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Anmol India Limited

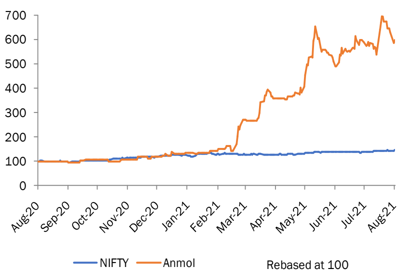
26 August 2021

Fuelled by India's growing economy and demand for energy

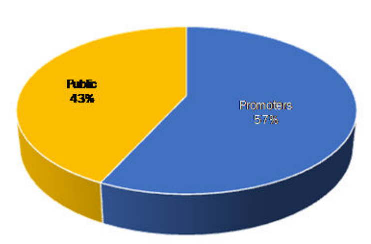
BUY

Sector	: Commodities
Target Price	: ₹255
Last Closing Price	: ₹172
Market Cap	: ₹196 crore
52-week High/Low	: ₹215/27
Daily Avg Vol (12M)	: 29,941
Face Value	: ₹10
Beta	: 0.41
Pledged Shares	: 0.0%
Year End	: March
BSE Scrip Code	: 542437
NSE Scrip Code	: ANMOL
Bloomberg Code	: ANMOL IN
Reuters Code	: ANMI.BO
Nifty	: 16,635
BSE Sensex	: 55,944
Analyst	: Research Team

Price Performance



Shareholding Pattern



Initiating Coverage

Investment Summary

- Anmol India Limited (Anmol) is a bulk supplier of imported coal, providing end-to-end coal supply chain management solutions. The company specialises in supplying high GCV coal, USA coal, Indonesian coal, Saudi pet coke and USA pet coke, commanding a sizeable 16% share of the USA coal market in India
- A growing and industrialising economy along with increasing urbanisation is expected to drive up energy use as coal is seen to remain India's energy mainstay for next 30 years. India does not produce adequate quantity of coal to meet the domestic demand while various types, grades and varieties of coal are required for different end uses. As a result, coal imports are expected to remain strong going forward.
- Anmol's operating model is centred around procurement management, stock handling and sales while its coal platform leverages proprietary technology to generate leads, close deals and mine existing clients.
- Anmol employs several strategies with the objective of de-risking its operations and business in the areas of inventory management, SCM and currency risk. The company mitigates operational risk by avoiding speculation and selling a major part of the inbound supply (50% to 60%) in advance as it is shipped from the dispatch port. It also utilises its bargaining power to effectively negotiate with traders to pass on the dollar risk to them to the maximum possible extent.
- We expect Anmol to register healthy growth in sales and profits going forward, driven by high demand for imported coal as the company expands its product portfolio and geography of operations. At current levels, the Anmol stock trades at an attractive 8.8x FY24E EPS. Assigning a target P/E multiple of 13.0x FY23E EPS, we value Anmol at Rs 255, informing a BUY rating with an upside of 48%.

Key Financial Metrics

Rs lakh	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Net operating revenue	54,792	55,191	69,126	77,500	85,250	93,775
Growth		*0.7%*	*25.2%*	*12.1%*	*10.0%*	*10.0%*
EBITDA	505	437	1,050	1,849	2,468	2,950
EBITDA margin	*0.9%*	*0.8%*	*1.5%*	*2.4%*	*2.9%*	*3.1%*
PAT	361	452	989	1,386	1,861	2,235
PAT margin	*0.7%*	*0.8%*	*1.4%*	*1.8%*	*2.2%*	*2.4%*
EPS (Rs)	3.47	4.35	9.52	12.18	16.35	19.63

Source: ***Company data; Khambatta Research***

Company Profile

Anmol India Limited (Anmol) is a bulk supplier of imported coal, providing end-to-end coal supply chain management solutions. The company was founded in 1998 with a vision of making the underutilised coal resources of Eastern India available to the brick kilns in Northern India. Once a domestic coal trader, the company has evolved into a bulk importer of coal from the international markets with growth led by adherence to industry and quality standards.

