

# Coal India

BSE SENSEX

51,935

S&amp;P CNX

15,575

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Research, Sales and Trading team.  
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## Stock Info

Bloomberg	COAL IN
Equity Shares (m)	6,207
M.Cap.(INRb)/(USDb)	909.6 / 12.5
52-Week Range (INR)	163 / 110
1, 6, 12 Rel. Per (%)	4/1/-57
12M Avg Val (INR M)	2138
Free float (%)	33.9

## Financials Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	960.8	884.2	1,017.8
EBITDA	219.2	161.5	201.5
Adj. PAT	167.0	111.0	142.9
EBITDA Margin. %	22.8	18.3	19.8
Cons. Adj. EPS. INR	27.1	18.0	23.2
EPS Gr. (%)	-4.4	-33.5	28.7
BV/Sh. (INR)	52.2	57.7	65.8

## Ratios

Net D:E	-0.7	-0.3	-0.5
RoE (%)	51.9	31.2	35.2
RoCE (%)	56.4	30.7	35.3
Payout (%)	53.3	69.5	65.0

## Valuations

P/E (x)	5.2	8.2	6.4
P/BV (x)	2.7	2.6	2.2
EV/EBITDA(x)	2.3	4.6	2.8
Div. Yield (%)	8.6	8.5	10.2
FCF Yield (%)	-1.6	-8.5	17.8

## Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	66.1	66.1	66.1
DII	21.9	22.2	22.1
FII	6.5	6.5	8.2
Others	5.5	5.1	3.6

FII Includes depository receipts

**CMP: INR148**
**TP: INR180 (+22%)**
**Buy**

## Volumes continue to recover

**Valuations remain attractive; dividend yield at 10%**

### Another month of improved offtake

- COAL reported another month of strong offtake in dispatches, with volumes at 55.1mt, registering a 37.6% YoY increase in May'21. *For the first two months of FY22, COAL's offtake now remains higher by 38% YoY.* Offtake growth in May'21 comes on the back of: a) a 15% rise in coal-based generation (based on initial data from POSOCO), amid a 7% rise in overall Power demand, and b) re-stocking of inventory at Power plants (up 5mt MoM).
- COAL's production increased a modest 1.7% YoY to 42.1mt (YTD: 3% YoY). This though is on expected lines, amid the large inventory lying at its mines.
- While there are uncertainties over demand amid stricter restrictions – and rightly so – power demand in May'21 was also impacted by unseasonal weather conditions. Over the past fortnight, demand has shown signs of an uptick (+10%), with some normalization in demand from the western region. Inventory at Power plants is still low at 29mt (16 days of consumption) and we expect it to provide support to COAL's offtake.

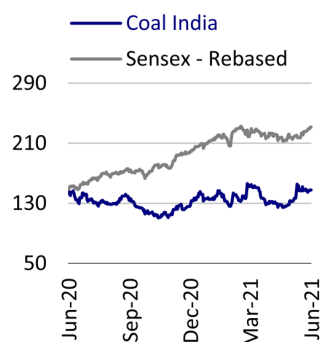
### Signs of a recovery in e-auction realizations

- The onset of COVID-19 in India had come at a time when inventory at both COAL's mines and Power plants were at already high levels. This, coupled with the must-run status of renewables, meant demand for coal bore the brunt of weakened activity. This led to a sharp decline in e-auction realizations.
- With a recovery in demand, e-auction premiums and realizations have shown signs of an improvement. We expect this to eventually seep in (given some lag between allocation and dispatches) and improve as inventory levels at COAL's mines reduce. e-auction realization for COAL | 9MFY21: INR1,488/t, 3Q: INR1,466/t.
- Global thermal coal prices have been on an uptrend (Exhibit 7), which is encouraging for e-auction realizations. We conservatively build in e-auction realizations of INR1,650/t for FY22E (FY21E: INR1,512/t; FY20: INR 2,177/t), but note upside risks if domestic demand and international prices sustain.

### Operating leverage at play; maintain Buy

- A large proportion of COAL's costs are fixed in nature, with employee cost accounting for ~55% of the company's expenses. Besides COAL has also focused on OBR (overburden removal) activities, thereby utilizing contractual employees (~20% of the company's expenses).

