

Coal India

Refer to important disclosures at the end of this report

Strong Q4 results; near-term weakness priced in, maintain BUY

CMP: Rs 135
as of (June 29, 2020)TP: Rs 208 (▼)
12 months

Rating: BUY (■)

Upside: 54.2 %

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- With RM and employee costs reined in, Coal India (CIL) reported a strong quarter, despite revenue being in line with our estimates. Increasing receivables is a cause of concern, but we believe that if dispatches remain steady, cash flows will improve in H2FY21.
- CIL has paid Rs47.5bn as additional advance Income tax in Q4. It has specifically mentioned that it will not settle cases under various tax settlement schemes floated by the government to mop up tax collections. This advance tax should be set off in FY21 itself.
- E-auction premiums during Q4 stood at 45% but are likely to moderate substantially in H1FY21. However, we expect the economy to start improving from Q3 and should result in higher e-auction premiums. We note that moving volumes is crucial now.
- We cut FY21/22E dispatches by 13%/3% and assume E-auction premium at 13%/39%, owing to lower demand. As a result, FY21/22E EBITDA is reduced by 48%/27%. However, valuations at 3.3x FY22 EV/EBITDA estimates are compelling. We maintain Buy and OW in EAP, with a revised TP of Rs208 (from Rs271) at 5x FY22 EV/EBITDA estimates.

Receivables to stay high till H1FY21: CIL is unable to improve recoveries as power demand remains significantly low with high inventory at both power plants as well as with CIL. Total Outstanding at Rs180bn is likely to peak to Rs220-240bn by end of H1FY21, subject to Covid-19 remaining under control. For example, NTPC has an outstanding of Rs45bn currently. Major state gencos with large dues are UP, AP, Bihar, DVC and TN.

Production throttled to match dispatches: With high pit head as well as plant head coal stocks and the peak monsoon season over the next 2-3 months, management has rightly curtailed production to avoid deterioration in coal quality. We expect a further cut in production in Q2 with resurgence in H2 as the monsoon wanes and demand picks up.

Dividend – expectations lowered: We now expect DPS of Rs 9/12.5 for FY21/22 vs our previous expectation of Rs 18/19 due to lower profitability and tighter liquidity. However, at CMP, the dividend year for FY22 on our estimated DPS stands at c9%

Outlook and valuation: We believe that the worst is behind us as far as power demand is concerned. We do not expect a second lockdown in India, hence, demand for power and consequently coal should only increase from here. Despite cutting down our FY21/22 estimates, we find value in the stock and maintain Buy. The biggest risk to our call will be inability of CIL to raise e-auction premium in H2FY20, which if not done, will be a sign of non-revival of the economy or at best a delayed revival. The second risk is CIL adjusting advance income tax to the tax settlement schemes.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Metals & Mining \(page 10\)](#)

Financial Snapshot (Consolidated)

| (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------|----------|----------|----------|-----------|-----------|
| Revenue | 9,95,469 | 9,60,803 | 8,78,551 | 10,32,461 | 11,30,468 |
| EBITDA | 2,49,771 | 2,19,212 | 1,40,313 | 2,05,574 | 2,77,972 |
| EBITDA Margin (%) | 25.1 | 22.8 | 16.0 | 19.9 | 24.6 |
| APAT | 1,99,806 | 1,67,019 | 1,17,081 | 1,56,787 | 1,96,591 |
| EPS (Rs) | 32.4 | 27.1 | 19.0 | 25.4 | 31.9 |
| EPS (% chg) | 185.9 | (16.4) | (29.9) | 33.9 | 25.4 |
| ROE (%) | 86.3 | 57.0 | 33.4 | 37.4 | 38.7 |
| P/E (x) | 4.2 | 5.0 | 7.1 | 5.3 | 4.2 |
| EV/EBITDA (x) | 2.2 | 2.8 | 4.6 | 3.1 | 2.1 |
| P/BV (x) | 3.1 | 2.6 | 2.2 | 1.8 | 1.5 |

Source: Company, Emkay Research



Change in Estimates

| | |
|-------------------------|-----------|
| EPS Chg FY21E/FY22E (%) | (41)/(22) |
| Target Price change (%) | (23.2) |
| Target Period (Months) | 12 |
| Previous Reco | BUY |

Emkay vs Consensus

| | EPS Estimates | |
|-------------------------|---------------|-------|
| | FY21E | FY22E |
| Emkay | 19.0 | 25.4 |
| Consensus | 23.8 | 25.8 |
| Mean Consensus TP (12M) | Rs 201 | |

Stock Details

| | |
|------------------------------|-------------|
| Bloomberg Code | COAL IN |
| Face Value (Rs) | 10 |
| Shares outstanding (mn) | 6,163 |
| 52 Week H/L | 256 / 119 |
| M Cap (Rs bn/USD bn) | 831 / 11.00 |
| Daily Avg Volume (nos.) | 115,69,060 |
| Daily Avg Turnover (US\$ mn) | 21.0 |

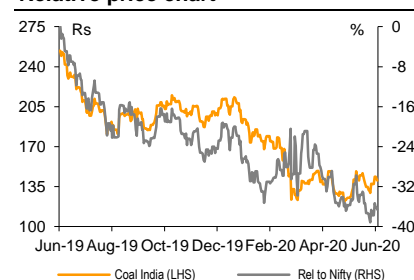
Shareholding Pattern Mar '20

| | |
|-------------------|-------|
| Promoters | 66.1% |
| FII's | 8.2% |
| DII's | 22.0% |
| Public and Others | 3.7% |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|--------------------|------|------|------|------|
| Absolute | (5) | 2 | (34) | (47) |
| Rel. to Nifty (11) | (14) | (21) | (39) | |

