

# Better prospects for CIL in FY19

Rising volumes, higher realisation should boost earnings on low base of FY18, feel analysts

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**T**he 9.4 per cent production growth at Coal India (CIL) in March is encouraging, after the subdued output in much of 2017-18. It was helped by higher demand from thermal power plants, which had seen inventory fall to 10 days.

Rising electricity demand with the early onset of summer and the coming peak season, coupled with subdued production of hydro power due to low reservoir levels, should ensure the demand for coal remains healthy. Similarly, firm realisation will help offset cost pressure and sustain profitability.

In sum, an improved outlook for the government-owned behemoth in FY19. Among the key monitorables, however, is whether Coal India is able to keep up with the pace of demand, say analysts.

Price hikes by the company in January also bode well. Analysts at Kotak Institutional Equities say it is likely to see an improvement in realisation due to these, plus an evacuation charge from December of ₹50 a tonne. The brokerage expects blended coal realisation to increase by ₹125 a tonne (or 9 per cent) in 2018-19, on a volume of 591 million tonnes (mt).

All this is positive news for Coal India, the subject of some concern in the past financial year on account of grade slip-



pages, wage hike provisioning and the like. Much of these concerns are now behind it and analysts say the higher staff costs due to pay rises have been offset by the price hikes and evacuation charges.

Analysts at Motilal Oswal Securities expect operating profit (ex-overburden removal charges) to increase 22 per cent sequentially to ₹67.6 billion for the March quarter, led by the price hike benefit and higher volumes. Dispatches are seen increasing 5 per cent year-on-year to 159.1 mt and volumes under fuel supply agreements

(FSAs) to rise 6.8 per cent year-on-year to 124 mt, on strong power sector demand, for the quarter. Net profit is expected to surge 89 per cent over a year before in the quarter and 71 per cent sequentially, estimate analysts.

Analysts also see more gains ahead, on volumes and realisation in FY19, after a weak FY18. The more profitable e-auction realisations are also improving. E-auction premiums (over the FSA prices) had improved from 58 per cent in January to 73 per cent in February, led by higher

## EARNINGS GROWTH GATHERING PACE

	FY17	FY18E	FY19E
Net sales (₹ billion)	782	840	942
Ebitda (₹ billion)	149	172	252
Net profit (₹ billion)	93	110	164
EPS (₹)	14.9	17.8	26.4
EPS growth	-34.00	19.2	48.4
E: Estimates	Source: Motilal Oswal securities		

demand. Over all volumes should be higher, given the allocation of new mines (43 mt annual capacity) to Coal India and on account of the government's push for more produc-

tion, says Rupesh Sankhe at Reliance Securities. He sees limited downside risk for the stock at the current valuation of 10-11 times the estimated FY20 earnings.

## GAINS AHEAD



Given the low base of FY17, analysts at JM Financial say they expect 36 per cent compounded growth in net profit during FY18-20, assuming a 6-7 per cent increase in sales. The volume pick-up, coupled with price hikes to offset the wage hike impact, augur well for earnings growth. At the current stock price, analysts find the risk-reward ratio to be favourable.

On the flip side, one needs to be watchful on railway rake availability to drive volumes — this factor is currently hurting the latter. Second, any sharp reduction in dividend payout could also weigh on market sentiment. The per-share dividend of ₹16.5 in FY18 is lower than the full-year dividend of about ₹19 in FY17 and ₹27.4 in FY16. This has been due to a combination of factors — decline in surplus cash, dividend outflow and decline in profit.