

Mixed bag...

Coal India (CIL) reported a mixed set of Q3FY21 numbers wherein topline and EBITDA came in line with our estimate. However, PAT came in lower than our estimate on the back of subdued other income and higher than expected effective tax rate. CIL reported sales volume of 154 million tonnes (MT), up 9% YoY, 15% QoQ (our estimate: 155 MT). Consolidated operating income for the quarter was at ₹ 23686 crore, up 2% YoY, 12% QoQ (our estimate of ₹ 24625 crore). Consolidated EBITDA was at ₹ 5165 crore (up 4% YoY, 30% QoQ) against our estimate of ₹ 5415 crore. Consolidated EBITDA margin came in at 21.8% (up 38 bps YoY, 301 bps QoQ), broadly in line with our estimate of 22.0%. EBITDA/tonne came in at ₹ 335/tonne against our estimate of ₹ 350/tonne (₹ 350/tonne in Q3FY20 and ₹ 297/tonne in Q2FY21). Consolidated other income for the quarter was at ₹ 640 crore (down 54% YoY, 40% QoQ), lower than our estimate of ₹ 1025 crore. Effective tax rate came in at 35% against our estimate of 25% (26% in Q3FY20, 27% in Q2FY21). Ensuing consolidated PAT came in at ₹ 3084 crore (down 21% YoY but up 4% QoQ), lower than our estimate of ₹ 3922 crore.

YTD, both production, offtake remains broadly flattish YoY...

In the current fiscal (YTD), Coal India witnessed a flattish trend in both production and offtake volumes. During the 10 months period between April 2020 and January 2021 (YTD), production volume was at 453 MT (up 0.4% YoY) while offtake volume during the aforesaid period was at 463 MT (marginally down 2% YoY). Going forward, for FY21E, FY22E and FY23E, we model an offtake volume of 585 MT, 625 MT and 650 MT, respectively.

EBITDA margins to hover at ~18% in next couple of years...

We expect EBITDA margins to hover in the ~18% range over the next couple of years. We model EBITDA margins of 18.3% for FY22E and 18.4% for FY23E.

Valuation & Outlook

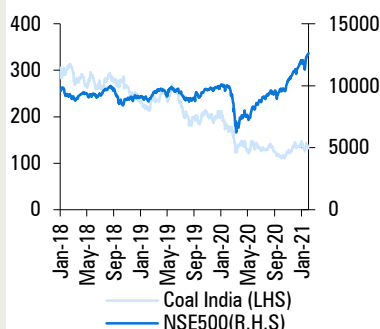
CIL reported an mixed set of numbers for Q3FY21. Going forward, we model sales volume of 585 MT for FY21E, 625 MT for FY22E and 650 MT for FY23E. Furthermore, we expect EBITDA margins to hover at ~18% over the next couple of years (we model consolidated EBITDA margin of 18.3% for FY22E and 18.4% for FY23E). We introduce FY23E estimates and roll over our valuations to FY23E. We value the stock at 4.5x FY23E EV/EBITDA and arrive at a target price of ₹ 140 (earlier ₹ 130). We maintain our **HOLD** recommendation on the stock.



Particulars

| Particular | Amount |
|-----------------------------|---------------|
| Market Capitalization | ₹ 82124 crore |
| Total Debt (FY20) | ₹ 6426 crore |
| Cash and Investments (FY20) | ₹ 28447 crore |
| EV | ₹ 60103 crore |
| 52 week H/L | 180 / 109 |
| Face value | ₹ 10 |

Price Performance



Key risks to call

- Any weakness in power sector can lead to lower than expected offtake
- Higher-than-expected offtake (especially of e-auction volumes) can lead to better-than-expected financial performance

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Key Financial Summary

| (₹ crore) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E | CAGR(FY20-23E) |
|------------------------|--------|--------|--------|--------|--------|---------|----------------|
| Total Operating Income | 85,244 | 99,586 | 96,080 | 90,948 | 98,695 | 102,464 | 2.2 |
| EBITDA | 9,288 | 25,006 | 21,921 | 17,929 | 18,038 | 18,824 | -5.0 |
| EBITDA Margin (%) | 10.9 | 25.1 | 22.8 | 19.7 | 18.3 | 18.4 | |
| PAT | 7,038 | 17,464 | 16,700 | 12,523 | 13,003 | 13,967 | -5.8 |
| EPS (₹) | 11 | 28 | 27 | 20 | 21 | 23 | |
| EV/EBITDA (x) | 5.7 | 2.1 | 2.7 | 3.7 | 4.1 | 4.3 | |
| RoCE (%) | 40.8 | 86.3 | 55.5 | 39.6 | 35.6 | 33.0 | |
| ROE (%) | 34.9 | 66.0 | 51.9 | 33.6 | 30.3 | 28.2 | |

