

ICICI Securities Limited
is the author and
distributor of this report

Company update

Utilities/mining

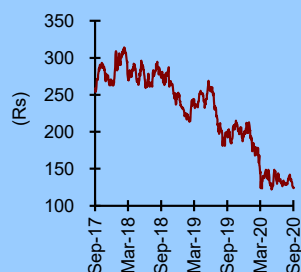
Target price Rs258

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	69.1	66.1	66.1
Institutional investors	28.1	30.2	30.1
MFs and other	6.8	9.4	9.6
Insurance/FIs	12.7	12.6	12.6
FII	8.6	8.2	7.9
Others	2.8	3.7	3.8

Source: NSE

Price chart



Research Analysts:

Rahul Modi

rahul.modi@icicisecurities.com
+91 22 6637 7373

Abhijit Mitra

abhijit.mitra@icicisecurities.com
+91 22 6637 7289

Anshuman Ashit

anshuman.ashit@icicisecurities.com
+91 22 6637 7419

Coal India

BUY

Maintained

Rs117

Strong volume performance

Coal India (CIL) posted higher than expected production/offtake in Sep'20 and consequently Q2FY21. For Sep'20, production/offtake was 40.5mnte / 46.5mnte, up 31.6% / 31.7% YoY, while the figures for Q2FY21 were 115.1mnte / 134.2mnte, up 10.6% / 9.6% YoY. Thus, production/offtake recovered substantially from -9.7% / -18% YoY in 4MFY21 to reach 236mnte / 255mnte, down only 2% / 7.6% YoY, with MCL and NCL outperforming among the subsidiaries. CIL's efforts in terms of OBR, higher e-auction volumes and import substitution makes us believe that if the positive trend continues until Nov'20, the company may exceed our volume estimate of 580mnte for FY21E (it is confident of achieving 660mnte). Maintain BUY with the target price unchanged at Rs258.

- **Strong Sep'20 and Q2FY21 volumes:** For Sep'20, production was 40.5mnte (+31.6% YoY) while offtake was 46.5mnte (+31.7% YoY). For Q2FY21, production was 115.1mnte (+10.6% YoY) and offtake 134.2mnte (+9.6% YoY). For H1FY21, production / offtake was 236mnte / 255mnte, down only 2% / 7.6% YoY, both witnessing substantial recovery from 4MFY21 figures of -9.7% / -18%.

- **MCL, WCL and CCL outperform in Sep'20; MCL and NCL in H1FY21:**

Particulars	Production (mnte)				Offtake (mnte)			
	Sep'20	YoY	H1FY20	YoY (%)	Sep'20	YoY (%)	H1FY20	YoY (%)
ECL	2.8	0.6%	18.1	-13.3%	2.9	2.7%	19.2	-15.2%
BCCL	2.0	15.6%	10.1	-13.6%	2.4	20.3%	10.4	-25.5%
CCL	4.8	47.4%	20.3	-10.4%	5.7	31.5%	26.8	-18.0%
NCL	9.3	20.8%	53.5	5.0%	9.3	16.3%	50.0	-2.5%
WCL	2.5	43.7%	16.5	-5.5%	3.8	60.2%	19.1	-18.9%
SECL	8.5	17.4%	53.7	-11.6%	10.4	24.0%	61.7	-8.9%
MCL	10.6	68.5%	63.9	13.0%	12.0	63.0%	67.8	+5.9%

Source: Company data, I-Sec research

- **E-auction updates:** E-auction volumes increased to 37.1mnte in 5MFY21 (up 90% YoY) vs 19.8mnte at Q1FY21-end. Average premiums during 5MFY21 stood at 8-10% above the notified prices, but in Aug'20, spot e-auction premiums reached 18%.
- **Coal to remain the key source for India's energy demand; expect the positive trend for CIL to continue:** In the recent past, we have witnessed substantial volatility in wind generation owing to adverse wind patterns, while hydro generation remains dependent on reservoir water levels (which vary with monsoons). In the case of solar generation, catering to base load still seems some time away since battery storage is not currently cheap, example being the recent commissioning of 20MW solar project with 8MWh battery storage system by NLC India in Andaman, where tariff is Rs6/kWh vs recent thermal bid of Rs3.26/kWh. Thus, we believe, coal will continue to be the primary fuel for India's energy needs in the next decade. For CIL, we expect both production and offtake trend improvement to continue, especially since it is better prepared to tackle disruptions due to monsoons this year, having done significant OBR removal during the lean Q1 months. In addition, improvement in power demand post further opening up of the economy has resulted in higher coal PLFs and lower coal inventory at power plants (19 days on 29th Sep'20 vs 27 days in Jun'20), which will help in the coming months.