Anmol started its operations by trading Meghalaya coal from its Guwahati depot. The company loaded its first coal rake in 2000-2002, which was a milestone moment as it was not involved in such high-quantity shipments earlier. In 2004, the company added Margherita coal, which was in high demand at that time, to its portfolio and started procuring supplies from coal majors such as Coal India. In 2009, Anmol secured MSTC's membership for participation in e-auctions held by Coal India.

Amnol commenced the supply of imported coal in 2011-12

In 2011-12, through research and market intelligence, Anmol found some uniques grades of imported coal to be very good alternatives for Meghalaya coal. With little past experience in imported coal, the company decided to enter the international coal trade though a strategic alliance with industry experts and another renowned commodity trading company as it shifted its operations to Gujarat. The successful execution of the project led to Anmol scaling up its operations in imported USA coal.

In 2015, Anmol launched its proprietary technology platform, Anmol Coal, a suite of internal and external tech interfaces meant to enable the company scale its business. Consequently, turnover increased manifold in FY17.

In 2019 Anmol listed on BSE's SME platform. Subsequently in 2021, it became the first-ever company to migrate from the BSE SME platform to the main boards of NSE and BSE together.

Anmol commands a sizeable 16% share of the USA coal market in India

Currently Anmol commands a sizeable 16% share of the USA coal market in India with its sales operations covering almost a half of the country. The company specialises in supplying high GCV coal, USA coal, Indonesian coal, Saudi pet coke and USA pet coke. All products supplied by the company are quality-tested by an independent body.

Management Profile

Anmol is led by a top leadership team comprising promoters with robust experience in coal trading.

Vijay Kumar, Managing Director & CFO: Mr. Kumar, with close to 3 decades' experience in coal trading, is the founder and a promoter of the company. Mr. Kumar is in charge of the company's regular operational activities. With his multifunctional experience, he guides the company in its business strategies and is the chief growth hacker for the business.

Executive Director Chakshu Goyal is an alum of ISB Hyderabad

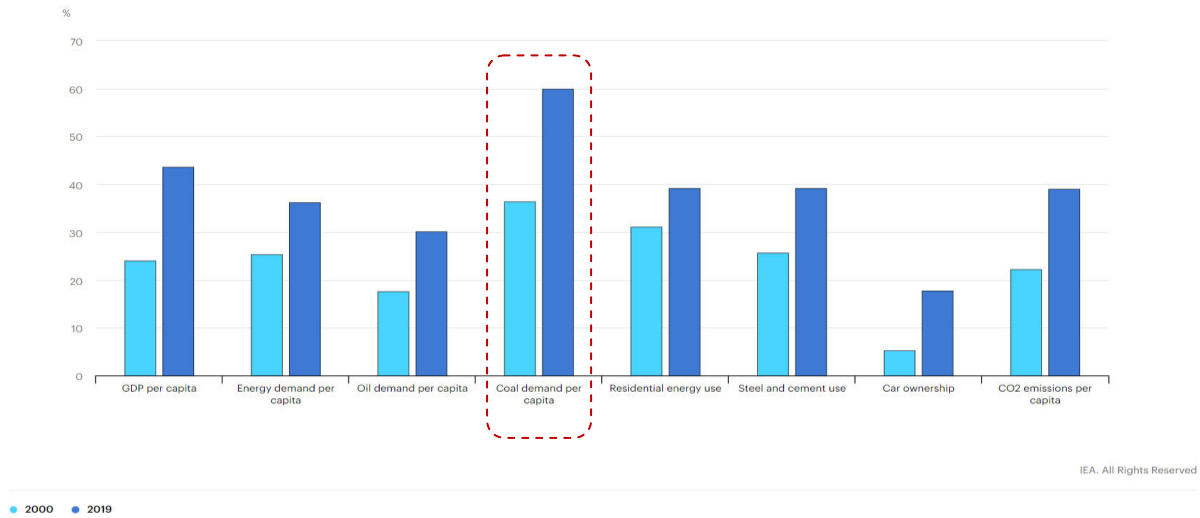
Chakshu Goyal, Executive Director: Mr. Goyal, the Executive Director and a promoter of the company, has been leading Anmol's business for the past 3 years. Providing leadership in operations and marketing, he has successfully brought various structural changes in the business. Mr. Goyal expanded the company's sales territory by adding new markets. Mr. Goyal is an alum of the Indian School of Business (IBS), Hyderabad and a BTech.

