

Coal India (COAL IN)

Rating: ACCUMULATE | CMP: Rs179 | TP: Rs225

February 11, 2020

Q3FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	225		230	
Sales (Rs. m)	1,003,977	1,075,664	1,000,074	1,073,145
% Chng.	0.4	0.2		
EBITDA (Rs. m)	270,219	288,577	269,824	289,822
% Chng.	0.1	(0.4)		
EPS (Rs.)	28.0	30.0	26.8	28.8
% Chng.	4.7	4.5		

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	995	962	1,004	1,076
EBITDA (Rs.bn)	300	264	270	289
Margin (%)	30.2	27.4	26.9	26.8
PAT (Rs. bn)	171	167	173	185
EPS (Rs.)	27.8	27.1	28.0	30.0
Gr. (%)	157.6	(2.6)	3.4	7.3
DPS (Rs.)	13.0	16.1	20.1	20.1
Yield (%)	7.3	9.0	11.2	11.2
RoE (%)	73.5	57.9	51.3	47.4
RoCE (%)	85.5	57.2	49.9	45.7
EV/Sales (x)	0.8	0.8	0.7	0.6
EV/EBITDA (x)	2.7	2.8	2.5	2.1
PE (x)	6.4	6.6	6.4	6.0
P/BV (x)	4.2	3.5	3.1	2.6

Key Data

COAL.BO | COAL IN

52-W High / Low	Rs.271 / Rs.171
Sensex / Nifty	41,216 / 12,108
Market Cap	Rs.1,106bn/ \$ 15,509m
Shares Outstanding	6,163m
3M Avg. Daily Value	Rs.3177.35m

Shareholding Pattern (%)

Promoter's	69.05
Foreign	8.59
Domestic Institution	19.47
Public & Others	2.89
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(12.6)	(13.6)	(18.0)
Relative	(11.8)	(21.2)	(27.6)

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Meets expectation; Continuous stake sale drags valuations to all-time low

Quick Pointers:

- Strong E-auction realisations make up for lower volumes
- Volumes revived in Q4; low base to help volumes grow 5%+ in FY21E

Coal India (COAL) reported Q3FY20 EBITDA in line with our expectation. Impacted by extended monsoon and local issues, volumes fell 8% YoY/6% YoY in Q3FY20/9MFY20. Volumes improved meaningfully December onwards with growth at 6% on the back of better condition of mines (after heavy rains), receding contractor and local level issues. In spite of weakness in E-auction segment (Realisations/volumes down 8%/33%), overall realisations remained flat YoY due to 6% increase in FSA realisations, led by improvement in grades and higher realisations on auction of linkages in non-power segment. Given the low base (down 3% in FY20e), improved demand outlook and better logistics availability, we expect volumes to grow by 6%/5.5% in FY21E/FY22E. Weakness in E-auction realisations for FY21E would be offset by strong availability due to higher production.

COAL underperformed Nifty by a wide margin of 28%/23% over One-year/six-month. The underperformance has been largely due to unabated stock supply by its promoter, Govt of India. Resultantly, valuations fell to all-time low with EV/EBITDA of 2.5x and P/E of 5.3x FY21E, pushing dividend yield to near-highs of 9%. Regular stock supply restrains us to upgrade the stock despite attractive valuations and better earnings outlook. Hence, we maintain Accumulate with TP of Rs225 (earlier Rs230), EV/EBITDA of 4x FY21E.

