

Coal India

Performance Highlights

| (₹ cr) | 1QFY16 | 1QFY15 | % yoy | 4QFY15 | % qoq |
|-------------------|---------------|---------------|--------------|---------------|--------------|
| Net Sales | 18,956 | 17,800 | 6.5 | 20,774 | (8.8) |
| EBITDA | 4,382 | 4,281 | 2.4 | 5,399 | (18.8) |
| % margin | 23.1 | 24.1 | (93bp) | 26.0 | (287bp) |
| Net Profit | 3,787 | 4,017 | (5.7) | 4,237 | (11) |

Source: Company, Angel Research

For 1QFY2016, Coal India (CIL) reported a strong 12% yoy increase in production to 121.3MT as against our expectation of 118MT for the quarter. Offtake volumes were also ahead of estimates at 129.4MT as against our estimate of 125.6MT. E-auction volumes at 16MT were 16% higher than our estimate of 13.8MT, while FSA volumes were in line with our estimate at 109MT. Blended realization/tonne came in lower than our expectation at ₹1,465 (3.8% below our estimate of ₹1,523), led by lower FSA as well as e-auction realisation. FSA realization/tonne was ₹1,318 vs our estimate of ₹1,373, while e-auction realisation was ₹2,184 as against our expectation of ₹2,343. Blended realisation remained flat on a yoy basis, resulting in a 6.5% increase in net sales. CIL reported net sales of ₹18,956cr for the quarter, ie lower than our estimate by 0.9%. Led by the sharp increase in expenses, the EBITDA margin declined 93bp yoy to 23.1%. The EBITDA at ₹4,382cr was 12.1% below our expectation of ₹4,984cr. Lower other income was partially offset by lower than expected depreciation and tax expense, resulting in a net profit of ₹3,787cr, vs our estimate of ₹4,499cr.

Outlook and valuation

We reduce our consolidated FY2016 and FY2017 EPS estimates by 7.9% and 8.2%, respectively, in view of the better lower than expected realizations and increased operating expenses. We expect CIL's production to increase 8.9% to 538MT in FY2016 and 575MT in FY2017. We expect e-auction realizations to come under pressure from increased availability of coal in FY2016. **We value Coal India at 8x FY2017E Adj. EBITDA to arrive at a target price of ₹400 and retain our Accumulate rating on the stock.**

Key financials (Consolidated)

| Y/E March (₹ Cr) | FY2013 | FY2014 | FY2015 | FY2016E | FY2017E |
|--------------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 68,303 | 68,810 | 72,015 | 78,414 | 86,103 |
| % chg | 9.4 | 0.7 | 4.7 | 8.9 | 9.8 |
| Net Profit | 17,350 | 15,110 | 13,722 | 15,958 | 17,606 |
| % chg | 17.4 | (12.9) | (9.2) | 16.3 | 10.3 |
| FDEPS (₹) | 27.5 | 23.9 | 21.7 | 25.3 | 27.9 |
| OPM (%) | 26.5 | 23.2 | 21.1 | 21.5 | 23.7 |
| P/E (x) | 14.2 | 16.4 | 18.0 | 15.5 | 14.0 |
| P/BV (x) | 5.1 | 5.8 | 6.1 | 6.0 | 5.7 |
| RoE (%) | 39.0 | 33.2 | 33.1 | 39.1 | 41.7 |
| RoCE (%) | 22.0 | 17.1 | 15.9 | 17.2 | 19.9 |
| EV/Sales (x) | 1.8 | 2.8 | 2.7 | 2.5 | 2.2 |
| EV/Adj. EBITDA (x) | 5.7 | 9.9 | 10.0 | 9.4 | 7.7 |

Source: Company, Angel Research: Note CMP as of August 21, 2015

ACCUMULATE

| | |
|--------------|------|
| CMP | ₹349 |
| Target Price | ₹400 |

| | |
|-------------------|-----------|
| Investment Period | 12 months |
|-------------------|-----------|

Stock Info

| | |
|--------------------|-----------|
| Sector | Mining |
| Market Cap (₹ cr) | 2,20,251 |
| Net Debt (₹ cr) | (52,891) |
| Beta | 0.7 |
| 52 Week High / Low | 447/332 |
| Avg. Daily Volume | 49,61,791 |
| Face Value (₹) | 10 |
| BSE Sensex | 27,366 |
| Nifty | 8,300 |
| Reuters Code | COAL.BO |
| Bloomberg Code | COAL@IN |

