

Retail Equity Research

Coal India Limited

Power

BSE CODE: 533278

NSE CODE: COALINDIA

Bloomberg CODE: COAL:IN

SENSEX: 51,704

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 135

TARGET Rs. 155

RETURN 15% ↑

(Closing: 17-02-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Decent performance; Outlook remains stable

Coal India is one of the largest coal producers in the world with coal production 602mt in FY20 and a target of 1000mt by FY23-24.

- In Q3FY21, consolidated revenue grew by 11.4% QoQ, as volumes increase due to demand recovery. FSA revenue increased by 9.2% QoQ to Rs. 16,674cr (down 7.4% YoY).
- EBITDA increased by 29.9% QoQ while margin expanded by 340bps QoQ to 23.8% driven by higher revenue and other operating income. As a result, PAT also rose 4.7% YoY.
- Expected rise in power demand and improving volumes along with effective control over costs could drive the company's performance in near-term. We reiterate our BUY rating on the stock with a rolled forward target price of Rs. 155 based on 4x FY23E EV/EBITDA.

Topline records sequential improvement

Coal India's revenue grew by 11.4% QoQ to Rs. 21,708cr (+0.7% YoY) primarily aided by increased volumes on the back of strong demand in Q3FY21. FSA revenue posted a 9.2% QoQ increase to Rs. 16,675cr (-7.4% YoY) due to increase in volumes (+13.9% QoQ to 123mt), however realization dropped by 4.1% QoQ to Rs. 1,354/tonne. E-auction revenue grew by 24.3% QoQ to Rs. 3,996cr (+54.8% YoY) as volumes increased by 21.9% QoQ along with price realization (+2.0% QoQ). Washed coking coal revenue grew sharply by 141.3% QoQ to Rs. 252cr (+22.9% YoY) on higher volume (+240.0% QoQ), however realization dropped (-29.0% QoQ). Washed non-cooking coal revenue de-grew by 21.9% QoQ to Rs. 523cr (+25.7% YoY). Company's total production increased by 36.4% QoQ to 157mt (+6.3% YoY), while offtake grew by 14.8% QoQ to Rs. 154mt (+8.7% YoY).

Margin expands on account of effective cost control

In Q3FY21, EBITDA increased by 29.9% QoQ to Rs. 5,165cr (+4.0% YoY) supported by margin expansion of ~340bps QoQ to 23.8%. EBITDA improved on the account of growth in revenue (+11.4% QoQ) and higher other income (+18.5% QoQ), partially offset by employee costs (+2.5% QoQ) and other expenses (+55.7% QoQ). Resultantly, Adj. PAT rose by 4.7% QoQ to Rs. 3,085cr (-21.4% YoY).

Key concall highlights

- Coal India is exploring different diversification projects and assured that capital risk will be minimal.
- Company is spending significant part of Capex in mechanizing the evacuation system, which would reduce operational costs and improve efficiency. Capex guidance for FY21 is at 13,000cr, of which 9,300cr is spent till Jan-2021.
- Management assured that increased provisions (Rs. 503cr in Q3FY21 vs. Rs. 354cr in Q2FY21) are mainly due to unrecovered dues from Government entities. So, they expect gradual recovery in the coming quarters.

Valuation

We expect the business to perform well in the short to medium-term, as the demand from power plants would witness sharp increase once their inventory levels deplete. The long-term outlook remains positive with improvement in realization and the ability of the company to protect margins by improving efficiency. We reiterate our BUY rating on the stock and roll forward our valuation with a revised target price of Rs. 155 based on 4x FY23E EV/EBITDA.

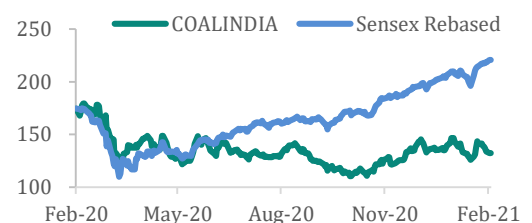
Company Data

| | |
|--------------------------|------------|
| Market Cap (cr) | Rs. 81,533 |
| Enterprise Value (cr) | Rs. 70,083 |
| Outstanding Shares (cr) | 616.3 |
| Free Float | 31.0% |
| Dividend Yield | 9.1% |
| 52 week high | Rs. 180 |
| 52 week low | Rs. 110 |
| 6m average volume (lacs) | 8.9 |
| Beta | 0.6 |
| Face value | Rs. 10 |

| Shareholding % | Q1FY21 | Q2FY21 | Q3FY21 |
|-------------------|--------|--------|--------|
| Promoters | 66.1 | 66.1 | 66.1 |
| FII's | 7.9 | 7.2 | 6.5 |
| MFs/Insti | 22.3 | 22.0 | 22.2 |
| Public | 2.6 | 3.5 | 3.8 |
| Others | 1.1 | 1.2 | 1.3 |
| Total | 100.0 | 100.0 | 100.0 |
| Promoters' pledge | 0.0 | 0.0 | 0.0 |

| Price Performance | 3 Month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return | 4.1% | 0.4% | -24.3% |
| Absolute Sensex | 19.5% | 37.7% | 26.4% |
| Relative Return* | -15.4% | -37.3% | -50.7% |

