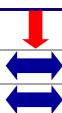


Coal India

Estimate change

TP change

Rating change



Bloomberg	COAL IN
Equity Shares (m)	6,207
M.Cap.(INRb)/(USD\$)	753.1 / 10.4
52-Week Range (INR)	216 / 110
1, 6, 12 Rel. Per (%)	1/-42/-49
12M Avg Val (INR M)	1739

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	960.8	884.6	1,048.8
EBITDA	219.2	138.1	230.4
Adj. PAT	167.0	99.1	163.8
EBITDA Margin (%)	22.8	15.6	22.0
Cons. Adj. EPS (INR)	27.1	16.1	26.6
EPS Gr. (%)	-4.4	-40.6	65.2
BV/Sh. (INR)	52.2	57.8	71.9

Ratios

Net D:E	-0.7	-0.6	-0.7
RoE (%)	51.9	27.8	37.0
RoCE (%)	56.4	27.5	38.5
Payout (%)	53.3	65.0	47.0

Valuations

P/E (x)	5.2	7.6	4.6
P/BV (x)	2.7	2.1	1.7
EV/EBITDA(x)	2.3	3.2	1.5
Div. Yield (%)	8.6	8.6	10.2
FCF Yield (%)	-1.9	1.6	22.4

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	66.1	66.1	69.3
DII	22.0	22.3	19.2
FII	7.2	7.9	8.7
Others	4.7	3.7	2.8
FII Includes depository receipts			

CMP: INR122
TP: INR192 (+57%)
Buy

Operational miss on higher exp. and provisioning

Valuations attractive; dividend yield of ~10%

- Coal India (COAL) reflects the broad recovery in power demand (albeit aided by the low base of last year for COAL). Off-take rose 9% YoY in 2Q (v/s 22% YoY decline in 1Q). Operationally, though, EBITDA (ex-OBR) declined 20% YoY (27% miss) due to higher contractual expenses amid strong OBR.
- Muted power demand has impacted e-auction realizations and overall growth in off-take. However, with recovery in power demand and a large cash position, Coal India can tide over the situation. Maintain Buy, with target price of INR192/sh based on 4x Sep'21 EV/EBITDA.

Higher expenses and provisioning impact operational profit

- COAL's 2QFY21 adj. EBITDA (ex-OBR) was down 20% YoY to INR34.0b (27% below our est. of INR46.8b). The miss was largely led by higher-than-expected contractual expenses and provisioning of INR3.5b. The higher contractual expenses, though, were an indication of higher OBR activity, in our view. OBR was up 42% YoY to 271mt in 2Q. This is also well-highlighted with write-backs of INR5.8b on OBR (v/s our est. of INR6b expense), which thereby aided PAT. Accordingly, PAT was down 16% YoY to INR29.5b (just 6% below our est. of INR31.3b).
- Revenue at INR211.5b was up 4% YoY (in line with our est. of INR209b). Off-take was up 9% YoY to 134mt (est. 134.2mt) given recovery in power demand and the low base of last year. Production was up 11% YoY at 115mt.
- FSA:** FSA volumes rose 4% YoY to 108.2mt (est. 104.9mt); FSA realization was down 2% YoY to INR1,412/t (est. INR1,380/t).
- E-auction:** E-auction volumes rose 44% YoY to 22.4mt (est. 26.2mt); e-auction realization was down 29% YoY to INR1,437/t (est. INR1,530/t).
- The co. has declared an interim dividend of INR7.5/sh.

Management commentary

- COAL's management noted the co.'s receivables stood at INR238b in Oct v/s INR233b in Sep. As per the mgmt., money is being paid on incremental supplies. Post-Diwali, COAL would put pressure on the state govt. to recover its dues. The co. would try to bring down receivables to near FY20 levels (~INR160b) by end-FY21.
- COAL noted its subsidiaries have been asked to fix their own floor price from Oct for e-auction. COAL noted it has thus far booked 59mt of e-auction vols. in the current year v/s 31mt for the same period last year. It is hopeful of going beyond 100mt in terms of e-auction volumes for FY21.

Valuations attractive; maintain Buy

- E-auction realizations and volume growth have been under pressure on account of decline in power demand and significant stocks at both mines and power plants. However, power demand has shown signs of improvement, and we expect volumes to recover in 2HFY21.