Market Cap	Rs752bn/US\$10.2bn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	COAL.BO/ COAL IN	Revenue (Rs mn)	995,469	960,803	939,410	1,031,607
Shares Outstanding (mn)	6,162.7	Net Income (Rs mn)	174,622	167,003	153,436	189,905
52-week Range (Rs)	218/119	DEPS (Rs)	28.3	27.1	24.9	30.8
Free Float (%)	30.9	% Chg YoY	150.6	(4.4)	(8.1)	23.8
FII (%)	7.9	P/E (x)	4.1	4.3	4.7	3.8
Daily Volume (US\$/'000)	21,788	CEPS (Rs)	42.2	41.7	39.6	46.4
Absolute Return 3m (%)	(11.4)	EV/E (x)	1.4	2.3	2.9	1.7
Absolute Return 12m (%)	(39.2)	Dividend Yield (%)	11.2	10.3	17.1	17.1
Sensex Return 3m (%)	10.1	RoCE (%)	60.7	43.7	36.9	39.3
Sensex Return 12m (%)	1.2	RoE (%)	65.0	51.3	43.1	45.0

Please refer to important disclosures at the end of this report

Valuation methodology and risks

We maintain our **BUY** rating on CIL and our target price of Rs258. We remain structurally positive on the stock, valuing it on DCF basis with peak production of 850mnte from FY29E onwards. The stock is currently trading at 3.8x P/E and 1.7x EV/EBITDA on FY22E basis with 45% RoE.

Key downside risks: 1) Weakness in the 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 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	741,201	780,076	782,206	858,624	995,469	960,803	939,410	1,031,607
Operating Expenses	567,847	592,964	659,807	762,962	745,698	741,595	748,778	788,888
EBITDA	173,354	187,113	122,399	95,663	249,771	219,208	190,632	242,719
Margins	23.4%	24.0%	15.6%	11.1%	25.1%	22.8%	20.3%	23.5%
Depreciation & Amortisation	23,198	28,259	29,101	30,664	34,504	34,508	40,442	46,314
Gross Interest	73	3,862	4,117	4,318	2,750	5,029	2,000	2,000
Other Income	86,761	84,299	82,696	88,208	125,245	128,112	123,754	133,224
Recurring PBT	215,789	214,398	144,337	107,264	271,255	240,713	205,129	253,883
Add: Extraordinaries	51	-	-	-	(8)	-	-	-
Less: Taxes	(78,573)	(71,719)	(51,660)	(37,067)	(96,625)	(73,710)	(51,692)	(63,979)
Net Income (Reported)	137,267	142,679	92,678	70,198	174,622	167,003	153,436	189,905
Recurring Net Income	137,267	142,679	92,678	70,198	174,622	167,003	153,436	189,905

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Assets								
Total Current Assets	835,410	704,672	694,297	696,288	687,114	840,511	734,825	798,747
of which cash & cash eqv.	530,925	380,149	311,492	314,751	311,242	284,468	225,841	310,518
Total Current Liabilities & Provisions	657,212	719,678	850,810	1,002,216	975,013	1,042,577	956,268	997,225
Net Current Assets	178,198	(15,007)	(156,512)	(305,929)	(287,898)	(202,066)	(221,443)	(198,478)
Investments	28,134	29,061	14,829	15,086	31,710	19,729	19,729	19,729
of which								
Other Marketable	28,134	29,061	14,829	15,086	31,710	19,729	19,729	19,729
Net Fixed Assets	212,744	103,203	323,966	378,638	422,726	451,119	500,676	544,362
of which								
Capital Work-in-Progress	31,046	45,532	85,852	102,864	96,616	83,283	92,283	101,283
Total Assets	448,203	245,450	327,343	272,701	352,176	457,639	487,820	554,470
Liabilities								
Borrowings	4,019	11,921	30,078	15,309	22,027	64,260	64,260	64,260
Deferred Tax Liability/(Asset)	-	-	-	-	-	-	-	-
Equity Share Capital	63,164	63,164	62,074	62,074	61,627	61,627	61,627	61,627
Face Value per share (Rs)	10	10	10	10	10	10	10	10
Reserves & Surplus	340,367	286,216	186,566	140,016	206,980	263,883	294,064	360,714
Net Worth	403,531	349,379	248,640	202,090	268,607	325,510	355,691	422,342
Total Liabilities	448,203	408,604	327,343	272,701	352,176	457,639	487,820	554,470

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Net sales	242,609	218,840	250,458	285,463	249,390	203,826	231,905	275,682	184,868
Growth (YoY)	26.6	22.3	15.4	6.1	2.8	(6.9)	(7.4)	(3.4)	(25.9)
EBITDA	57,325	43,171	67,878	82,122	66,124	36,112	49,684	67,289	30,517
Margin (%)	23.6	20.0	27.1	28.8	26.5	17.7	21.4	24.4	16.5
Other income	12,120	16,084	11,633	18,196	11,495	16,290	14,128	19,131	7,851
Add: Extra-ordinaries	-	-	-	-	-	-	-	-	-
Net profit(reported)	37,863	30,861	45,657	60,268	46,299	35,229	39,218	46,258	20,775

