

Coal India

BSE SENSEX S&P CNX 32,201 9,490

CMP: INR134 TP: INR195(+46%)

Buy



Stock Info

Bloomberg	COAL IN
Equity Shares (m)	6,207
M.Cap.(INRb)/(USDb)	824.9 / 10.6
52-Week Range (INR)	271 / 119
1, 6, 12 Rel. Per (%)	-1/-13/-28
12M Avg Val (INR M)	1861
Free float (%)	33.9

Financials Snapshot (INR b)

2020E	2021E	2022E
942.1	875.6	1,029.5
236.3	181.1	309.2
143.1	87.1	180.9
23.2	14.1	29.4
-18.1	-39.1	107.7
50.8	55.8	70.4
45.7	25.3	41.7
53.7	28.9	49.4
5.8	9.5	4.6
2.4	2.9	1.4
	942.1 236.3 143.1 23.2 -18.1 50.8 45.7 53.7	942.1 875.6 236.3 181.1 143.1 87.1 23.2 14.1 -18.1 -39.1 50.8 55.8 45.7 25.3 53.7 28.9 5.8 9.5

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	66.1	69.1	71.0
DII	22.1	19.5	19.0
FII	8.2	8.6	7.1
Others	3.6	2.8	3.0

FII Includes depository receipts

Stock Performance (1-year)



Focus on import substitution and OBR

Recovery in power demand key; Negative operating leverage to kick in

To share an update on its business (in midst of the ongoing lockdown), Coal India (COAL) organized an analyst call. Key insights highlighted below:

Near-term focus on OBR with scale down in production

- COAL has reduced production given the build-up in inventories at its own mines and power plants. In turn, the company is focusing on OBR (overburden removal), which should help it improve production. OBR has increased 15% over the past two months.
- Dispatches for COAL have increased over the past one week, even as power demand recovers and factories restart operations. As demand continues to recover and given the current focus on OBR, the company believes it would be in a better position to ramp up production.

Substituting imported coal

- Of the ~170-180mt imported thermal coal in India, COAL plans to substitute
 ~100mt, thereby looking to improve off-take.
- ~18mt of coal has been auctioned and committed for off-take (as part of its import substitution drive). Further, e-auction is being done at the notified price for import substitution (reserve price has been cut to notified price) till Sep'20. COAL would also not charge bonus/penalties for higher than agreed off-take quantities.

Capex to continue with production target of 1b ton

- COAL has noted that it expects thermal power demand to continue at least for the next 10-15 years in the country. Accordingly, it plans to increase production to 1b ton over the next 3-5 years. For the same, COAL would continue to incur capital expenditure related to heavy engineering machinery and coal evacuation. While COAL is still finalizing its investment plan, it has set FY21 capex target at INR120b, which might increase in the coming years.
- A large part of the INR500b capex program on Coal Infrastructure announced by the Finance Ministry would be borne by COAL. However, there would be certain capex, which would be incurred by thermal plants and Railways (for railway line works). In addition, this amount includes certain loan component as well. COAL believes that projects related to these schemes could be completed over the next 3-4 years.

Other highlights

- **Dividend policy:** COAL is working on forming a dividend policy.
- **Commercial mining:** Land acquisition, ECs and evacuation may remain an issue for commercial coal miners as well. COAL does not expect any negative impact from commercial coal mining as it plans to be competitive. COAL believes that the new commercial coal mines would take at least 4 years to produce coal.

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■ Employees: COAL would reduce its net employee count by ~12,000 annually over the next 3-4 years.

- **FY21 Guidance:** COAL had set its FY21E production target at 710mt before the COVID-19 situation. However, the company would have to scale it down depending on how the COVID-19 situation plays out.
- Underground mines contribute ~5% of production and 50% of manpower. Currently, losses at underground mines stand at ~INR5,000/t. COAL is trying to reduce manpower at mines by trying and adjusting staff at nearby mines. Over the long term, the company may come up with a voluntary retirement service (VRS) policy.
- 'Vivaad se Vishwas' scheme: COAL would take a call on settlement under this scheme on a case-by-case basis. The company has listed them in contingent liabilities and believes it can win ~80% of such cases.
- Outstanding receivables have increased to ~INR170-180b. In the last 3 months, receivables have increased INR50-60b. COAL has not tried to regulate supplies despite receivables inching up. Nevertheless, the company does not face liquidity crunch with no need to raise bonds so far.
- **ESG**: COAL would look to reduce emissions faced during coal transportation and improve its disclosure on carbon emissions.

