

Coal India Ltd.

Attractively Priced

Incorporated in 1973, Coal India Ltd (CIL) is the largest coal producer in the world with reserves of 65bn tonnes. The company produced 462MT and dispatched 472MT of raw coal in FY2014. CIL accounts for 81.1% of India's overall coal production and commands ~74% of the Indian coal market. The company has 429 mines of which 237 are underground, 166 opencast and 26 are mixed mines.

Volume growth to drive revenues: The coal ministry is making all efforts to resolve issues related to various mining projects. For the first time, the government will be drawing mine-wise plans to help CIL achieve production targets. The government is also showing strong signs of acting swiftly on important reforms, such as land acquisition. Although, we do not expect CIL to achieve its production growth target of 12.2% (CAGR) over FY2014-20, with such support from the government, we expect production to grow at a CAGR of ~8% over FY2014-20, much higher than its historical CAGR of just 2.8% over FY2009-14.

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 realisations. Further, technological and infrastructural enhancements, coupled with operating efficiencies from rising production will help to keep production costs low.

Outlook and valuation: At the offer-for-sale (OFS) price of ₹358, the stock is available at ~11.4x the consensus FY2017E EPS of ₹31.4. Retail shareholders will get an additional discount of 5%, implying an OFS price of ₹340. At the OFS price for retail bidders, the stock is available at a P/E ratio of 10.8x consensus FY2017E EPS, which is attractive. We also believe, post issue, the overhang of the share sale on the price will be gone. **Hence, we recommend investors to apply for CIL shares in the OFS.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY11	FY12	FY13	FY14
Net sales	50,229	62,415	68,303	68,810
% chg	12.6	24.3	9.4	0.7
Net profit	10,867	14,788	17,356	15,112
% chg	12.9	36.1	17.4	(12.9)
FDEPS (₹)	17.2	23.5	27.6	23.9
OPM (%)	26.8	25.1	26.5	23.2
P/E (x)	22.0	16.1	13.7	15.8
P/BV (x)	7.2	5.9	4.9	5.6
RoE (%)	36.8	40.1	39.0	33.3
RoCE (%)	37.5	35.8	35.6	30.3
EV/Sales (x)	4.0	3.1	2.7	2.6
EV/EBITDA (x)	15.0	12.4	10.1	11.1

Source: Company, Angel Research

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Issue Open: January 30, 2015

Issue Close: January 30, 2015

Issue Details

Face Value: ₹10

Present Eq. Paid-up Capital: ₹6,316cr

Offer Size: 63.16cr Shares

Post Eq. Paid-up Capital: ₹6,316cr

Issue size (amount): ₹22,386cr

OFS Floor Price: ₹358

Retail Discount: 5%

OFS Floor Price (Retail): ₹340

Post-issue implied market cap: ₹238,948cr

Promoters holding Pre-Issue: 89.7%

Promoters holding Post-Issue: 79.7%

Post Issue Shareholding Pattern

Promoters Group	79.7
MF/Banks/Indian Fls/FIIs/Public & Others	20.3

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Company Background

Incorporated in 1973, Coal India Ltd is the largest coal producer in the world with reserves of 65bn tonnes. The company produced 462MT and dispatched 472MT of raw coal in FY2014. CIL accounts for 81.1% of India's overall coal production and commands nearly 74% of the Indian coal market. Coal operations are primarily carried out across 82 mining areas through its seven wholly owned subsidiaries, spread across 8 provincial states of India. The company has 429 mines of which 237 are underground, 166 opencast and 26 are mixed mines. CIL also operates 17 coal washeries (13 coking coal and 4 non-coking coal) with a total capacity of 39.4MTY.

With more than 60% of the country's installed power capacity being coal based, the power sector accounts for ~75% of the coal off take. CIL accounts for ~76% of total thermal power generating capacity of the Utility sector.

The company was granted the 'Maharatna' status on 11 April, 2011 by the Government of India making it the 5th PSU in the country, of a total of 215 public sector companies, to have been conferred with this status.