Relative price chart



Source: Bloomberg

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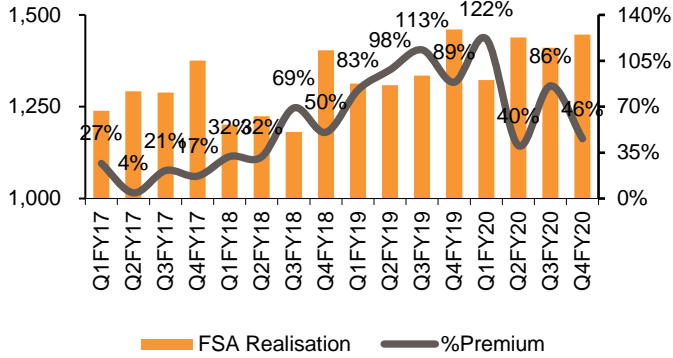
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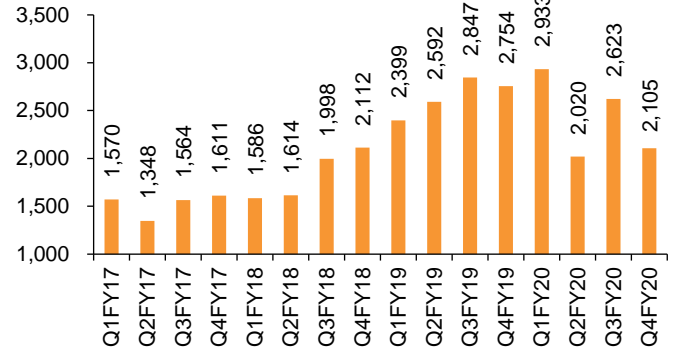
Story in Charts