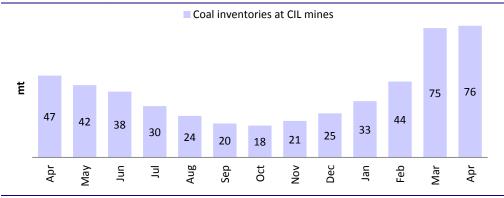
Valuation and view: Near-term headwinds persist as negative operating leverage kicks in

- India's nationwide lockdown came at a time when (a) power demand was largely muted, and (b) production at COAL's mines ramped up (post the heavy monsoon season). Accordingly, inventory at both coal mines and power plants has risen. However, power demand has been recovering, inching up ~700MUs from ~3,000MUs levels witnessed at end-Apr'20. Recovery in power demand would be the key to improve coal off-take.
- Large proportion of COAL's costs is fixed in nature with employee costs accounting for ~50% of the company's expenses. Further, with the company focusing on OBR removal activities, COAL would continue using contractual employees, in our view. Thus, with lower dispatches, negative operating leverage would kick in.
- Working capital could remain stretched with elevated receivables as cash issues due to lower demand materialize within the power value chain. Furthermore, inventories too remain high.
- We cut our FY21E adj. EBITDA estimates by 11% to account the lower e-auction prices. However, we expect COAL to tide over the situation in the near term given its robust cash position (Net cash: ~INR300b). The stock trades attractively at ~1.5x FY22E EV/adj. EBITDA (v/s historical average of 7x), P/E of 5x (v/s average of ~13x) and offers a dividend yield of ~7%. Maintain Buy with a target price of INR195/share.

MOTILAL OSWAL

Inventory at Coal India's mines has risen.

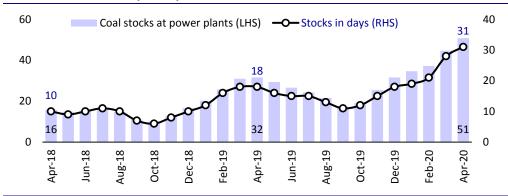
Exhibit 1: Inventory at Coal India's mines



Source: Company, MOFSL

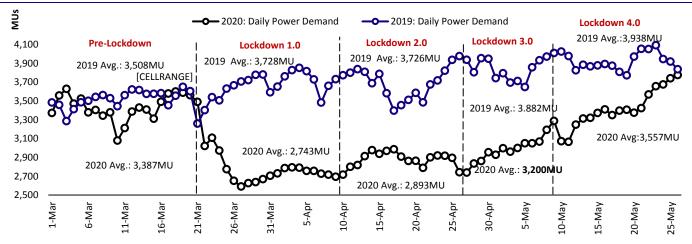
Coal stocks at power plants have also increased.

Exhibit 2: Coal stocks at power plants



Source: CEA, MOFSL

Exhibit 3: India's power demand is showing signs of recovery, which holds key for improving coal off-take



Source: POSOCO, MOFSL

Given the fall in demand and high inventory levels, we build in ~3% decline in dispatches for Coal India in FY21E.

Exhibit 4: Expect Coal India's volumes to decline

	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Power Generation	1,169	1,236	1,303	1,372	1,381	1,377	1,574
YoY (%)	4.50%	5.80%	5.40%	5.20%	0.70%	-0.30%	14.30%
Coal based gen. (b kwh)	862	910	953	989	940	943	1,105
YoY (%)	7.80%	5.60%	4.70%	3.70%	-5.00%	0.30%	17.20%
Coal India Volumes (mt)	531	543	580	608	582	565	665
Growth YoY	8.60%	2.20%	6.80%	4.90%	-4.30%	-2.90%	17.70%

Source: Ministry of Power, MOFSL

Exhibit 5: Coal India: Adjusted P&L

	FY18	FY19	FY20E	FY21E	FY22E
Revenue	858,624	995,469	942,076	875,556	1,029,506
Power FSA	549,091	640,826	625,873	598,804	727,655
Non Power FSA	62,000	124,788	139,384	120,808	157,924
Eauction/MoU	247,533	229,856	176,818	155,944	143,928
Sales (mt)	580	608	582	565	665
YoY (%)	6.8	4.9	-4.3	-2.9	17.7
Power FSA	424	458	435	418	510
Share (%)	73	75	75	74	77
Non Power FSA	36	67	75	65	85
Eauction/MoU	120	83	72	82	70
Revenue per ton	1,480	1,637	1,619	1,550	1,548
YoY (%)	2.6	10.6	-1.1	-4.3	-0.1
Power FSA	1,295	1,399	1,438	1,434	1,428
Non Power FSA	1,723	1,851	1,858	1,859	1,858
Eauction/MoU	2,062	2,777	2,459	1,895	2,044
Cost of Mining (ex. OB)	655,535	694,986	705,808	694,418	720,322
CoP per ton	1,130	1,143	1,213	1,229	1,083
YoY (%)	-3.1	1.1	6.1	1.3	-11.9
Labor & social OH	616	644	675	683	592
Contract	220	220	234	260	236
R&M	143	144	154	145	146
Others	151	134	149	141	110
Adjusted EBIDTA	203,089	300,483	236,268	181,139	309,184
EBITDA per ton	350	494	406	321	465