- Furthermore, we expect Coal India to tide over the current situation given the large cash position. The stock trades attractively at ~1.5x FY22E EV/adj. EBITDA (v/s historical average of 7x), PE of 5x (v/s average of ~13x), and offers dividend yield of ~10%. Maintain Buy, with target price of INR192/sh.

Quarterly performance (consolidated) – INR m

Y/E March	FY20				FY21				FY20	FY21E	FY21 2QE	var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales	249.4	203.8	231.9	275.7	184.9	211.5	223.2	265.0	960.8	884.6	209.0	1
Change (%)	3.6	-6.9	-7.4	-3.4	-25.9	3.8	-3.8	-3.9	-3.5	-7.9	2.5	
Adj. EBITDA	75.1	42.5	61.8	95.2	28.0	34.0	45.5	65.5	274.6	173.0	46.8	(27)
As of % Sales	30.1	20.8	26.7	34.5	15.1	16.1	20.4	24.7	28.6	19.6	22.4	
Depreciation	7.3	7.9	8.9	10.3	8.5	8.5	9.3	9.6	34.5	35.9	8.3	3
OBR	9.0	6.4	12.1	27.9	-2.5	-5.8	3.1	40.1	55.4	34.9	6.0	
Interest	0.2	1.7	1.5	1.7	1.8	1.5	1.5	0.2	5.0	5.1	1.7	
Other Income	11.5	16.3	14.1	19.1	7.9	10.8	8.2	8.6	61.1	35.5	10.9	(1)
EO Inc/(Exp)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	70.1	42.8	53.3	74.5	28.0	40.6	39.8	24.1	240.7	132.5	41.7	(3)
Tax	23.8	7.5	14.1	28.2	7.2	11.1	10.0	5.1	73.7	33.4	10.4	6
Tax Rate (%)	34.0	17.6	26.5	37.9	25.8	27.3	25.0	21.3	30.6	25.2	25.0	
Reported PAT	46.3	35.2	39.2	46.3	20.8	29.5	29.9	19.0	167.0	99.1	31.3	(6)
Adjusted PAT	46.3	35.2	39.2	46.3	20.8	29.5	29.9	19.0	167.0	99.1	31.3	(6)
Change (%)	22.4	14.2	-14.1	-23.2	-55.1	-16.3	-23.8	-58.9	-4.4	-40.6	-11.3	

Source: MOFSL, Company

Exhibit 1: Key Operating Parameters

Y/E March	FY20				FY21				FY20	FY21E	FY21 2QE	var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Volume (m tons)												
Production	136.9	104.0	147.5	213.7	121.0	115.0	142.7	203.3	601.6	582.0	115.0	(0)
Sales/Offtake	153.5	122.4	141.6	163.9	120.4	134.0	144.6	166.1	581.1	565.0	134.2	(0)
- FSA	130.3	103.8	127.7	139.2	102.2	108.2	122.3	132.1	501.0	464.7	104.9	3
- E-auction	19.1	15.5	9.8	21.0	15.9	22.4	17.9	29.0	65.4	85.2	26.2	(15)
- Washed Coal	3.1	2.3	2.3	3.3	1.7	2.7	2.7	4.3	11.0	11.4	2.4	15
- others	0.8	0.7	1.7	0.6	0.3	0.8	1.7	0.9	3.7	3.7	0.7	29
Realization (INR/t)												
- FSA	1,370	1,438	1,411	1,446	1,359	1,412	1,381	1,423	1,416	1,395	1,380	2
- E-auction	2,155	2,019	2,623	2,105	1,598	1,437	1,522	1,593	2,177	1,538	1,530	(6)
- Washed Coal	3,171	2,951	2,667	2,548	2,668	2,835	2,657	2,838	2,831	2,770	2,919	(3)
- others	3,644	3,832	2,060	3,643	3,506	2,709	2,799	2,915	2,957	2,870	3,415	(21)
Per ton (INR)												
Revenue	1,513	1,551	1,523	1,562	1,412	1,454	1,438	1,498	1,538	1,454	1,446	1
cash EBITDA	489	347	437	581	232	254	315	394	473	306	340	(25)
PAT	302	288	277	282	173	220	207	114	287	175	227	(3)
Costs	1,024	1,204	1,086	981	1,180	1,201	1,123	1,104	1,065	1,148	1,106	9

