

FSA realisation surprises positively....

Coal India (CIL) reported a steady set of Q2FY20 numbers. Higher-than-expected FSA realisations supported overall earnings for the quarter. The company reported a sales volume of 122 million tonne (MT) (down ~11% YoY). FSA sales volume came in at 104 MT (broadly in line with our estimate of ₹ 105 MT) while FSA realisations during the quarter was at ₹ 1439/tonne (up 5% QoQ, higher than our estimate of ₹ 1350/tonne). E-auction volumes came in at 15 MT (broadly in line with our estimate of 14 MT) while the e-auction realisations were at ₹ 2020/tonne (down 6% QoQ, broadly in line with our estimate of ₹ 2000/tonne). The company reported a total operating income of ₹ 20383 crore, down 7% YoY. EBITDA came in at ₹ 3611.2 crore, (higher than our estimate of ₹ 3240.1 crore). EBITDA margins came in at 17.7%, higher than our estimate of 17.3% (17.6% in Q2FY19). CIL reported EBITDA/tonne of ₹ 295/tonne (higher than our estimate of ₹ 265/tonne). PAT was supported by a lower effective tax rate, which came in at ~17.6%. Ensuuing PAT came in at ₹ 3523 crore, up 14% YoY (higher than our estimate of ₹ 2505.8 crore).

Downward revise volume estimates on muted H1FY20...

During the YTD current fiscal, CIL's production and offtake volumes witnessed a muted trend. One of the reasons for the same is extended monsoons. Production volume for the first seven months (April-October 2019) in FY20 was at 280.4 MT (down 8.5% YoY). Similarly, offtake volumes for April-October 2019 were at 316.3 MT (down 7.2% YoY). Going forward, we model offtake volume of 600 MT for FY20E (downward revise from 625 MT earlier) and 625 MT for FY21E (downward revise from 650 MT earlier). CIL's offtake volume for FY19 was at 608 MT.

Margins to hover around 22%...

Q2FY20 is generally a seasonally weak quarter for Coal India on account of the monsoon season. For Q2FY20, CIL reported a consolidated EBITDA margin of 17.7%. Going forward, we expect EBITDA margins to witness an uptick from Q2FY20 levels. We model consolidated EBITDA margin of 21.7% for FY20E and 22.4% for FY21E.

Valuation & Outlook

Coal India reported a healthy performance for Q2FY20 on the back of better-than-expected FSA realisations. Going forward, on the back of the subdued trend witnessed in Coal India production and offtake trend, we downward revise our volume estimate. Going forward, we expect EBITDA margins to remain steady at ~22% over the next couple of years. We value the stock at 5x FY21E EV/EBITDA and arrive at a target price of ₹ 225. We maintain our **HOLD** recommendation.



Particulars	
Particular	Amount
Market Capitalization	₹ 129417 crore
Total Debt (FY19)	₹ 2203 crore
Cash and Investments (FY19)	₹ 31124 crore
EV	₹ 100496 crore
Equity capital	₹6162.7 crore
Face value	₹10

Key Highlights

- FSA realisation during the quarter was at ₹ 1439/tonne, up 5% QoQ
- E-auction realisations were at ₹ 2020/tonne, down 6% QoQ
- Maintain HOLD rating on stock with target price of ₹ 225

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Key Financial Summary			FY19	FY20E	FY21E
Total Operating Income	78,221	85,244	99,547	96,581	100,489
EBITDA	12,240	9,288	24,977	20,921	22,556
EBITDA Margin (%)	15.6	10.9	25.1	21.7	22.4
PAT	14,434	7,038	17,463	17,943	19,213
EPS (₹)	23.3	11.3	28.3	29.1	31.2
EV/EBITDA (x)	5.9	10.9	4.0	5.1	4.6
RoCE (%)	27.8	40.8	86.4	58.8	52.0
RoE (%)	36.5	34.9	66.2	53.5	45.8

