

10/06/2016

Sector: Mining

Financial Snapshot:

The company grown moderate over the quarter, but YOY results is surprisingly higher, standing at 7.8%. E-auction volumes remain impressively positive standing at around 14% of total volumes. The prices in both E-auction & FSAs were subdued as -31% YoY, which is 22% premium over FSA, & FSA stood at -4.8% YoY. Benign employee cost, which is -5.5% YoY & 3.2% QoQ, helped CIL weather some of the disappointment. Receivables were sharply higher at 35% YoY along with net cash/share of INR 75 in Q4FY16, after paying a dividend of INR 27.4/share.

Outlook:

The hike in FSA prices will be applicable from the Q2FY17. Stability in international coal prices & increasing pet-coke prices should support e-auction pricing. Volumes may remain weak till demand revival. The wages of coal workers will be negotiated and revived from July 2016, will dominate the news flow in interim.

Hike in Prices:

CIL for grades G6-G17 has hiked the FSA prices by approx 0.6-19% (approx 90% of non cooking coal), whereas for G1-G5 by 2-29% (approx 10% of non cooking coal). With an effective hike of 6.3% across categories, CIL has put to rest any doubts about its pricing power, derived from its low coal prices vs. imports, which stands at 30-40% discount against imports. The hike will enable CIL to maintain its profitability, which is currently weighed down owing to low e-auction prices. These are, driven by lower demand from power i.e. ample supplies in FSA and non-power i.e. cheaper pet-coke for cement. Both factors are temporary and e-auction pricing should rebound.

Valuation Outlook:

As E-auction now contributes to around 19% to CIL's incremental EBITDA (36% at peak), implies a stable earnings for the future. Coupled with a sustainable dividend yield, CIL is trading cheaper at 7.0/6.0x EV/EBITDA. We recommend a BUY with target price of Rs 369 (8.0x FY18 EV/EBITDA).

Key Financials:

Particular	FY15	FY16	FY17E	FY18E
Net Sales	720146	756443	851796	947425
EBITDA	212143	211177	195408	228331
PAT	137216	142329	131589	154452
Diluted EPS (Rs)	21.70	22.60	20.80	24.50
P/E (x)	13.50	12.90	14	12
EV/EBITDA(x)	6.80	6.50	6.90	5.90
ROE (%)	33.20	38.40	40.20	49

Stock Summary

Particular

CMP (INR)	308.30
Target Price (INR)	369
Potential Upside	19.57%
O/S No. of Shares (cr.)	631.6
Market Cap. (cr.)	197923.28
Equity Cap. (cr.)	6316.36
52 Week High	447.10
52 Week Low	271.65
Face Value	10
NSE Code	COALINDIA
BSE Code	533278

Share Holding Pattern:

Particular	Mar-16
Promoters	79.65%
Public (FII+DII)	20.35%
Others	0%
TOTAL	100%

Stock Performance:



Quarterly Financial Snapshot:

Particular	Q4FY16	Q4FY15	YoY (%)	Q3FY16	QoQ (%)
Net Sales	207,595	207,742	(0.1)	189,715	9.4
Employee Costs	75,902	80,341	(5.5)	73,541	3.2
Stores And Spares	20,711	21,510	(3.7)	17,805	16.3
Contractual Expenses	34,232	28,048	22.0	29,615	15.6
Other Operating Expenses	36,515	21,601	69.0	25,037	45.8
Changes To Inventory	(21,864)	(13,504)	61.9	(5,621)	289.0
EBITDA	62,100	69,746	(11.0)	49,337	25.9
% Margin	29.9	33.6		26.0	
Other Operating Income	6,433	5,653		6,279.4	
Other Income/(expense)	14,960	17,261		13,539	
Interest Cost	121	29		30	
Depreciation	6,946	6,980		6,279	
OB Removal Adjustment	13,195	15,752		7,419	
PBT	63,231	69,900	(9.5)	55,429	14.1
Tax	20,807	27,529		18,584	
APAT	42,424	42,372	0.1	36,845	15.1
E/o (Adj For Tax)	56	(14)		337	
RPAT	42,479	42,358	0.3	37,182	14.2
APAT + OBR	55,618	58,123	(4.3)	44,264	25.7

CIL's stood cheaper when compared to international coal on a delivered Rs/kcal basis. Indonesian coal which is INR 4,200 kcal/kg has a landed CIF price of US\$ 33 i.e. INR 0.53/mn Kcal, while G11 coal for CIL will be 0.35/0.40 (inclusive of levies for power and non-power consumers respectively, after the hike).