Exhibit 1: E-auction premium fell due to Covid-19 impact



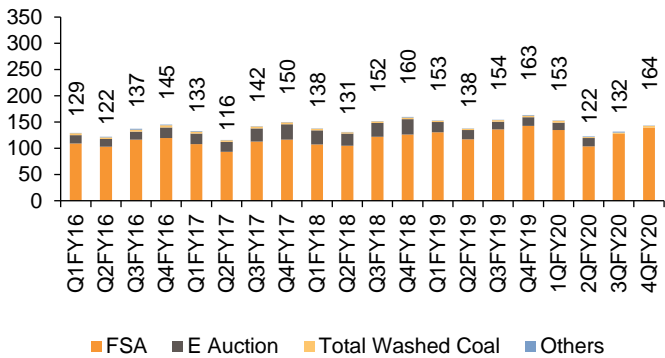
Source: Company, Emkay Research

Exhibit 2: E-auction realization also reflected Covid-19 impact



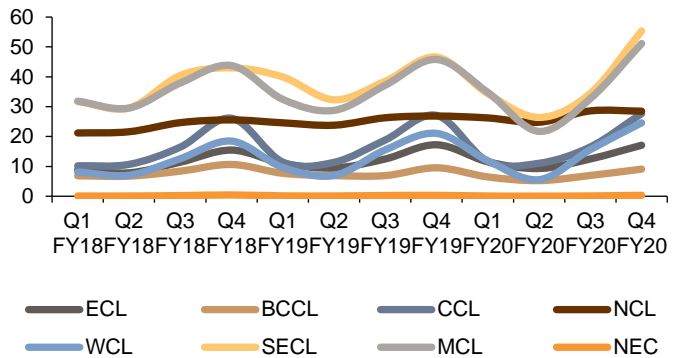
Source: Company, Emkay Research

Exhibit 3: Coal dispatch breakdown, peak not to be seen for a while



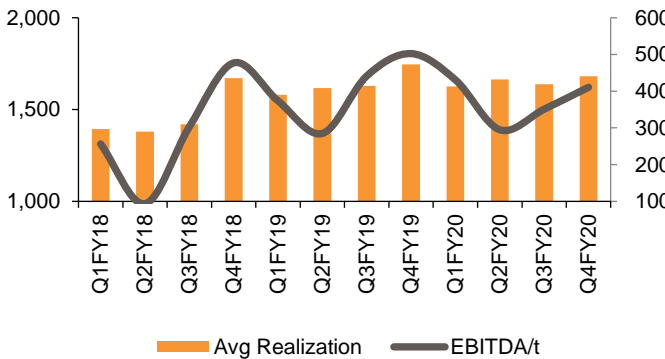
Source: Company, Emkay Research

Exhibit 4: Production in all subsidiaries picked up, but will be constrained



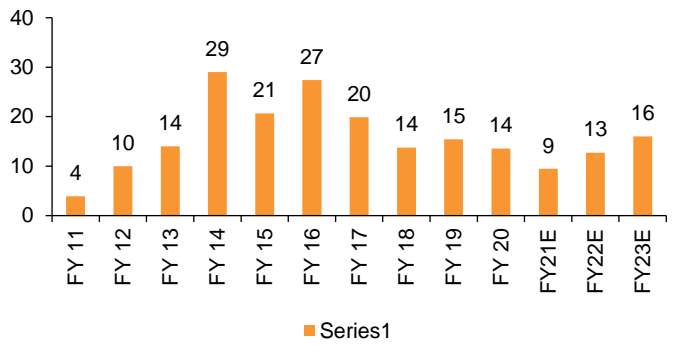
Source: Company, Emkay Research

Exhibit 5: ASP is stagnant while EBITDA/t is improving



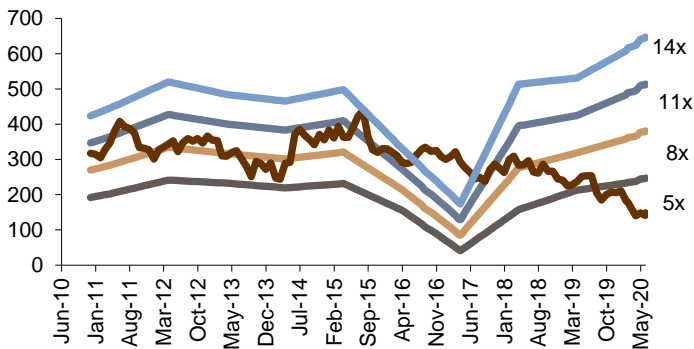
Source: Company, Emkay Research

Exhibit 6: Dividend per share (Rs) will likely increase from FY22 onwards



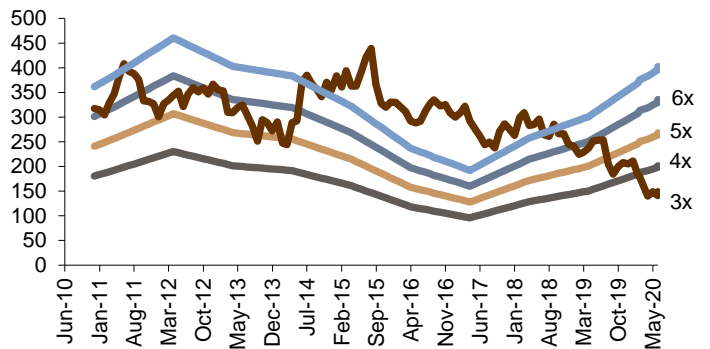
Source: Company, Emkay Research

Exhibit 7: EV/EBITDA band movement



Source: Company, Emkay Research

Exhibit 8: P/B band movement



Source: Company, Emkay Research

Exhibit 9: Actual vs Estimates

| (Rs mn) | Actual | Emkay Estimates | Consensus | Emkay | Consensus | Comment |
|----------------|----------|-----------------|-----------|---------|-----------|--|
| Total Revenue | 2,75,682 | 2,76,102 | 2,65,969 | 0% | 4% | In line with estimates |
| EBITDA | 67,289 | 54,318 | 67,655 | 24% | -1% | Lower RM and Emp exp drive the EBITDA beat |
| EBITDA margin% | 24% | 20% | 25% | 223 bps | -173 bps | |
| Net Profit | 46,260 | 39,667 | 50,242 | 17% | -8% | Driven by EBITDA beat |

Source: Company, Emkay Research, Bloomberg

Exhibit 10: Quarterly consolidated financials (Rs mn)

| (Rs mn) | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | YoY% | QoQ% | FY19 | FY20 | % change |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------|------------|-----------------|-----------------|-------------|
| Production | 194 | 137 | 104 | 148 | 214 | 10% | 44% | 607 | 602 | -1% |
| Dispatches | 163 | 153 | 122 | 142 | 164 | 1% | 15% | 608 | 581 | -4% |
| Revenue from Operations | 2,67,043 | 2,32,230 | 1,89,865 | 2,15,664 | 2,55,974 | -4% | 19% | 9,28,961 | 8,93,733 | -4% |
| Other Operating Revenue | 18,420 | 17,160 | 13,961 | 16,241 | 19,708 | 7% | 21% | 66,508 | 67,070 | 1% |
| Sales | 2,85,463 | 2,49,390 | 2,03,826 | 2,31,905 | 2,75,682 | -3% | 19% | 9,95,469 | 9,60,803 | -3% |
| Accretion in Stock | -16,829 | 6,172 | 12,037 | -3,675 | -24,954 | 48% | 579% | 8,562 | -10,426 | -222% |
| Stores & Spares | 22,036 | 15,778 | 14,789 | 18,163 | 22,462 | 2% | 24% | 73,314 | 71,263 | -3% |
| Employee Expenses | 1,07,008 | 98,957 | 90,726 | 98,393 | 1,05,765 | -1% | 7% | 3,87,701 | 3,93,841 | 2% |
| Power & Fuel | 6,046 | 5,897 | 6,302 | 6,479 | 6,196 | 2% | -4% | 24,431 | 24,873 | 2% |
| Social Overhead | 2,876 | 446 | 651 | 474 | 4,307 | 50% | 809% | 4,165 | 5,878 | 41% |
| Repairs | 5,482 | 2,527 | 2,982 | 3,075 | 5,526 | 1% | 80% | 14,464 | 14,109 | -2% |
| Contractual Expenses | 38,386 | 33,248 | 23,968 | 36,764 | 45,137 | 18% | 23% | 1,33,780 | 1,39,116 | 4% |
| Miscellaneous Expenses | 15,171 | 10,959 | 9,868 | 10,335 | 14,893 | -2% | 44% | 47,411 | 46,054 | -3% |
| Overburden Removal Adj. | 22,077 | 8,991 | 6,381 | 12,144 | 27,903 | 26% | 130% | 50,712 | 55,419 | 9% |
| Provision/Write-off | 1,088 | 292 | 9 | 5 | 1,159 | 7% | 23084% | 1,157 | 1,465 | 27% |
| Total Operating Exp | 203,340 | 183,266 | 167,711 | 182,157 | 208,394 | 2% | 14% | 7,45,698 | 7,41,591 | -1% |
| EBITDA | 82,122 | 66,124 | 36,115 | 49,748 | 67,289 | -18% | 35% | 2,49,771 | 2,19,212 | -12% |
| Depreciation | 10,372 | 7,343 | 7,930 | 8,942 | 10,294 | -1% | 15% | 24,132 | 34,508 | 43% |
| EBIT | 71,751 | 58,781 | 28,185 | 40,807 | 56,995 | -21% | 40% | 2,25,639 | 1,84,704 | -18% |
| Other Income | 18,196 | 11,502 | 16,303 | 14,117 | 19,132 | 5% | 36% | 43,846 | 61,054 | 39% |
| Interest | 1,019 | 166 | 1,700 | 1,513 | 1,651 | 62% | 9% | 1,731 | 5,029 | 191% |
| PBT | 88,927 | 70,118 | 42,789 | 53,358 | 74,475 | -16% | 40% | 2,67,754 | 2,40,728 | -10% |
| Total Tax | 28,659 | 23,811 | 7,543 | 14,140 | 28,216 | -2% | 100% | 67,966 | 73,710 | 8% |
| Effective tax rate (%) | 32.0% | 34.0% | 17.6% | 34.0% | 30.0% | -7% | -12% | 25.38% | 30.62% | 21% |
| PAT | 60,268 | 46,306 | 35,246 | 39,218 | 46,259 | -23% | 18% | 1,99,788 | 1,67,019 | -16% |
| Minority Interest | 25.9 | -7.6 | -13.5 | -8 | -1.1 | -104% | -86% | -18 | -12 | -34% |
| PAT after Minority | 60,294 | 46,299 | 35,233 | 39,210 | 46,258 | -23% | 18% | 1,99,806 | 1,67,007 | -16% |

Source: Company, Emkay Research, Emkay Research

Exhibit 11: Margins

| Margins | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | YoY% | QoQ% | FY19 | FY20 | % change |
|---------|--------|--------|--------|--------|--------|----------|---------|------|------|----------|
| EBITDA | 29% | 27% | 18% | 21% | 24% | -436 bps | 296 bps | 25% | 23% | -228 bps |
| EBIT | 25% | 24% | 14% | 18% | 21% | -446 bps | 308 bps | 23% | 19% | -344 bps |
| PBT | 31% | 28% | 21% | 23% | 27% | -414 bps | 401 bps | 27% | 25% | -184 bps |
| PAT | 21% | 19% | 17% | 17% | 17% | -433 bps | -13 bps | 20% | 17% | -269 bps |