Investment Thesis

Anmol has a robust client base of over 1,000 customers with approximately 120 new clients added each year

With over 2 decades' experience, Anmol has evolved into an end-to-end coal supply chain management company. Anmol commenced business in 1998 and has gathered considerable experience in coal trading over the last couple of decades. From a domestic coal trader in its initial years of operations, the company has evolved into an end-to-end coal supply chain management (SCM) company with a technology-driven business model. Anmol has a robust client base of over 1,000 customers with approximately 120 new clients added each year while having long-standing relationships with a majority of bigger clients. A bulk dealer of coal, the company imports coal from the international market in quantities of 1 lakh ton per shipment as it delivers the coal to customer sites in quantities of 35 tons in outbound shipments. After acquiring an import licence in 2013, the company now commands a significant 16% market share in USA coal in India. Recently in 1Q FY22, Anmol started bulk import of Indonesian coal. The company's tech platform, which was launched in 2015, enables it to forecast demand at the individual customer level.

Key indicators in India as a percentage of global averages, 2000 and 2019, IEA, Paris



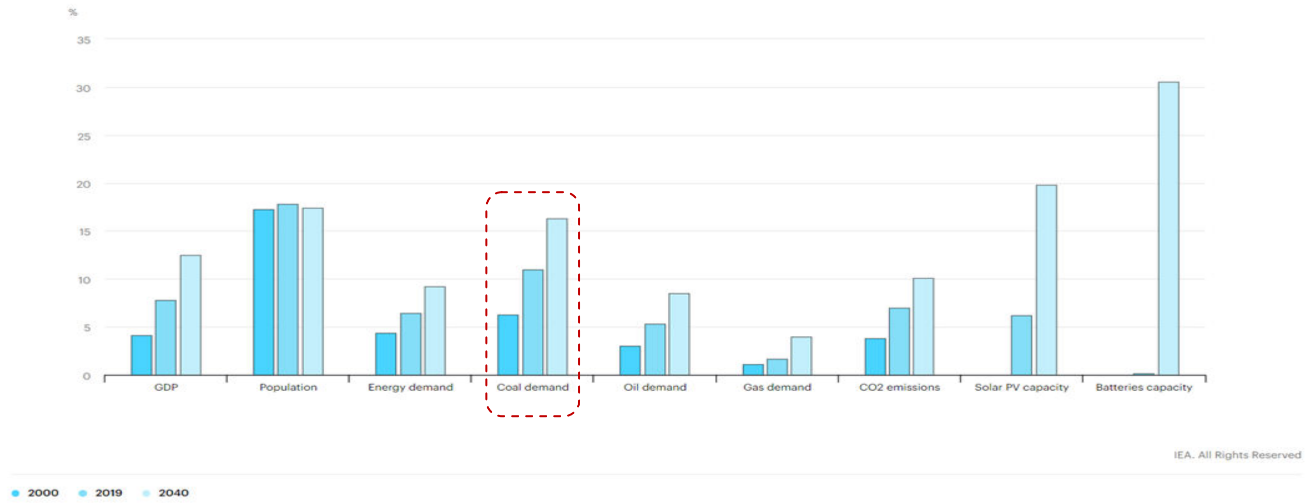
Source: https://www.iea.org/data-and-statistics/charts/key-indicators-in-india-as-a-percentage-of-global-averages-2000-and-2019