Shareholding Pattern (%)

| | |
|-------------------------|------|
| Promoters | 79.7 |
| MF / Banks / Indian Fls | 8.6 |
| FII / NRIs / OCBs | 9.2 |
| Indian Public / Others | 2.6 |

| Abs. (%) | 3m | 1yr | 3yr |
|------------|-------|-------|-------|
| Sensex | (1.6) | 3.8 | 53.0 |
| Coal India | (6.4) | (4.4) | (1.0) |

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2016 performance (Consolidated)

| Y/E March (₹ cr) | 1QFY16 | 1QFY15 | % yoy | 4QFY15 | % qoq | FY2015 | FY2014 | % yoy |
|----------------------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|--------------|
| Net sales | 18,956 | 17,800 | 6.5 | 20,774 | (8.8) | 72,015 | 68,810 | 4.7 |
| Raw material expenses | 2,180 | 2,127 | 2.5 | 801 | 172.3 | 6,726 | 7,115 | (5.5) |
| (% of Net Sales) | 11.5 | 11.9 | | 3.9 | | 9.3 | 10.3 | |
| Staff cost | 7,185 | 7,047 | 2.0 | 8,034 | (10.6) | 29,859 | 27,769 | 7.5 |
| (% of Net Sales) | 37.9 | 39.6 | | 38.7 | | 41.5 | 40.4 | |
| Power & Fuel | 588 | 543 | 8.2 | 610 | (3.5) | 2,347 | 2,282 | 2.9 |
| (% of Net Sales) | 3.1 | 3.1 | | 2.9 | | 3.3 | 3.3 | |
| Social Overhead | 177 | 90 | 97.6 | 114 | 55.2 | 405 | 735 | (44.8) |
| (% of Net Sales) | 0.9 | 0.5 | | 0.5 | | 0.6 | 1.1 | |
| Contractual Expenses | 2,490 | 1,799 | 38.4 | 2,805 | (11.2) | 8,513 | 6,828 | 24.7 |
| (% of Net Sales) | 13.1 | 10.1 | | 13.5 | | 11.8 | 9.9 | |
| Other Expenses | 1,953 | 1,913 | 2.1 | 3,012 | (35.1) | 8,935 | 8,118 | 10.1 |
| (% of Net Sales) | 10.3 | 10.7 | | 14.5 | | 12.4 | 11.8 | |
| Total expenditure | 14,574 | 13,519 | 7.8 | 15,375 | (5.2) | 56,785 | 52,847 | 7.5 |
| (% of Net Sales) | 76.9 | 75.9 | | 74.0 | | 78.9 | 76.8 | |
| EBIDTA | 4,382 | 4,281 | 2.4 | 5,399 | (18.8) | 15,230 | 15,963 | (4.6) |
| EBITDA margin (%) | 23.1 | 24.1 | | 26.0 | | 21.1 | 23.2 | |
| Interest | 4 | 1 | 253.5 | 3 | 39.4 | 7 | 58 | (87.4) |
| Depreciation | 558 | 518 | 7.6 | 698 | (20.1) | 2,320 | 1,996 | 16.2 |
| Other income | 2,009 | 2,181 | (7.8) | 2,291 | (12.3) | 8,676 | 8,969 | (3.3) |
| Exceptional items | (23) | 16 | | 1 | | 5 | 1 | |
| Profit before tax | 5,807 | 5,958 | (2.5) | 6,991 | (16.9) | 21,584 | 22,880 | (5.7) |
| % of net sales | 30.6 | 33.5 | | 33.7 | | 30.0 | 33.3 | |
| Tax | 2,043 | 1,925 | 6.1 | 2,753 | (25.8) | 7,857 | 7,768 | 1.2 |
| % of PBT | 35.2 | 32.3 | | 39.4 | | 36.4 | 34.0 | |
| Rep. Net income | 3,764 | 4,033 | (6.7) | 4,239 | (11.2) | 13,727 | 15,112 | (9.2) |
| % of net sales | 19.9 | 22.7 | | 20.4 | | 19.1 | 22.0 | |
| Adjusted net income | 3,787 | 4,017 | (5.7) | 4,237 | (10.6) | 13,722 | 15,110 | (9.2) |

