

BSE SENSEX
58,795

S&P CNX
17,536



Stock Info

Bloomberg	COAL IN
Equity Shares (m)	6,207
M.Cap.(INRb)/(USDb)	976.8 / 13.1
52-Week Range (INR)	204 / 123
1, 6, 12 Rel. Per (%)	-5/-9/-6
12M Avg Val (INR M)	2644
Free float (%)	33.9

Financials Snapshot (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	900.3	1,011.2	1,101.6
EBITDA	185.7	219.7	242.6
Adj. PAT	127.1	155.7	167.4
EBITDA Margin. %	20.6	21.7	22.0
Cons. Adj. EPS.INR	20.6	25.3	27.2
EPS Gr. (%)	-23.9	22.6	7.5
BV/Sh. (INR)	59.3	68.1	77.6

Ratios

Net D:E	-0.4	-0.3	-0.3
RoE (%)	34.8	37.1	35.0
RoCE (%)	35.4	38.7	36.5
Payout (%)	77.6	65.0	65.0

Valuations

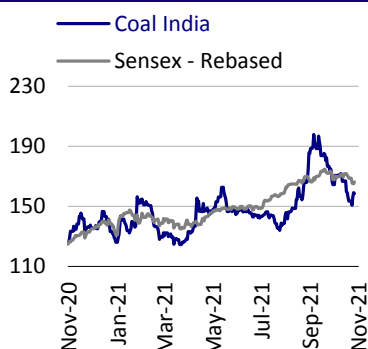
P/E (x)	7.7	6.3	5.8
P/BV (x)	2.7	2.3	2.0
EV/EBITDA(x)	4.1	3.4	3.0
Div. Yield (%)	10.1	10.4	11.2
FCF Yield (%)	-0.4	8.7	12.4

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	66.1	66.1	66.1
DII	22.1	21.6	22.0
FII	6.7	6.6	7.2
Others	5.0	5.7	4.7

FII Includes depository receipts

Stock performance (one-year)



CMP: INR159

TP: INR200(+26%)

Buy

e-auction recovery in sight, premiums to stay

Valuations remain attractive; dividend yield at 11%

- COAL's 2QFY22 e-auction premiums have been disappointing. However, the management highlighted that the current premium is over 50% compared to the 15.3% reported in its 2QFY22 result. It has re-started e-auction to non-regulated sectors, which should result in improved profitability.
- The management expects the price hike to offset an increase in wages, given the current strong demand environment and high international coal prices.
- The stock trades at 3.4x/3x FY22E/FY23E EV/EBITDA, with an attractive dividend yield of 11%. We value the stock at 4x FY23E EV/EBITDA with a TP of INR200. We maintain our Buy rating, with a revised TP of INR200/share (from INR185 earlier). A surge in coal demand from the Power sector, which could squeeze supplies to non-regulated sectors through e-auctions, remains a key risk as it could hurt profitability.

Guidance for FY22 revised upwards after a demand recovery

- Its dispatch guidance for FY22 has been increased to 660-670mt compared to its previous guidance of ~640mt. This is in light of a recovery in demand, especially from the Power sector, driven by higher international coal prices, leading to higher demand from COAL.
- With a recovery in demand from the Power sector, supplies to non-regulated sectors have been squeezed. The same has now begun to recover as both production and dispatches have improved post monsoon.
- Our FY22 e-auction ASP at INR1650 is conservative, considering 2Q e-auction ASP of INR1,594/t (a 15.3% premium over FSA prices), while the current premium over FSA is ~50%. We see scope for an upward revision to our FY22 estimate, if current e-auction premiums sustain, provided volumes pick up.

Price hikes to offset wage cost push; liquidity remains strong

- COAL last raised prices in FY18. With wage negotiations underway, we expect COAL to immediately announce a price hike, which should cover the increased wage bill and leave room for a margin improvement.
- Receivables have improved significantly to INR120b from INR180b at the end of FY21, thus improving its liquidity position. COAL now carries a cash balance of ~INR300b.
- The stock is attractively available at 3.4x/3x FY22E/FY23E EV/EBITDA. While demand is likely to improve post monsoon, the second half of the fiscal is generally stronger compared to the first half for COAL. The strong dividend yield of ~11% supports the downside.