Issue Details

The Promoter (Government of India), proposes to sell 31,58,18,220 equity shares of face value of ₹10 each representing 5% of the total paid up equity share capital of the company, with an option to sell an additional 5% stake. CIL has fixed the OFS floor price at ₹358 per share (at a 5.4% discount to its closing price as on January 29, 2015). Retail shareholders will get an additional discount of 5%, implying a floor price of ₹340. For the first time, 20% of the issue is reserved for retail investors, as against the minimum requirement of 10%.

Exhibit 1: Shareholding Pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares*	(%)
Promoter and promoter group	5,66,26,90,126	89.7	5,03,10,53,686	79.7
Total public holding	65,36,74,274	10.3	1,28,53,10,714	20.3
Total	6,31,63,64,400	100	4,13,05,25,289	100

*Assuming issue of the optional shares

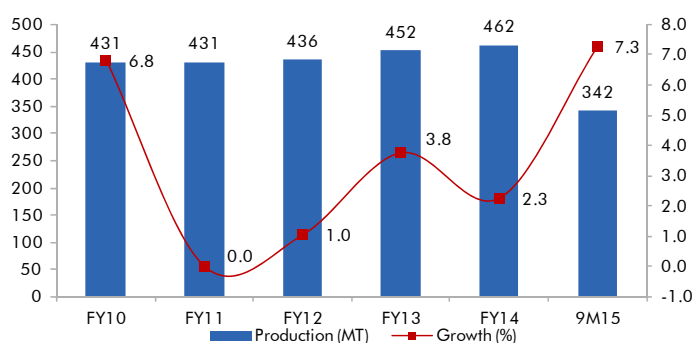
Source: Company, Angel Research

Investment rationale

Strong production growth to drive revenues

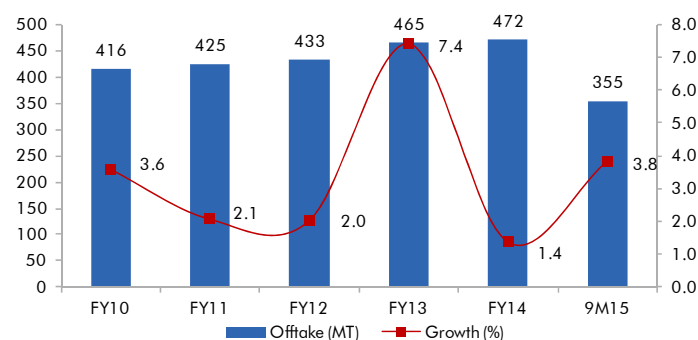
Coal India's production increased 7.3% yoy in 9MFY2015 to 355MT, as against a muted growth of 2.3% in FY2014. Two of its subsidiaries, Mahanadi Coalfields and Western Coalfields, which account for 1/3rd of its production, expect double digit growth in output this fiscal, as they use more sophisticated machinery and expand mines. Off take growth also picked up to 3.8% yoy in 9MFY2015 as against 1.4% in FY2014. Production and offtake growth jumped significantly in 3Q2015 at 10.7% and 6.3% yoy, respectively after a muted 1H2015.

Exhibit 2: Production (MT)



Source: Company

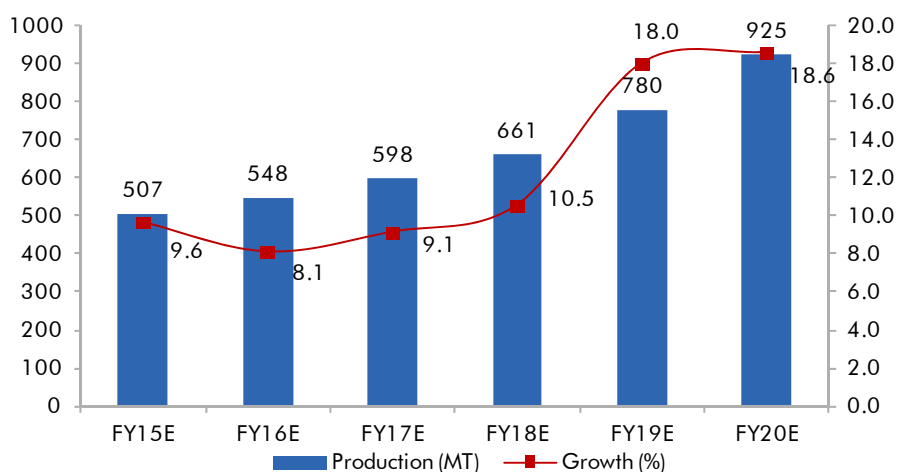
Exhibit 3: Offtake (MT)