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
Total Operating Income	20,382.6	18,783.0	22,198.1	-8.2	24,939.0	-18.3	Topline came in broadly in higher than our estimate
Other Income	1,460.0	1,249.9	2,011.3	-27.4	1,150.2	26.9	
Total Expenditure	16,771.5	15,542.9	18,283.9	-8.3	18,326.6	-8.5	
EBITDA	3,611.2	3,240.1	3,914.2	-7.7	6,612.4	-45.4	EBITDA came in higher than our estimate
EBITDA Margin (%)	17.7	17.3	17.6	10 bps	26.5	(880) bps	EBITDA margin came in higher than our estimates
Depreciation	793.0	750.0	806.9	-1.7	734.3	8.0	
Interest	-	-	0.8	-100.0	16.6	-100.0	
Exceptional Item	1.0	-	-	NA	0.8	NA	
PBT	4,277.2	3,740.0	5,117.8	-16.4	7,011.0	-39.0	
Total Tax	754.0	1,234.2	2,031.7	-62.9	2,381.1	-68.3	
PAT	3,523	2,505.8	3,086.1	14.2	4,629.9	-23.9	PAT came in higher than our estimates
Key Metrics							
Coal Sales (million tonne)	122	123	137.3	-10.9	153.5	-20.3	

Source: Company, ICICI Direct Research

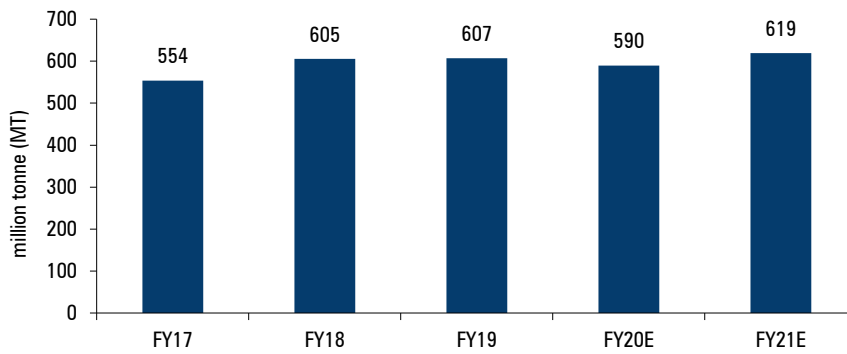
Exhibit 2: Change in estimate

(₹ Crore)	FY20E			FY21E			Comments
	New	Old	%Change	New	Old	%Change	
Total Op. Income	96,581	99,742	-3.2	100,489	100,977	-0.5	Topline revised on the back of downward revision of sales volume estimate
EBITDA	20,921	22,492	-7.0	22,556	23,286	-3.1	
EBITDA Margin (%)	21.7	22.6	-89 bps	22.4	23.1	-61 bps	
PAT	17,943	17,171	4.5	19,213.3	17,735	8.3	
EPS (₹)	29.1	27.9	4.5	31.2	28.8	8.3	PAT revised upward on the back of incorporation of new lower corporate tax rate
Overall Sales volume	600	625	-4.0	600	650	-7.7	Sales volume revised downwards on the back of muted trend in volumes YTD