Source: MOFSL, Company

Exhibit 2: CIL Valuation

	FY18	FY19	FY20E	FY21E	FY22E
Adjusted EBITDA	203,089	300,483	274,627	172,991	292,345
Target EV/EBITDA (x)			4.0	4.0	4.0
Target EV			1,098,509	691,966	1,169,378
Net debt	-311,085	-316,302	-230,793	-199,137	-307,480
Equity value			1,329,302	891,102	1,476,858
					1,183,980
TP (INR/share)					192

Source: MOFSL, Company

Exhibit 3: Adjusted P&L

	FY19	FY20	FY21E	FY22E	FY23E
Revenue	995,469	960,803	884,620	1,048,783	1,098,094
Power FSA	640,826	624,312	591,529	718,869	752,128
Non Power FSA	124,788	142,822	108,693	158,175	158,160
Eaution/MoU	229,856	193,669	184,398	171,739	187,806
Sales (mt)	608	581	565	665	698
YoY (%)	4.9	-4.5	-2.8	17.7	5.0
Power FSA	458	426	405	494	518
Share (%)	75	73	72	74	74
Non Power FSA	67	75	60	85	85
Eaution/MoU	83	80	100	86	95
Revenue per ton	1,637	1,653	1,566	1,577	1,573
YoY (%)	10.6	1.0	-5.3	0.7	-0.3
Power FSA	1,399	1,465	1,462	1,456	1,451
Non Power FSA	1,851	1,904	1,812	1,861	1,861
Eaution/MoU	2,777	2,418	1,839	1,992	1,981
Cost of Mining (ex. OB)	694,986	686,176	711,628	756,439	767,004
CoP per ton	1,143	1,181	1,260	1,138	1,098
YoY (%)	1.1	3.3	6.7	-9.7	-3.4
Labor & social OH	644	688	698	616	602
Contract	220	239	284	235	244
R&M	144	146	156	144	150
Others	134	108	123	142	102
Adjusted EBITDA	300,483	274,627	172,991	292,345	331,089
EBITDA per ton	494	473	306	440	474

Source: MOFSL, Company



Conference call takeaways

- Capex target for FY21 stands at INR100b. The co. has incurred capex of INR50b YTD.
- COAL noted OBR has been lower than desired in the past few years, and it will look to continue with the high OBR activity.
- For November, coal production is 8–9% YoY higher, while off take is trending up 20% YoY. COAL is confident of increasing production over FY20 levels. YTD, off-take is ~2% lower YoY. By November-end, the co. expects YTD off-take to become flat on a YoY basis.
- Wage revision would be scheduled in July next year, and the co. would begin negotiations for the same over Mar–Apr.
- The co. would try to maintain dividend at the same levels as the previous year.
- COAL's management noted the co.'s receivables stood at INR238b in Oct v/s INR233b in Sep. As per the mgmt., money is being paid on incremental supplies. Post-Diwali, COAL would put pressure on the state govt. to recover dues. The co. would try to bring down receivables to near FY20 levels (~INR160b) by end-FY21.
- COAL noted its subsidiaries have been asked to fix their own floor price from Oct for e-auction. COAL noted it has thus far booked 59mt of e-auction vols. in the current year v/s 31mt for the same period last year. It is hopeful of going beyond 100mt in terms of e-auction volumes for FY21. The e-auction premium stood at 13% for October.

Valuation and view

India's dependence on coal to continue

- India continues to depend on coal for ~70% of its electricity requirement – with coal-based generation forming 55% of the country's installed capacity (Coal: 205GW; All India: 370GW). Despite the increased focus on renewables, coal would continue to dominate India's electricity production. Notably, per capita electricity consumption in India remains low (1/16th of US, 1/5th of China, and 1/3rd of world average), implying significant room for coal and renewables to co-exist and grow. Assuming a 6.5% CAGR for power demand over FY20–25 and avg. annual 14GW of renewable capacity addition (at 20% PLF), incremental renewable generation would be just 115BU – which is not sufficient to even meet overall incremental demand (419BU) over the next five years.
- We expect coal-based generation to increase at a 6.4% CAGR over the same period, driving the need for coal in India. From a domestic perspective, we do not expect the government's initiative to increase participation in commercial coal mining to dent production for Coal India. Given procedural hurdles such as land acquisition and EC/FC clearances, output from such commercial mines would take time. Moreover, although Coal India accounts for ~80% of domestic coal production, it meets only ~70% of domestic demand. Thus, there exists a massive opportunity for import substitution (~110–150mt of imported coal can be substituted). As and when commercial mines come up, it would likely displace these imports.