Robust industrial growth and rise in power consumption will drive demand for coal in India. According to an International Energy Agency (IEA) report, India is set to see the largest increase in energy demand amongst all countries over the next 20 years. Coal accounts for 55% of primary commercial energy in

India is the world's second largest coal importer behind China

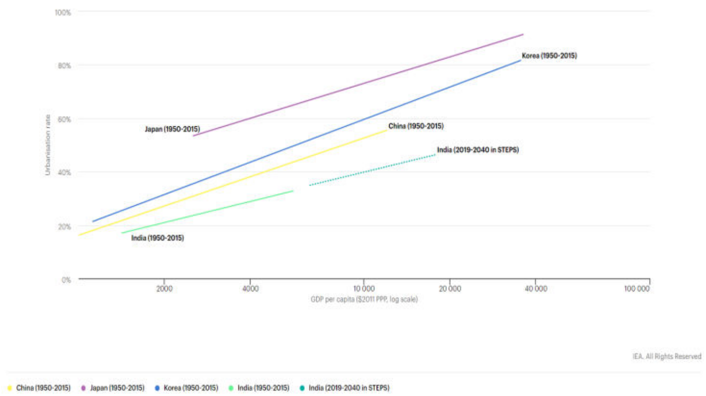
India. A combination of a growing and industrialising economy and increasing urbanisation is expected to drive up energy use as coal is seen to remain India's energy mainstay for next 30 years. India is the world's second largest coal consumer and producer with a production volume of 729 million tonnes in FY20. The country is also the world's second largest coal importer behind China as the commodity contributed US$ 24 bn to India's trade deficit in 2018. India had the world's fifth-largest coal reserve of 319 billion tonnes at the end of FY19. In spite of India being one of the world's second largest coal producers and having the fifth largest coal reserve, the country is unable to produce adequate quantity of coal to meet the requirement of domestic industry. Further, there are various types, grades and varieties of coal for different end uses. As a result, coal imports are expected to remain strong going forward.

India's share of selected global indicators, 2000, 2019 and 2040 in the Stated Policies Scenario, IEA, Paris



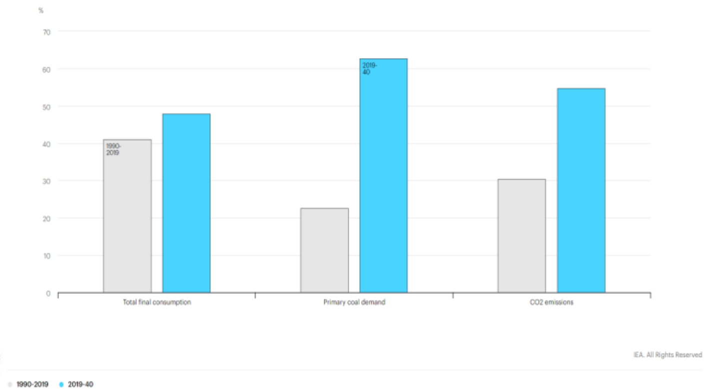
Source: https://www.iea.org/data-and-statistics/charts/india-s-share-of-selected-global-indicators-2000-2019-and-2040-in-the-stated-policies-scenario

Relationship between GDP per capita and the urbanisation rate in selected economies, IEA, Paris



Source: https://www.iea.org/data-and-statistics/charts/relationship-between-gdp-per-capita-and-the-urbanisation-rate-in-selected-economies

Industry share in total final consumption, coal demand and CO2 emissions growth in India in the Stated Policies Scenario, 1990-2040, IEA, Paris



Source: https://www.iea.org/data-and-statistics/charts/industry-share-in-total-final-consumption-coal-demand-and-co2-emissions-growth-in-india-in-the-stated-policies-scenario-1990-2040

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Anmol's operating model is centred around procurement management, stock handling and sales. A key focus area for Anmol is optimising its procurement. The company procures imported coal directly from suppliers in the international markets. The procurement quantity is decided based on predictions from the business intelligence that management receives from both in-house and external sources. Anmol is well-connected with various exporters, importers and middlemen to estimate best procurement prices and find potential collaboration opportunities during procurement from time to time. The sale of stock begins the moment it is loaded at the dispatch port. It is sold to both traders and end users as soon as the coal is delivered at the port. While maintaining stocks at the Kandla and Tuna ports in order to fulfil customer requirement, the company provides logistical support to end users and small traders. The company's in-house team in Gujarat handles all operations including stock inspection, logistics and dispute resolution while the Punjab team engages in marketing and sales activities.