Source: Company, ICICI Direct Research

Financial story in charts

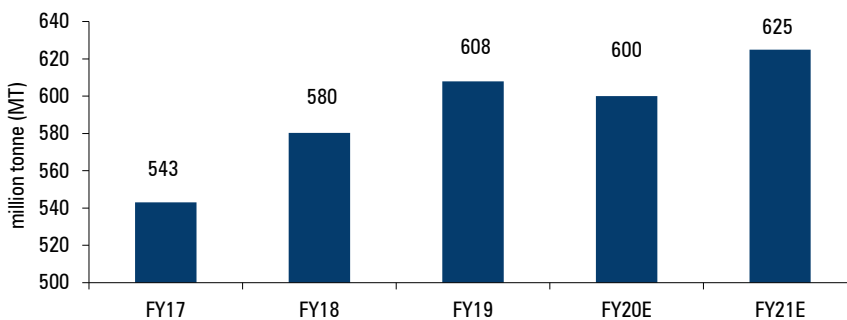
Exhibit 3: Trend in production



Modelled coal production of 590 MT for FY20E and 619 MT for FY21E

Source: Company, ICICI Direct Research

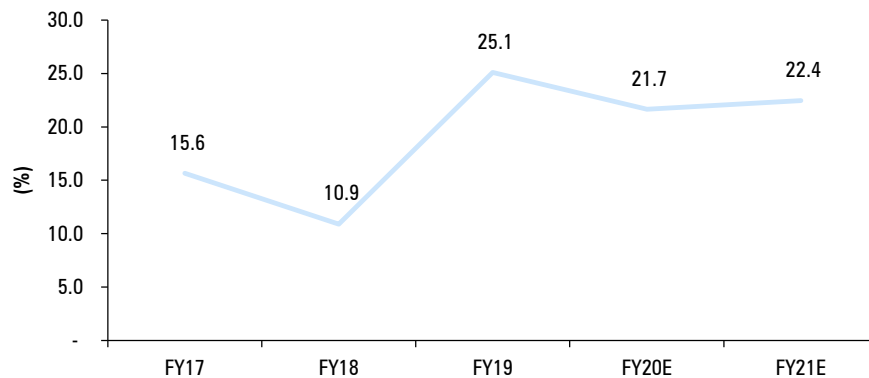
Exhibit 4: Trend in offtake



Modelled coal offtake of 600 MT for FY20E and 625 MT for FY21E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in reported consolidated EBITDA margin (in %)



Over the next couple of years, we expect EBITDA margin to hover at ~22%

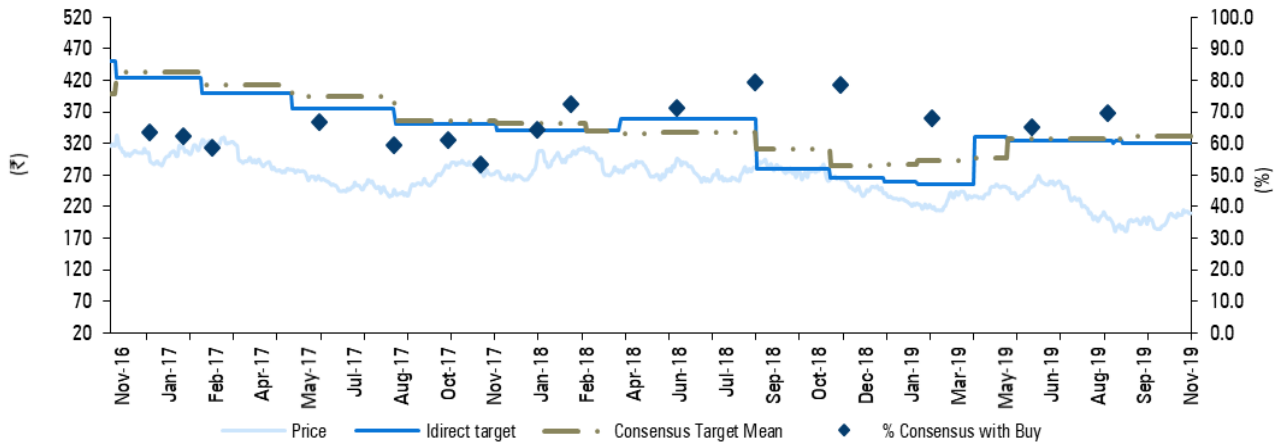
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Op. Inc.	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY17	78,221	0.3	23.3	2.9	9.0	5.9	36.5	27.8
FY18	85,244	9.0	11.3	-51.2	18.5	10.9	34.9	40.8
FY19	99,547	16.8	28.3	149.9	7.4	4.0	66.2	86.4
FY20E	96,581	-3.0	29.1	2.7	7.2	5.1	53.5	58.8
FY21E	100,489	4.0	31.2	7.1	6.7	4.6	45.8	52.0