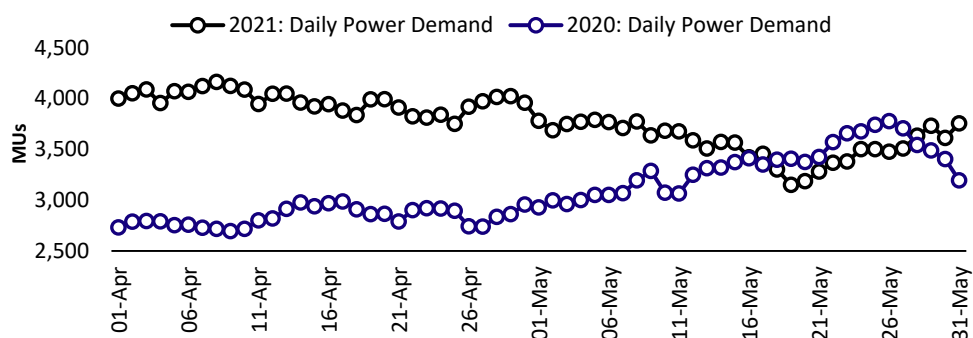
## Stock Performance (one-year)



- With improving offtake and realizations, we see a sharp operating leverage coming into play. Notwithstanding any further negative shocks, we expect COAL's profitability to recover sharply in FY22 (+29% YoY). Recovery in demand and funds from the *Atmanirbhar* scheme should help alleviate concerns on stretched receivables.
- At 2.8x FY22E EV/EBITDA and 6.4x FY22P/E, along with a dividend yield of 10%, COAL remains attractively valued and implies a PV of just 10 years of its future cash flows. We maintain a Buy on COAL with a TP of INR180/share, based on 3.5x FY22E EV/EBITDA.

India's Power demand was impacted in mid-May but has started recovering over the past fortnight...

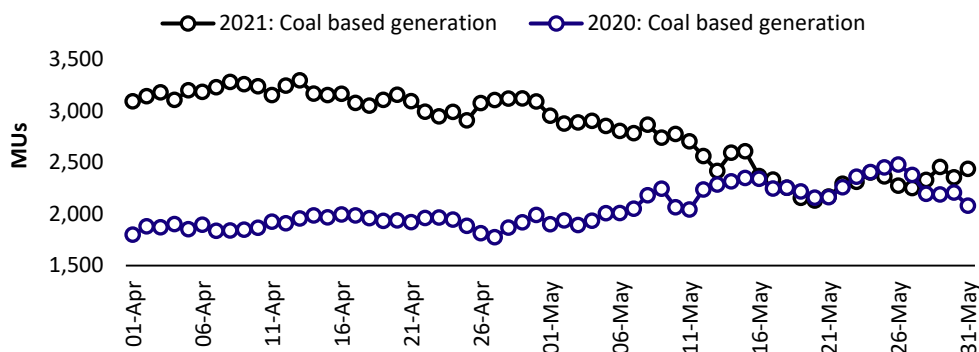
## Exhibit 1: Daily Power demand



Source: MOFSL, Company

...as has coal-based generation

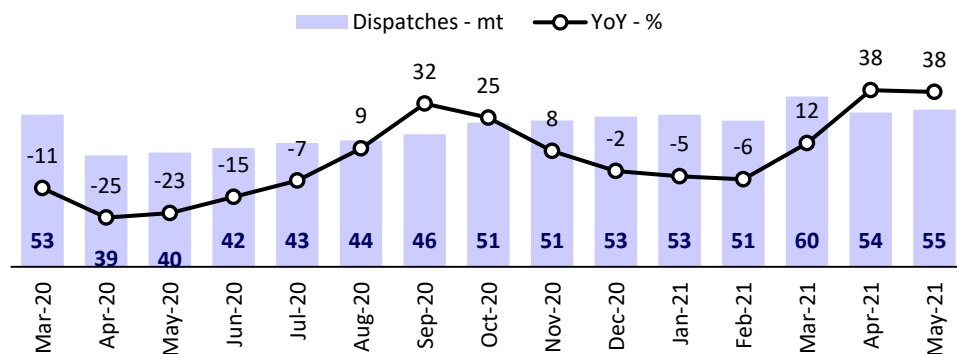
## Exhibit 2: Daily coal-based generation