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Operating Cashflow	160,465	170,938	121,778	100,862	209,134	201,512	193,878	236,219
Working Capital Changes	39,950	98,571	104,362	197,054	7,611	(28,767)	(39,251)	61,712
Capital Commitments	(41,790)	74,246	(83,837)	(65,454)	(73,070)	(51,141)	(90,000)	(90,000)
Free Cashflow	158,625	343,755	142,304	232,461	143,675	121,604	64,627	207,931
Cashflow from Investing Activities	-	-	-	-	-	-	-	-
Issue of Share Capital	(2,480)	(66,398)	(1,090)	-	(447)	-	-	-
Buyback of shares	-	-	-	-	-	-	-	-
Inc (Dec) in Borrowings	3,860	(60,759)	(65,344)	(109,368)	(52,280)	(51,938)	-	-
Dividend paid -including tax	(152,976)	(204,221)	(144,527)	(119,834)	(94,456)	(88,743)	(123,255)	(123,255)
Extraordinary Items	-	-	-	-	-	-	-	-
Chg. in Cash & Bank balances	7,029	12,378	(68,657)	3,259	(3,509)	(19,078)	(58,627)	84,677

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)								
EPS(Basic Recurring)	21.7	22.6	14.9	11.3	28.3	27.1	24.9	30.8
Diluted Recurring EPS	21.7	22.6	14.9	11.3	28.3	27.1	24.9	30.8
Recurring Cash EPS	31.5	31.5	23.9	21.7	42.2	41.7	39.6	46.4
Dividend per share (DPS)	20.7	27.4	19.9	16.5	13.1	12.0	20.0	20.0
Book Value per share (BV)	63.9	55.3	40.1	32.6	43.6	52.8	57.7	68.5
Growth Ratios (%)								
Operating Income	5.0	5.2	0.3	9.8	15.9	(3.5)	(2.2)	9.8
EBITDA	(2.4)	7.9	(34.6)	(21.8)	161.1	(12.2)	(13.0)	27.3
Recurring Net Income	(9.2)	3.9	(35.0)	(24.3)	148.8	(4.4)	(8.1)	23.8
Diluted Recurring EPS	(9.2)	3.9	(33.9)	(24.3)	150.6	(4.4)	(8.1)	23.8
Diluted Recurring CEPS	(2.6)	0.2	(24.1)	(9.5)	94.7	(1.1)	(5.1)	17.4
Valuation Ratios (x)								
P/E	5.4	5.2	7.8	10.3	4.1	4.3	4.7	3.8
P/CEPS	3.7	3.7	4.9	5.4	2.8	2.8	3.0	2.5
P/BV	1.8	2.1	2.9	3.6	2.7	2.2	2.0	1.7
EV / EBITDA	0.9	1.6	2.8	2.9	1.4	2.3	2.9	1.7
EV / Operating Income	0.2	0.4	0.6	0.5	0.4	0.5	0.6	0.5
EV / Operating FCF	1.2	1.0	3.1	1.8	2.9	4.4	8.6	2.3
Operating Ratios								
Employee cost / Revenue (%)	40.3	38.6	42.8	49.7	38.9	41.0	41.9	38.3
Operating exp / Revenue (%)	76.6	76.0	84.4	88.9	74.9	77.2	79.7	76.5
Other Income / PBT (%)	40.2	39.3	57.3	82.2	46.2	53.2	60.3	52.5
Effective Tax Rate (%)	36.4	33.5	35.8	34.6	35.6	30.6	25.2	25.2
WC / Total Assets (%)	39.8	(6.1)	(47.8)	(112.2)	(81.7)	(44.2)	(45.4)	(35.8)
Inventory Turnover	12.6	11.3	9.5	11.2	16.6	15.7	14.0	15.7
Receivables (days)	42.0	53.6	58.2	36.9	20.2	54.7	37.2	27.9
Payables (days)	-	-	-	-	-	-	-	-
Net D/E Ratio (%)	(130.6)	(105.4)	(113.2)	(148.2)	(107.7)	(67.7)	(45.4)	(58.3)
Profitability Ratios (%)								
Recurring Net Income Margins	18.5	18.3	11.8	8.2	17.5	17.4	16.3	18.4
RoCE	33.7	40.2	34.2	33.6	60.7	43.7	36.9	39.3
RoNW	34.0	40.8	37.3	34.7	65.0	51.3	43.1	45.0
Dividend Pay-out Ratio	95.3	121.3	135.6	145.9	46.6	44.3	80.3	64.9
Dividend Yield	17.7	23.4	17.0	14.1	11.2	10.3	17.1	17.1
EBITDA Margins	23.4	24.0	15.6	11.1	25.1	22.8	20.3	23.5

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92, Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)

BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, **Rahul Modi, Masters in Finance; Abhijit Mitra, MBA (Finance), BE; Anshuman Ashit, B.E., PGDM** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.