	18.8	(14.2)	(7.6)	(2.0)	26.9
(% of Net Sales)	23.8	20.3	17.9	16.6	19.1
Interest & other Charges	45	58	7	9	10
Other Income	8,747	8,969	8,676	8,584	8,413
(% of PBT)	35.0	39.2	40.2	40.4	34.4
Recurring PBT	24,972	22,878	21,579	21,230	24,456
% chg	17.9	(8.4)	(5.7)	(1.6)	15.2
Extraordinary Inc/(Expense)	7	1	5	2	0
PBT (reported)	24,979	22,880	21,584	21,232	24,456
Tax	7,623	7,768	7,857	7,069	8,143
(% of PBT)	30.5	34.0	36.4	33.3	33.3
PAT (reported)	17,356	15,112	13,727	14,163	16,314
Add: Share of earnings of asso.	-	-	-	-	-
Less: Minority interest (MI)	-	0.0	0.1	0.1	0.1
Extraordinary (Expense)/Inc.	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
PAT after MI (reported)	17,356	15,112	13,727	14,163	16,314
Adjusted PAT	17,350	15,110	13,722	14,161	16,314
% chg	18.0	(12.9)	(9.2)	3.2	15.2
(% of Net Sales)	25.4	22.0	19.1	18.6	19.4

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	6,316	6,316	6,316	6,316	6,316
Reserves & Surplus	42,156	36,088	34,037	32,903	33,921
Shareholders Funds	48,472	42,404	40,353	39,220	40,237
Minority Interest	64	64	66	66	66
Total Loans	1,078	171	202	202	202
Other Long Term liabilities	3,137	3,529	3,999	4,230	4,672
Long term provisions	31,144	33,639	37,499	39,661	43,807
Total Liabilities	83,895	79,807	82,119	83,378	88,984
APPLICATION OF FUNDS					
Gross Block	39,011	40,897	44,987	49,036	53,694
Less: Acc. Depreciation	25,545	26,302	28,622	31,101	33,809
Net Block	13,466	14,595	16,365	17,935	19,885
Capital Work-in-Progress	3,496	4,505	4,910	5,431	5,820
Goodwill	-	-	-	-	-
Investments	2,395	3,775	2,813	2,813	2,813
Other	1,256	1,756	2,641	2,794	3,086
Current Assets	87,429	77,639	78,767	78,938	84,070
Cash	62,236	52,390	50,007	48,413	50,577
Loans & Advances	4,920	6,596	8,827	9,336	10,312
Other	20,273	18,654	19,933	21,189	23,181
Current liabilities	26,401	24,435	25,337	26,492	28,651
Net Current Assets	61,028	53,204	53,430	52,446	55,420
Net deferred tax assets	2,255	1,972	1,960	1,960	1,960
Total Assets	83,895	79,807	82,119	83,378	88,984

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	24,979	22,880	21,584	21,232	24,456
Depreciation	1,839	1,996	2,320	2,479	2,708
Change in Working Capital	(6,839)	244	(2,609)	(609)	(810)
Others	(2,218)	(1,769)	1,916	2,249	4,306
Direct taxes paid	(8,652)	(8,826)	(7,857)	(7,069)	(8,143)
Cash Flow from Operations	9,109	14,525	15,354	18,282	22,518
(Inc.)/ Dec. in Fixed Assets	(2,454)	(4,116)	(4,494)	(4,570)	(5,048)
(Inc.)/ Dec. in Investments	4,195	(8,981)	2,031	-	-
Others	1,035	14,076	-	-	-
Cash Flow from Investing	2,776	979	(2,463)	(4,570)	(5,048)
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	(229)	(1,263)	30	-	-
Dividend Paid (Incl. Tax)	(7,907)	(24,243)	(15,296)	(15,296)	(15,296)
Others	284	156	(7)	(9)	(10)
Cash Flow from Financing	(7,852)	(25,350)	(15,273)	(15,305)	(15,306)
Inc./(Dec.) in Cash	4,033	(9,846)	(2,383)	(1,593)	2,164
Opening Cash balances	58,203	62,236	52,390	50,007	48,413
Closing Cash balances	62,236	52,390	50,007	48,413	50,577

Key ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	12.3	14.1	15.5	15.1	13.1
P/CEPS	11.1	12.5	13.3	12.8	11.2
P/BV	4.4	5.0	5.3	5.4	5.3
Dividend yield (%)	4.1	8.6	6.1	6.1	6.1
EV/Sales	1.8	2.3	2.2	2.1	1.9
EV/Adj. EBITDA	5.9	8.2	8.4	9.2	7.5
EV/Total Assets	1.5	2.0	2.0	1.9	1.8
Per Share Data (₹)					
EPS (Basic)	27.5	23.9	21.7	22.4	25.8
EPS (fully diluted)	27.5	23.9	21.7	22.4	25.8
Cash EPS	30.3	27.1	25.4	26.3	30.1
DPS	14.0	29.0	20.7	20.7	20.7
Book Value	76.7	67.1	63.9	62.1	63.7
Returns (%)					
ROCE (Pre-tax)	22.0	17.1	15.9	15.3	18.6
ROE	39.0	33.2	33.1	35.5	41.0
Turnover ratios (x)					
Asset Turnover (Gross Block)	1.8	1.7	1.6	1.6	1.6
Inventory (days)	41	38	40	40	40
Receivables (days)	56	44	43	43	43
Payables (days)	6	6	6	6	6
WC cycle (ex-cash) (days)	70	75	68	68	67
Solvency ratios (x)					
Net debt to equity	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Net debt to EBITDA	(2.9)	(3.5)	(3.5)	(3.4)	(2.8)
Interest Coverage (EBIT / Int.)	360.2	240.8	1,763.7	1,473.1	1,642.6

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Disclosure of Interest Statement	Coal India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	Yes
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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