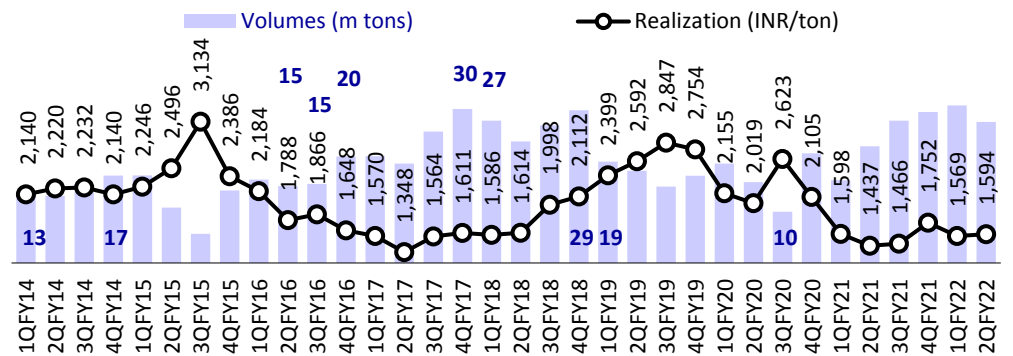
Key takeaways from the management interaction

- Capex for FY22 is pegged ~INR170b, of which COAL has so far spent INR70b. It is still sitting on a liquidity of ~INR300b.
- The company has fixed 7th Dec'21 as the record date for declaring dividend.

- COAL is likely to sell about 95mt in the e-auction (similar to FY21), provided demand from the Power sector is not as overwhelming as it was in Sep-Oct'21. Sales to the Power sector is at a 20% discount to the non-Power sector, so any significant uptick to the Power sector at the cost of sales to the non-Power sector dampens COAL's profitability.
- The company is still working on a plan for achieving production capacity of 1b tonne. While it had planned to previously reach the target by FY23-end, the revised target now stands at FY24-end. This plan could be further delayed as first mile connectivity is the most challenging part in any mine's evacuation plan.
- India imports about 70mt of thermal coal of a grade that can be replaced by COAL. This is equivalent to about 100mt for COAL. The management highlighted that it has been able to supply about 60-60mt.

Exhibit 1: e-auction volumes and premium have been impacted due to a surge in Power demand

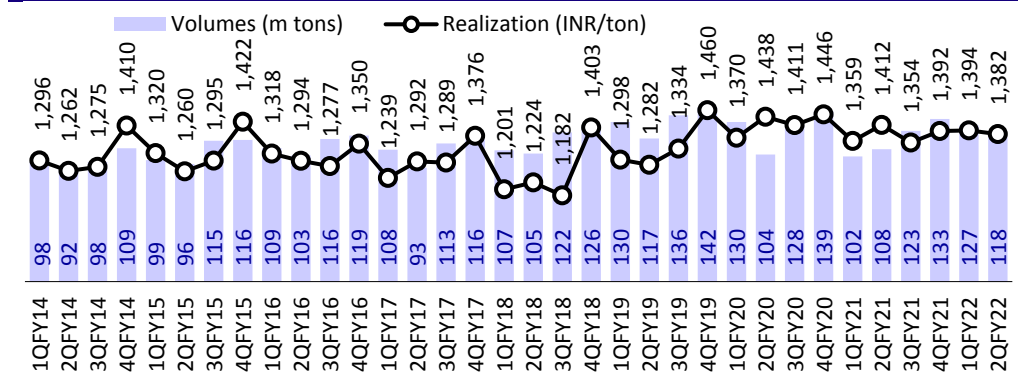
Due to strong international prices, demand from the Power sector from COAL has shot up, putting pressure on e-auction volumes



Source: MOFSL, Company

This is reflected in flattish ASP for the FSA sector, with higher allocations to the Power sector...