Source: Company

According to the coal ministry, with rising demand for power, demand for coal is estimated to increase to 1.6 billion tonnes 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 12.2% CAGR growth in production over FY2014-20.

Exhibit 4: Coal India Production Target

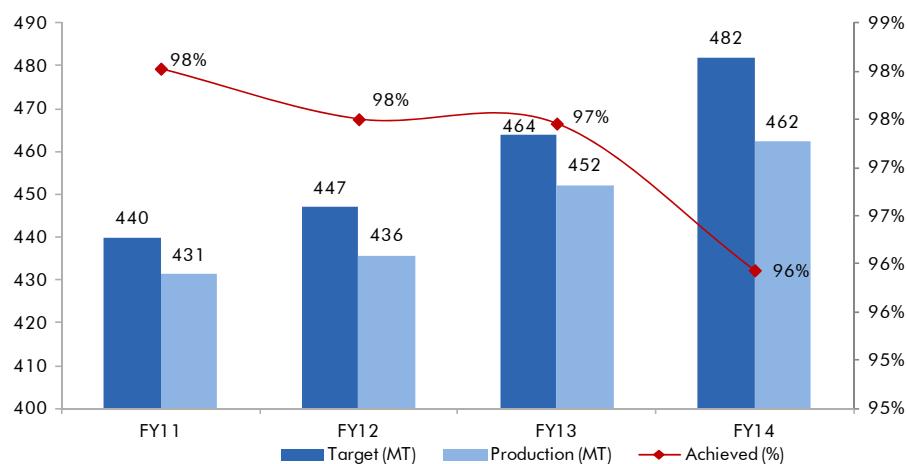


Source: Company

We believe the production growth target is a bit too optimistic. However, we believe production growth will definitely inch up going forward, as compared to the muted growth over recent years. The company has consistently missed its

production targets with a CAGR of just 2.8% over the FY2009-14 period, largely due to its inability to start new projects or increase capacity at existing mines on account of land acquisition issues. CIL's new blocks, which are expected to contribute ~115MT of the additional production, are stuck in land acquisition hurdles with delays ranging from 2-7 years.

Exhibit 5: Production Vs Target



Source: Company

The government is showing strong signs of acting swiftly on important reforms, such as land acquisition. The coal ministry is also making all efforts to resolve issues related to various mining projects. For the first time, the government will be drawing mine-wise plans, to help CIL achieve its production targets. With such strong support from the government, we expect CIL's production to grow at a CAGR of ~8% during FY2014-20 as against the target of 12.2%.

Operating efficiencies and low realisations to help improve margins

CIL's net realisation was \$24 per tonne in FY2014, significantly lower than the landed price of imported coal. This gap provides enough cushion against any decline in international coal prices. The gap also provides ample scope for CIL to pass on any cost escalations and maintain margins.

The company also plans to add 16 coal washeries, which will increase its coal washing capacity from 39.4MTY to 140MTY. Construction job of three washeries are in progress and two washeries have been awarded. The increasing share of washed coal will help drive realisations for the company.

CIL is one of the lowest cost producers of coal (~\$19 per tonne), with 90% of production through open cast mining. The company plans to improve productivity in its mines through upgradation of technology, with installation of high capacity equipments. In addition, the company plans to install continuous miner technology on a large scale, long-wall technology at selected mines, man riding system in major mines and tele-monitoring techniques in their underground mines. The company also plans to pursue implementation of e-procurement to secure equipment and spare part supplies; as well as use of e-tender systems to manage works, services and other operations.