Source: Company, MOFSL

Exhibit 6: Coal India: Valuation

	FY18	FY19	FY20E	FY21E	FY22E
Adjusted EBIDTA	203,089	300,483	236,268	181,139	309,184
Target EV/EBITDA (x)			3.5	3.5	3.5
Target EV			826,938	633,986	1,082,144
Net debt	-311,085	-316,302	-260,981	-302,272	-388,848
Equity value			1,087,920	936,258	1,470,991
Target equity value (Sep '21)					1,203,625
TP (INR /share)					195

Source: Company, MOFSL

28 May 2020

Financials and Valuations

Income Statement								(INR Million)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	741,201	780,073	783,719	858,624	995,469	942,076	875,556	1,029,506
Change (%)	5.0	5.2	0.5	9.6	15.9	-5.4	-7.1	17.6
EBITDA	173,354	187,309	123,912	169,507	249,771	183,746	121,954	247,221
% of Net Sales	23.4	24.0	15.8	19.7	25.1	19.5	13.9	24.0
Depreciation	23,198	28,259	29,101	30,664	34,504	35,704	37,129	38,554
Interest	73	3,862	4,117	4,318	2,750	4,126	4,167	4,209
Other Income	65,706	59,406	55,156	46,583	58,737	52,076	35,802	37,394
Extra Ordinary	-50	0	0	73,844	0	0	0	0
PBT	215,839	214,594	145,850	107,264	271,255	195,993	116,461	241,852
Tax	78,573	71,719	51,660	37,067	96,625	52,918	29,348	60,947
Rate (%)	36.4	33.4	35.4	34.6	35.6	27.0	25.2	25.2
PAT before Min. Int.	137,266	142,876	94,190	70,198	174,630	143,075	87,113	180,905
Minority Interest								
Reported PAT	137,266	142,876	94,190	70,198	174,630	143,075	87,113	180,905
Change (%)	-9.2	4.1	-34.1	-25.5	148.8	-18.1	-39.1	107.7
Adjusted PAT	137,266	142,876	94,190	118,942	174,630	143,075	87,113	180,905
Change (%)	-14.1	4.1	-34.1	26.3	46.8	-18.1	-39.1	107.7

Balance Sheet								(INR Million)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Share Capital	63,164	63,164	62,074	62,074	61,627	61,627	61,627	61,627
Reserves	340,367	285,168	183,194	136,392	202,912	251,557	282,047	372,499
Net Worth	403,531	348,332	245,268	198,466	264,539	313,185	343,674	434,127
Minority Interest	658	1,048	3,459	3,625	4,068	4,068	4,068	4,068
Loans	4,019	11,921	30,078	15,309	22,027	22,027	22,027	22,027
Defferd tax Liabiity	-19,591	-20,445	-27,328	-53,551	-42,692	-42,692	-42,692	-42,692
Capital Employed	388,617	340,855	251,477	163,849	247,943	296,588	327,078	417,530
Gross Fixed Assets	448,080	234,137	276,883	325,733	401,631	481,631	576,631	671,631
Less: Depreciation	286,929	26,824	55,984	84,805	115,888	151,592	188,721	227,274
Net Fixed Assets	161,150	207,314	220,900	240,928	285,742	330,039	387,910	444,357
Capital Work in Progress	51,594	59,044	103,078	137,710	136,984	136,984	136,984	136,984
Investments		73	106	3,443	4,622	4,622	4,622	4,622
Current Assets	873,074	841,406	809,377	839,286	857,149	897,485	928,994	1,036,053
Inventory	61,838	75,692	89,453	64,439	55,839	77,431	88,755	90,258
Debtors	85,219	114,476	107,359	86,892	54,986	129,052	107,945	126,925
Other Current Assets	61,808	241,078	285,187	351,324	391,553	391,553	391,553	391,553
Loans and Advances	105,150	1,024	358	10,238	16,441	16,441	16,441	16,441
Cash	559,060	409,137	327,021	326,394	338,330	283,009	324,300	410,875
Current Liabilities	697,201	766,982	881,984	1,057,518	1,036,554	1,072,542	1,131,432	1,204,485
Payables	9,208	32,972	39,002	45,169	68,155	51,621	51,327	62,416
Other current liabilities	687,994	734,010	842,981	1,012,348	968,399	1,020,921	1,080,105	1,142,069
Net Curr. Assets	175,873	74,424	-72,607	-218,232	-179,405	-175,056	-202,438	-168,432
Application of Funds	388,617	340,855	251,477	163,849	247,943	296,588	327,078	417,530