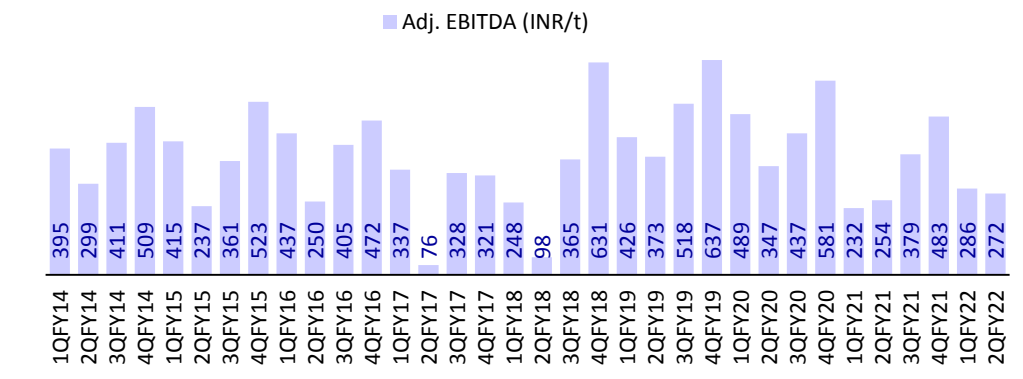
Exhibit 2: FSA ASP has been flat QoQ, indicating higher offtake to the Power sector



Source: MOFSL, Company

...leading to a QoQ drop in EBITDA/t

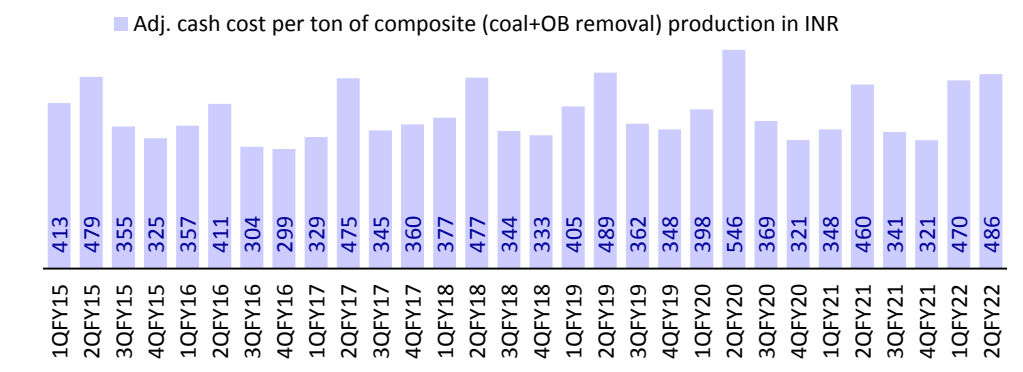
Exhibit 3: Adjusted EBITDA/t remained flat on a QoQ basis



Source: Company, MOFSL

...despite costs being under control

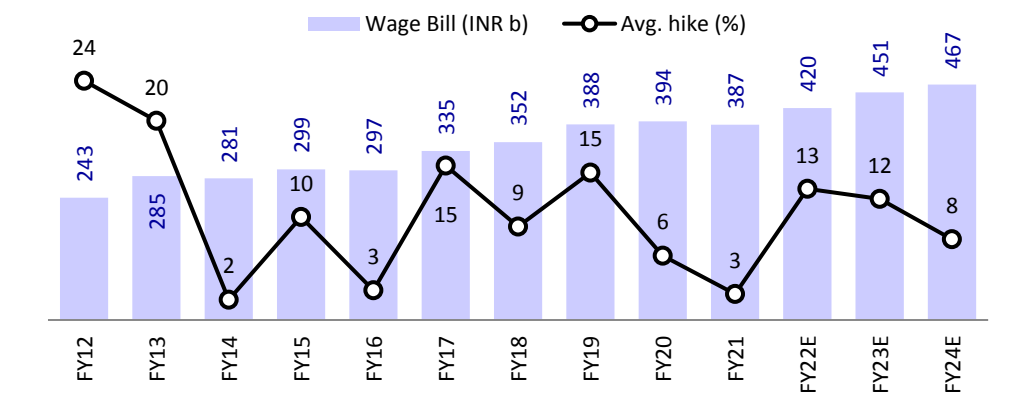
Exhibit 4: Cash cost under control, to trend down in 2HFY22 on higher volumes



Source: CEA, MOFSL

We have factored in higher wage costs in our assumptions

Exhibit 5: Our wage assumption should adequately cover the current wage hike proposal