*over or under performance to benchmark index



| Consolidated (cr) | FY21E | FY22E | FY23E |
|-------------------|--------|--------|---------|
| Sales | 85,352 | 94,740 | 101,562 |
| Growth (%) | (4.5) | 11.0 | 7.2 |
| EBITDA | 16,632 | 19,126 | 21,184 |
| EBITDA Margin (%) | 19.5 | 20.2 | 20.9 |
| Adj. PAT | 11,683 | 13,873 | 15,432 |
| Growth (%) | (30.1) | 18.7 | 11.2 |
| Adj. EPS | 19.0 | 22.5 | 25.0 |
| Growth (%) | (30.1) | 18.7 | 11.2 |
| P/E | 7.0 | 5.9 | 5.3 |
| P/B | 2.2 | 1.9 | 1.7 |
| EV/EBITDA | 4.2 | 3.7 | 3.3 |
| ROE (%) | 31.9 | 32.9 | 31.9 |
| D/E | 0.3 | 0.3 | 0.3 |

Quarterly Financials (Consolidated)

Profit & Loss Account

| | Q3FY21 | Q3FY20 | YoY Growth % | Q2FY21 | QoQ Growth % | 9MFY21 | 9MFY20 | YoY Growth % |
|------------------------------|--------------|--------------|---------------|--------------|--------------|---------------|---------------|---------------|
| Revenue | 21,708 | 21,566 | 0.7 | 19,484 | 11.4 | 58,200 | 63,776 | (8.7) |
| EBITDA | 5,165 | 4,968 | 4.0 | 3,975 | 29.9 | 12,191 | 15,192 | (19.8) |
| EBITDA margins | 23.8 | 23.0 | 80bps | 20.4 | 340bps | 20.9 | 23.8 | (290bps) |
| Depreciation | 916 | 894 | 2.4 | 852 | 7.5 | 2,621 | 2,421 | 8.2 |
| EBIT | 4,249 | 4,074 | 4.3 | 3,123 | 36.1 | 9,571 | 12,771 | (25.1) |
| Interest | 155 | 151 | 2.7 | 147 | 5.5 | 486 | 338 | 43.8 |
| Other Income | 649 | 1,412 | (54.1) | 1,085 | (40.2) | 2,518 | 4,192 | (39.9) |
| Exceptional Items | - | - | - | - | - | - | - | - |
| PBT | 4,742 | 5,335 | (11.1) | 4,060 | 16.8 | 11,603 | 16,625 | (30.2) |
| Tax | 1,658 | 1,414 | 17.3 | 1,109 | 49.5 | 3,490 | 4,549 | (23.3) |
| Sh. of profit from Associate | - | - | - | - | - | - | - | - |
| Minority Interest | (1) | (2) | 37.4 | 3 | (137.1) | 0 | (2) | 106.0 |
| Reported PAT | 3,085 | 3,924 | (21.4) | 2,948 | 4.7 | 8,113 | 12,076 | (32.8) |
| Adjustments | - | - | - | - | - | - | - | - |
| Adj. PAT | 3,085 | 3,924 | (21.4) | 2,948 | 4.7 | 8,113 | 12,076 | (32.8) |
| No. of shares | 616.3 | 616.3 | - | 616.3 | - | 616.3 | 616.3 | - |
| Adj. EPS (Rs.) | 5.0 | 6.4 | (21.4) | 4.8 | 4.7 | 13.2 | 19.6 | (32.8) |

Change in Estimates

| Year / Rs. cr | Old estimates | | New estimates | | | Change % | |
|---------------|---------------|--------|---------------|--------|---------|----------|-------|
| | FY21E | FY22E | FY21E | FY22E | FY23E | FY21E | FY22E |
| Revenue | 87,139 | 97,596 | 85,352 | 94,740 | 101,562 | (2.1) | (2.9) |
| EBITDA | 15,846 | 19,508 | 16,632 | 19,126 | 21,184 | 5.0 | (2.0) |
| Margins (%) | 18.2 | 20.0 | 19.5 | 20.2 | 20.9 | 130bps | 20bps |
| Adj. PAT | 12,557 | 15,260 | 11,683 | 13,873 | 15,432 | (7.0) | (9.1) |
| Adj. EPS | 20.4 | 24.8 | 19.0 | 22.5 | 25.0 | (7.0) | (9.1) |