Source: MOFSL, Company

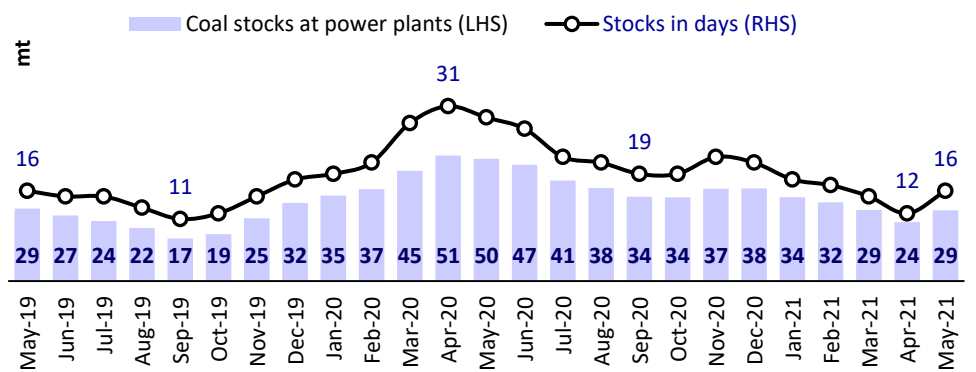
Offtake for COAL remains strong...

