

Q1FY22 result review

Utilities/mining

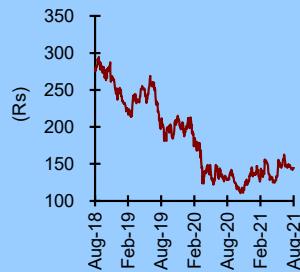
Target price: Rs234

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	66.1	66.1	66.1
Institutional investors	28.7	28.3	28.1
MFs and other	9.5	9.3	9.3
Insurance/FIs	12.7	12.5	12.2
FIs	6.5	6.5	6.6
Others	5.2	5.6	5.8

Source: NSE

Price chart



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Coal India

BUY

Maintained

Rs142

Good performance (adjusted for one-offs)

Coal India's (CIL) reported PAT for Q1FY22 was slightly below estimate at Rs31.7bn albeit up 52.8% YoY on a low base (I-Sec: Rs35.5bn). However, adjusted PAT at Rs36.2bn rose 74% YoY due to a one-time charge of Rs6bn (pre-tax) on actuarial valuation of higher medical benefits to retired employees (increased from Rs0.5mn to Rs0.8mn per retiree for 0.21mn retirees), as recommended by the CAG. Revenues were robust at Rs252.8bn, up 36.8% YoY, on strong volumes. Higher diesel expenses, higher depreciation and lower other income were the other major reasons offsetting higher volumes. Average realisation at Rs1,451/te was up 2.5% YoY though e-auction realisations remained flat YoY as e-auction volumes increased 90% YoY. Aided by strong coal PLFs, rising power demand and opening-up of export opportunities, e-auction premiums are expected to improve going forward. We remain positive on a significantly better FY22E. Maintain BUY.

► **Q1FY22 result – Key takeaways:**

- Offtake was up 33% YoY at 160mte. Production was 2.4% higher at 124mte.
- Reported PAT was Rs31.7bn, up 52.8% YoY on a low base (I-Sec: Rs35.5bn). However, adjusted PAT at Rs36.2bn (better than our estimate) was up 74% YoY due to a one-time charge of Rs6bn (pre-tax) on actuarial valuation of higher medical benefits (up from Rs0.5mn to Rs0.8mn per retiree for 0.21mn retirees), as recommended by the CAG.
- Other reasons impacting profits were: 1) Rs21/litre YoY increase in diesel prices (Rs3bn impact), 2) lower other income (due to decline in cash balance and lower rates), and 3) increase in depreciation due to higher capex in FY21.
- Revenues were in line with our estimate at Rs253bn, 36.8% higher YoY, supported by higher offtake and higher average realisation at Rs1,451/te, up 2.5% YoY.
- EBITDA at Rs48.4bn was slightly below our expectation of Rs49.4bn, mainly due to higher employee costs (up 8.3% YoY), which had the one-off component.
- FSA/e-auction volumes increased by 24.7% / 90.2% YoY at 127.5mte / 30.2mte respectively. FSA realisations at Rs1,394/te was 2.6% higher YoY, but flat QoQ due to continued higher sale of low-grade coal. E-auction realisations declined 10.4% QoQ to Rs1,569/te (although only 1.8% lower YoY). We expect realisations to improve significantly from these levels in the next few quarters.

► **Evacuation charge increase will lead to higher earnings:** With effect from 1st Aug'21, CIL has subsumed rapid loading charges (earlier Rs29/te for ~100mtpa) with evacuation facility charges (earlier Rs50/te for ~500mtpa) and standardised it to Rs60/te. Ceteris paribus, we estimate the revision to result in earnings increase of Rs4.7bn-4.9bn in FY22E and >Rs8.5bn p.a. FY23E onwards. *Please refer to our report for more details.*

► **Valuation:** We maintain our **BUY** rating, our DCF-based target price of Rs234, and our offtake volume estimates for FY22E/FY23E at 625mte/655mte respectively. The stock is currently trading at 4.7x P/E and 2.4x EV/EBITDA on FY23E basis with 39.7% RoE. We expect dividend payout to be high, leading to 14% dividend yield at current prices, as incremental capex in diversified segments is expected to be funded primarily by debt.

Market Cap	Rs876bn/US\$11.8bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	COAL.BO/ COAL IN	Revenue (Rs mn)	960,803	900,260	997,675	1,065,405
Shares Outstanding (mn)	6,162.7	Net Income (Rs mn)	167,003	127,022	158,773	185,271
52-week Range (Rs)	163/111	DEPS (Rs)	27.1	20.6	25.8	30.1
Free Float (%)	33.9	% Chg YoY	(4.4)	(23.9)	25.0	16.7
FII (%)	6.6	P/E (x)	5.2	6.9	5.5	4.7
Daily Volume (US\$/'000)	32,622	CEPS (Rs)	41.7	29.0	41.0	46.4
Absolute Return 3m (%)	(3.3)	EV/E (x)	2.9	3.8	2.5	2.4
Absolute Return 12m (%)	20.8	Dividend Yield (%)	8.5	11.3	14.1	14.1
Sensex Return 3m (%)	10.9	RoCE (%)	43.7	30.7	35.2	36.1
Sensex Return 12m (%)	44.4	RoE (%)	51.3	34.4	39.2	39.7

Please refer to important disclosures at the end of this report

Table 1: Q1FY22 result review

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Particulars					
Production (mnte)	124.0	121.0	2.4%	203.4	-39.1%
Off-take (mnte)	160.4	120.4	33.2%	164.9	-2.7%
Realisation/tonne (Rs)	1,451	1,415	2.5%	1,484	-2.2%
EBITDA/tonne (Rs)	302	253	19.1%	387	-22.0%
Revenues	252,822	184,868	36.8%	267,001	-5.3%
(Inc)/Dec in Stock	18,438	-7,860		25,273	
Stores & Spares expense	22,773	15,204	49.8%	-20,556	
Employee expenses	103,936	95,962	8.3%	106,251	-2.2%
Power & Fuel	6,180	5,986	3.2%	6,152	0.5%
Social Overhead	1,168	1,027	13.8%	1,758	-33.5%
Repairs	2,608	2,654	-1.7%	5,364	-51.4%
Contractual Expenses	40,225	35,247	14.1%	48,359	-16.8%
Other Expenses	10,947	8,198	33.5%	13,261	-17.4%
Provision/Write-off	681	460	48.1%	1,396	-51.2%
Op expenses	206,955	156,877	31.9%	187,257	10.5%
EBITDA (ex OBR)	45,867	27,991	63.9%	79,745	-42.5%
EBITDA margin (ex OBR)	18.1%	15.1%		29.9%	
OBR adjustment	-2,572	-2,526		15,924	
EBITDA	48,439	30,517	58.7%	63,821	-24.1%
EBITDA margins	19.2%	16.5%		23.9%	
Depreciation	10,406	8,526	22.1%	10,881	-4.4%
EBIT	38,033	21,991	72.9%	52,940	-28.2%
Other Income	6,810	7,851	-13.3%	12,740	-46.5%
Interest	1,476	1,830	-19.3%	1,590	-7.2%
Prior Period Adjustment	-11	-11		-29	
PBT	43,356	28,001	54.8%	64,061	-32.3%
Tax	11,614	7,226	60.7%	18,172	-36.1%
PAT	31,741	20,775	52.8%	45,890	-30.8%
PAT margins	12.6%	11.2%		17.2%	

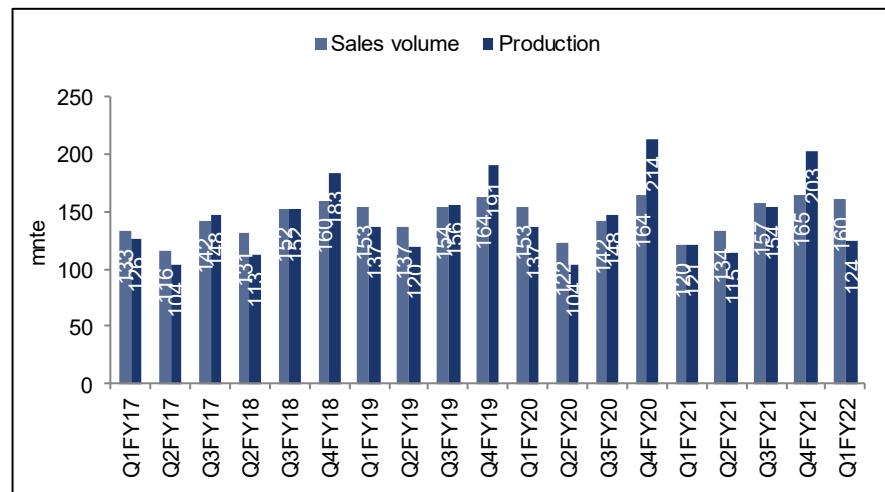
Source: Company data, I-Sec research

Table 2: Category-wise sales volumes and realisations

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Sales volumes (mnte)					
FSA	127.5	102.2	24.7%	132.9	-4.1%
E-auction	30.2	15.9	90.2%	28.9	4.4%
Coking coal (washed)	0.1	0.3	-80.6%	0.4	-83.8%
Non-coking coal (washed)	1.9	1.4	33.6%	2.3	-19.0%
By-products	1.0	0.3	179.4%	0.7	31.9%
Total sales	160.4	120.4	33.2%	164.9	-2.7%
Production (mnte)	124.0	121.0	2.4%	203.4	-39.1%
Sales realisation (Rs/ te)					
FSA	1,394	1,359	2.6%	1,392	0.2%
E-Auction	1,569	1,598	-1.8%	1,752	-10.4%
Coking coal (washed)	5,927	5,715	3.7%	7,170	-17.3%
Non-coking coal (washed)	2,635	1,993	32.2%	2,054	28.3%
By-products	2,711	3,506	-22.7%	2,947	-8.0%
Avg. realisation	1,451	1,415	2.5%	1,484	-2.2%

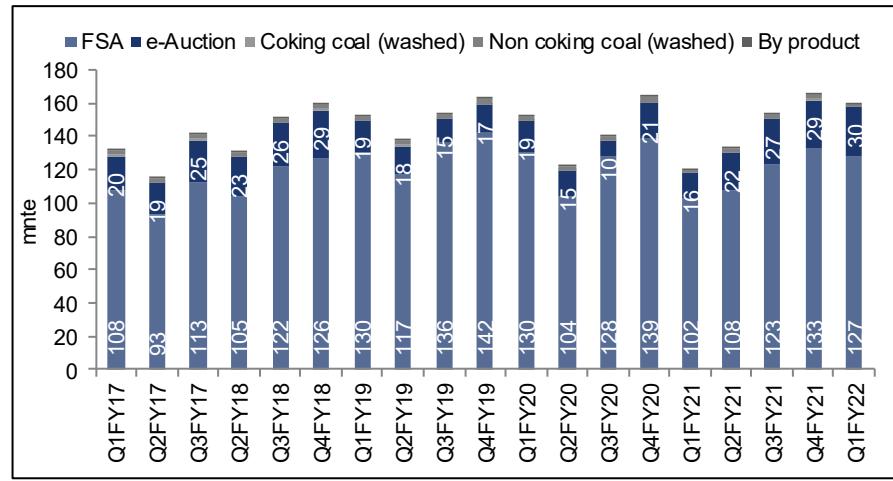
Source: Company data, I-Sec research

Chart 1: Production and offtake



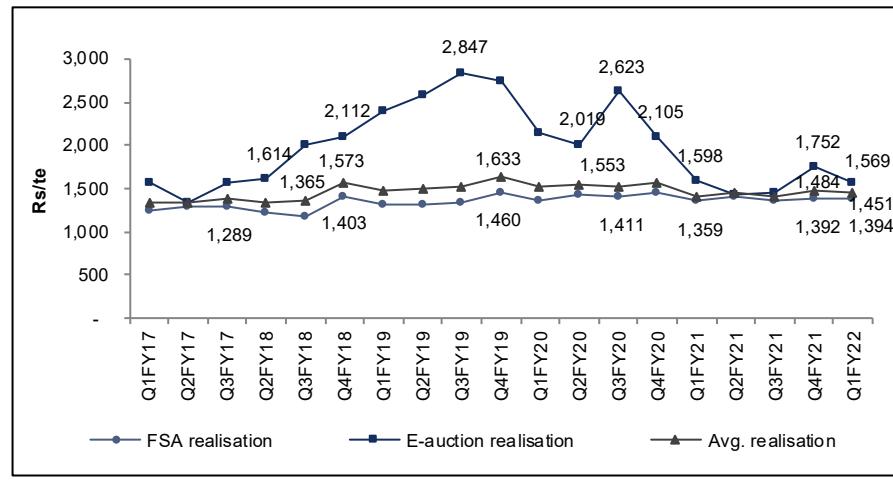
Source: Company data, I-Sec research

Chart 2: Offtake breakup



Source: Company data, I-Sec research

Chart 3: Realisation trend



Source: Company data, I-Sec research

Valuation methodology and risks

We maintain our **BUY** rating, our DCF-based target price of Rs234, and our offtake volume estimates for FY22E/FY23E at 625mnte/655mnte respectively. Our conservative volume estimates take into consideration the impact of flood-like situation in eastern India. The stock is currently trading at 4.7x P/E and 2.4x EV/EBITDA on FY23E basis with 39.7% RoE. We expect dividend payout to be high, leading to 14% dividend yield at current prices, as incremental capex in diversified segments is expected to be funded primarily by debt.

Key downside risks: 1) Weakness in power sector leading to lower volumes, 2) weakness in international coal prices (impacting the sentiment and making imported coal more competitive vs domestic coal), and 3) natural disasters impacting volumes.

Financial summary (consolidated)

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	782,206	858,624	995,469	960,803	900,260	997,675	1,065,405
Operating Expenses	659,807	762,962	745,698	741,595	714,526	775,188	805,270
EBITDA	122,399	95,663	249,771	219,208	185,734	222,488	260,136
Margins	15.6%	11.1%	25.1%	22.8%	20.6%	22.3%	24.4%
Depreciation & Amortisation	29,101	30,664	34,504	34,508	37,089	43,930	50,770
Gross Interest	4,117	4,318	2,750	5,029	6,447	6,000	6,000
Other Income	55,156	46,583	58,737	61,042	37,894	42,000	47,000
Recurring PBT	144,337	107,264	271,255	240,713	180,092	214,558	250,366
Add: Extraordinaries	-	-	(8)	-	-	-	-
Less: Taxes	(51,660)	(37,067)	(96,625)	(73,710)	(53,071)	(55,785)	(65,095)
Net Income (Reported)	95,928	137,742	174,622	167,003	127,022	158,773	185,271
Recurring Net Income	92,678	70,198	174,622	167,003	127,022	158,773	185,271

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Assets							
Total Current Assets	694,297	696,288	687,114	840,511	812,285	762,672	762,337
of which cash & cash eqv.	311,492	314,751	311,242	284,468	173,103	221,694	223,860
Total Current Liabilities & Provisions	850,810	1,002,216	975,013	1,042,577	1,116,343	1,102,203	1,104,003
Net Current Assets	(156,512)	(305,929)	(287,898)	(202,066)	(304,057)	(339,531)	(341,666)
Investments	14,829	15,086	31,710	19,729	59,502	59,502	59,502
of which							
Other Marketable	14,829	15,086	31,710	19,729	59,502	59,502	59,502
Net Fixed Assets	323,966	378,638	422,726	451,119	528,951	599,942	664,093
of which							
Capital Work-in-Progress	85,852	102,864	96,616	83,283	104,898	116,390	127,883
Total Assets	327,343	272,701	352,176	457,639	501,454	536,972	598,988
Liabilities							
Borrowings	30,078	15,309	22,027	64,260	58,753	58,753	58,753
Deferred Tax Liability/(Asset)	-	-	-	-	-	-	-
Equity Share Capital	62,074	62,074	61,627	61,627	61,627	61,627	61,627
Face Value per share (Rs)	10	10	10	10	10	10	10
Reserves & Surplus	186,566	140,016	206,980	263,883	307,957	343,475	405,491
Net Worth	248,640	202,090	268,607	325,510	369,584	405,103	467,119
Total Liabilities	327,343	272,701	352,176	457,639	501,454	536,972	598,988

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Net sales	249,390	203,826	231,905	275,682	184,868	211,531	236,860	267,001	252,882
Growth (YoY)	2.8	(6.9)	(7.4)	(3.4)	(25.9)	3.8	2.1	-3.1	36.8
EBITDA	66,124	36,112	49,684	67,289	30,517	39,749	51,648	63,821	48,439
Margin (%)	26.5	17.7	21.4	24.4	16.5	18.8	21.8	23.9	19.2
Other income	11,495	16,290	14,128	19,131	7,851	10,848	6,486	12,740	6,810
Add: Extra-ordinaries	-	-	-	-	-	-	-	-	-
Net profit(reported)	46,299	35,229	39,218	46,258	20,775	29,518	30,841	45,890	31,741

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Operating Cashflow	121,778	100,862	209,134	201,512	164,111	202,703	236,041
Working Capital Changes	104,362	197,054	7,611	(28,767)	16,978	84,064	4,301
Capital Commitments	(83,837)	(65,454)	(70,063)	(54,148)	(113,294)	(114,921)	(114,921)
Free Cashflow	142,304	232,461	146,681	118,597	67,794	171,845	125,420
Cashflow from Investing Activities	-	-	-	-	-	-	-
Issue of Share Capital	(1,090)	-	(447)	-	-	-	-
Buyback of shares	-	-	-	-	-	-	-
Inc (Dec) in Borrowings	(65,344)	(109,368)	(55,287)	(56,628)	(80,556)	-	-
Dividend paid -including tax	(144,527)	(119,834)	(94,456)	(88,743)	(98,604)	(123,255)	(123,255)
Extraordinary Items	-	-	-	-	-	-	-
Chg. in Cash & Bank balances	(68,657)	3,259	(3,509)	(26,774)	(111,365)	48,591	2,166

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)							
EPS(Basic Recurring)	14.9	11.3	28.3	27.1	20.6	25.8	30.1
Diluted Recurring EPS	14.9	11.3	28.3	27.1	20.6	25.8	30.1
Recurring Cash EPS	23.9	21.7	42.2	41.7	29.0	41.0	46.4
Dividend per share (DPS)	19.9	16.5	13.1	12.0	16.0	20.0	20.0
Book Value per share (BV)	40.1	32.6	43.6	52.8	60.0	65.7	75.8
Growth Ratios (%)							
Operating Income	0.3	9.8	15.9	(3.5)	(6.3)	10.8	6.8
EBITDA	(34.6)	(21.8)	161.1	(12.2)	(15.3)	19.8	16.9
Recurring Net Income	(35.0)	(24.3)	148.8	(4.4)	(23.9)	25.0	16.7
Diluted Recurring EPS	(33.9)	(24.3)	150.6	(4.4)	(23.9)	25.0	16.7
Diluted Recurring CEPS	(24.1)	(9.5)	94.7	(1.1)	(30.5)	41.5	13.2
Valuation Ratios (x)							
P/E	9.5	12.6	5.0	5.2	6.9	5.5	4.7
P/CEPS	5.9	6.6	3.4	3.4	4.9	3.5	3.1
P/BV	3.5	4.4	3.3	2.7	2.4	2.2	1.9
EV / EBITDA	3.7	3.8	1.8	2.9	3.8	2.5	2.4
EV / Operating Income	0.7	0.7	0.6	0.7	0.8	0.7	0.6
EV / Operating FCF	4.1	2.4	3.8	5.4	10.3	3.8	5.2
Operating Ratios							
Employee cost / Revenue (%)	42.8	49.7	38.9	41.0	43.0	38.9	37.6
Operating exp / Revenue (%)	84.4	88.9	74.9	77.2	79.4	77.7	75.6
Other Income / PBT (%)	38.2	43.4	21.7	25.4	21.0	19.6	18.8
Effective Tax Rate (%)	35.8	34.6	35.6	30.6	29.5	26.0	26.0
WC / Total Assets (%)	(47.8)	(112.2)	(81.7)	(44.2)	(60.6)	(63.2)	(57.0)
Inventory Turnover	9.5	11.2	16.6	15.7	11.6	13.2	16.7
Receivables (days)	58.2	36.9	20.2	54.7	79.6	45.8	41.0
Payables (days)	-	-	-	-	-	-	-
Net D/E Ratio (%)	(113.2)	(148.2)	(107.7)	(67.7)	(30.9)	(40.2)	(35.3)
Profitability Ratios (%)							
Recurring Net Income Margins	11.8	8.2	17.5	17.4	14.1	15.9	17.4
RoCE	35.4	64.7	60.7	43.7	30.7	35.2	36.1
RoNW	38.6	68.2	65.0	51.3	34.4	39.2	39.7
Dividend Payout Ratio	135.6	145.9	46.6	44.3	77.6	77.6	66.5
Dividend Yield	14.0	11.6	9.2	8.5	11.3	14.1	14.1
EBITDA Margins	15.6	11.1	25.1	22.8	20.6	22.3	24.4

Source: Company data, I-Sec research

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