The coal ministry is pushing to ensure timely completion of the three railways lines (Jharkhand, Odisha & Chattisgarh), which have a potential to add another 200-300MT of traffic capacity. CIL has already provided ₹300cr to Railways for these projects, which have a total outlay of ₹7,500cr. These projects, aimed at increasing the output from CIL mines in these states, are getting delayed mainly on account of forest clearance and land acquisition issues.

The technological and infrastructural improvements, coupled with operating efficiencies from rising production will help to keep production costs low.

Outlook and valuation

We expect CIL earnings to grow at a fast clip led by 1) Strong domestic demand from power, steel and cement 2) Aggressive targets to drive production growth with support from the new Government 3) Huge pricing gap between realisations and landed cost of imported coal 4) Infrastructure and technological enhancements, increase in coal washing capacities helping improve margins.

At the OFS price of ₹358, the stock is available at ~11.4x the consensus FY2017E EPS of ₹31.4, which is attractive. Retail shareholders will get an additional discount of 5%, implying an OFS price of ₹340. At the OFS price for retail bidders, the stock is available at a P/E ratio of 10.8x consensus FY2017E EPS. We also believe, post issue, the overhang of the share sale on the price will be gone. **Hence, we recommend investors to apply for CIL shares in the OFS.**

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY11	FY12	FY13	FY14
Gross sales	60,241	78,410	88,281	89,375
Less: excise duty	10,012	15,995	19,979	20,564
Net sales	50,229	62,415	68,303	68,810
Other operating income	-	-	-	-
Total operating income	50,229	62,415	68,303	68,810
% chg	12.6	24.3	9.4	0.7
Total expenditure	36,752	46,748	50,219	52,847
Net raw materials	5,273	5,504	6,062	7,022
Power & Fuel	1,749	2,013	2,333	2,282
Personnel	18,932	26,387	27,321	27,769
Other	10,798	12,844	14,503	15,773
EBITDA	13,478	15,668	18,084	15,963
% chg	27.9	16.3	15.4	(11.7)
(% of net sales)	26.8	25.1	26.5	23.2
Depreciation	1,765	1,969	1,813	1,996
EBIT	11,712	13,699	16,271	13,967
% chg	27.2	17.0	18.8	(14.2)
(% of net sales)	23.3	21.9	23.8	20.3
Interest expenses	74	54	45	58
Other income	4,872	7,537	8,747	8,969
(% of PBT)	41.9	55.2	53.9	64.5
Recurring PBT	16,511	21,182	24,972	22,878
% chg	17.8	28.3	17.9	(8.4)
Extraordinary inc/(expense)	(47)	91	7	1
PBT (reported)	16,463	21,273	24,979	22,880
Tax	5,596	6,484	7,623	7,768
(% of PBT)	34.0	30.5	30.5	34.0
PAT (reported)	10,867	14,788	17,356	15,112
Add: Share of earnings of asso.	-	-	-	-
Less: Minority interest	-	-	-	0.04
Discontinued operations	(0.01)	(0.01)	(0.01)	(0.01)
PAT after MI (reported)	10,867	14,788	17,356	15,112
Adj. PAT after MI	10,915	14,697	17,350	15,110
% chg	12.8	34.7	18.0	(12.9)
(% of net sales)	19.3	17.5	21.5	25.2
Basic EPS (₹)	17.19	23.47	27.63	23.92
FDEPS (₹)	17.19	23.47	27.63	23.92
% chg	12.9	36.5	17.7	(13.4)