PROFIT & LOSS

| Y.E March (Rs. cr) | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------------|----------------|---------------|---------------|---------------|----------------|
| Revenue | 100,051 | 89,373 | 85,352 | 94,740 | 101,562 |
| % change | 16.5 | (10.7) | (4.5) | 11.0 | 7.2 |
| EBITDA | 24,647 | 21,921 | 16,632 | 19,126 | 21,184 |
| % change | 158.2 | (11.1) | (24.1) | 15.0 | 10.8 |
| Depreciation | 3,450 | 3,451 | 3,699 | 4,446 | 5,308 |
| EBIT | 21,196 | 18,470 | 12,933 | 14,680 | 15,876 |
| Interest | 275 | 503 | 660 | 356 | 277 |
| Other Income | 6,204 | 6,105 | 3,969 | 4,961 | 5,854 |
| PBT | 27,125 | 24,072 | 16,241 | 19,285 | 21,452 |
| % change | 152.9 | (11.3) | (32.5) | 18.7 | 11.2 |
| Tax | 9,662 | 7,371 | 4,548 | 5,400 | 6,007 |
| Tax Rate (%) | 35.6 | 30.6 | 28.0 | 28.0 | 28.0 |
| Reported PAT | 17,462 | 16,714 | 11,683 | 13,873 | 15,432 |
| Adj* | - | - | - | - | - |
| Adj PAT | 17,462 | 16,714 | 11,683 | 13,873 | 15,432 |
| % change | 148.7 | (4.3) | (30.1) | 18.7 | 11.2 |
| No. of shares (cr) | 620.6 | 616.3 | 616.3 | 616.3 | 616.3 |
| Adj EPS (Rs.) | 28.1 | 27.1 | 19.0 | 22.5 | 25.0 |
| % change | 148.8 | (3.6) | (30.1) | 18.7 | 11.2 |
| DPS (Rs.) | 13.1 | 12.0 | 11.8 | 13.5 | 15.0 |
| CEPS (Rs.) | 33.7 | 32.7 | 25.0 | 29.7 | 33.7 |

CASH FLOW

| Y.E March (Rs. cr) | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|-----------------|----------------|-----------------|-----------------|-----------------|
| Net inc. + Depn. | 20,912 | 20,165 | 15,382 | 18,318 | 20,740 |
| Non-cash adj. | (5,677) | (6,763) | 4,518 | 3,535 | 3,143 |
| Changes in W.C | 1,460 | (9,255) | (7,911) | 1,297 | (1,286) |
| C.F. Operation | 16,695 | 4,147 | 11,989 | 23,150 | 22,598 |
| Capital exp. | (7,339) | (5,645) | (12,803) | (14,969) | (10,969) |
| Change in inv. | (4,067) | 2,520 | 688 | 108 | (577) |
| Other invest.CF | 3,141 | 3,457 | 0 | (0) | (0) |
| C.F - Investment | (8,266) | 332 | (12,115) | (14,861) | (11,546) |
| Issue of equity | (1,050) | - | - | - | - |
| Issue/repay debt | 672 | 2,278 | 2,178 | 2,078 | 1,978 |
| Dividends paid | (8,113) | (7,394) | (7,243) | (8,324) | (9,259) |
| Other finance.CF | (1,661) | (1,834) | (1,409) | (744) | (277) |
| C.F - Finance | (10,152) | (6,950) | (6,475) | (6,990) | (7,558) |
| Chg. in cash | (1,722) | (2,471) | (6,600) | 1,300 | 3,493 |
| Closing cash | 31,124 | 28,447 | 21,847 | 23,146 | 26,640 |