The current price hike underscores our thesis of Coal India's ability to hike FSA prices to protect its margins. E-Auction's increment EBITDA contribution now down to 20%, indicating increased stability of earnings.

Comparison of Delivered Prices across Various Grades:

Particular	Power			Non-Power		
	G11	G7	G14	G11	G7	G14
Grade	G11	G7	G14	G11	G7	G14
Kcal/Kg (Mid Point)	4,150	5,350	3,250	4,150	5,350	3,250
Base Price (ROM)	810	1,600	650	970	1,920	780
Royalty	14%	113	224	91	136	109
MMDR Cess	2%	2	4	2	3	5
SED		10	10	10	10	10
Assessable Prices		936	1,838	753	1,119	2,204
Central Excise Duty	6%	56	110	45	67	132
Clean Energy Cess		400	400	400	400	400
Total Prices		1,392	2,349	1,198	1,586	2,736
Price + VAT	5%	1,461	2,466	1,258	1,665	2,873
Rs/mn Kcal		0.35	0.46	0.39	0.40	0.54

Note: MMDR Cess is calculated as % of royalty. Central Excise duty is calculated using Assessable prices (Basic Price + Royalty + MMDR Cess + SED)

Updated Price List:

Grade	GCV Range (Kcal)	ROM basic price (Rs/t)		% Change	
		Regulated (power, defence & fertilizers)	Other	Regulated (power, defence & fertilizers)	Other
G1	> 7000				
G2	6,700-7,000	3450	3450	(29.2%)	(29.2%)
G3	6,400-6,700	3210	3210	(17.5%)	(17.5%)
G4	6,100-6,400	3000	3000	(14.0%)	(14.0%)
G5	5,800-6,100	2750	2750	(1.8%)	(1.8%)
G6	5,500-5,800	1900	2280	18.8%	6.0%
G7	5,200-5,500	1600	1920	14.3%	1.6%
G8	4,900-5,200	1420	1700	13.6%	0.6%
G9	4,600-4,900	1100	1320	13.4%	0.8%
G10	4,300-4,600	980	1180	14.0%	1.7%
G11	4,000-4,300	810	970	15.7%	2.1%
G12	3,700-4,000	760	910	15.2%	2.2%
G13	3,400-3,700	720	860	18.0%	4.9%
G14	3,100-3,400	650	780	18.2%	5.4%
G15	2,800-3,100	600	720	17.6%	5.9%
G16	2,500-2,800	530	640	17.8%	4.9%
G17	2,200-2,500	470	570	17.5%	5.6%

Note: Base prices applicable for all CIL subsidiaries ex-Western Coalfield Ltd. Western Coalfield Ltd prices are higher by around 20% on an average.

For Gross Calorific Value exceeding 7000 kcal/kg, prices are higher by Rs 150/t over price for G2 grade for every 100kcal/kg difference.

For Rajmahal mine of Eastern Coalfield Ltd., an amount of Rs 450/t (earlier 390) will be charged over and above the notified prices.

Per Tonne Cost Analysis:

Particular	Q4FY16	Q4FY15	YoY (%)	Q3FY16	QoQ (%)
Production (mt)	165.2	151.8	8.8	144.0	14.8
Sales (mt)	145.2	134.7	7.8	137.9	5.3
FSA	119.3	116.0	2.9	116.4	2.4
E-auction	20.4	13.9	46.7	15.2	34.6
% Of Total Volumes	14.1	10.3		11.0	
Washed Coal	4.1	3.2	26.3	3.7	11.5
Ending Inventory (mn t)	62.2	58.0	7.4	42.2	47.4
Realization (Rs/t)	1,430	1,542	(7.3)	1,376	3.9
FSA	1,350	1,419	(4.8)	1,277	5.7
E-auction	1,648	2,386	(30.9)	1,866	(11.7)
Premium Over FSAs	22%	68%		46%	
Washed coal	2,379	2,048	16.2	2,221	7.1
EBITDA (Rs/t)	428	518	(17.4)	358	19.5
Cost/t	1,002	1,024	(2.2)	1,018	(1.6)