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY11	FY12	FY13	FY14
SOURCES OF FUNDS				
Equity Share Capital	6,316	6,316	6,316	6,316
Reserves & Surplus	26,998	34,137	42,156	36,088
Shareholders Funds	33,314	40,453	48,472	42,404
Minority Interest	33	54	64	64
Total Loans	1,334	1,305	1,078	171
Other Long term liabilities	2,057	2,647	3,137	3,529
Long Term Provisions	22,461	28,271	31,144	33,639
Total Liabilities	59,199	72,730	83,895	79,807
APPLICATION OF FUNDS				
Gross Block	36,714	38,096	39,011	40,897
Less: Acc. Depreciation	23,871	24,656	25,545	26,302
Net Block	12,843	13,440	13,466	14,595
Capital Work-in-Progress	2,057	2,903	3,496	4,505
Goodwill	-	-	-	-
Investments	851	947	1,400	1,188
Deferred Tax Assets	873	1,194	2,255	1,972
Long Term loans and adv.	845	1,017	1,181	1,164
Other non- current assets	76	69	74	593
Current Assets	68,318	87,415	88,423	80,227
Cash	45,806	58,203	62,236	52,390
Loans & Advances	11,180	13,478	4,920	6,596
Other	11,332	15,734	21,267	21,241
Current liabilities	26,666	34,256	26,401	24,435
Net Current Assets	41,652	53,159	62,022	55,792
Mis. Exp. not written off	-	-	-	-
Total Assets	59,199	72,730	83,895	79,807

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY11	FY12	FY13	FY14
Profit before tax	16,463	21,273	24,979	22,880
Depreciation	1,765	1,969	1,839	1,996
Change in Working Capital	(4,328)	3,565	(6,839)	244
Less: Other income	427	(214)	(2,218)	(1,769)
Direct taxes paid	(5,623)	(6,704)	(8,652)	(8,826)
Cash Flow from Operations	8,704	19,888	9,109	14,525
(Inc.)/ Dec. in Fixed Assets	(2,568)	(3,409)	(2,454)	(4,116)
(Inc.)/ Dec. in Investments	218	(11,219)	(5,022)	6,221
(Inc.)/ Dec. in loans and adv.	0	0	0	0
Other income	3,390	4,218	5,643	6,475
Cash Flow from Investing	1,040	(10,410)	(1,833)	8,580
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	(577)	(301)	(274)	(1,321)
Dividend Paid (Incl. Tax)	(2,583)	(7,429)	(7,907)	(24,243)
Others	144	348	329	214
Cash Flow from Financing	(3,017)	(7,382)	(7,852)	(25,350)
Inc./(Dec.) in Cash	6,728	2,095	(575)	(2,246)
Opening Cash balances	39,078	10,165	12,260	11,685
Closing Cash balances	45,806	12,260	11,685	9,439

Key Ratios (Consolidated)

Y/E March	FY11	FY12	FY13	FY14
Valuation Ratio (x)				
P/E (on FDEPS)	22.0	16.1	13.7	15.8
P/CEPS	18.8	14.3	12.5	14.0
P/BV	7.2	5.9	4.9	5.6
Dividend yield (%)	1.0	2.6	3.7	7.7
EV/Sales	4.0	3.1	2.7	2.6
EV/EBITDA	15.0	12.4	10.1	11.1
EV / Total Assets	3.4	2.7	2.2	2.2
Per Share Data (₹)				
EPS (Basic)	17.2	23.5	27.6	23.9
EPS (fully diluted)	17.2	23.5	27.6	23.9
Cash EPS	20.1	26.4	30.3	27.1
DPS	3.9	10	14	29
Book Value	52.7	64.0	76.7	67.1
Dupont Analysis				
EBIT margin	23.3	21.9	23.8	20.3
Tax retention ratio (%)	66.0	69.5	69.5	66.0
Asset turnover (x)	0.8	0.9	0.8	0.9
ROIC (Post-tax)	13.1	13.1	13.5	11.6
Cost of Debt (Post Tax)	2.9	2.8	2.6	6.1
Leverage (x)	1.8	1.8	1.7	1.9
Operating RoE	31.1	31.6	32.2	21.8
Returns (%)				
RoCE (Pre-tax)	37.5	35.8	35.6	30.3
RoE	36.8	40.1	39.0	33.3
Turnover ratios (x)				
Asset Turnover (Gross Block)	1.4	1.7	1.8	1.7
Inventory / Sales (days)	49.6	45.5	42.5	38.6
Receivables (days)	20.3	26.6	43.1	49.7
Payables (days)	6.4	5.8	6.1	5.7
Solvency ratios (x)				
Net debt to equity	(1.4)	(1.3)	(1.4)	(1.3)
Net debt to EBITDA	(2.8)	(2.8)	(3.1)	(3.8)

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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	No
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 (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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