Source: Emkay Research

Exhibit 12: Per Ton analysis (Rs)

| | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | yoy abs | %yoy | qoq abs | % qoq |
|-------------------------|--------------|--------------|--------------|--------------|--------------|------------|-------------|------------|------------|
| Total Sales Volumes | 163 | 153 | 122 | 142 | 164 | 1 | 1% | 22 | 15% |
| Coal Sales Revenue | 1,633 | 1,513 | 1,551 | 1,523 | 1,562 | -71 | -4% | 39 | 3% |
| Other Operating revenue | 113 | 112 | 114 | 115 | 120 | 7 | 6% | 5 | 5% |
| Total Revenue | 1,746 | 1,625 | 1,665 | 1,638 | 1,682 | -64 | -4% | 44 | 3% |
| Expenditure | | | | | | | | | |
| Accretion in Stock | -103 | 40 | 98 | -10 | -152 | -49 | 48% | -142 | 1423% |
| Stores & Spares | 135 | 103 | 121 | 133 | 137 | 2 | 2% | 4 | 3% |
| Employee Expenses | 655 | 645 | 741 | 695 | 645 | -10 | -1% | -50 | -7% |
| Power & Fuel | 37 | 38 | 51 | 46 | 38 | 1 | 2% | -8 | -18% |
| Social Overhead | 18 | 3 | 5 | 6 | 26 | 8 | 46% | 20 | 338% |
| Repairs | 34 | 16 | 24 | 20 | 34 | 0 | -1% | 14 | 69% |
| Contractual Expenses | 235 | 217 | 196 | 271 | 275 | 40 | 17% | 4 | 2% |
| Miscellaneous Expenses | 93 | 71 | 81 | 70 | 91 | -2 | -2% | 21 | 30% |
| Overburden Removal Adj. | 135 | 59 | 52 | 86 | 170 | 35 | 26% | 84 | 98% |
| Provision/Write-off | 7 | 2 | 0 | 0 | 7.0739 | 0 | 1% | 7 | |
| Total Expenses | 1,244 | 1,194 | 1,370 | 1,316 | 1,272 | 28 | 2% | -44 | -3% |
| EBITDA | 502 | 431 | 295 | 322 | 411 | -91 | -18% | 89 | 28% |
| EBITDA ex OBR | 637 | 489 | 347 | 407 | 581 | -56 | -9% | 174 | 43% |
| Depreciation | 63 | 48 | 65 | 65 | 63 | 0 | 0% | -2 | -3% |
| EBIT | 439 | 383 | 230 | 288 | 348 | -91 | -21% | 60 | 21% |
| Finance Cost | 6 | 1 | 14 | 11 | 10 | 4 | 68% | -1 | -8% |
| Other Income | 111 | 75 | 133 | 100 | 117 | 6 | 5% | 17 | 17% |
| PBT | 544 | 457 | 349 | 377 | 454 | -90 | -16% | 77 | 21% |
| Total Tax | 175 | 155 | 62 | 100 | 172 | -3 | -2% | 72 | 72% |
| PAT | 369 | 302 | 288 | 277 | 282 | -87 | -23% | 5 | 2% |

Source: Emkay Research

Exhibit 13: Sales break up (mt)

| Sales Break up | UoM | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 |
|------------------------------|----------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| FSA | mt | 130.4 | 116.8 | 135.8 | 142.4 | 135.0 | 103.8 | 127.7 | 139.2 |
| MOU | " | | | | | | | | |
| E-Auction | " | 19.41 | 17.68 | 14.65 | 16.71 | 14.00 | 15.49 | 9.84 | 21.02 |
| Total Raw Coal | " | 149.79 | 134.49 | 150.47 | 159.13 | 149.00 | 119.33 | 137.53 | 160.19 |
| Washed Coal (Coking) | " | 0.24 | 0.33 | 0.34 | 0.51 | 0.60 | 0.34 | 0.29 | 0.30 |
| Washed Coal (Non- Coking) | " | 2.31 | 2.11 | 2.58 | 2.82 | 3.00 | 1.94 | 2.04 | 3.00 |
| Total Washed Coal | " | 2.55 | 2.44 | 2.92 | 3.33 | 3.60 | 2.28 | 2.33 | 3.30 |
| Other By Product | " | 0.70 | 0.66 | 0.73 | 0.98 | 0.70 | 0.65 | 1.69 | 0.57 |
| Total Coal dispatches | " | 153.04 | 137.59 | 154.12 | 163.44 | 153.30 | 122.26 | 141.55 | 164.06 |

Source: Company, Emkay Research

Exhibit 14: Revenue Mix (Rs mn)

| Sales Break up | | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 |
|------------------------------|----------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| FSA | Rs mn | 1,71,160 | 1,52,840 | 1,81,250 | 2,07,942 | 1,78,548 | 1,49,367 | 1,80,158 | 2,01,233 |
| MOU | | | | | | | | | |
| E-Auction | " | 46,570 | 45,830 | 41,710 | 46,026 | 41,058 | 31,279 | 25,810 | 44,256 |
| Total Raw Coal | " | 2,17,730 | 1,98,670 | 2,22,960 | 2,53,968 | 2,19,606 | 1,80,647 | 2,05,969 | 2,45,489 |
| Washed Coal (Coking) | " | 1,740 | 2,190 | 2,290 | 3,490 | 3,343 | 2,368 | 2,055 | 1,918 |
| Washed Coal (Non- Coking) | " | 4,450 | 4,160 | 6,080 | 6,097 | 6,329 | 4,360 | 4,160 | 6,491 |
| Total Washed Coal | " | 6,190 | 6,350 | 8,370 | 9,587 | 9,672 | 6,728 | 6,214 | 8,409 |
| Other By Product | " | 2,060 | 2,100 | 2,500 | 3,488 | 2,952 | 2,491 | 3,481 | 2,077 |
| Total Coal dispatches | " | 2,25,980 | 2,07,120 | 2,33,830 | 2,67,043 | 2,32,230 | 1,89,865 | 2,15,664 | 2,55,974 |