Anmol's tech platform monitors user behaviour to help secure repeat sales

Anmol's coal platform leverages proprietary technology to generate leads, close deals and mine existing clients. Anmol's business model is built around its proprietary technology platform, which the company leverages to grow the business. Generating more than 1,000 enquiries a year, the platform monitors user behaviour to help secure repeat sales. A part of Anmol's technology suite, the coal platform is connected with the company's proprietary CRM system and enables instant communication with clients through a built-in broadcast feature. The company is now working towards redesigning the coal platform into a complete SCM solution system with the capability of accepting coal orders and providing logistical support along with other value-added services. The data that will be generated by the integrated SCM system will be an extremely valuable asset for the company, which it will be able to leverage further for client acquisition, client mining and overall business growth.

Anmol mitigates operational risk by avoiding speculation and selling 50% to 60% of the inbound supply in advance

Strategic de-risking is a key element of Anmol's business model. Anmol employs several strategies with the objective of de-risking its operations and business. It mitigates operational risk by avoiding speculation and selling a major part of the inbound supply (50% to 60%) in advance as it is shipped from the dispatch port. This helps in faster inventory turnover when the stock arrives at the port while generating efficiencies in the supply chain. The company effectively collaborates and coordinates with trucking and transport service providers, vendors and suppliers with the objective of providing seamless SCM. This, along with demand forecasting at the individual customer level, has improved the company's system responsiveness, leading to optimisation of supply in line with the customer's requirement. Further, a good mix of customer types comprising 70% wholesale traders and 30% end-users work favourably for Anmol. While wholesale traders book up higher volumes in advance, contributing to faster inventory turnover and risk mitigation, end users offer higher margins and help turnover inventories in bearish markets. The company also utilises its bargaining power to effectively negotiate with traders to pass on the dollar risk to them to the maximum possible extent. Precisely, Anmol manages the exchange rate risk is two ways. It passes on the dollar risk to the customer through advance bulk booking of stock on a dollar basis. Further, as the dollar fluctuates, so does the price of US coal arriving at the port. As such if the dollar appreciates to high levels, the company is able to sell the coal at a higher price. The dollar is also booked regularly as the stock keeps selling.

Anmol recently commenced import of Indonesian coal as it looks to enter into coking coal and South African coal

Plans to expand geographically within India while adding new commodities to its product portfolio are expected to generate incremental growth in the mid-to-long term future. Anmol plans to expand its operations in Gujarat by entering new ports in the state. Having already initiated efforts in the direction, the company intends to explore further opportunities at ports in the eastern and south-eastern coasts over the next 4 years. Anmol recently commenced direct import of Indonesian coal 4200 GAR as it looks to enter into coking coal and South African coal going forward. This company targets to generate 20% to 30% of overall revenues from new commodities in the coming years.

Valuation

At current levels, the Anmol stock trades at an attractive 8.8x FY24E EPS

At 13.0x FY24E EPS, we rate Anmol a BUY with a target price of Rs 255 and an upside of 48%. We expect Anmol to register healthy growth in sales and profits going forward, driven by high demand for imported coal as the company expands its product portfolio and geography of operations. At current levels, the Anmol stock trades at an attractive 8.8x FY24E EPS. Assigning a target P/E multiple of 13.0x FY24E EPS (vs an average P/E of 14.8x from FY17 to date), we value Anmol at Rs 255, informing a BUY rating with an upside of 48%.