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, Reuters

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Government of India	10-Oct-19	69.0%	4255.2m	-12.8
2	Life Insurance Corporation of India	30-Sep-19	10.9%	674.0m	0.0
3	Reliance Nippon Life Asset Management Limited	30-Sep-19	2.2%	136.9m	3.7
4	HDFC Asset Management Co., Ltd.	30-Sep-19	2.1%	126.7m	3.9
5	The Vanguard Group, Inc.	30-Sep-19	0.8%	51.5m	-0.6
6	BlackRock Institutional Trust Company, N.A.	31-Oct-19	0.6%	37.8m	0.1
7	SBI Funds Management Pvt. Ltd.	30-Sep-19	0.5%	29.8m	0.4
8	Goldman Sachs Asset Management (India) Private	31-Mar-18	0.5%	29.4m	0.1
9	Lazard Asset Management, L.L.C.	30-Sep-19	0.4%	27.6m	0.0
10	Aditya Birla Sun Life AMC Limited	30-Sep-19	0.3%	18.6m	-0.2

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
HDFC Asset Management Co., Ltd.	11.0M	3.9M	Capital World Investors	-129.6M	-45.8M
Reliance Nippon Life Asset Management Limited	10.5M	3.7M	Government of India	-34.3M	-12.8M
Mirae Asset Global Investments (India) Pvt. Ltd.	3.3M	1.2M	Baron Capital Management, Inc.	-29.7M	-8.1M
FIL Investment Management (Singapore) Ltd.	3.3M	1.2M	Edelweiss Asset Management Ltd.	-16.3M	-5.8M
Mellon Investments Corporation	2.2M	0.7M	IDFC Asset Management Company Private Limited	-12.5M	-4.4M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19
Promoter	71.0	71.0	69.3
Others	29.0	29.0	30.7
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total Operating Income	85244.2	99546.9	96581.1	100488.7
Growth (%)	9.0	16.8	-3.0	4.0
Total Operating Expenditure	75956.0	74569.8	75660.0	77932.5
EBITDA	9288.2	24977.2	20921.1	22556.2
Growth (%)	-24.1	168.9	-16.2	7.8
Depreciation	3062.7	3450.4	3536.6	3625.0
Interest	430.1	275.0	206.3	154.7
Other Income	4974.9	5873.7	6629.8	6762.3
Exceptional Item	-	-	-	-
PBT	10770.3	27125.5	23808.0	25538.8
Total Tax	3732.3	9662.5	5865.4	6325.4
PAT	7038.0	17463.0	17942.6	19213.3
Growth (%)	-51.2	148.1	2.7	7.1
Adj EPS (₹)	11.3	28.3	29.1	31.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	7038.0	17463.0	17942.6	19213.3
Add: Depreciation	3062.7	3450.4	3536.6	3625.0
Add: Interest	430.1	275.0	206.3	154.7
(Inc)/dec in Current Assets	-3020.9	-1308.5	-8644.4	-3609.5
Inc/(dec) in CL and Prov.	15200.2	256.8	-423.7	4212.9
CF from operating activities	22710.0	20136.8	12617.3	23596.4
(Inc)/dec in Investments	-220.8	-1467.3	0.0	0.0
(Inc)/dec in Fixed Assets	-8511.7	-7876.2	-7324.0	-8000.0
Others	-650.9	-130.7	-1000.0	-1000.0
CF from investing activities	-9383.4	-9474.2	-8324.0	-9000.0
Issue/(Buy back) of Equity	16.5	44.3	50.0	50.0
Inc/(dec) in loan funds	-1476.9	671.8	-500.0	-500.0
Interest Paid	-430.1	-275.0	-206.3	-154.7
Dividend paid & dividend tax	-11983.4	-9445.6	-10815.5	-10815.5
Others	-14406.5	-1814.3	0.0	0.0
CF from financing activities	-28280.3	-10818.8	-11471.8	-11420.2
Net Cash flow	-14953.7	-156.2	-7178.5	3176.2
Opening Cash	46233.7	31280.4	31124.2	23945.6
Closing Cash	31280	31124	23946	27122