Source: Company, ICICI Direct Research

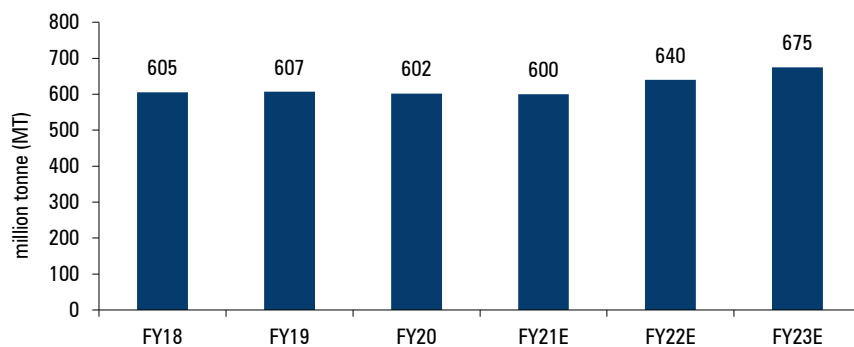
Exhibit 1: Variance Analysis

| | Q3FY21 | Q3FY21E | Q3FY20 | YoY (%) | Q2FY21 | QoQ (%) | Comments |
|-------------------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------------------------------------------------|
| Total Operating Income | 23686 | 24625 | 23190 | 2 | 21153 | 12 | Topline came broadly in line with our estimate |
| Other Income | 649 | 1025 | 1412 | -54 | 1085 | -40 | |
| Total Expenditure | 18521 | 19211 | 18222 | 2 | 17178 | 7.8 | |
| EBITDA | 5165 | 5415 | 4968 | 4 | 3975 | 30 | EBITDA came broadly in line with our estimates |
| EBITDA Margin (%) | 21.8 | 22.0 | 21.4 | 38 bps | 18.8 | 301 bps | EBITDA margin came broadly in line with our estimates |
| Depreciation | 916 | 875 | 894 | 2 | 852 | 7 | |
| Interest | 155 | 150 | 150 | 4 | 147 | 6 | |
| Share of JV | 0 | 0 | 1 | NA | 1 | NA | |
| PBT | 4742 | 5415 | 5336 | -11 | 4060 | 17 | |
| Total Tax | 1658 | 1363 | 1414 | | 1109 | | |
| PAT | 3084 | 4052 | 3922 | -21 | 2952 | 4 | PAT came in lower than our estimates |
| Key Metrics | | | | | | | |
| Coal Sales (million tonne) | 154 | 155 | 142 | 8 | 134 | 15 | Sales volumes came in line with our estimate |
| FSA Volumes | 123 | 125 | 128 | -4 | 108 | 14 | FSA sales volume came broadly in line with our estimate |
| FSA Realisations | 1354 | 1425 | 1411 | -4 | 1412 | -4 | FSA realisations came in lower than our estimate |
| E-auction volumes | 27 | 25 | 10 | 170 | 22 | 23 | E-auction sales volume came in higher than our estimate |
| E-auction realisations | 1466 | 1625 | 2623 | -44 | 1437 | 2 | E-auction realisations came in lower than our estimate |
| EBITDA/tonne | 335 | 350 | 350 | -4 | 297 | 13 | |