Financials and Valuations

Ratios								
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Adjusted EPS	21.7	22.6	15.2	19.2	28.3	23.2	14.1	29.4
Cash EPS	31.5	31.5	24.2	29.5	42.2	37.5	29.8	45.7
Book Value	63.9	55.1	39.5	32.0	42.9	50.8	55.8	70.4
DPS	20.7	27.4	19.9	16.5	13.1	12.8	9.2	14.7
Payout (incl. Div. Tax.)	112.9	145.5	160.3	103.3	55.5	66.0	65.0	50.0
Valuation (x)								
P/E	16.7	12.9	19.3	14.8	4.9	5.8	9.5	4.6
Cash P/E	11.5	9.3	12.1	9.6	3.3	3.6	4.5	2.9
P/BV	5.7	5.3	7.4	8.9	3.3	2.6	2.4	1.9
EV/Adj. EBITDA	8.2	6.7	10.1	7.1	1.8	2.4	2.9	1.4
Dividend Yield (%)	5.7	9.4	6.8	5.8	9.4	9.5	6.9	11.0
EV /ton of Reserves	79.7	66.6	69.9	66.6	25.0	25.9	24.0	20.1
Profitability Ratios (%)								
Debtor (Days)	42.0	53.6	50.0	36.9	20.2	50.0	45.0	45.0
Inventory (Days)	30.5	35.4	41.7	27.4	20.5	30.0	37.0	32.0
Payables (Days)	4.5	15.4	18.2	19.2	25.0	20.0	21.4	22.1
Asset turnover(x)	1.9	2.3	3.1	5.2	4.0	3.2	2.7	2.5
Profitability Ratios (%)								
RoE	34.0	41.0	38.4	35.4	66.0	45.7	25.3	41.7
RoCE	34.5	39.9	32.7	58.4	85.7	53.7	28.9	49.4
RoIC	-45.5	-60.6	-40.0	-37.7	-51.7	-60.0	-47.6	-114.0
Leverage Ratio								
Net Debt/Equity (x)	-1.4	-1.1	-1.2	-1.6	-1.2	-0.8	-0.9	-0.9

Cash Flow Statement							(11	NR Million)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Adj EBITDA*	211,621	215,423	150,634	203,089	300,483	236,268	181,139	309,184
Non cash exp. (income)	21,428	21,565	37,046	-54,587	10,718	20,735	10,930	10,434
(Inc)/Dec in WC	6,487	-26,697	60,216	138,450	-48,918	-112,192	9,488	-9,394
Taxes paid	-95,721	-78,754	-89,427	-74,329	-95,329	-52,918	-29,348	-60,947
CF from Operations	143,815	131,538	158,469	212,623	166,955	91,893	172,209	249,277
Capex	-49,014	-57,857	-86,761	-85,293	-73,393	-80,000	-95,000	-95,000
Free Cash Flow	94,801	73,681	71,707	127,330	93,561	11,893	77,209	154,277
(Pur)/Sale of Investments	9,615	-1	-50	-3,332	-1,184	0	0	0
Interest/dividend	52,871	50,349	34,642	24,044	31,410	31,340	24,872	26,960
Other investing activity	-9,615	-3,344	-209	-297	9,054			
CF from Investments	3,857	-10,852	-52,379	-64,878	-34,114	-48,660	-70,128	-68,040
Equity raised/(repaid)	0	0	-45,531	0	0	0	0	0
Debt raised/(repaid)	1,935	9,902	18,169	-14,778	6,718	0	0	0
Interest paid	-73	-207	-306	-370	-96	-4,126	-4,167	-4,209
Dividend (incl. tax)	-155,963	-208,302	-151,031	-123,238	-112,110	-94,429	-56,623	-90,453
Other financing	3,844	2,732	2,720	2,513	3,972			
CF from Fin. Activity	-150,257	-195,874	-175,980	-135,873	-101,516	-98,555	-60,790	-94,661
Inc/Dec of Cash	-2,585	-75,188	-69,890	11,872	31,325	-55,321	41,291	86,576
Add: Beginning Balance	561,644	559,060	409,137	327,021	326,394	338,330	283,009	324,300
Closing Balance	559,060	483,872	339,247	338,893	357,719	283,009	324,300	410,875

Explanation of Investment Rating					
Investment Rating	Expected return (over 12-month)				
BUY	>=15%				
SELL	<-10%				
NEUTRAL	< - 10 % to 15%				
UNDER REVIEW	Rating may undergo a change				
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation				

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28 May 2020

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