## Exhibit 3: Coal offtake



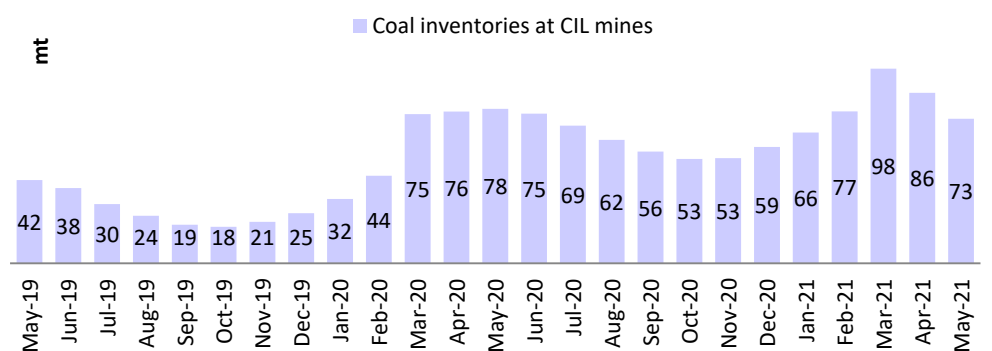
Source: Company, MOFSL

...aided by some restocking  
of coal at Power plants

**Exhibit 4: Coal stocks at Power plants**

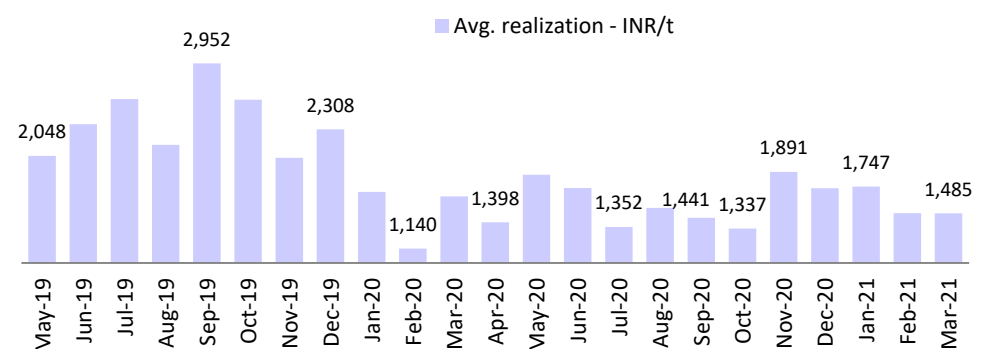
Source: CEA, MOFSL

Inventory at COAL's mines  
has reduced, but remains  
high v/s usual levels

**Exhibit 5: Coal stocks at COAL's mines**

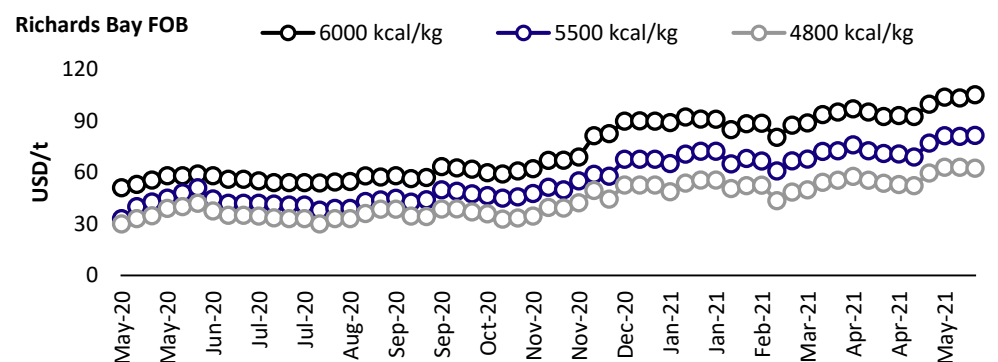
Source: Company, MOFSL

e-auction realizations –  
while still low – have shown  
signs of an improvement

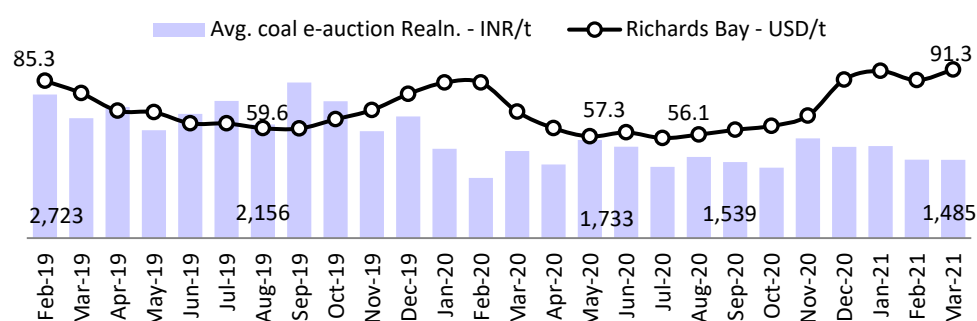
**Exhibit 6: e-auction realizations (INR/t)**

Source: Industry, MOFSL

Increase in global coal  
prices provides additional  
support

**Exhibit 7: Thermal coal prices**

Source: Steelmint, MOFSL

**Exhibit 8: Movement in global thermal coal prices and e-auction realizations**

Source: Steelmint, Industry, MOFSL

Expect dispatches for COAL  
to rise as demand  
normalizes

**Exhibit 9: Volumes to recover as Power demand normalizes**

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Power Generation	1,169	1,236	1,303	1,372	1,382	1,373	1,513	1,666
YoY (%)	4.5%	5.8%	5.4%	5.2%	0.9%	-0.6%	10.2%	10.1%
Coal based gen. (b kwh)	862	910	953	989	962	951	1,055	1,165
YoY (%)	7.8%	5.6%	4.7%	3.7%	-2.7%	-1.1%	10.9%	10.4%
<b>Coal India Volumes (mt)</b>	<b>531</b>	<b>543</b>	<b>580</b>	<b>608</b>	<b>581</b>	<b>573</b>	<b>650</b>	<b>705</b>
Growth YoY	8.6%	2.2%	6.8%	4.9%	-4.5%	-1.4%	13.4%	8.5%