Source: Industry, MOFSL

Exhibit 6: Adjusted P&L

	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	9,95,469	9,60,803	9,00,260	10,11,209	11,01,626	11,33,943
Power FSA	6,40,826	6,24,312	5,84,460	6,83,625	7,41,391	7,78,408
Non-Power FSA	1,24,788	1,42,822	1,19,007	1,24,247	1,38,415	1,53,266
e-auction/MoU	2,29,856	1,93,669	1,96,793	2,03,337	2,21,819	2,02,268
Sales (mt)	608	581	574	655	707	722
YoY (%)	4.9	-4.5	-1.3	14.2	8.0	2.0
Power FSA	458	426	407	480	518	544
Share (%)	75	73	71	73	73	75
Non-Power FSA	67	75	65	70	76	79
e-auction/MoU	83	80	102	105	114	98
Revenue/t	1,637	1,653	1,569	1,544	1,557	1,572
YoY (%)	10.6	1.0	-5.1	-1.6	0.9	0.9
Power FSA	1,399	1,465	1,438	1,425	1,431	1,431
Non-Power FSA	1,851	1,904	1,831	1,775	1,831	1,931
e-auction/MoU	2,777	2,418	1,929	1,932	1,951	2,061
Mining Cost (ex-OBR)	6,94,986	6,86,176	7,00,022	7,61,778	8,17,401	8,49,717
CoP/t	1,143	1,181	1,220	1,163	1,156	1,178
YoY (%)	1.1	3.3	3.4	-4.7	-0.6	1.9
Labor and social OH	644	688	682	650	646	655
Contract	220	239	279	269	268	271
R&M	158	129	121	127	122	127
Others	120	125	138	118	119	125
Adjusted EBITDA	3,00,483	2,74,627	2,00,238	2,49,431	2,84,225	2,84,225
EBITDA/t	494	473	349	381	402	394

Exhibit 7: Valuation

	FY19	FY20	FY21	FY22E	FY23E
Adjusted EBITDA	3,00,483	2,74,627	2,00,238	2,49,431	2,84,225
Target EV/EBITDA (x)		4	4	4	4
Target EV		10,98,509	8,00,952	9,97,724	11,36,899
Net debt		-2,30,793	-1,50,676	-1,28,475	-1,29,443
Equity value		13,29,302	9,51,628	11,26,199	12,66,342
TP (INR/share)					200

Source: Company, MOFSL

Financials and valuations

Income Statement									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	7,80,073	7,83,719	8,58,624	9,95,469	9,60,803	9,00,260	10,11,209	11,01,626	11,33,943
Change (%)	5.2	0.5	9.6	15.9	-3.5	-6.3	12.3	8.9	2.9
EBITDA	1,87,309	1,23,912	1,69,507	2,49,771	2,19,209	1,85,734	2,19,689	2,42,630	2,41,798
%toNet Sales	24.0	15.8	19.7	25.1	22.8	20.6	21.7	22.0	21.3
Depreciation	28,259	29,101	30,664	34,504	34,508	37,089	41,089	43,264	45,064
Interest	3,862	4,117	4,318	2,750	5,029	6,447	6,511	6,576	6,642
Other Income	59,406	55,156	46,583	58,737	61,054	37,924	36,111	30,991	29,808
Extra Ordinary income	0	0	73,844	0	0	0	0	0	0
PBT	2,14,594	1,45,850	1,07,264	2,71,255	2,40,725	1,80,122	2,08,200	2,23,780	2,19,900
Tax	71,719	51,660	37,067	96,625	73,710	53,071	52,466	56,393	55,415
Rate (%)	33.4	35.4	34.6	35.6	30.6	29.5	25.2	25.2	25.2
PAT before Min. Int.	1,42,876	94,190	70,198	1,74,630	1,67,015	1,27,051	1,55,733	1,67,388	1,64,485
Minority Interest									
Reported PAT	1,42,876	94,190	70,198	1,74,630	1,67,015	1,27,051	1,55,733	1,67,388	1,64,485
Change (%)	4.1	-34.1	-25.5	148.8	-4.4	-23.9	22.6	7.5	-1.7
Adjusted PAT	1,42,876	94,190	1,18,942	1,74,630	1,67,015	1,27,051	1,55,733	1,67,388	1,64,485
Change (%)	4.1	-34.1	26.3	46.8	-4.4	-23.9	22.6	7.5	-1.7