Source: Company, ICICI Direct Research

Financial story in charts

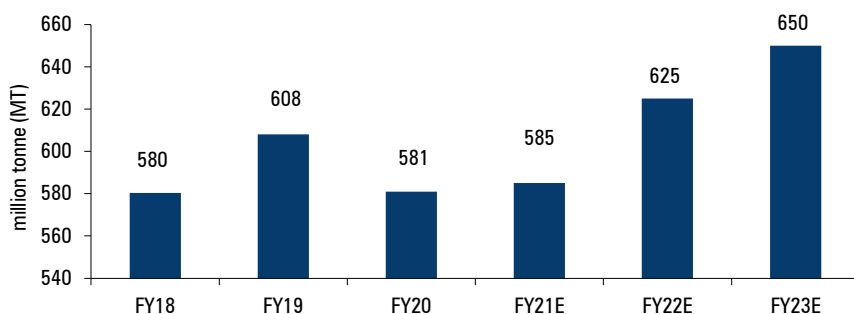
Exhibit 2: Trend in production



Modelled coal production of 600 MT for FY21E, 640 MT for FY22E and 675 MT for FY23E

Source: Company, ICICI Direct Research

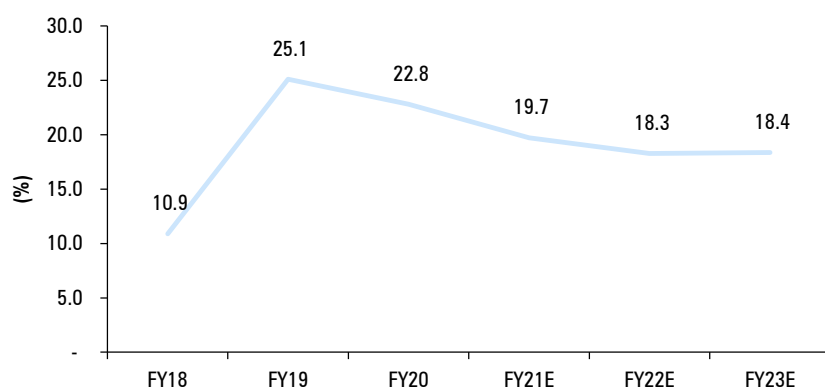
Exhibit 3: Trend in offtake



Modelled coal offtake of 585 MT for FY21E, 625 MT for FY22E and 650 MT for FY23E.

Source: Company, ICICI Direct Research

Exhibit 4: Trend in reported consolidated EBITDA margin (in %)



Over the next couple of years (for FY22E and FY23E), we expect EBITDA margin to hover at ~18%

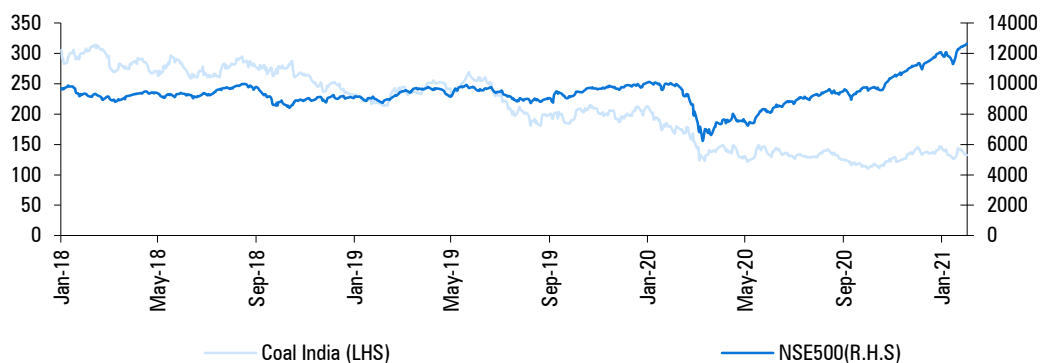
Source: Company, ICICI Direct Research

Exhibit 5: Valuation

| | Op. Inc. | Growth | EPS | Growth | PE | EV/EBITDA | RoNW | RoCE |
|-------|----------|--------|------|--------|------|-----------|------|------|
| | (₹ cr) | (%) | (₹) | (%) | (x) | (x) | (%) | (%) |
| FY18 | 85,244 | 9.0 | 11.3 | -51.2 | 11.7 | 5.7 | 34.9 | 40.8 |
| FY19 | 99,586 | 16.8 | 28.3 | 149.9 | 4.7 | 2.1 | 66.0 | 86.3 |
| FY20 | 96,080 | -3.5 | 27.1 | -4.4 | 4.9 | 2.7 | 51.9 | 55.5 |
| FY21E | 90,948 | -5.3 | 20.3 | -25.0 | 6.5 | 4.6 | 33.6 | 39.6 |
| FY22E | 98,695 | 8.5 | 21.1 | 3.8 | 6.3 | 4.1 | 30.3 | 35.6 |
| FY23E | 102,464 | 3.8 | 22.7 | 7.4 | 5.9 | 4.3 | 28.2 | 33.0 |