Source: Company, Emkay Research

Exhibit 15: Realization (Rs /t) and Premium (%)

| Category | | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 |
|----------------------------------|------|--------|--------|--------|--------|--------|--------|--------|--------|
| FSA | Rs/t | 1,313 | 1,308 | 1,334 | 1,460 | 1,323 | 1,438 | 1,411 | 1,446 |
| % yoy growth | | 9.3% | 6.9% | 12.9% | 4.0% | 0.7% | 9.9% | 5.7% | -1.0% |
| % qoq growth | | -6.5% | -0.3% | 2.0% | 9.4% | -9.4% | 8.8% | -1.9% | 2.5% |
| E-Auction | " | 2,399 | 2,592 | 2,847 | 2,754 | 2,933 | 2,019 | 2,623 | 2,105 |
| Total Raw Coal | " | 1,454 | 1,477 | 1,482 | 1,596 | 1,474 | 1,514 | 1,498 | 1,532 |
| Washed Coal (Coking) | " | 1,926 | 1,972 | 2,357 | 2,162 | 2,110 | 2,247 | 2,039 | 2,164 |
| Washed Coal (Non- Coking) | " | 2,427 | 2,602 | 2,866 | 2,879 | 2,687 | 2,951 | 2,667 | 2,548 |
| Total Washed Coal | " | 2,427 | 2,602 | 2,866 | 2,879 | 2,687 | 2,951 | 2,667 | 2,548 |
| Other By Product | " | 2,943 | 3,182 | 3,425 | 3,559 | 4,217 | 3,832 | 2,060 | 3,643 |
| Total | " | 1,477 | 1,505 | 1,517 | 1,634 | 1,515 | 1,553 | 1,524 | 1,560 |
| % yoy growth | | 10.4% | 13.1% | 11.1% | 3.9% | 2.6% | 3.2% | 0.4% | -4.5% |
| E-auction Price premium over FSA | | 82.8% | 98.1% | 113.3% | 88.7% | 121.7% | 40.4% | 85.9% | 45.6% |

Source: Company, Company, Emkay Research

Exhibit 16: Key Assumptions and Change in Estimates

| Key Parameters | | FY21E | | | FY22E | | | FY23E |
|----------------------|--------------|--------------|------------|-------------|--------------|--------------|-------------|--------------|
| | | Old | New | % Change | Old | New | % Change | New |
| Production | mt | 620 | 532 | -14% | 641 | 623 | -3% | 600 |
| Dispatches | mt | 620 | 542 | -13% | 646 | 628 | -3% | 596 |
| Blended ASP | Rs/t | 1,657 | 1,507 | -9% | 1,692 | 1,530 | -10% | 1,782 |
| -FSA | Rs/t | 1,441 | 1,381 | -4% | 1,469 | 1,439 | -2% | 1,467 |
| -E-Auction Premium % | (%) | 65% | 13% | -5176 bps | 65% | 39% | -2553 bps | 50% |
| Total Revenue | Rs bn | 1,097 | 879 | -20% | 1,165 | 1,032 | -11% | 1,130 |
| EBITDA | Rs bn | 271 | 140 | -48% | 281 | 206 | -27% | 278 |
| Net Profit | Rs bn | 198 | 117 | -41% | 201 | 157 | -22% | 197 |
| EPS | Rs/sh | 32.1 | 19.0 | -41% | 32.6 | 25.4 | -22% | 31.9 |

Source: Emkay Research

Exhibit 17: Valuation

| Valuation | UoM | FY22 |
|--------------------|-----------------|------------|
| EBITDA | Rs mn | 2,05,574 |
| Multiple | (x) | 5 |
| Enterprise Value | Rs mn | 10,27,871 |
| Less: Net Debt | Rs mn | 2,56,754 |
| Implied Market Cap | Rs mn | 12,84,625 |
| No of shares | mn | 6,163 |
| Fair Value | Rs/Share | 208 |

Source: Emkay Research

Exhibit 18: Peer Comparison

| Company | M.Cap USD mn | PE (x) | | | EV/EBITDA (x) | | | PB (x) | | | ROE (x) | | |
|----------------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | CY20/ FY21 | CY21/ FY22 | CY22/ FY23 | CY20/ FY21 | CY21/ FY22 | CY22/ FY23 | CY20/ FY21 | CY21/ FY22 | CY22/ FY23 | CY20/ FY21 | CY21/ FY22 | CY22/ FY23 |
| CIL | 11,585 | 7.5 | 5.6 | 4.5 | 4.9 | 3.3 | 2.3 | 2.3 | 1.9 | 1.6 | 33.4 | 37.4 | 38.7 |
| Banpu | 1,011 | 12.4 | 17.8 | 10.5 | 11.4 | 14.1 | 11.5 | 0.4 | 0.4 | 0.4 | 2.5 | 1.4 | 2.6 |
| Bukit Asam | 1,907 | 5.6 | 7.7 | 7.2 | 3.1 | 4.7 | 4.5 | 1.3 | 1.3 | 1.2 | 24.3 | 16.5 | 17.0 |
| China Shenhua Energy | 39,365 | 5.0 | 5.9 | 5.9 | 3.2 | 4.4 | 4.4 | 0.6 | 0.6 | 0.6 | 12.7 | 10.0 | 9.6 |
| Adaro Energy | 2,288 | 5.0 | 7.1 | 7.1 | 2.5 | 3.2 | 2.8 | 0.6 | 0.6 | 0.6 | 11.1 | 8.1 | 8.1 |