Negative leverage has kicked in, but demand is improving

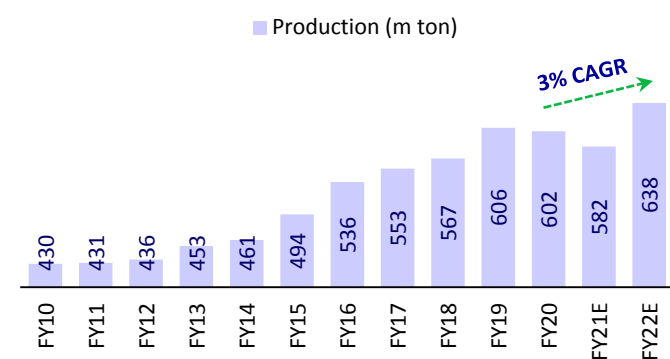
- Vols. and e-auction realizations have been under pressure. India's lockdown given COVID-19 came at a time when 1) power demand was largely muted and 2) production at Coal India's mines was ramped up post a heavy monsoon season. Accordingly, inventory at both coal mines and power plants was high.
- A large proportion of Coal India's costs are fixed in nature, with employee costs accounting for ~50% of the company's expenses. Furthermore, with the company focusing on OBR removal activities, contractual employees would continue to be utilized, in our view. Thus, with lower dispatches and e-auction realizations, negative operating leverage has kicked in. However, power demand has shown signs of improvement, and we expect volumes to recover in 2HFY21.

Valuations attractive; dividend yield of ~10%

- Working capital has been stretched with elevated receivables – as cash issues due to lower demand materialize within the power value chain. However, we expect Coal India to tide over this situation given the large cash position. The stock trades attractively at ~1.5x FY22E EV/adj. EBITDA (v/s historical average of 7x), PE of 5x (v/s average of ~13x), and offers dividend yield of ~10%. Maintain Buy, with target price of INR192/sh.

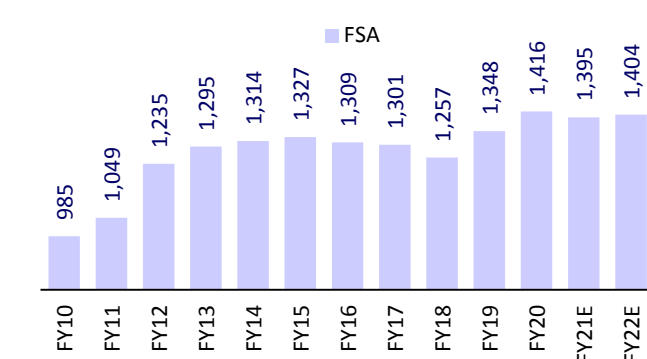
Story in charts

Exhibit 4: Expect production to remain steady in the near term



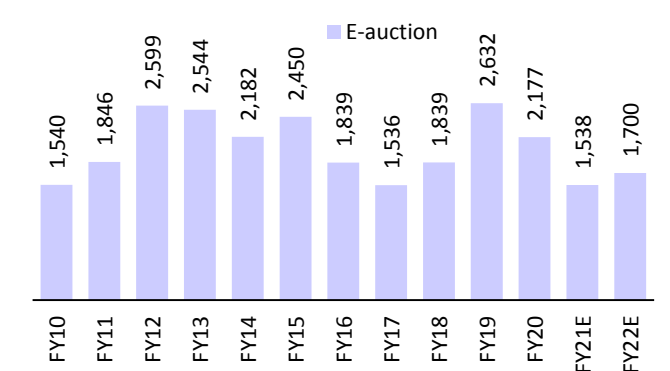
Source: MOFSL, Company

Exhibit 5: FSA realizations have improved...



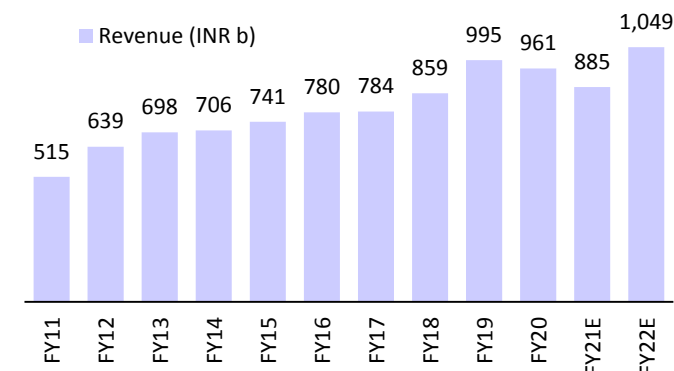
Source: MOFSL, Company

Exhibit 6: ...but, we build-in lower e-auction realizations...