Source: Ministry of Power, MOFSL

**Exhibit 10: Adjusted P&L**

	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>995,469</b>	<b>960,803</b>	<b>884,194</b>	<b>1,017,798</b>	<b>1,102,862</b>
Power FSA	640,826	624,312	584,231	659,047	722,211
Non Power FSA	124,788	142,822	117,973	158,313	158,277
E-auction/MoU	229,856	193,669	181,990	200,438	222,373
<b>Sales (mt)</b>	<b>608</b>	<b>581</b>	<b>573</b>	<b>650</b>	<b>705</b>
YoY (%)	4.9	-4.5	-1.4	13.4	8.5
Power FSA	458	426	407	459	505
Share (%)	75	73	71	71	72
Non Power FSA	67	75	65	85	85
E-auction/MoU	83	80	101	106	115
<b>Revenue per ton</b>	<b>1,637</b>	<b>1,653</b>	<b>1,543</b>	<b>1,566</b>	<b>1,564</b>
YoY (%)	10.6	1.0	-6.7	1.5	-0.1
Power FSA	1,399	1,465	1,437	1,435	1,429
Non Power FSA	1,851	1,904	1,815	1,863	1,862
E-auction/MoU	2,777	2,418	1,794	1,899	1,936
<b>Cost of Mining (ex. OB)</b>	<b>694,986</b>	<b>686,176</b>	<b>708,456</b>	<b>755,772</b>	<b>782,134</b>
CoP per ton	1,143	1,181	1,236	1,163	1,109
YoY (%)	1.1	3.3	4.7	-6.0	-4.6
<b>Labor &amp; social OH</b>	<b>644</b>	<b>688</b>	<b>686</b>	<b>639</b>	<b>632</b>
<b>Contract</b>	<b>220</b>	<b>239</b>	<b>280</b>	<b>225</b>	<b>237</b>
<b>R&amp;M</b>	<b>144</b>	<b>146</b>	<b>150</b>	<b>148</b>	<b>149</b>
<b>Others</b>	<b>134</b>	<b>108</b>	<b>120</b>	<b>151</b>	<b>91</b>
<b>Adjusted EBITDA</b>	<b>300,483</b>	<b>274,627</b>	<b>175,738</b>	<b>262,026</b>	<b>320,727</b>
EBITDA per ton	494	473	307	403	455

**Exhibit 11: Valuation**

	FY18	FY19	FY20	FY21E	FY22E
Adjusted EBITDA	203,089	300,483	274,627	175,738	262,026
Target EV/EBITDA (x)			3.5	3.5	3.5
Target EV			961,195	615,082	922,331
Net debt	-311,085	-316,302	-230,793	-97,162	-184,204
Equity value			1,191,988	712,244	1,106,535
<b>TP (INR/share)</b>					<b>180</b>

Source: Company, MOFSL

## Financials and valuations

Income Statement							(INR M)		
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Sales</b>	<b>741,201</b>	<b>780,073</b>	<b>783,719</b>	<b>858,624</b>	<b>995,469</b>	<b>960,803</b>	<b>884,194</b>	<b>1,017,798</b>	<b>1,102,862</b>
Change (%)	5.0	5.2	0.5	9.6	15.9	-3.5	-8.0	15.1	8.4
<b>EBITDA</b>	<b>173,354</b>	<b>187,309</b>	<b>123,912</b>	<b>169,507</b>	<b>249,771</b>	<b>219,209</b>	<b>161,489</b>	<b>201,460</b>	<b>252,600</b>
% of Net Sales	23.4	24.0	15.8	19.7	25.1	22.8	18.3	19.8	22.9
Depreciation	23,198	28,259	29,101	30,664	34,504	34,508	35,946	37,671	39,246
Interest	73	3,862	4,117	4,318	2,750	5,029	5,281	5,333	5,387
Other Income	65,706	59,406	55,156	46,583	58,737	61,054	35,487	32,548	31,198
Extra Ordinary	-50	0	0	73,844	0	0	0	0	0
<b>PBT</b>	<b>215,839</b>	<b>214,594</b>	<b>145,850</b>	<b>107,264</b>	<b>271,255</b>	<b>240,725</b>	<b>155,749</b>	<b>191,004</b>	<b>239,165</b>
Tax	78,573	71,719	51,660	37,067	96,625	73,710	44,700	48,133	60,270
Rate (%)	36.4	33.4	35.4	34.6	35.6	30.6	28.7	25.2	25.2
<b>PAT before Min. Int.</b>	<b>137,266</b>	<b>142,876</b>	<b>94,190</b>	<b>70,198</b>	<b>174,630</b>	<b>167,015</b>	<b>111,049</b>	<b>142,871</b>	<b>178,896</b>
Minority Interest									
<b>Reported PAT</b>	<b>137,266</b>	<b>142,876</b>	<b>94,190</b>	<b>70,198</b>	<b>174,630</b>	<b>167,015</b>	<b>111,049</b>	<b>142,871</b>	<b>178,896</b>
Change (%)	-9.2	4.1	-34.1	-25.5	148.8	-4.4	-33.5	28.7	25.2
<b>Adjusted PAT</b>	<b>137,266</b>	<b>142,876</b>	<b>94,190</b>	<b>118,942</b>	<b>174,630</b>	<b>167,015</b>	<b>111,049</b>	<b>142,871</b>	<b>178,896</b>
Change (%)	-14.1	4.1	-34.1	26.3	46.8	-4.4	-33.5	28.7	25.2