Source: Emkay Research, Bloomberg

Highlights of conference call

- **Demand and inventory:** Demand has been gradually improving on a MoM basis. However, on a yoy basis, it is still tepid, and power plants have a comfortable coal stock of around 30 days. CIL is also carrying inventory of 77mt. As a result of high inventory at both ends, CIL has been forced to cut down production to match dispatches and prevent inventory from piling on. There is no plan to increase FSA currently due to weak demand.
- **Higher Tax Payout:** CIL paid Rs47.5bn additional advance tax, though there was no liability for any payment. This has been done keeping in mind the government's revenue target. The company expects this to be adjusted towards advance tax payment for the year FY21. So far, the company has no plans to pay anything toward the *Vivad se Vishwas* scheme or *Sab Ka Vishwas* scheme for the disputes, where it has won in lower courts. It mentioned that in most of the case, the company has won in the lower courts.
- **Manpower:** CIL is restricting hiring only for (a) Mandatory, (b) Statutory and (c) Land holders who lose land to the company as per policy. In addition, it is now planning to send these people to ITIs for training so that they can be better skilled and absorbed elsewhere. CIL plans to have a net reduction of 17000-18000 people per year over the next 2 years due to natural attrition. CIL will also cut overtime to reduce manpower cost.
- **E-auction performance:** YTD FY21, about 300mt of coal was put up for e-auction but only 34mt was sold. Currently, the base price for e-auction is the corresponding FSA price, with no mark-up, which was generally to the tune of 20%. This nil mark-up base price for e-auctions shall continue till September after which CIL will take a call depending upon the demand situation.
- **Capex:** Capex for FY20 stood at Rs65-70bn. CIL plans capex of Rs110bn for FY21. High capex despite low cash inflow and high receivable position is in order to ensure CIL meets its 1bn tonne production target for FY24. There are about 120 projects, each is in excess of Rs200mn pertaining to mine development and land acquisition. Railways infrastructure is another area where CIL is working under a JV with Indian Railways to double the lines, increase carrying capacity of rail, etc. CIL expects a substantial rise in capex going forward as it gears up to meet the coal production target of 1bn tonnes in FY24. Broadly, CIL intends to spend (a) Land - Rs20bn, (b) Plant and Machinery - Rs40bn, (c) Logistics - Rs10bn, (d) Exploration - Rs5bn (e) Mining infrastructure - Rs20bn. Rs15bn is expected to be spend in the Joint Venture companies as part of CIL's contribution.
- **Receivables:** The receivables currently stand at Rs180bn. This is likely to grow at Rs10-15bn per month up to Sep'20 by which it is expected to be around Rs210-220bn. Management expects the position to improve thereafter, subject to Covid-19 coming under control.
- **OBR provisioning and cash balance:** The company has no provision of maintaining cash balance equivalent to OBR provisions. However, in FY21 and FY22, the cash outflow on account of actual OBR shall be higher. P&L will not have any impact due to OBR accounting whereby P&L is debited to the tune of production and not actual cash outflow in this account the difference between the two being accounted for the in balance sheet.
- **Import coal Substitution:** This has been one of the major themes for CIL. It has been talking to end customers to ascertain the reasons for buying imported coal and how they can be shifted to coal supplied by CIL. Out of c185mt non-coking coal imported in FY20, CIL has set a target of 100mt import substitution and as per management, they have been able to start converting some of them. CIL is working on quality, reliability, consistency and cost for these customers (especially non-power sector) to woo them back from imports.
- **Exports:** CIL never has looked at exports as a major business opportunity so far. As per management, the quality of Indonesian coal at the current cost makes CIL's exports expensive except for small pockets in Nepal, Bhutan and Bangladesh of which the latter is the most promising but only 2-3 mtpa export opportunity.
- **Incentives announced by Finance Ministry:** The Finance Minister had announced, as part of its stimulus package, Rs50bn worth concessions by CIL to stimulate demand. Management explained about Rs40bn was accounted towards reduction in base price to notified prices for all e-auctions. It has done away with the performance incentive (measured as a percentage of coal supplies achieved wrt the annual agreement).

Key Financials (Consolidated)**Income Statement**

| Y/E Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|----------------------------------|-----------------|-----------------|-----------------|------------------|------------------|
| Revenue | 9,95,469 | 9,60,803 | 8,78,551 | 10,32,461 | 11,30,468 |
| Expenditure | 7,45,698 | 7,41,591 | 7,38,238 | 8,26,887 | 8,52,496 |
| EBITDA | 2,49,771 | 2,19,212 | 1,40,313 | 2,05,574 | 2,77,972 |
| Depreciation | 24,132 | 34,508 | 32,490 | 37,656 | 35,745 |
| EBIT | 2,25,639 | 1,84,704 | 1,07,823 | 1,67,918 | 2,42,227 |
| Other Income | 43,846 | 61,054 | 60,790 | 55,841 | 61,638 |
| Interest expenses | 1,731 | 5,029 | 6,000 | 6,000 | 6,000 |
| PBT | 2,67,754 | 2,40,728 | 1,62,613 | 2,17,760 | 2,97,865 |
| Tax | 67,966 | 73,710 | 45,532 | 60,973 | 1,01,274 |
| Extraordinary Items | 0 | 0 | 0 | 0 | 0 |
| Minority Int./Income from Assoc. | 18 | 0 | 0 | 0 | 0 |
| Reported Net Income | 1,99,806 | 1,67,019 | 1,17,081 | 1,56,787 | 1,96,591 |
| Adjusted PAT | 1,99,806 | 1,67,019 | 1,17,081 | 1,56,787 | 1,96,591 |

Balance Sheet

| Y/E Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Equity share capital | 61,627 | 61,627 | 61,627 | 61,627 | 61,627 |
| Reserves & surplus | 2,02,912 | 2,59,942 | 3,18,584 | 3,96,883 | 4,94,966 |
| Net worth | 2,64,539 | 3,21,569 | 3,80,211 | 4,58,510 | 5,56,593 |
| Minority Interest | 4,068 | 3,941 | 3,973 | 4,005 | 4,037 |
| Loan Funds | 22,027 | 64,260 | 64,260 | 64,260 | 64,260 |
| Net deferred tax liability | (42,692) | (33,110) | (33,110) | (33,110) | (33,110) |
| Total Liabilities | 2,47,943 | 3,56,660 | 4,15,334 | 4,93,665 | 5,91,780 |
| Net block | 2,85,391 | 3,23,024 | 3,20,534 | 3,22,878 | 3,37,133 |
| Investment | 14,210 | 18,732 | 22,478 | 26,974 | 32,368 |
| Current Assets | 6,03,625 | 8,35,122 | 7,99,455 | 8,59,079 | 8,90,433 |
| Cash & bank balance | 3,11,242 | 2,84,468 | 2,55,846 | 2,56,754 | 3,03,881 |
| Other Current Assets | 1,76,534 | 3,35,355 | 3,06,646 | 3,60,366 | 3,94,574 |
| Current liabilities & Provision | 10,36,554 | 11,10,445 | 10,77,361 | 11,25,494 | 11,48,383 |
| Net current assets | (4,32,929) | (2,75,324) | (2,77,906) | (2,66,415) | (2,57,949) |
| Misc. exp | 0 | 0 | 0 | 0 | 0 |
| Total Assets | 2,47,943 | 3,56,660 | 4,15,334 | 4,93,665 | 5,91,780 |