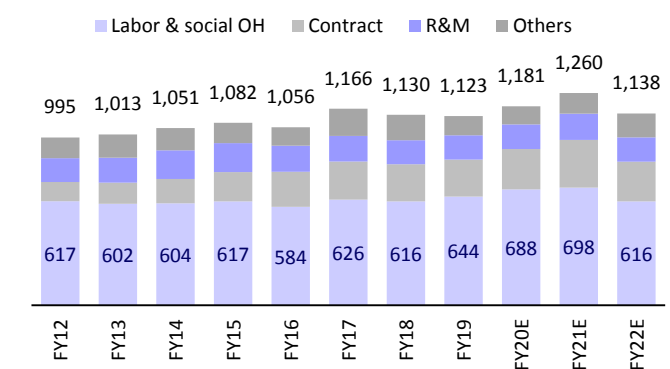
Source: MOFSL, Company

Exhibit 7: ... which could keep revenue in check



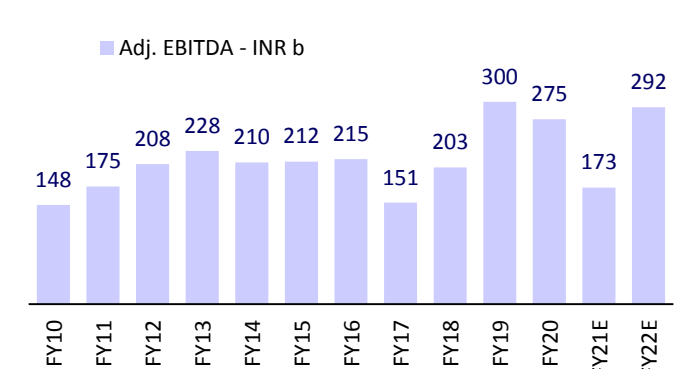
Source: MOFSL, Company

Exhibit 8: Negative operating leverage would kick-in in FY21...

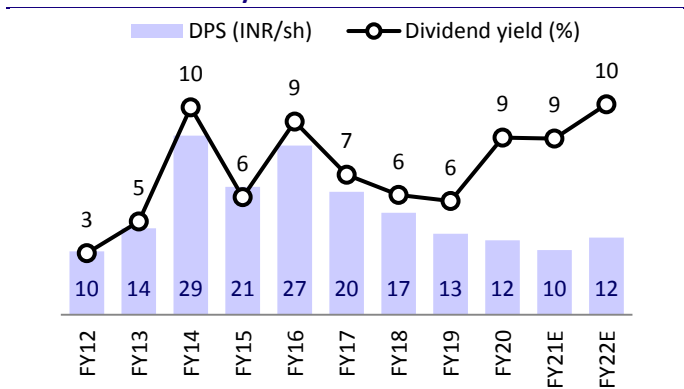


Source: MOFSL, Company

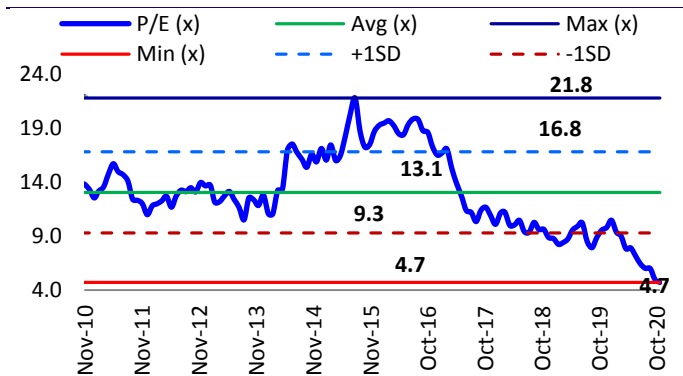
Exhibit 9: But, we expect adj. EBITDA (ex- OBR) to recover in FY22



Source: MOFSL, Company

Exhibit 10: Dividend yield remains attractive...