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	293,812	343,817	411,797
<b>Net Worth</b>	<b>403,531</b>	<b>348,332</b>	<b>245,268</b>	<b>198,466</b>	<b>264,539</b>	<b>321,569</b>	<b>355,439</b>	<b>405,444</b>	<b>473,424</b>
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
Defferd tax Liabiity	-19,591	-20,445	-27,328	-53,551	-42,692	-33,110	-33,110	-33,110	-33,110
<b>Capital Employed</b>	<b>388,617</b>	<b>340,855</b>	<b>251,477</b>	<b>163,849</b>	<b>247,943</b>	<b>356,660</b>	<b>390,530</b>	<b>440,535</b>	<b>508,515</b>
<b>Gross Fixed Assets</b>	<b>448,080</b>	<b>234,137</b>	<b>276,883</b>	<b>325,733</b>	<b>401,631</b>	<b>473,802</b>	<b>588,802</b>	<b>703,802</b>	<b>808,802</b>
Less: Depreciation	286,929	26,824	55,984	84,805	115,888	150,397	186,343	224,014	263,260
<b>Net Fixed Assets</b>	<b>161,150</b>	<b>207,314</b>	<b>220,900</b>	<b>240,928</b>	<b>285,742</b>	<b>323,405</b>	<b>402,459</b>	<b>479,788</b>	<b>545,542</b>
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
<b>Current Assets</b>	<b>873,074</b>	<b>841,406</b>	<b>809,377</b>	<b>839,286</b>	<b>857,149</b>	<b>1,006,843</b>	<b>941,522</b>	<b>992,581</b>	<b>1,075,351</b>
Inventory	61,838	75,692	89,453	64,439	55,839	66,189	84,786	89,232	96,689
Debtors	85,219	114,476	107,359	86,892	54,986	144,082	193,796	153,367	135,969
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	161,422	248,464	341,174
<b>Current Liabilities</b>	<b>697,201</b>	<b>766,982</b>	<b>881,984</b>	<b>1,057,518</b>	<b>1,036,554</b>	<b>1,110,445</b>	<b>1,090,308</b>	<b>1,168,691</b>	<b>1,249,235</b>
Payables	9,208	32,972	39,002	45,169	68,155	101,076	66,689	84,507	96,924
Other current liabilities	687,994	734,010	842,981	1,012,348	968,399	1,009,370	1,023,619	1,084,184	1,152,311
<b>Net Curr. Assets</b>	<b>175,873</b>	<b>74,424</b>	<b>-72,607</b>	<b>-218,232</b>	<b>-179,405</b>	<b>-103,602</b>	<b>-148,786</b>	<b>-176,111</b>	<b>-173,884</b>
<b>Application of Funds</b>	<b>388,617</b>	<b>340,855</b>	<b>251,477</b>	<b>163,849</b>	<b>247,943</b>	<b>356,660</b>	<b>390,530</b>	<b>440,535</b>	<b>508,515</b>