- E-auction faced the brunt of lower volumes:** Volumes fell 8% YoY at 141.6mnt (PLe:141.5mnt). FSA volumes fell 6% YoY to 128mnt (PLe:124mnt). E-auction volumes fell 33% YoY to 9.8mnt (PLe:14mnt) due to lower availability. Washed coal volumes fell 20% YoY to 2.3mnt (PLe:2.5mnt) due to lower production and weak demand from steel and power sector.
- Higher FSA realisations help maintain blended realisations YoY:** FSA realisations rose 6% YoY (↓2% QoQ) to Rs1,411 (PLe:Rs1,415). E-auction realisations fell 8% YoY (↑30% QoQ) to Rs2,623 (PLe:Rs2,120). Washed coal realisations fell 7% YoY (↓10% QoQ) to Rs2,667 (PLe:Rs3,000) on the back of 13% YoY (↓9% QoQ) fall in non-coking realisations. Hence, blended realisations remained flat at Rs1,523 (PLe:Rs1,524).
- EBITDA fell 22%; tax cut limited the fall in PAT to 14%:** Cash cost (net of non-cash overburden adjustment (OBR)) rose 8% YoY/Rs90 at Rs1,201 (PLe:Rs1,197) due to lower volumes. Adjusted for OBR expense, EBITDA fell 22% YoY to Rs61.8bn (PLe:Rs62.2bn). Reported PAT came below our expectation at Rs39.2bn (PLe:Rs41.0bn) due to higher than expected non-cash OBR expense. Adjusted for OBR, PAT came at Rs48.1bn (PLe:Rs47.8bn) aided by lower tax rate at 26.5% against our estimate of 28%.

Exhibit 1: Q3FY20 Result Overview (Rs m)

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
Net operating revenue	215,664	233,854	(7.8)	189,865	637,759	661,918	(3.6)
Other operating income	16,241	16,604	(2.2)	13,961	47,362	48,088	(1.5)
Revenue (including other operating income)	231,905	250,458	(7.4)	203,826	685,121	710,006	(3.5)
(Accretion)/Decretion in Stocks	(3,682)	(88)	4,093.4	12,037	14,527	25,391	(42.8)
Consumption of stores and spares	18,234	19,446	(6.2)	14,789	48,801	51,278	(4.8)
Employees' Remuneration & Benefits	98,393	95,176	3.4	90,726	288,076	280,693	2.6
Power & Fuel	6,479	6,062	6.9	6,302	18,678	18,385	1.6
CSR expenses	474	367	29.2	651	1,571	1,288	21.9
Repairs	3,075	2,980	3.2	2,982	8,583	8,983	(4.4)
Contractual Expenses	36,764	36,275	1.3	23,968	93,979	95,394	(1.5)
Miscellaneous expenses	10,335	10,568	(2.2)	9,868	31,162	32,241	(3.3)
Overburden Removal Adjustment	12,144	11,777	3.1	6,381	27,516	28,635	(3.9)
Provision and write off	5	15	-	12	309	69	346.8
Total Cost of Sales	182,221	182,580	(0.2)	167,715	533,201	542,357	(1.7)
EBITDA	49,684	67,878	(26.8)	36,112	151,920	167,649	(9.4)
<i>as a % of Sales</i>	<i>23.0</i>	<i>29.0</i>		<i>19.0</i>	<i>23.8</i>	<i>25.3</i>	
Depreciation	8,942	8,611	3.8	7,930	24,214	24,132	0.3
EBIT	40,743	59,267	(31.3)	28,182	127,706	143,517	(11.0)
Interest	1,513	620	144.1	1,700	3,378	1,731	95.1
PBT (before other income)	39,230	58,648	(33.1)	26,482	124,328	141,786	(12.3)
Other Income	14,117	11,633	21.4	16,303	41,922	40,542	3.4
PBT before extraordinary	53,347	70,281	(24.1)	42,785	166,250	182,328	(8.8)
Exceptional items	-	-	-	-	-	-	-
PBT after extraordinary	53,347	70,281	(24.1)	42,785	166,250	182,328	(8.8)
Provision for Taxation	14,140	24,623	(42.6)	7,543	45,493	67,966	(33.1)
Reported PAT	39,208	45,657	(14.1)	35,243	120,756	114,362	5.6
Adjusted PAT	39,208	45,657	(14.1)	35,243	120,756	114,362	5.6