Balance Sheet									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	63,164	62,074	62,074	61,627	61,627	61,627	61,627	61,627	61,627
Reserves	2,85,168	1,83,194	1,36,392	2,02,912	2,59,942	3,03,546	3,58,053	4,16,639	4,74,208
Net Worth	3,48,332	2,45,268	1,98,466	2,64,539	3,21,569	3,65,174	4,19,680	4,78,266	5,35,836
Minority Interest	1,048	3,459	3,625	4,068	3,941	4,411	4,411	4,411	4,411
Loans	11,921	30,078	15,309	22,027	64,260	58,753	58,753	58,753	58,753
Deferrrd tax Liability	-20,445	-27,328	-53,551	-42,692	-33,110	-40,594	-40,594	-40,594	-40,594
Capital Employed	3,40,855	2,51,477	1,63,849	2,47,943	3,56,660	3,87,743	4,42,250	5,00,835	5,58,405
Gross Fixed Assets	2,34,137	2,76,883	3,25,733	4,01,631	4,73,802	5,65,480	7,25,480	8,70,480	9,90,480
Less: Depreciation	26,824	55,984	84,805	1,15,888	1,50,397	1,87,486	2,28,575	2,71,839	3,16,904
Net Fixed Assets	2,07,314	2,20,900	2,40,928	2,85,742	3,23,405	3,77,994	4,96,905	5,98,641	6,73,577
Capital Work in Progress	59,044	1,03,078	1,37,710	1,36,984	1,27,714	1,50,956	1,50,956	1,50,956	1,50,956
Investments	73	106	3,443	4,622	9,144	23,176	23,176	23,176	23,176
Current Assets	8,41,406	8,09,377	8,39,286	8,57,149	10,06,843	10,25,076	9,92,687	9,98,164	10,25,738
Inventory	75,692	89,453	64,439	55,839	66,189	89,475	83,113	75,454	77,667
Debtors	1,14,476	1,07,359	86,892	54,986	1,44,082	1,96,231	1,66,226	1,50,908	1,55,335
Other Current Assets	2,41,078	2,85,187	3,51,324	3,91,553	4,90,106	5,23,565	5,49,744	5,77,231	6,06,092
Loans and Advances	1,024	358	10,238	16,441	11,412	6,376	6,376	6,376	6,376
Cash	4,09,137	3,27,021	3,26,394	3,38,330	2,95,053	2,09,429	1,87,228	1,88,196	1,80,269
Current Liabilities	7,66,982	8,81,984	10,57,518	10,36,554	11,10,445	11,89,460	12,21,474	12,70,102	13,15,042
Payables	32,972	39,002	45,169	68,155	1,01,076	76,376	78,649	85,681	88,195
Other current liabilities	7,34,010	8,42,981	10,12,348	9,68,399	10,09,370	11,13,083	11,42,825	11,84,421	12,26,848
Net Curr. Assets	74,424	-72,607	-2,18,232	-1,79,405	-1,03,602	-1,64,384	-2,28,788	-2,71,938	-2,89,304
Application of Funds	3,40,855	2,51,477	1,63,849	2,47,943	3,56,660	3,87,743	4,42,250	5,00,835	5,58,405