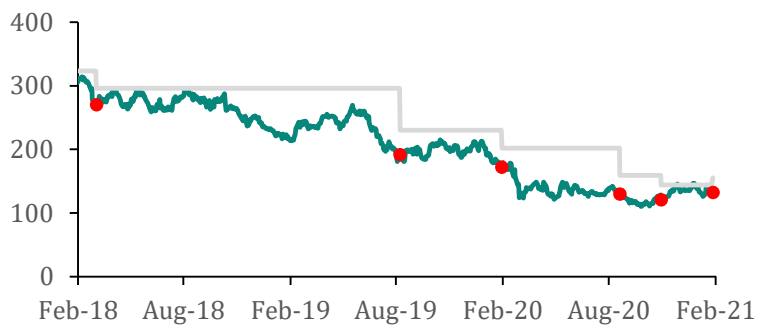
BALANCE SHEET

| Y.E March (Rs. cr) | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash | 31,124 | 28,447 | 21,847 | 23,146 | 26,640 |
| Accounts Receivable | 5,499 | 14,408 | 18,777 | 18,001 | 19,297 |
| Inventories | 5,584 | 6,619 | 6,269 | 6,025 | 6,155 |
| Other Cur. Assets | 27,113 | 34,038 | 34,273 | 35,690 | 36,843 |
| Investments | 1,421 | 1,873 | 1,185 | 1,077 | 1,654 |
| Gross Fixed Assets | 40,085 | 46,826 | 59,629 | 74,598 | 85,567 |
| Net Fixed Assets | 32,576 | 36,745 | 46,257 | 57,168 | 63,196 |
| CWIP | 9,623 | 8,271 | 7,858 | 7,465 | 7,091 |
| Intangible Assets | 74 | 95 | 100 | 105 | 110 |
| Def. Tax (Net) | 4,269 | 3,311 | 2,017 | 2,400 | 2,670 |
| Other Assets | 15,436 | 16,213 | 16,633 | 17,088 | 17,555 |
| Total Assets | 132,719 | 150,022 | 155,216 | 168,165 | 181,210 |
| Current Liabilities | 45,082 | 44,031 | 41,240 | 44,445 | 46,734 |
| Provisions | 52,420 | 60,227 | 62,335 | 64,828 | 67,421 |
| Debt Funds | 3,503 | 7,816 | 9,994 | 12,071 | 14,049 |
| Other Liabilities | 4,854 | 5,397 | 4,648 | 4,260 | 4,260 |
| Equity Capital | 6,163 | 6,163 | 6,163 | 6,163 | 6,163 |
| Reserves & Surplus | 20,291 | 25,994 | 30,434 | 35,983 | 42,155 |
| Shareholder's Fund | 26,454 | 32,157 | 36,596 | 42,145 | 48,318 |
| Minority Interest | 407 | 394 | 404 | 415 | 428 |
| Total Liabilities | 132,719 | 150,022 | 155,216 | 168,165 | 181,210 |
| BVPS (Rs.) | 43 | 52 | 59 | 68 | 78 |

RATIOS

| Y.E March | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|-------|-------|-------|-------|-------|
| Profitab. & Return | | | | | |
| EBITDA margin (%) | 24.6 | 24.5 | 19.5 | 20.2 | 20.9 |
| EBIT margin (%) | 21.2 | 20.7 | 15.2 | 15.5 | 15.6 |
| Net profit mgn.(%) | 17.5 | 18.7 | 13.7 | 14.6 | 15.2 |
| ROE (%) | 66.0 | 52.0 | 31.9 | 32.9 | 31.9 |
| ROCE (%) | 69.8 | 45.8 | 27.5 | 26.9 | 25.3 |
| W.C & Liquidity | | | | | |
| Receivables (days) | 19.8 | 58.0 | 79.2 | 68.4 | 68.4 |
| Inventory (days) | 189.1 | 278.0 | 234.0 | 216.0 | 216.0 |
| Payables (days) | 230.8 | 424.5 | 232.0 | 232.7 | 232.7 |
| Current ratio (x) | 1.5 | 1.7 | 1.8 | 1.7 | 1.7 |
| Quick ratio (x) | 0.8 | 0.9 | 0.9 | 0.8 | 0.9 |
| Turnover & Leverage | | | | | |
| Gross asset T.O (x) | 2.8 | 2.1 | 1.6 | 1.4 | 1.3 |
| Total asset T.O (x) | 0.8 | 0.6 | 0.6 | 0.6 | 0.6 |
| Int. coverage ratio (x) | 77.1 | 36.7 | 19.6 | 41.3 | 57.3 |
| Adj. debt/equity (x) | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 |
| Valuation | | | | | |
| EV/Sales (x) | 1.2 | 0.7 | 0.8 | 0.7 | 0.7 |
| EV/EBITDA (x) | 4.8 | 3.0 | 4.2 | 3.7 | 3.3 |
| P/E (x) | 8.4 | 5.2 | 7.0 | 5.9 | 5.3 |
| P/BV (x) | 5.5 | 2.7 | 2.2 | 1.9 | 1.7 |

Recommendation Summary



| Dates | Rating | Target |
|-----------|--------|--------|
| 23-Mar-18 | HOLD | 296 |
| 27-Aug-19 | BUY | 230 |
| 18-Feb-20 | BUY | 202 |
| 8-Sep-20 | BUY | 159 |
| 18-Nov-20 | BUY | 144 |
| 18-Feb-21 | BUY | 155 |

Investment Rating Criteria

| Ratings | Large caps | Midcaps | Small Caps |
|-------------|----------------------------|---------------------------|---------------------------|
| Buy | Upside is above 10% | Upside is above 15% | Upside is above 20% |
| Accumulate | - | Upside is between 10%-15% | Upside is between 10%-20% |
| Hold | Upside is between 0% - 10% | Upside is between 0%-10% | Upside is between 0%-10% |
| Reduce/sell | Downside is more than 0% | Downside is more than 0% | Downside is more than 0% |
| Not rated | | | |

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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