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March (Rs mn)	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
Coal production (m tonnes)	147.5	156.0	(5.4)	104.0	388.4	412.4	(5.8)
Coal sales volume (m tonnes)	141.6	153.8	(8.0)	122.4	417.5	444.6	(6.1)
Net realisation (Excl. Other Operating Income)	1,523	1,520	0.2	1,551	1,527	1,489	2.6
Realisation (Inc. Other Operating Income)	1,638	1,628	0.6	1,665	1,641	1,597	2.8
Total cost/tonne	1,287	1,187	8.4	1,370	1,277	1,220	4.7
Cash cost/t (excluding OBR and Provisions)	1,201	1,110	8.2	1,318	1,210	1,155	4.8
EBITDA/tonne	351	441	(20.5)	295	364	377	(3.5)
Adjusted EBITDA/tonne	437	518	(15.7)	347	430	442	(2.5)
Sales volume mix (m tonnes)							
FSA	127.7	135.9	(6.0)	103.8	361.9	383.0	(5.5)
E-auction	9.8	14.7	(32.8)	15.5	44.4	51.7	(14.2)
Washed coal	2.3	2.9	(20.2)	2.3	7.7	7.9	(3.2)
Realisation per tonne (Rs)							
FSA	1,411	1,334	5.7	1,438	1,404	1,319	6.4
E-auction	2,623	2,847	(7.9)	2,019	2,212	2,592	(14.7)
Washed coal	2,667	2,866	(7.0)	2,951	2,952	2,643	11.7

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	995,469	961,589	1,003,977	1,075,664
YoY gr. (%)	16.8	(3.4)	4.4	7.1
Cost of Goods Sold	81,877	72,457	77,973	83,908
Gross Profit	913,592	889,131	926,004	991,756
Margin (%)	91.8	92.5	92.2	92.2
Employee Cost	387,701	397,200	403,613	423,460
Other Expenses	200,977	204,195	225,934	251,484
EBITDA	300,483	263,591	270,219	288,577
YoY gr. (%)	137.6	(12.3)	2.5	6.8
Margin (%)	30.2	27.4	26.9	26.8
Depreciation and Amortization	85,216	86,135	91,404	99,901
EBIT	215,268	177,455	178,814	188,675
Margin (%)	21.6	18.5	17.8	17.5
Net Interest	2,750	5,000	5,000	5,000
Other Income	58,737	57,113	63,595	70,972
Profit Before Tax	271,255	229,568	237,409	254,647
Margin (%)	27.2	23.9	23.6	23.7
Total Tax	97,269	62,672	64,813	69,519
Effective tax rate (%)	35.9	27.3	27.3	27.3
Profit after tax	173,986	166,896	172,597	185,129
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	171,430	166,896	172,597	185,129
YoY gr. (%)	155.7	(2.6)	3.4	7.3
Margin (%)	17.2	17.4	17.2	17.2
Extra Ord. Income / (Exp)	2,556	-	-	-
Reported PAT	173,986	166,896	172,597	185,129
YoY gr. (%)	150.8	(4.1)	3.4	7.3
Margin (%)	17.5	17.4	17.2	17.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	173,986	166,896	172,597	185,129
Equity Shares O/s (m)	6,163	6,163	6,163	6,163
EPS (Rs)	27.8	27.1	28.0	30.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	442,255	518,752	595,744	677,758
Tangibles	442,255	518,752	595,744	677,758
Intangibles	-	-	-	-
Acc: Dep / Amortization	116,146	153,144	192,709	237,918
Tangibles	116,146	153,144	192,709	237,918
Intangibles	-	-	-	-
Net fixed assets	326,110	365,608	403,035	439,839
Tangibles	326,110	365,608	403,035	439,839
Intangibles	-	-	-	-
Capital Work In Progress	96,616	105,116	113,671	122,783
Goodwill	-	-	-	-
Non-Current Investments	148,924	157,924	165,924	173,924
Net Deferred tax assets	42,692	42,692	42,692	42,692
Other Non-Current Assets	19,650	20,650	21,650	22,650
Current Assets				
Investments	17,500	17,500	17,500	17,500
Inventories	55,839	54,149	56,817	60,914
Trade receivables	54,986	53,035	55,249	59,173
Cash & Bank Balance	311,242	364,323	425,544	509,855
Other Current Assets	213,462	213,286	213,486	213,841
Total Assets	1,327,188	1,434,450	1,555,735	1,703,339
Equity				
Equity Share Capital	61,627	61,627	61,627	61,627
Other Equity	202,912	250,328	298,776	359,757
Total Networkth	264,539	311,955	360,404	421,384
Non-Current Liabilities				
Long Term borrowings	14,795	22,099	22,099	22,099
Provisions	524,196	575,170	628,575	686,018
Other non current liabilities	48,537	51,037	53,537	56,037
Current Liabilities				
ST Debt / Current of LT Debt	7,305	-	-	-
Trade payables	68,155	65,738	68,482	73,346
Other current liabilities	382,590	391,611	405,534	426,884
Total Equity & Liabilities	1,327,188	1,434,450	1,555,735	1,703,339