Profit & Loss Account

Rs lakh	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue from operations	**54,792**	**55,191**	**69,126**	**77,500**	**85,250**	**93,775**
Growth		*0.7%*	*25.2%*	*12.1%*	*10.0%*	*10.0%*
Cost of sales	54,016	54,270	67,620	75,050	82,086	90,060
Gross profit	776	922	1,506	2,450	3,164	3,715
Gross margin	*1.4%*	*1.7%*	*2.2%*	*3.2%*	*3.7%*	*4.0%*
Operating expenses	270	485	457	601	696	765
EBITDA	**505**	**437**	**1,050**	**1,849**	**2,468**	**2,950**
EBITDA margin	*0.9%*	*0.8%*	*1.5%*	*2.4%*	*2.9%*	*3.1%*
Depreciation & amortization	13	16	17	20	22	24
Operating EBIT	492	420	1,032	1,829	2,446	2,926
Non-operating income	193	422	532	500	525	550
Interest expense	185	229	231	456	456	456
PBT	500	613	1,334	1,873	2,515	3,020
Tax expense	140	161	346	487	654	785
PAT	**361**	**452**	**989**	**1,386**	**1,861**	**2,235**
PAT margin	*0.7%*	*0.8%*	*1.4%*	*1.8%*	*2.2%*	*2.4%*
EPS (Rs)	**3.47**	**4.35**	**9.52**	**12.18**	**16.35**	**19.63**

Source: Company data; Khambatta Research

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Abridged Balance Sheet

Rs lakh	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Total shareholders' equity	**2,517**	**2,969**	**3,957**	**5,866**	**7,727**	**9,961**
Long-term debt	989	1,040	1,962	2,312	2,312	2,312
Short-term debt	335	2,682	2,732	5,500	5,500	5,500
Accounts payable	5,861	308	3,124	6,138	6,496	7,146
Current liabilities	**7,198**	**10,618**	**8,503**	**12,579**	**13,027**	**13,775**
Total equity & liabilities	**10,705**	**14,633**	**14,434**	**20,759**	**23,068**	**26,050**
Fixed assets	103	86	95	125	153	179
Accounts receivable	4,267	2,661	3,966	3,185	3,503	3,854
Short-term investments	2,446	5,540	5,978	8,500	9,000	9,500
Cash & cash equivalents	7	8	7	2,961	3,956	5,662
Current assets	**7,370**	**8,834**	**11,600**	**18,245**	**20,526**	**23,482**
Total assets	**10,705**	**14,633**	**14,434**	**20,759**	**23,068**	**26,050**

Source: Company data; Khambatta Research

Ratio Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
ROA	3.4%	3.1%	6.8%	6.7%	8.1%	8.6%
ROCE	14.0%	10.5%	17.4%	22.4%	24.4%	23.8%
ROE	14.3%	15.2%	25.0%	23.6%	24.1%	22.4%
Debt-to-equity ratio	0.53x	1.25x	1.19x	1.33x	1.01x	0.78x

Source: Company data; Khambatta Research

Key Risks

- Coal being a commodity, its prices are prone to sharp fluctuations. While Anmol's margins are largely protected from it, topline growth is likely to be affected by significant price movements.
- As Anmol sources coal from the international market, any disruptions in the international coal supply chain including in logistics (primarily in dry bulk shipping) pose a significant risk to the company's operations.
- As most of Anmol's costs are denominated in USD while it earns and reports in INR, the company's financial results are exposed to transaction and translation impacts of FX rate fluctuations.
- The energy as well as commodities markets being regulated to varying degrees, major policy/regulatory changes can potentially affect the company's business prospects.
- Faster-than-anticipated uptake of renewable energy and other climate change responses can potentially affect coal demand.
- An extended economic downturn and lockdowns/restrictions owing to a drawn-out COVID-19 pandemic may lead to underperformance of our forecasts.

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buyrecommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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