Valuation Credentials:

Particular	FY14	FY15	FY16	FY17E	FY18E	(15-18)
Production (mt)	462.4	494.2	538.8	575.6	624.2	8.1%
Sales (mt)	470.3	488.3	533.5	580.3	631.4	8.9%
FSA	396.3	426.0	447.7	487.5	531.3	7.6%
E-auction	58.0	46.9	66.3	72.8	79.4	19.2%
Washed Coal + Other Byproducts	17.6	16.1	15.4	19.4	20.0	7.7%
Ending Inventory (mn t)	53.3	59.2	64.5	59.8	52.6	(3.9%)
Realizations (Rs/t)	1,463	1,475	1,418	1,468	1,501	0.6%
FSA	1,314	1,327	1,311	1,379	1,394	1.6%
E-auction	2,182	2,450	1,858	1,793	1,951	(7.3%)
Washed Coal	2,556	2,591	2,393	2,437	2,511	(1.0%)
Employee Costs/t	590	612	556	612	598	(0.8%)
Outsourcing Cost/t	145	174	209	226	243	11.8%
Other Costs/t	318	298	302	344	352	5.7%
EBITDA/t (Rs)	409	390	352	285	307	(7.6%)

Financial Statements:

Income Statement:

Particular	FY14	FY15	FY16	FY17E	FY18E
Net Revenues	688,100	720,146	756,443	851,796	947,425
Growth %	0.7	4.7	5.0	12.6	11.2
Employee Expenses	277,694	298,741	296,598	355,429	377,288
Contractual expenses	68,275	85,126	111,292	131,302	153,678
Materials expenses	71,147	67,224	56,383	86,441	100,339
Other operating expenses	78,486	78,489	104,650	113,170	122,008
Operating profits	192,498	190,567	187,519	165,454	194,112
Operating Profit Margin (%)	28.0	26.5	24.8	19.4	20.5
Other operating income	18,747	21,576	23,659	29,953	34,219
EBITDA	211,245	212,143	211,177	195,408	228,331
EBITDA %	30.7	29.5	27.9	22.9	24.1
EBITDA Growth %	(7.9)	0.4	(0.5)	(7.5)	16.8
Depreciation	19,964	23,198	24,664	25,840	27,016
Overburden removal adj.	32866	38267	28114	28114	28114
EBIT	158,415	150,678	158,399	141,453	173,201
Other Income (Incl. EO Items)	70,961	65,235	57,699	49,463	50,849
Interest	580	73	207	207	207
PBT	228,796	215,839	215,891	190,709	223,844
Tax (Incl Deferred Tax)	77,679	78,573	73,148	59,120	69,392
RPAT	151,117	137,266	142,743	131,589	154,452
Minority Interest					
EO Loss/Profit (Net of Tax)	14	50	415	-	-
APAT	151,103	137,216	142,329	131,589	154,452
APAT Growth (%)	(12.9)	(9.2)	3.7	(7.5)	17.4
EPS	23.93	21.73	22.60	20.83	24.45
EPS Growth (%)	(12.9)	(9.2)	4.0	(7.8)	17.4

Balance Sheet:

Particular	FY14	FY15	FY16	FY17E	FY18E
Sources of Funds					
Share Capital	63,164	63,164	63,164	63,164	63,164
Reserves	360,881	340,366	275,812	252,336	251,416
Total Shareholders' Funds	424,044	403,530	338,976	315,499	314,579
Minority Interest	636	658	1,048	1,048	1,048
Long Term Debt	1,715	2,018	2,630	2,630	2,630
Short Term Debt	64	2,065	9,354	64	64
Total Debt	1,778	4,083	11,984	2,694	2,694
Deferred Taxes	(19,717)	(19,596)	(20,445)	(20,445)	(20,445)
Long Term Provisions & Others	371,678	405,112	445,005	493,634	542,569
Total Sources of Funds	778,419	793,787	776,567	792,430	840,445
Application of Funds					
Net Block	147,844	161,150	156,486	150,646	143,630
CWIP	50,277	63,695	98,165	128,165	158,165
Investments	4,255	2,170	2,127	2,127	2,127
LT Loans and Advances	10,443	14,310	17,747	17,747	17,747
Total Non-current Assets	212,819	241,326	274,525	298,685	321,669
Inventories	55,680	61,838	75,953	70,011	77,871
Debtors	82,410	85,219	114,637	93,348	103,827
Other Current Assets	114,402	140,545	131,932	131,932	131,932
Cash & Equivalents	557,389	556,889	484,704	504,547	512,439
Total Current Assets	809,880	844,491	807,226	799,837	826,069
Creditors	8,051	9,208	9,785	10,693	11,894
Other Current Liab. & Prov.	236,232	282,822	295,399	295,399	295,399
Total Current Liabilities	244,282	292,030	305,184	306,092	307,292
Net Current Assets	565,598	552,461	502,043	493,745	518,777
Total Application of Fund	778,416	793,787	776,568	792,430	840,446

Cashflow Statement:

Particular (in mn.)	FY14	FY15	FY16P	FY17E	FY18E
Reported PBT	228,796	215,839	215,891	190,709	223,844
Non-operating & EO items	(13,709)	(7,534)	(12,137)	(4,315)	(5,702)
Interest expenses	580	73	207	207	207
Depreciation	19,964	23,198	24,664	25,840	27,016
Working Capital Change	(5,048)	14,763	(29,695)	28,141	(17,139)
Tax Paid	(88,264)	(95,721)	(73,148)	(59,120)	(69,392)
Operating Cashflow	142,319	150,619	125,782	181,461	158,833
Capex	(41,654)	(49,357)	(54,469)	(50,000)	(50,000)
Free cash flow (FCF)	100,665	101,262	71,313	131,461	108,833
Investments	2,289	2,085	43	0	0
Non-operating Income	58,084	55,775	57,285	49,463	50,849
Investing Cashflow	18,719	8,503	2,858	(537)	849
Debt Issuance/(Repaid)	(8,442)	2,426	7,052	(9,290)	0
Interest expenses	(580)	(73)	(207)	(207)	(207)
FCFE	27,741	6,150	(3,987)	8,959	1,056
Share Capital Issuance	0	0	0	0	0
Dividend	(234,978)	(159,253)	(207,670)	(151,584)	(151,584)
Financial Cashflow	(244,000)	(156,900)	(200,825)	(161,081)	(151,791)
Net Cashflow	(82,963)	2,221	(72,185)	19,843	7,892
EO Items / Others	585	(2,721)			
Closing Cash & Equivalents	557,388	556,889	484,704	504,547	512,439

Ratio Analysis:

Particular	FY14	FY15	FY16P	FY17E	FY18E
Profitability (%)					
EBITDA Margin	30.7	29.5	27.9	22.9	24.1
APAT Margin	22.0	19.1	18.8	15.4	16.3
RoE	33.3	33.2	38.4	40.2	49.0
RoCE	32.9	33.0	38.2	39.9	48.7
Efficiency					
Tax Rate (%)	34.0	36.4	33.9	31.0	31.0
Asset Turnover (x)	1.5	1.4	1.3	1.4	1.5
Inventory (days)	30	30	33	30	30
Debtors (days)	50	42	48	40	40
Payables (days)	4	4	5	5	5
Cash Conversion Cycle (days)	75	68	77	65	65
Per Share Data					
EPS (Rs/sh)	23.9	21.7	22.6	20.8	24.5
CEPS (Rs/sh)	32.3	31.5	31.0	29.4	33.2
DPS (Rs/sh)	29.0	20.7	27.4	20.0	20.0
BV (Rs/sh)	67.1	63.9	53.7	50.0	49.8
Valuation					
P/E	12.2	13.5	12.9	14.0	12.0
P/BV	4.4	4.6	5.5	5.9	5.9
EV/EBITDA	6.7	6.8	6.5	6.9	5.9
OCF/EV (%)	11.0	11.6	9.1	13.5	11.9
FCF/EV (%)	7.8	7.8	5.2	9.8	8.1
FCFE/Market cap (%)	6.9	5.7	3.6	7.6	5.9
Dividend Yield (%)	9.9	7.1	9.4	6.8	6.8

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