Source: MOFSL, Company

Exhibit 11: Stock trades attractively at significant discount to historical valuations

Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	741,201	780,073	783,719	858,624	995,469	960,803	884,620	1,048,783	1,098,094
Change (%)	5.0	5.2	0.5	9.6	15.9	-3.5	-7.9	18.6	4.7
EBITDA	173,354	187,309	123,912	169,507	249,771	219,209	138,074	230,382	263,638
% of Net Sales	23.4	24.0	15.8	19.7	25.1	22.8	15.6	22.0	24.0
Depreciation	23,198	28,259	29,101	30,664	34,504	34,508	35,933	37,358	38,783
Interest	73	3,862	4,117	4,318	2,750	5,029	5,079	5,130	5,182
Other Income	65,706	59,406	55,156	46,583	58,737	61,054	35,487	31,026	37,860
Extra Ordinary	-50	0	0	73,844	0	0	0	0	0
PBT	215,839	214,594	145,850	107,264	271,255	240,725	132,548	218,919	257,534
Tax	78,573	71,719	51,660	37,067	96,625	73,710	33,402	55,167	64,899
Rate (%)	36.4	33.4	35.4	34.6	35.6	30.6	25.2	25.2	25.2
PAT before Min. Int.	137,266	142,876	94,190	70,198	174,630	167,015	99,146	163,751	192,635
Minority Interest									
Reported PAT	137,266	142,876	94,190	70,198	174,630	167,015	99,146	163,751	192,635
Change (%)	-9.2	4.1	-34.1	-25.5	148.8	-4.4	-40.6	65.2	17.6
Adjusted PAT	137,266	142,876	94,190	118,942	174,630	167,015	99,146	163,751	192,635
Change (%)	-14.1	4.1	-34.1	26.3	46.8	-4.4	-40.6	65.2	17.6

Balance Sheet								(INR m)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	63,164	63,164	62,074	62,074	61,627	61,627	61,627	61,627	61,627
Reserves	340,367	285,168	183,194	136,392	202,912	259,942	294,643	381,431	483,528
Net Worth	403,531	348,332	245,268	198,466	264,539	321,569	356,270	443,058	545,155
Minority Interest	658	1,048	3,459	3,625	4,068	3,941	3,941	3,941	3,941
Loans	4,019	11,921	30,078	15,309	22,027	64,260	64,260	64,260	64,260
Deferred tax Liability	-19,591	-20,445	-27,328	-53,551	-42,692	-33,110	-33,110	-33,110	-33,110
Capital Employed	388,617	340,855	251,477	163,849	247,943	356,660	391,361	478,149	580,246
Gross Fixed Assets	448,080	234,137	276,883	325,733	401,631	473,802	568,802	663,802	758,802
Less: Depreciation	286,929	26,824	55,984	84,805	115,888	150,397	186,330	223,689	262,472
Net Fixed Assets	161,150	207,314	220,900	240,928	285,742	323,405	382,472	440,113	496,330
Capital Work in Progress	51,594	59,044	103,078	137,710	136,984	127,714	127,714	127,714	127,714
Investments		73	106	3,443	4,622	9,144	9,144	9,144	9,144
Current Assets	873,074	841,406	809,377	839,286	857,149	1,006,843	983,040	1,094,508	1,217,264
Inventory	61,838	75,692	89,453	64,439	55,839	66,189	84,827	91,948	96,271
Debtors	85,219	114,476	107,359	86,892	54,986	144,082	133,299	129,302	135,381
Other Current Assets	61,808	241,078	285,187	351,324	391,553	490,106	490,106	490,106	490,106
Loans and Advances	105,150	1,024	358	10,238	16,441	11,412	11,412	11,412	11,412
Cash	559,060	409,137	327,021	326,394	338,330	295,053	263,397	371,740	484,094
Current Liabilities	697,201	766,982	881,984	1,057,518	1,036,554	1,110,445	1,111,008	1,193,330	1,270,206
Payables	9,208	32,972	39,002	45,169	68,155	101,076	66,721	87,080	96,505
Other current liabilities	687,994	734,010	842,981	1,012,348	968,399	1,009,370	1,044,287	1,106,250	1,173,701
Net Curr. Assets	175,873	74,424	-72,607	-218,232	-179,405	-103,602	-127,968	-98,821	-52,941
Application of Funds	388,617	340,855	251,477	163,849	247,943	356,660	391,361	478,149	580,246