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Share Capital	6,207.4	6,162.7	6,162.7	6,162.7
Reserve and Surplus	13,971.3	20,219.2	27,346.2	35,744.0
Total Shareholders funds	20178.7	26381.9	33508.9	41906.7
Total Debt	1530.9	2202.7	1702.7	1202.7
Minority Interest	362.5	406.8	456.8	506.8
Total Liabilities	22072	28992	35669	43616
Assets				
Gross Block	65518.0	74070.5	80070.5	86070.5
Less: Acc Depreciation	37943.9	41420.8	45633.4	49258.4
Net Block	27574.1	32649.7	34437.1	36812.0
CWIP	10272.7	9622.9	11622.9	13622.9
Investments	1703.6	3171.0	3171.0	3171.0
Inventory	6443.9	5583.9	7462.4	7686.5
Debtors	6257.8	5498.6	9264.5	9649.9
Loans and Advances	12339.8	13902.2	15902.2	17902.2
Other Current Assets	26215.2	27580.4	28580.4	29580.4
Cash	31280.0	31124.2	23945.6	27121.7
Total Current Assets	82536.6	83689.3	85155.1	91940.8
Current Liabilities	41340.9	44099.4	41175.7	42888.6
Provisions	62057.7	59556.0	62056.0	64556.0
Current Liabilities & Prov	103398.5	103655.4	103231.7	107444.6
Net Current Assets	-20862.0	-19966.1	-18076.5	-15503.8
Others	3383.7	3514.4	4514.4	5514.4
Application of Funds	22072	28992	35669	43616

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Adj EPS	11.3	28.3	29.1	31.2
Cash EPS	16.3	33.9	34.9	37.1
BV	32.5	42.8	54.4	68.0
DPS	16.5	13.1	15.0	15.0
Cash Per Share	50.4	50.5	38.9	44.0
Operating Ratios (%)				
EBITDA Margin	10.9	25.1	21.7	22.4
PBT / Total Operating income	12.6	27.2	24.7	25.4
PAT Margin	8.3	17.5	18.6	19.1
Inventory days	31	27	36	36
Debtor days	28	22	34	34
Creditor days	186	173	160	160
Return Ratios (%)				
Adj RoE	34.9	66.2	53.5	45.8
Adj RoCE	40.8	86.4	58.8	52.0
Valuation Ratios (x)				
P/E	18.5	7.4	7.2	6.7
EV / EBITDA	10.9	4.0	5.1	4.6
EV / Net Sales	1.2	1.0	1.1	1.0
Market Cap / Sales	1.6	1.3	1.4	1.3
Price to Book Value	6.6	5.0	4.0	3.2
Solvency Ratios				
Debt/EBITDA	0.2	0.1	0.1	0.1
Debt / Equity	0.1	0.1	0.1	0.0
Current Ratio	0.8	0.8	0.8	0.9
Quick Ratio	0.7	0.8	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Coal India	210	225	Hold	130355	28.3	29.1	31.2	7.4	7.2	6.7	4.0	5.1	4.6	86.4	58.8	52.0	66.2	53.5	45.8
Hindalco	200	210	Hold	44540	24.7	20.4	25.3	8.1	9.8	7.9	5.2	5.8	5.0	10.3	8.6	9.6	9.6	7.2	8.3
Hind Zinc	210	235	Hold	88732	18.8	18.2	20.6	11.4	11.8	10.4	6.9	6.8	5.3	29.2	24.8	25.4	23.7	19.8	19.6
JSW Steel	252	235	Hold	60913	31.3	20.7	19.9	8.1	12.2	12.7	5.2	8.3	7.3	17.6	9.5	10.9	21.7	15.0	13.1
NMDC	104	95	Hold	31844	15.2	13.8	11.7	7.0	7.7	9.1	4.1	4.5	5.0	25.3	20.8	16.2	17.9	14.5	11.4
Vedanta	153	150	Hold	56717	18.1	21.4	26.0	8.4	7.1	5.9	4.0	3.6	3.0	11.9	13.1	15.0	10.8	11.8	13.1
Tata Steel	401	470	Buy	48292	78.6	42.1	67.7	6.0	11.2	6.9	5.0	7.0	5.6	13.4	7.8	10.0	13.0	7.4	10.5

Source: ICICI Direct Research, Company

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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