

Company update and
earnings revision

Utilities/mining

Target price: Rs234

Earnings revision

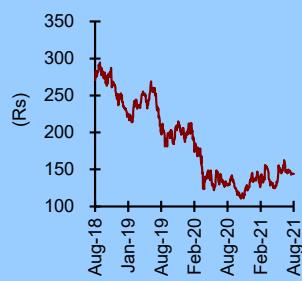
(%)	FY22E	FY23E
Sales	↓ 0.1	↑ 0.7
EBITDA	↑ 1.1	↑ 4.2
EPS	↑ 1.1	↑ 3.7

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
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 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
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 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
Growth (YoY)	2.8	(6.9)	(7.4)	(3.4)	(25.9)	3.8	2.1	-3.1
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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