Financials and valuations

Cash Flow Statement							(INR m)		
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Adj EBITDA*	211,621	215,423	150,634	203,089	300,483	274,627	172,991	292,345	331,089
Non cash exp. (income)	21,428	21,565	37,046	-54,587	10,718	9,569	9,557	9,129	8,722
(Inc)/Dec in WC	6,487	-26,697	60,216	138,450	-48,918	-123,268	-42,208	17,234	-977
Taxes paid	-95,721	-78,754	-89,427	-74,329	-95,329	-119,463	-33,402	-55,167	-64,899
CF from Operations	143,815	131,538	158,469	212,623	166,955	41,465	106,938	263,540	273,936
Capex	-49,014	-57,857	-86,761	-85,293	-73,393	-56,120	-95,000	-95,000	-95,000
Free Cash Flow	94,801	73,681	71,707	127,330	93,561	-14,654	11,938	168,540	178,936
(Pur)/Sale of Investments	9,615	-1	-50	-3,332	-1,184	-4,539	0	0	0
Interest/dividend	52,871	50,349	34,642	24,044	31,410	34,573	25,930	21,897	29,138
Other investing activity	-9,615	-3,344	-209	-297	9,054	9,055			
CF from Investments	3,857	-10,852	-52,379	-64,878	-34,114	-17,032	-69,070	-73,103	-65,862
Equity raised/(repaid)	0	0	-45,531	0	0	0	0	0	0
Debt raised/(repaid)	1,935	9,902	18,169	-14,778	6,718	22,776	0	0	0
Interest paid	-73	-207	-306	-370	-96	-686	-5,079	-5,130	-5,182
Dividend (incl. tax)	-155,963	-208,302	-151,031	-123,238	-112,110	-96,760	-64,445	-76,963	-90,539
Other financing	3,844	2,732	2,720	2,513	3,972	5,169			
CF from Fin. Activity	-150,257	-195,874	-175,980	-135,873	-101,516	-69,502	-69,525	-82,093	-95,720
Inc/Dec of Cash	-2,585	-75,188	-69,890	11,872	31,325	-45,068	-31,657	108,343	112,354
Add: Beginning Balance	561,644	559,060	409,137	327,021	326,394	338,330	295,053	263,397	371,740
Closing Balance	559,060	483,872	339,247	338,893	357,719	293,262	263,397	371,740	484,094

Ratios									
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic									
Adjusted EPS	21.7	22.6	15.2	19.2	28.3	27.1	16.1	26.6	31.3
Cash EPS	31.5	31.5	24.2	29.5	42.2	41.7	27.6	42.7	48.5
Book Value	63.9	55.1	39.5	32.0	42.9	52.2	57.8	71.9	88.5
DPS	20.7	27.4	19.9	16.5	13.1	12.0	10.5	12.5	14.7
Payout (incl. Div. Tax.)	112.9	145.5	160.3	103.3	55.5	53.3	65.0	47.0	47.0
Valuation (x)									
P/E	16.7	12.9	19.3	14.8	8.4	5.2	7.6	4.6	3.9
Cash P/E	11.5	9.3	12.1	9.6	5.6	3.4	4.4	2.9	2.5
P/BV	5.7	5.3	7.4	8.9	5.5	2.7	2.1	1.7	1.4
EV/Adj. EBITDA	8.2	6.7	10.1	7.1	3.8	2.3	3.2	1.5	1.0
Dividend Yield (%)	5.7	9.4	6.8	5.8	5.5	8.6	8.6	10.2	12.0
EV /ton of Reserves	79.7	66.6	69.9	66.6	52.7	29.1	25.5	20.5	15.3
Profitability Ratios (%)									
Debtor (Days)	42.0	53.6	50.0	36.9	20.2	54.7	55.0	45.0	45.0
Inventory (Days)	30.5	35.4	41.7	27.4	20.5	25.1	35.0	32.0	32.0
Payables (Days)	4.5	15.4	18.2	19.2	25.0	38.4	27.5	30.3	32.1
Asset turnover(x)	1.9	2.3	3.1	5.2	4.0	2.7	2.3	2.2	1.9
Profitability Ratios (%)									
RoE	34.0	41.0	38.4	35.4	66.0	51.9	27.8	37.0	0.0
RoCE	34.5	39.9	32.7	58.4	85.7	56.4	27.5	38.5	37.1
RoIC	-45.5	-60.6	-40.0	-37.7	-51.7	-83.4	-181.6	-734.0	-472.8
Leverage Ratio									
Net Debt/Equity (x)	-1.4	-1.1	-1.2	-1.6	-1.2	-0.7	-0.6	-0.7	-0.8

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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