Cash Flow

| Y/E Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| PBT (Ex-Other income) (NI+Dep) | 2,71,255 | 2,40,725 | 1,01,823 | 1,61,918 | 2,36,227 |
| Other Non-Cash items | 2,693 | 43,562 | 0 | 0 | 0 |
| Chg in working cap | (48,918) | (1,23,268) | (31,040) | (15,583) | 33,661 |
| Operating Cashflow | 1,66,955 | 41,465 | 63,742 | 1,29,018 | 2,10,359 |
| Capital expenditure | (73,393) | (56,120) | (90,000) | (1,00,000) | (1,20,000) |
| Free Cash Flow | 93,561 | (14,654) | (26,258) | 29,018 | 90,359 |
| Investments | (40,675) | 24,871 | (3,746) | (4,496) | (5,395) |
| Other Investing Cash Flow | 0 | 0 | 0 | 0 | 0 |
| Investing Cashflow | (78,686) | 3,324 | (32,957) | (48,654) | (63,756) |
| Equity Capital Raised | 0 | 0 | 0 | 0 | 0 |
| Loans Taken / (Repaid) | 6,718 | 22,776 | 5,000 | 5,000 | 5,000 |
| Dividend paid (incl tax) | (1,12,110) | (96,760) | (58,408) | (78,456) | (98,476) |
| Other Financing Cash Flow | 0 | 5,169 | 0 | 0 | 0 |
| Financing Cashflow | (1,05,488) | (69,502) | (59,408) | (79,456) | (99,476) |
| Net chg in cash | (17,220) | (24,712) | (28,622) | 908 | 47,127 |
| Opening cash position | 3,28,462 | 3,09,180 | 2,84,468 | 2,55,846 | 2,56,754 |
| Closing cash position | 3,11,242 | 2,84,468 | 2,55,846 | 2,56,754 | 3,03,881 |

Source: Company, Emkay Research

Key Ratios

| Profitability (%) | FY19 | FY20 | FY21E | FY22E | FY23E |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| EBITDA Margin | 25.1 | 22.8 | 16.0 | 19.9 | 24.6 |
| EBIT Margin | 22.7 | 19.2 | 12.3 | 16.3 | 21.4 |
| Effective Tax Rate | 25.4 | 30.6 | 28.0 | 28.0 | 34.0 |
| Net Margin | 20.1 | 17.4 | 13.3 | 15.2 | 17.4 |
| ROCE | 130.9 | 81.3 | 43.7 | 49.2 | 56.0 |
| ROE | 86.3 | 57.0 | 33.4 | 37.4 | 38.7 |
| RoIC | (62.0) | (53.1) | (47.9) | (81.2) | (114.0) |

| Per Share Data (Rs) | FY19 | FY20 | FY21E | FY22E | FY23E |
|----------------------------|-------------|-------------|--------------|--------------|--------------|
| EPS | 32.4 | 27.1 | 19.0 | 25.4 | 31.9 |
| CEPS | 36.3 | 32.7 | 24.3 | 31.6 | 37.7 |
| BVPS | 42.9 | 52.2 | 61.7 | 74.4 | 90.3 |
| DPS | 15.4 | 13.5 | 9.5 | 12.7 | 16.0 |

| Valuations (x) | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| PER | 4.2 | 5.0 | 7.1 | 5.3 | 4.2 |
| P/CEPS | 3.9 | 4.3 | 5.9 | 4.5 | 3.8 |
| P/BV | 3.1 | 2.6 | 2.2 | 1.8 | 1.5 |
| EV / Sales | 0.5 | 0.6 | 0.7 | 0.6 | 0.5 |
| EV / EBITDA | 2.2 | 2.8 | 4.6 | 3.1 | 2.1 |
| Dividend Yield (%) | 11.4 | 10.0 | 7.0 | 9.4 | 11.8 |

| Gearing Ratio (x) | FY19 | FY20 | FY21E | FY22E | FY23E |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| Net Debt/ Equity | (1.1) | (0.7) | (0.5) | (0.4) | (0.4) |
| Net Debt/EBIDTA | (1.2) | (1.0) | (1.4) | (0.9) | (0.9) |
| Working Cap Cycle (days) | (272.9) | (212.7) | (221.8) | (185.0) | (181.4) |

| Growth (%) | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue | 16.8 | (3.5) | (8.6) | 17.5 | 9.5 |
| EBITDA | 168.9 | (12.2) | (36.0) | 46.5 | 35.2 |
| EBIT | 262.4 | (18.1) | (41.6) | 55.7 | 44.3 |
| PAT | 183.9 | (16.4) | (29.9) | 33.9 | 25.4 |

| Quarterly (Rs mn) | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 2,85,463 | 2,49,390 | 2,03,826 | 2,31,905 | 2,75,682 |
| EBITDA | 82,122 | 66,124 | 36,115 | 49,684 | 67,289 |
| EBITDA Margin (%) | 28.8 | 26.5 | 17.7 | 21.4 | 24.4 |
| PAT | 60,242 | 46,299 | 35,260 | 39,218 | 46,260 |
| EPS (Rs) | 9.8 | 7.5 | 5.7 | 6.4 | 7.5 |

Source: Company, Emkay Research

| Shareholding Pattern (%) | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters | 71.0 | 71.0 | 69.3 | 69.1 | 66.1 |
| FIIIs | 7.1 | 9.0 | 8.7 | 8.6 | 8.2 |
| DIIIs | 19.0 | 17.4 | 19.2 | 19.5 | 22.0 |
| Public and Others | 2.9 | 2.7 | 2.9 | 2.9 | 3.7 |