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic									
Adjusted EPS	22.6	15.2	19.2	28.3	27.1	20.6	25.3	27.2	26.7
Cash EPS	31.5	24.2	29.5	42.2	41.7	29.0	36.8	40.9	40.9
Book Value	55.1	39.5	32.0	42.9	52.2	59.3	68.1	77.6	86.9
DPS	27.4	19.9	16.5	13.1	12.0	16.0	16.4	17.7	17.3
Payout (incl. Div. Tax.)	145.5	160.3	103.3	55.5	53.3	77.6	65.0	65.0	65.0
Valuation (x)									
P/E	12.9	19.3	14.8	8.4	5.2	7.7	6.3	5.8	5.9
Cash P/E	9.3	12.1	9.6	5.6	3.4	5.5	4.3	3.9	3.9
P/BV	5.3	7.4	8.9	5.5	2.7	2.7	2.3	2.0	1.8
EV/Adj. EBITDA	6.7	10.1	7.1	3.8	2.3	4.1	3.4	3.0	3.0
Dividend Yield (%)	9.4	6.8	5.8	5.5	8.6	10.1	10.4	11.2	11.0
EV/t of Reserves	66.6	69.9	66.6	52.7	29.1	37.9	38.9	38.8	39.2
Profitability Ratios (%)									
Debtor (Days)	53.6	50.0	36.9	20.2	54.7	79.6	60.0	50.0	50.0
Inventory (Days)	35.4	41.7	27.4	20.5	25.1	36.3	30.0	25.0	25.0
Payables (Days)	15.4	18.2	19.2	25.0	38.4	31.0	28.4	28.4	28.4
Asset turnover (x)	2.3	3.1	5.2	4.0	2.7	2.3	2.3	2.2	2.0
Profitability Ratios (%)									
RoE	41.0	38.4	35.4	66.0	51.9	34.8	37.1	35.0	30.7
RoCE	39.9	32.7	58.4	85.7	56.4	35.4	38.7	36.5	32.0
RoIC	-60.6	-40.0	-37.7	-51.7	-83.4	-295.1	314	136	86
Leverage Ratio									
Net Debt/Equity (x)	-1.1	-1.2	-1.6	-1.2	-0.7	-0.4	-0.3	-0.3	-0.2

Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Adjusted EBITDA*	2,15,423	1,50,634	2,03,089	3,00,483	2,74,627	2,00,238	2,49,431	2,84,225	2,84,225
Non-cash exp. (income)	21,565	37,046	-54,587	10,718	9,569	18,542	8,701	8,316	7,950
(Inc./)Dec. in WC	-26,697	60,216	1,38,450	-48,918	-1,23,268	-56,552	38,639	30,010	-4,127
Taxes paid	-78,754	-89,427	-74,329	-95,329	-1,19,463	-56,630	-52,466	-56,393	-55,415
CF from Operations	1,31,538	1,58,469	2,12,623	1,66,955	41,465	1,05,598	2,44,305	2,66,158	2,32,634
Capex	-57,857	-86,761	-85,293	-73,393	-56,120	-1,09,875	-1,60,000	-1,45,000	-1,20,000
Free Cash Flow	73,681	71,707	1,27,330	93,561	-14,654	-4,277	84,305	1,21,158	1,12,634
(Pur./)Sale of Investments	-1	-50	-3,332	-1,184	-4,539	-7,567	0	0	0
Interest/dividend	50,349	34,642	24,044	31,410	34,573	24,439	27,410	22,676	21,857
Other investing activity	-83,165	-12,435	-12,795	-10,336	10,846	-13,665	-26,178	-27,487	-28,862
CF from Investments	-90,673	-64,605	-77,377	-53,503	-15,240	-1,06,668	-1,58,768	-1,49,812	-1,27,004
Equity raised/(repaid)	0	-45,531	0	0	0	0	0	0	0
Debt raised/(repaid)	9,902	18,169	-14,778	6,718	22,776	-5,508	0	0	0
Interest paid	-207	-306	-370	-96	-686	-1,982	-6,511	-6,576	-6,642
Dividend (incl. tax)	-2,08,302	-1,51,031	-1,23,238	-1,12,110	-96,760	-77,064	-1,01,227	-1,08,802	-1,06,915
Other financing	2,732	2,720	2,513	3,972	5,169	0			
CF from Fin. Activity	-1,95,874	-1,75,980	-1,35,873	-1,01,516	-69,502	-84,554	-1,07,738	-1,15,378	-1,13,557
Inc./Dec. in Cash	-1,55,009	-82,116	-626	11,936	-43,277	-85,624	-22,201	968	-7,928
Add: Beginning Balance	5,64,146	4,09,137	3,27,021	3,26,394	3,38,330	2,95,053	2,09,429	1,87,228	1,88,196
Closing Balance	4,09,137	3,27,021	3,26,394	3,38,330	2,95,053	2,09,429	1,87,228	1,88,196	1,80,269

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