Source: Company, Angel Research

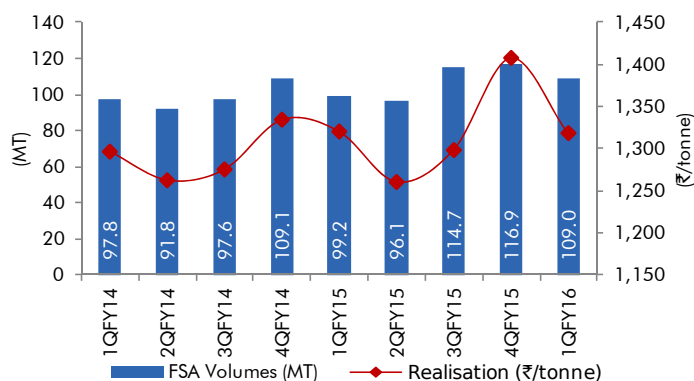
Exhibit 2: Consolidated – 1QFY2016 Actual vs Angel estimates

| (₹ cr) | Actual | Estimates | Variation (%) |
|-------------------|--------|-----------|---------------|
| Net sales | 18,956 | 19,121 | (0.9) |
| EBITDA | 4,382 | 4,984 | (12.1) |
| EBITDA margin (%) | 23.1 | 25.3 | (218bp) |

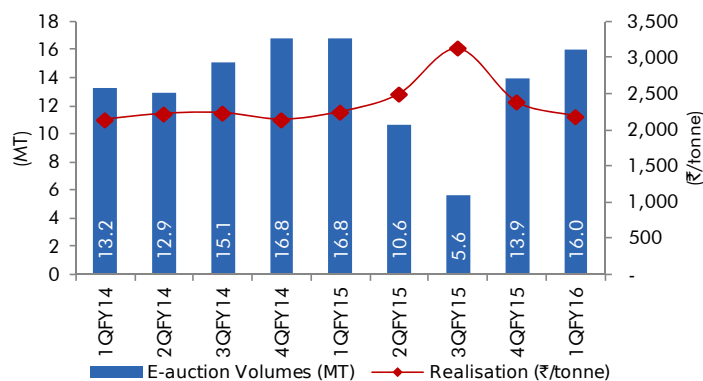
Source: Company, Angel Research

Result highlights
Higher E-auction volumes offset by lower realisation

CIL reported a strong 12% yoy increase in production at 121.3MT as against our expectations of 118MT. Offtake volumes were also ahead of estimates at 129.4MT as against our estimate of 125.6MT. E-auction volumes at 16MT were 16% higher than our estimate of 13.8MT, while FSA volumes at 109MT were in line with our estimate.

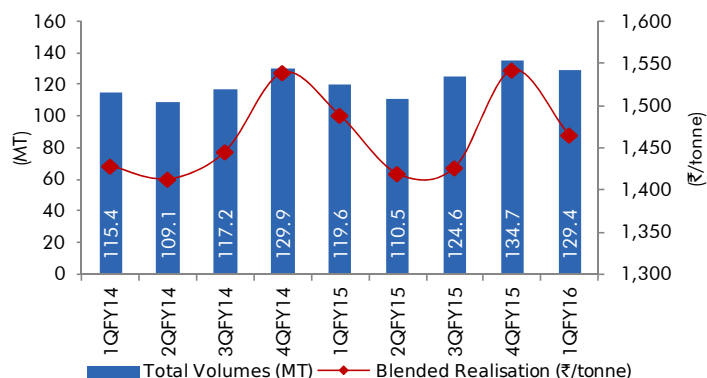
Exhibit 3: FSA volumes stable, realisation declines


Source: Company, Angel Research

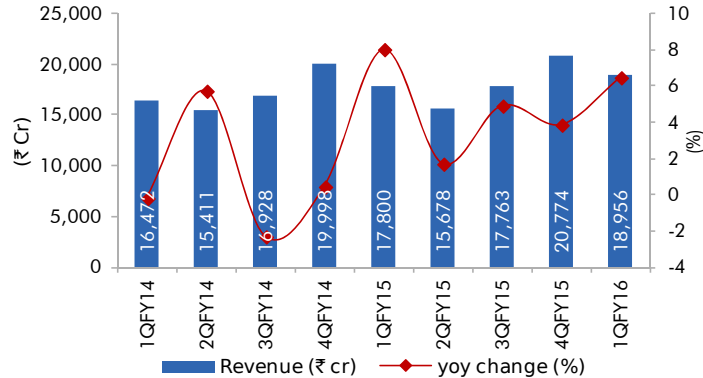
Exhibit 4: E-auction volume better than expected


Source: Company, Angel Research

Blended realization/tonne came in lower than our expectation at ₹1,465 (3.8% lower than our estimate of ₹1,523), led by lower FSA as well as e-auction realization. FSA realization/tonne was ₹1,318 vs our estimate of ₹1,373, while e-auction realization/tonne was ₹2,184 as against our expectation of ₹2,343. Blended realization remained flat on a yoy basis resulting in a 6.5% increase in net sales. CIL reported net sales of ₹18,956cr, 0.9% lower than our estimate.

Exhibit 5: Offtake volume stable, realisation declines


Source: Company, Angel Research

Exhibit 6: Revenue growth picks up to 6.5%


Source: Company, Angel Research

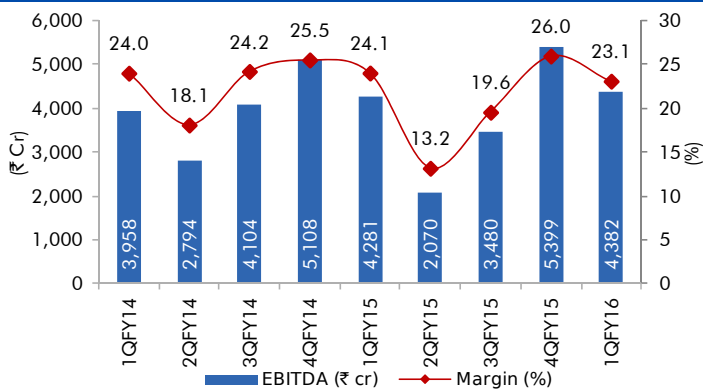
Higher expenses offset by lower material costs

Contractual expenses increased 38% yoy to ₹2,490cr, sharply ahead of our estimate. Employee costs increased ~2% yoy to ₹7,185cr vs our estimate of ₹7,527cr. Social overhead expenses nearly doubled to ₹177cr vs our estimate of ₹141cr. Provision expenses declined 35% to ₹276cr as against our estimate of ₹410cr. Led by the sharp increase in expenses, the EBITDA margin declined 93bp yoy to 23.1%. The EBITDA at ₹4,382cr was 12.1% lower than our expectation of ₹4,984cr.

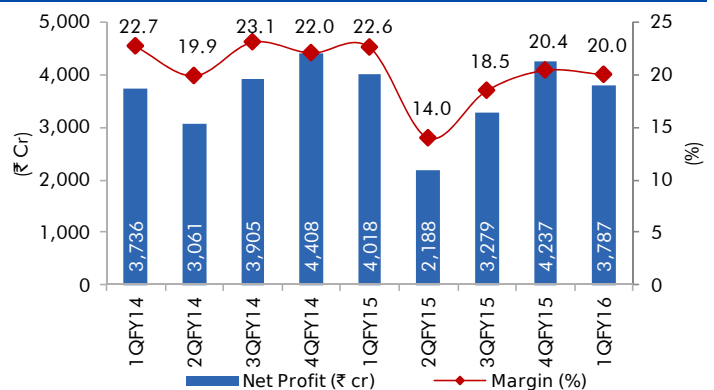
Exhibit 7: Quarterly performance trend

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

Source: Company, Angel Research

Exhibit 8: EBITDA margin declines 93bp yoy


Source: Company, Angel Research

Exhibit 9: Net profit declines 4% yoy


Source: Company, 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).

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. Offtake 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 7.9% and 8.2%, respectively, in view of the lower than expected realizations and increased operating expenses. We expect CIL's production to increase by 8.9% to 538MT in FY2016 and 575MT in FY2017. We expect e-auction realization to come under pressure from increased availability of coal in FY2016.

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

Exhibit 10: Valuation

| EV/EBITDA | (₹ cr) |
|-------------------------|-----------------|
| FY2017E Adj. EBITDA | 24,612 |
| Multiple (x) | 8.0 |
| Total EV | 1,96,569 |
| Net Cash | 54,001 |
| Minority Interest | 66 |
| Equity Value | 2,50,504 |
| Target price (₹) | 400 |

Source: Angel Research

Profit & Loss Statement (Consolidated)

| Y/E March (₹ cr) | FY2013 | FY2014 | FY2015 | FY2016E | FY2017E |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 68,303 | 68,810 | 72,015 | 78,414 | 86,103 |
| % chg | 9.4 | 0.7 | 4.7 | 8.9 | 9.8 |
| Total Expenditure | 50,219 | 52,847 | 56,785 | 61,579 | 65,694 |
| Raw Material Expenses | 6,556 | 7,115 | 6,726 | 7,689 | 8,566 |
| Personnel | 27,321 | 27,769 | 29,859 | 31,220 | 32,420 |
| Power & Fuel Cost | 2,333 | 2,282 | 2,347 | 2,609 | 2,865 |
| Other Expenses | 14,009 | 15,681 | 17,853 | 20,061 | 21,844 |
| EBITDA | 18,084 | 15,963 | 15,230 | 16,836 | 20,409 |
| % chg | 15.4 | (11.7) | (4.6) | 10.5 | 21.2 |
| (% of Net Sales) | 26.5 | 23.2 | 21.1 | 21.5 | 23.7 |
| Depreciation | 1,813 | 1,996 | 2,320 | 2,305 | 2,519 |
| EBIT | 16,271 | 13,967 | 12,910 | 14,530 | 17,890 |
| % chg | 18.8 | (14.2) | (7.6) | 12.6 | 23.1 |
| (% of Net Sales) | 23.8 | 20.3 | 17.9 | 18.5 | 20.8 |
| Interest & other Charges | 45 | 58 | 7 | 16 | 10 |
| Other Income | 8,747 | 8,969 | 8,676 | 9,485 | 8,610 |
| (% of PBT) | 35.0 | 39.2 | 40.2 | 39.5 | 32.5 |
| Recurring PBT | 24,972 | 22,878 | 21,579 | 23,999 | 26,491 |
| % chg | 17.9 | (8.4) | (5.7) | 11.2 | 10.4 |
| Extraordinary Inc/(Expense) | 7 | 1 | 5 | (23) | 0 |
| PBT (reported) | 24,979 | 22,880 | 21,584 | 23,977 | 26,491 |
| Tax | 7,623 | 7,768 | 7,857 | 8,041 | 8,884 |
| (% of PBT) | 30.5 | 34.0 | 36.4 | 33.5 | 33.5 |
| PAT (reported) | 17,356 | 15,112 | 13,727 | 15,935 | 17,606 |
| Adjusted PAT | 17,350 | 15,110 | 13,722 | 15,958 | 17,606 |
| % chg | 18.0 | (12.9) | (9.2) | 16.3 | 10.3 |
| (% of Net Sales) | 25.4 | 22.0 | 19.1 | 20.4 | 20.4 |

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 | 34,676 | 36,986 |
| Shareholders Funds | 48,472 | 42,404 | 40,353 | 40,992 | 43,302 |
| 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 | 4,355 | 4,782 |
| Long term provisions | 31,144 | 33,639 | 37,499 | 40,831 | 44,835 |
| Total Liabilities | 83,895 | 79,807 | 82,119 | 86,446 | 93,186 |
| APPLICATION OF FUNDS | | | | | |
| Gross Block | 39,011 | 40,897 | 44,987 | 49,036 | 53,694 |
| Less: Acc. Depreciation | 25,545 | 26,302 | 28,622 | 30,927 | 33,446 |
| Net Block | 13,466 | 14,595 | 16,365 | 18,108 | 20,248 |
| Capital Work-in-Progress | 3,496 | 4,505 | 4,910 | 5,754 | 5,831 |
| Goodwill | - | - | - | - | - |
| Investments | 2,395 | 3,775 | 2,813 | 2,813 | 2,813 |
| Other | 1,256 | 1,756 | 2,641 | 2,876 | 3,158 |
| Current Assets | 87,429 | 77,639 | 81,853 | 82,026 | 88,350 |
| Cash | 62,236 | 52,390 | 53,093 | 50,737 | 54,203 |
| Loans & Advances | 4,920 | 6,596 | 8,827 | 9,611 | 10,554 |
| Other | 20,273 | 18,654 | 19,933 | 21,677 | 23,594 |
| Current liabilities | 26,401 | 24,435 | 28,423 | 27,091 | 29,174 |
| Net Current Assets | 61,028 | 53,204 | 53,430 | 54,934 | 59,176 |
| Net deferred tax assets | 2,255 | 1,972 | 1,960 | 1,960 | 1,960 |
| Total Assets | 83,895 | 79,807 | 82,119 | 86,446 | 93,186 |

Cash flow statement (Consolidated)

| Y/E March (₹ cr) | FY2013 | FY2014 | FY2015 | FY2016E | FY2017E |
|----------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Profit before tax | 24,979 | 22,880 | 21,584 | 23,977 | 26,491 |
| Depreciation | 1,839 | 1,996 | 2,320 | 2,305 | 2,519 |
| Change in Working Capital | (6,839) | 244 | 477 | (3,860) | (776) |
| Others | (2,218) | (1,769) | 1,916 | 3,469 | 4,158 |
| Direct taxes paid | (8,652) | (8,826) | (7,857) | (8,041) | (8,884) |
| Cash Flow from Operations | 9,109 | 14,525 | 18,440 | 17,850 | 23,508 |
| (Inc.)/ Dec. in Fixed Assets | (2,454) | (4,116) | (4,494) | (4,893) | (4,736) |
| (Inc.)/ Dec. in Investments | 4,195 | (8,981) | 2,031 | - | - |
| Others | 1,035 | 14,076 | - | - | - |
| Cash Flow from Investing | 2,776 | 979 | (2,463) | (4,893) | (4,736) |
| 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) | (16) | (10) |
| Cash Flow from Financing | (7,852) | (25,350) | (15,273) | (15,312) | (15,306) |
| Inc./(Dec.) in Cash | 4,033 | (9,846) | 703 | (2,356) | 3,466 |
| Opening Cash balances | 58,203 | 62,236 | 52,390 | 53,093 | 50,737 |
| Closing Cash balances | 62,236 | 52,390 | 53,093 | 50,737 | 54,203 |

Key ratios

| Y/E March | FY2013 | FY2014 | FY2015 | FY2016E | FY2017E |
|---------------------------------|--------|--------|---------|---------|---------|
| Valuation Ratio (x) | | | | | |
| P/E (on FDEPS) | 14.2 | 16.4 | 18.0 | 15.5 | 14.0 |
| P/CEPS | 12.9 | 14.4 | 15.4 | 13.5 | 12.3 |
| P/BV | 5.1 | 5.8 | 6.1 | 6.0 | 5.7 |
| Dividend yield (%) | 3.6 | 7.4 | 5.3 | 5.3 | 5.3 |
| EV/Sales | 1.8 | 2.8 | 2.7 | 2.5 | 2.2 |
| EV/Adj. EBITDA | 5.9 | 9.9 | 10.0 | 9.4 | 7.7 |
| EV/Total Assets | 1.5 | 2.4 | 2.3 | 2.2 | 2.0 |
| Per Share Data (₹) | | | | | |
| EPS (Basic) | 27.5 | 23.9 | 21.7 | 25.3 | 27.9 |
| EPS (fully diluted) | 27.5 | 23.9 | 21.7 | 25.3 | 27.9 |
| Cash EPS | 30.3 | 27.1 | 25.4 | 28.9 | 31.9 |
| DPS | 14.0 | 29.0 | 20.7 | 20.7 | 20.7 |
| Book Value | 76.7 | 67.1 | 63.9 | 64.9 | 68.6 |
| Returns (%) | | | | | |
| ROCE (Pre-tax) | 22.0 | 17.1 | 15.9 | 17.2 | 19.9 |
| ROE | 39.0 | 33.2 | 33.1 | 39.1 | 41.7 |
| 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 | 67 | 67 |
| Solvency ratios (x) | | | | | |
| Net debt to equity | (1.3) | (1.3) | (1.4) | (1.3) | (1.3) |
| Net debt to EBITDA | (2.9) | (3.5) | (3.7) | (3.2) | (2.8) |
| Interest Coverage (EBIT / Int.) | 360.2 | 240.8 | 1,763.7 | 901.4 | 1,830.5 |

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Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Pvt. Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

Coal India

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|--|-----|
| 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)