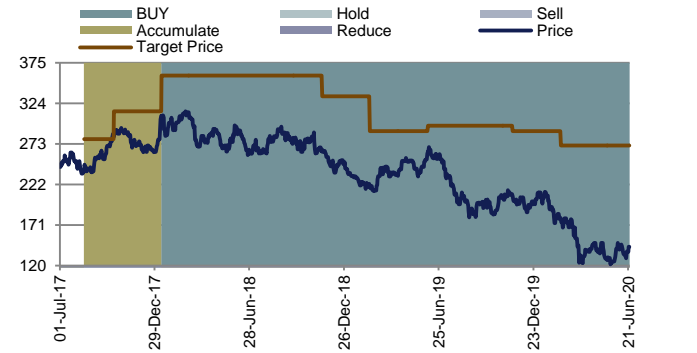
Source: Capitaline

RECOMMENDATION HISTORY TABLE

| Date | Closing Price | TP | Period (months) | Rating | Analyst |
|-----------|---------------|-----|-----------------|------------|--------------------|
| 17-May-20 | 130 | 271 | 12m | Buy | Vishal Chandak |
| 13-Feb-20 | 178 | 271 | 12m | Buy | Vishal Chandak |
| 13-Nov-19 | 207 | 289 | 12m | Buy | Vishal Chandak |
| 28-Aug-19 | 185 | 296 | 12m | Buy | Vishal Chandak |
| 04-Jul-19 | 251 | 296 | 12m | Buy | Vishal Chandak |
| 04-Jun-19 | 263 | 296 | 12m | Buy | Vishal Chandak |
| 13-Feb-19 | 220 | 289 | 12m | Buy | Vishal Chandak |
| 14-Nov-18 | 266 | 333 | 12m | Buy | Kamal Sahoo |
| 14-Aug-18 | 283 | 359 | 12m | Buy | Goutam Chakraborty |
| 30-May-18 | 289 | 359 | 12m | Buy | Goutam Chakraborty |
| 08-May-18 | 268 | 359 | 12m | Buy | Goutam Chakraborty |
| 01-Mar-18 | 313 | 359 | 12m | Buy | Goutam Chakraborty |
| 12-Feb-18 | 301 | 359 | 12m | Buy | Goutam Chakraborty |
| 11-Jan-18 | 308 | 359 | 12m | Buy | Goutam Chakraborty |
| 13-Nov-17 | 275 | 314 | 12m | Accumulate | Goutam Chakraborty |
| 02-Nov-17 | 291 | 314 | 12m | Accumulate | Goutam Chakraborty |
| 01-Nov-17 | 287 | 314 | 12m | Accumulate | Goutam Chakraborty |
| 12-Oct-17 | 282 | 314 | 12m | Accumulate | Goutam Chakraborty |
| 11-Sep-17 | 257 | 279 | 12m | Accumulate | Goutam Chakraborty |
| 05-Sep-17 | 254 | 279 | 12m | Accumulate | Goutam Chakraborty |
| 16-Aug-17 | 238 | 279 | 12m | Accumulate | Goutam Chakraborty |
| 30-Jun-17 | 244 | 279 | 12m | Hold | Goutam Chakraborty |

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Metals & Mining



Analyst: Vishal Chandak

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Sector

Metals and Mining

Analyst bio

Vishal Chandak is a CA and MBA (Finance). He brings in over 16 years of experience, including seven years in the corporate side, with balance being on both the buy side and sell side. Currently, his team tracks 12 stocks in the Metals and Mining space.

EAP sector portfolio

| Company Name | BSE200 Weight | EAP Weight | OW/UW (%) | OW/UW (bps) | EAP Weight (Normalised) |
|----------------------------|---------------|-------------|------------|-------------|-------------------------|
| Metals & Mining | 2.30 | 2.26 | -2% | -4 | 100.00 |
| Coal India | 0.45 | 0.48 | 5% | 2 | 20.83 |
| Hindalco | 0.39 | 0.43 | 10% | 4 | 18.80 |
| Hindustan Zinc | 0.07 | 0.08 | 2% | 0 | 3.33 |
| Jindal Stainless | 0.00 | 0.00 | NA | 0 | 0.00 |
| Jindal Stainless Hisar | 0.00 | 0.00 | NA | 0 | 0.00 |
| JSW Steel | 0.35 | 0.35 | 0% | 0 | 15.18 |
| MOIL | 0.00 | 0.00 | NA | 0 | 0.00 |
| National Aluminium Co | 0.05 | 0.00 | -100% | -5 | 0.00 |
| NMDC | 0.13 | 0.13 | 0% | 0 | 5.60 |
| SAIL | 0.06 | 0.05 | -10% | -1 | 2.20 |
| Tata Steel | 0.44 | 0.37 | -15% | -6 | 16.13 |
| Vedanta | 0.36 | 0.38 | 5% | 2 | 16.32 |
| Cash | 0.00 | 0.04 | NA | 4 | 1.62 |

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

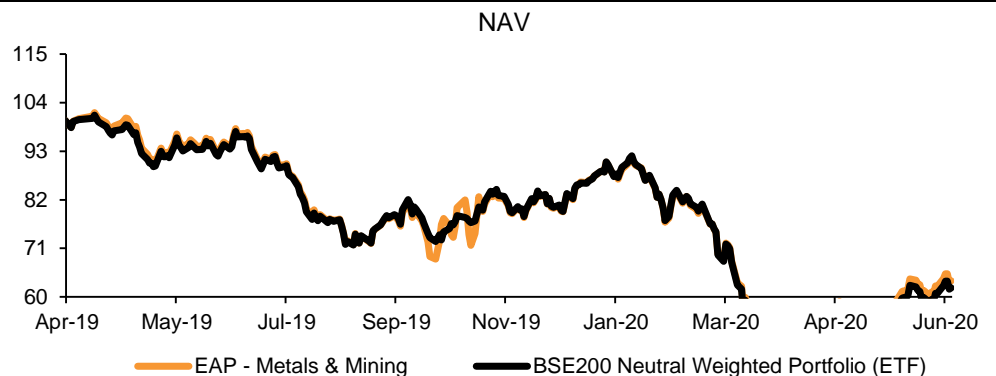
Sector portfolio NAV

| | Base | | | | | Latest |
|---|----------|-----------|-----------|-----------|-----------|-----------|
| | 1-Apr-19 | 25-Sep-19 | 27-Dec-19 | 27-Mar-20 | 28-May-20 | 26-Jun-20 |
| EAP - Metals & Mining | 100.0 | 78.0 | 87.4 | 48.7 | 58.1 | 63.6 |
| BSE200 Neutral Weighted Portfolio (ETF) | 100.0 | 78.7 | 87.4 | 47.6 | 56.6 | 62.1 |

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

| Ratings | Expected Return within the next 12-18 months. |
|---------|---|
| BUY | Over 15% |
| HOLD | Between -5% to 15% |
| SELL | Below -5% |

Completed Date: 30 Jun 2020 01:13:34 (SGT)

Dissemination Date: 30 Jun 2020 01:14:34 (SGT)

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