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	271,255	229,568	237,409	254,647
Add. Depreciation	34,504	36,999	39,565	45,209
Add. Interest	-	-	-	-
Less Financial Other Income	58,737	57,113	63,595	70,972
Add. Other	5,443	19,333	16,240	12,450
Op. profit before WC changes	311,201	285,900	293,214	312,307
Net Changes-WC	(48,918)	2,026	4,415	12,056
Direct tax	(95,329)	(62,672)	(64,813)	(69,519)
Net cash from Op. activities	166,955	225,254	232,816	254,844
Capital expenditures	(73,393)	(84,996)	(85,546)	(91,127)
Interest / Dividend Income	31,410	29,804	35,600	42,242
Others	(40,675)	-	-	-
Net Cash from Inv. activities	(82,658)	(55,193)	(49,947)	(48,885)
Issue of share cap. / premium	(12,643)	-	-	-
Debt changes	6,718	-	-	-
Dividend paid	(99,468)	(119,480)	(124,148)	(124,148)
Interest paid	(96)	-	-	-
Others	3,972	2,500	2,500	2,500
Net cash from Fin. activities	(101,516)	(116,980)	(121,648)	(121,648)
Net change in cash	(17,220)	53,081	61,221	84,311
Free Cash Flow	240,348	310,250	318,362	345,971

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	285,463	249,390	203,826	231,905
YoY gr. (%)	7.5	3.6	(6.9)	(7.4)
Raw Material Expenses	-	-	-	-
Gross Profit	285,463	249,390	203,826	231,905
Margin (%)	100.0	100.0	100.0	100.0
EBITDA	82,122	66,124	36,112	49,684
YoY gr. (%)	4,147.6	17.0	(16.5)	(26.8)
Margin (%)	28.8	26.5	17.7	21.4
Depreciation / Depletion	10,372	7,343	7,930	8,942
EBIT	71,751	58,781	28,182	40,743
Margin (%)	25.1	23.6	13.8	17.6
Net Interest	1,019	166	1,700	1,513
Other Income	18,196	11,502	16,303	14,117
Profit before Tax	88,927	70,118	42,785	53,347
Margin (%)	31.2	28.1	21.0	23.0
Total Tax	28,659	23,811	7,543	14,140
Effective tax rate (%)	32.2	34.0	17.6	26.5
Profit after Tax	60,268	46,306	35,243	39,208
Minority interest	(1)	(2)	(2)	21
Share Profit from Associates	-	-	-	-
Adjusted PAT	60,268	46,306	35,243	39,208
YoY gr. (%)	363.1	22.4	14.2	(14.1)
Margin (%)	21.1	18.6	17.3	16.9
Extra Ord. Income / (Exp)	1	2	2	(21)
Reported PAT	60,269	46,308	35,245	39,187
YoY gr. (%)	363.0	22.4	14.2	(14.2)
Margin (%)	21.1	18.6	17.3	16.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	60,269	46,308	35,245	39,187
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