Source: Company, ICICI Direct Research

Exhibit 6: Price Performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

| (in %) | Jun-20 | Sep-20 | Dec-20 |
|----------|--------|--------|--------|
| Promoter | 65.3 | 65.3 | 65.3 |
| Others | 34.7 | 34.7 | 34.7 |
| Total | 100.0 | 100.0 | 100.0 |

Source: Company, ICICI Direct Research

Exhibit 8: Profit and loss statement

₹ crore

| (Year-end March) | FY20 | FY21E | FY22E | FY23E |
|-------------------------------|--------------|--------------|--------------|---------------|
| Total Operating Income | 96080 | 90948 | 98695 | 102464 |
| Growth (%) | -3.5 | -5.3 | 8.5 | 3.8 |
| Total Operating Expenditure | 74159 | 73019 | 80656 | 83640 |
| EBITDA | 21921 | 17929 | 18038 | 18824 |
| Growth (%) | -12.3 | -18.2 | 0.6 | 4.4 |
| Depreciation | 3451 | 3710 | 3802 | 3897 |
| Interest | 503 | 629 | 471 | 354 |
| Other Income | 6105 | 3942 | 4942 | 5436 |
| Exceptional Item | 1 | 0 | 0 | 0 |
| PBT | 24071 | 17533 | 18706 | 20008 |
| Total Tax | 7371 | 5010 | 5703 | 6041 |
| PAT | 16700 | 12523 | 13003 | 13967 |
| Growth (%) | -4.4 | -25.0 | 3.8 | 7.4 |
| Adj EPS (₹) | 27.1 | 20.3 | 21.1 | 22.7 |

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement

₹ crore

| (Year-end March) | FY20 | FY21E | FY22E | FY23E |
|-------------------------------------|--------------|---------------|---------------|---------------|
| Profit after Tax | 16700 | 12523 | 13003 | 13967 |
| Add: Depreciation | 3451 | 3710 | 3802 | 3897 |
| Add: Interest | 503 | 629 | 471 | 354 |
| (Inc)/dec in Current Assets | -17855 | -8172 | -7059 | -6092 |
| Inc/(dec) in CL and Prov. | 7629 | 6466 | 6137 | 4565 |
| CF from operating activities | 10428 | 15155 | 16355 | 16692 |
| (Inc)/dec in Investments | 1197 | 0 | 0 | 0 |
| (Inc)/dec in Fixed Assets | -6287 | -12000 | -15000 | -15000 |
| Others | -184 | -1000 | -1000 | -1000 |
| CF from investing activities | -5273 | -13000 | -16000 | -16000 |
| Issue/(Buy back) of Equity | 0 | 0 | 0 | 0 |
| Inc/(dec) in loan funds | 4223 | 0 | 0 | 0 |
| Interest Paid | -503 | -629 | -471 | -354 |
| Dividend paid & dividend tax | -7972 | -7395 | -7395 | -7395 |
| Others | -3040 | 50 | 50 | 50 |
| CF from financing activities | -7292 | -7974 | -7817 | -7699 |
| Net Cash flow | -2137 | -5819 | -7462 | -7007 |
| Opening Cash | 30585 | 28447 | 22628 | 15167 |
| Closing Cash | 28447 | 22628 | 15167 | 8159 |

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet

₹ crore

| (Year-end March) | FY20 | FY21E | FY22E | FY23E |
|-----------------------------|--------------|--------------|--------------|--------------|
| Liabilities | | | | |
| Equity Share Capital | 6163 | 6163 | 6163 | 6163 |
| Reserve and Surplus | 25994 | 31122 | 36730 | 43302 |
| Total Shareholders funds | 32157 | 37285 | 42893 | 49465 |
| Total Debt | 6426 | 6426 | 6426 | 6426 |
| Minority Interest | 394 | 444 | 494 | 544 |
| Total Liabilities | 38977 | 44155 | 49813 | 56435 |
| Assets | | | | |
| