

ICICI Securities Limited
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Company update and
earnings revision

Utilities/mining

Target price: Rs234

Earnings revision

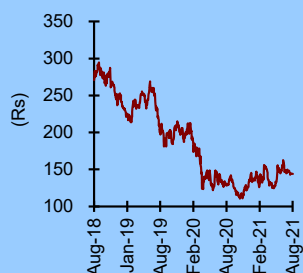
| (%) | FY22E | FY23E |
|--------|-------|-------|
| Sales | ↓ 0.1 | ↑ 0.7 |
| EBITDA | ↑ 1.1 | ↑ 4.2 |
| EPS | ↑ 1.1 | ↑ 3.7 |

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

Rs144

Evacuation charge hike to benefit

Coal India (CIL) has subsumed rapid loading charges (Rs29/te) with evacuation charges (Rs50/te) and hiked both to a standard rate of Rs60/te w.e.f. 1st Aug'21. This hike will result in an increment of >Rs8.5bn p.a. in earnings. While we increase our EPS estimates for both FY22E/FY23E, incorporating the increased charges, we reduce our offtake volume estimates by 5mnte for each year, due to heavy rains in the eastern part of India. In 4MFY22, production/offtake at 166.6mnte/210.8mnte was up 5.2%/28.4% YoY. Also, in Q1FY22, e-auction volumes were 27.3mnte (up 38% YoY), while premiums averaged 18% above notified prices, and in Jun'21, spot e-auction premiums reached 38%. Maintain BUY.

- **Evacuation charge increase will lead to higher earnings:** CIL sells 83% of its annual coal production (~500mnte) without silo storage for which it charged Rs50/te earlier as evacuation facility charges. For the balance 17% ~(100mnte), silo facilities are present and the rapid loading charged earlier was Rs29/te. W.e.f. 1st Aug'21, CIL has subsumed rapid loading charges with evacuation facility charges and standardised it to Rs60/tn, as is being done by SCCL. Ceteris paribus, we estimate the revision to result in earnings increase of Rs4.7-4.9bn in FY22 and >Rs8.5bn p.a. FY23 onwards. However, tweaking volumes downwards on slight flood-like situation in the east (we have reduced our offtake estimates for FY22/FY23 by 5mnte each), hence, net EPS impact will be +1.1%/+3.7% on our earlier estimates.
- **Production and offtake remain higher YoY:** For Jul'21, production was 42.6mnte (+14.1% YoY) while offtake was 50.5mnte (+16.7% YoY). For Q1FY20, production was 124mnte (+2.4% YoY) while offtake was 160.3mnte (+32.7% YoY). For 4MFY22, production/offtake was 166.6mnte/210.8mnte, up 5.2%/28.4% YoY.
- **Subsidiary-wise performance in 4MFY22:** Production – ECL: 10.1mnte (-19.9%), BCCL: 8mnte (+25.1%), CCL: 17mnte (+45.7%), NCL: 34.8mnte (-0.7%), WCL: 13.1mnte (+5.9%), SECL: 37.7mnte (+2.4%) and MCL: 45.9mnte (+5.6%). Off-take – ECL: 13.6mnte (+2.7%), BCCL: 10.3mnte (+80.8%), CCL: 23.6mnte (+46.5%), NCL: 38.4mnte (+22%), WCL: 20.3mnte (+64.4%), SECL: 51.5mnte (+26%) and MCL: 53.1mnte (+19.9%).
- **E-auction updates:** E-auction volumes declined in May-Jun'21 from their spectacular run of >10mnte p.m. Dec'20 onwards. In Q1FY22, e-auction volumes were 27.3mnte (up 38% YoY). Average premiums during Q1FY22 were 18% above notified prices, and in Jun'21, spot e-auction premium reached 38%. With higher demand, premiums should remain elevated.
- **Valuation:** We maintain our **BUY** rating and DCF-based target price of Rs234, but reduce our offtake volume estimates for FY22E/FY23E by 5mnte each to 625mnte/655mnte, respectively, as we expect volumes to be impacted due to flood-like situation in Eastern India. The stock is currently trading at 5.6x 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 by debt primarily.

| | |
|--------------------------|--------------------|
| Market Cap | Rs887bn/US\$11.9bn |
| Reuters/Bloomberg | COAL.BO/ COAL IN |
| Shares Outstanding (mn) | 6,162.7 |
| 52-week Range (Rs) | 165/109 |
| Free Float (%) | 33.9 |
| FII (%) | 6.6 |
| Daily Volume (US\$/'000) | 33,558 |
| Absolute Return 3m (%) | 9.1 |
| Absolute Return 12m (%) | 12.3 |
| Sensex Return 3m (%) | 11.1 |
| Sensex Return 12m (%) | 47.4 |

| Year to Mar | FY20 | FY21 | FY22E | FY23E |
|--------------------|---------|---------|---------|---------|
| Revenue (Rs mn) | 995,469 | 960,803 | 900,260 | 997,675 |
| Net Income (Rs mn) | 174,622 | 167,003 | 127,022 | 158,773 |
| DEPS (Rs) | 28.3 | 27.1 | 20.6 | 25.8 |
| % Chg YoY | 150.6 | (4.4) | (23.9) | 25.0 |
| P/E (x) | 5.1 | 5.3 | 7.0 | 5.6 |
| CEPS (Rs) | 42.2 | 41.7 | 29.0 | 41.0 |
| EV/E (x) | 1.9 | 3.0 | 3.8 | 2.6 |
| Dividend Yield (%) | 9.1 | 8.3 | 11.1 | 13.9 |
| RoCE (%) | 60.7 | 43.7 | 30.7 | 35.2 |
| RoE (%) | 65.0 | 51.3 | 34.4 | 39.2 |

Please refer to important disclosures at the end of this report

Change in earnings estimate

Table 1: Earnings revision (consolidated)

(Rs mn, year ending March 31)

| | FY22E | | | FY23E | | |
|----------|----------|---------|-------|-----------|-----------|-------|
| | Previous | Revised | % chg | Previous | Revised | % chg |
| Sales | 998,565 | 997,675 | (0.1) | 1,057,899 | 1,065,405 | 0.7 |
| EBITDA | 220,135 | 222,488 | 1.1 | 249,744 | 260,136 | 4.2 |
| PAT (Rs) | 157,032 | 158,773 | 1.1 | 178,691 | 185,271 | 3.7 |

Source: Company data, I-Sec research

We increase our estimates for CIL, incorporating the increased evacuation charges. However, we reduce our offtake volume estimates for FY22E/FY23E by 5mnte each to 625mnte/655mnte, respectively, as we expect volumes to be slightly impacted due to flood-like situation in Eastern India.

Valuation methodology and risks

We maintain our **BUY** rating and DCF-based target price of Rs234 on the stock. The stock is currently trading at 5.6x 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 by debt primarily.

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 2: 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 |
| <i>Margins</i> | <i>15.6%</i> | <i>11.1%</i> | <i>25.1%</i> | <i>22.8%</i> | <i>20.6%</i> | <i>22.3%</i> | <i>24.4%</i> |
| 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 3: 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 |
| <i>of which cash & cash eqv.</i> | <i>311,492</i> | <i>314,751</i> | <i>311,242</i> | <i>284,468</i> | <i>173,103</i> | <i>221,694</i> | <i>223,860</i> |
| 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 |
| <i>of which</i> | | | | | | | |
| <i>Other Marketable</i> | <i>14,829</i> | <i>15,086</i> | <i>31,710</i> | <i>19,729</i> | <i>59,502</i> | <i>59,502</i> | <i>59,502</i> |
| Net Fixed Assets | 323,966 | 378,638 | 422,726 | 451,119 | 528,951 | 599,942 | 664,093 |
| <i>of which</i> | | | | | | | |
| <i>Capital Work-in-Progress</i> | <i>85,852</i> | <i>102,864</i> | <i>96,616</i> | <i>83,283</i> | <i>104,898</i> | <i>116,390</i> | <i>127,883</i> |
| 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 |
| <i>Face Value per share (Rs)</i> | <i>10</i> | <i>10</i> | <i>10</i> | <i>10</i> | <i>10</i> | <i>10</i> | <i>10</i> |
| 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 4: Quarterly trend

(Rs mn, year ending March 31)

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

Source: Company data, I-Sec research

Table 5: 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 6: 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 | 9.6 | 12.7 | 5.1 | 5.3 | 7.0 | 5.6 | 4.8 |
| P/CEPS | 6.0 | 6.6 | 3.4 | 3.5 | 5.0 | 3.5 | 3.1 |
| P/BV | 3.6 | 4.4 | 3.3 | 2.7 | 2.4 | 2.2 | 1.9 |
| EV / EBITDA | 3.8 | 3.9 | 1.9 | 3.0 | 3.8 | 2.6 | 2.4 |
| EV / Operating Income | 0.8 | 0.7 | 0.6 | 0.7 | 0.8 | 0.7 | 0.6 |
| EV / Operating FCF | 4.2 | 2.5 | 3.9 | 5.5 | 10.5 | 3.9 | 5.3 |
| 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 Pay-out Ratio | 135.6 | 145.9 | 46.6 | 44.3 | 77.6 | 77.6 | 66.5 |
| Dividend Yield | 13.8 | 11.5 | 9.1 | 8.3 | 11.1 | 13.9 | 13.9 |
| 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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