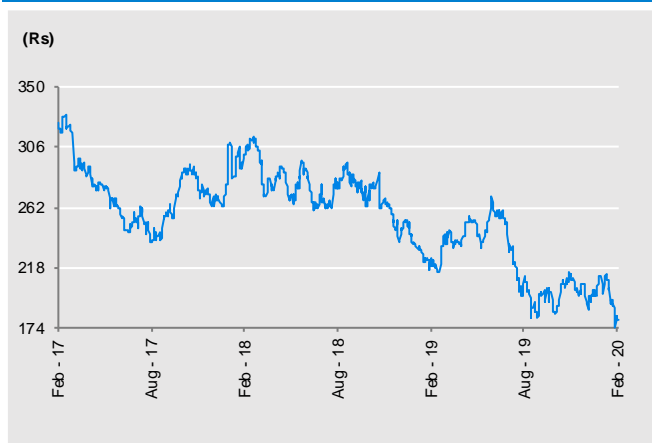
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	27.8	27.1	28.0	30.0
CEPS	41.6	41.1	42.8	46.3
BVPS	42.9	50.6	58.5	68.4
FCF	39.0	50.3	51.7	56.1
DPS	13.0	16.1	20.1	20.1
Return Ratio(%)				
RoCE	85.5	57.2	49.9	45.7
ROIC	22.6	18.4	17.4	16.9
RoE	73.5	57.9	51.3	47.4
Balance Sheet				
Net Debt : Equity (x)	(1.2)	(1.2)	(1.2)	(1.2)
Net Working Capital (Days)	16	16	16	16
Valuation(x)				
PER	6.4	6.6	6.4	6.0
P/B	4.2	3.5	3.1	2.6
P/CEPS	4.3	4.4	4.2	3.9
EV/EBITDA	2.7	2.8	2.5	2.1
EV/Sales	0.8	0.8	0.7	0.6
Dividend Yield (%)	7.3	9.0	11.2	11.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Raw coal prod (mn tn)	607	588	620	655
Coal despatches (mn tn)	608	588	620	655
Vol sold under FSA/MoU (mn tn)	525	511	539	570
Vol sold under E-auction (mn tn)	68	62	66	69
Beneficiated coal vol (mn tn)	11	11	11	12
Vol sold to power utilities (mn tn)				
Real. / tonne (Rs)	1,528	1,524	1,505	1,527
Total cost per tonne (Rs)	1,309	1,227	1,271	1,266
Cash cost per tonne (Rs)	1,252	1,143	1,187	1,183
Employee cost / tonne (Rs)	751	639	675	651
EBITDA / tonne (Rs)	411	365	352	357
OBR adj / tonne (Rs)	59	84	84	84

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	Accumulate	230	212
2	11-Nov-19	Accumulate	235	210
3	3-Oct-19	Accumulate	230	187
4	14-Aug-19	Accumulate	235	204
5	4-Jul-19	Hold	265	251
6	30-May-19	Hold	265	253
7	5-Apr-19	Hold	265	235
8	12-Feb-19	Hold	250	223

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	Accumulate	1,605	1,503
2	Ambuja Cement	Hold	207	203
3	Coal India	Accumulate	230	212
4	Heidelberg Cement India	Accumulate	215	184
5	Hindalco Industries	Accumulate	230	216
6	Hindustan Zinc	Hold	235	212
7	Jindal Steel & Power	BUY	205	179
8	JK Lakshmi Cement	Accumulate	425	370
9	JSW Steel	Reduce	200	272
10	NMDC	Reduce	105	116
11	Shree Cement	Reduce	18,000	21,122
12	Steel Authority of India	Reduce	32	47
13	Tata Steel	Reduce	350	471
14	The Ramco Cements	Reduce	725	810
15	Ultratech Cement	BUY	5,110	4,643

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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