## Financials and valuations

Cash Flow Statement							(INR M)		
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Adj EBITDA*</b>	<b>211,621</b>	<b>215,423</b>	<b>150,634</b>	<b>203,089</b>	<b>300,483</b>	<b>274,627</b>	<b>175,738</b>	<b>262,026</b>	<b>320,727</b>
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	-102,697	53,801	22,357
Taxes paid	-95,721	-78,754	-89,427	-74,329	-95,329	-119,463	-44,700	-48,133	-60,270
<b>CF from Operations</b>	<b>143,815</b>	<b>131,538</b>	<b>158,469</b>	<b>212,623</b>	<b>166,955</b>	<b>41,465</b>	<b>37,898</b>	<b>276,823</b>	<b>291,537</b>
Capex	-49,014	-57,857	-86,761	-85,293	-73,393	-56,120	-115,000	-115,000	-105,000
<b>Free Cash Flow</b>	<b>94,801</b>	<b>73,681</b>	<b>71,707</b>	<b>127,330</b>	<b>93,561</b>	<b>-14,654</b>	<b>-77,102</b>	<b>161,823</b>	<b>186,537</b>
(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	23,419	22,475
Other investing activity	-4,529	-83,165	-12,435	-12,795	-10,336	10,846			
<b>CF from Investments</b>	<b>8,943</b>	<b>-90,673</b>	<b>-64,605</b>	<b>-77,377</b>	<b>-53,503</b>	<b>-15,240</b>	<b>-89,070</b>	<b>-91,581</b>	<b>-82,525</b>
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	-5,281	-5,333	-5,387
Dividend (incl. tax)	-155,963	-208,302	-151,031	-123,238	-112,110	-96,760	-77,179	-92,866	-110,915
Other financing	3,844	2,732	2,720	2,513	3,972	5,169			
<b>CF from Fin. Activity</b>	<b>-150,257</b>	<b>-195,874</b>	<b>-175,980</b>	<b>-135,873</b>	<b>-101,516</b>	<b>-69,502</b>	<b>-82,460</b>	<b>-98,200</b>	<b>-116,302</b>
<b>Inc/Dec of Cash</b>	<b>2,501</b>	<b>-155,009</b>	<b>-82,116</b>	<b>-626</b>	<b>11,936</b>	<b>-43,277</b>	<b>-133,632</b>	<b>87,043</b>	<b>92,710</b>
Add: Beginning Balance	561,644	564,146	409,137	327,021	326,394	338,330	295,053	161,422	248,464
<b>Closing Balance</b>	<b>564,146</b>	<b>409,137</b>	<b>327,021</b>	<b>326,394</b>	<b>338,330</b>	<b>295,053</b>	<b>161,422</b>	<b>248,464</b>	<b>341,174</b>

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Basic</b>									
<b>Adjusted EPS</b>	<b>21.7</b>	<b>22.6</b>	<b>15.2</b>	<b>19.2</b>	<b>28.3</b>	<b>27.1</b>	<b>18.0</b>	<b>23.2</b>	<b>29.0</b>
Cash EPS	31.5	31.5	24.2	29.5	42.2	41.7	26.2	39.1	46.5
Book Value	63.9	55.1	39.5	32.0	42.9	52.2	57.7	65.8	76.8
DPS	20.7	27.4	19.9	16.5	13.1	12.0	12.5	15.1	18.0
Payout (incl. Div. Tax.)	112.9	145.5	160.3	103.3	55.5	53.3	69.5	65.0	62.0
<b>Valuation (x)</b>									
P/E	16.7	12.9	19.3	14.8	8.4	5.2	8.2	6.4	5.1
Cash P/E	11.5	9.3	12.1	9.6	5.6	3.4	5.6	3.8	3.2
P/BV	5.7	5.3	7.4	8.9	5.5	2.7	2.6	2.2	1.9
EV/Adj. EBITDA	8.2	6.7	10.1	7.1	3.8	2.3	4.6	2.8	2.0
Dividend Yield (%)	5.7	9.4	6.8	5.8	5.5	8.6	8.5	10.2	12.2
EV /ton of Reserves	79.7	66.6	69.9	66.6	52.7	29.1	37.4	33.4	29.1
<b>Profitability Ratios (%)</b>									
Debtor (Days)	42.0	53.6	50.0	36.9	20.2	54.7	80.0	55.0	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	2.3	2.2
<b>Profitability Ratios (%)</b>									
RoE	34.0	41.0	38.4	35.4	66.0	51.9	31.2	35.2	37.8
RoCE	34.5	39.9	32.7	58.4	85.7	56.4	30.7	35.3	38.5
RoIC	-45.5	-60.6	-40.0	-37.7	-51.7	-83.4	1,053.1	166.2	372.4
<b>Leverage Ratio</b>									
Net Debt/Equity (x)	-1.4	-1.1	-1.2	-1.6	-1.2	-0.7	-0.3	-0.5	-0.6



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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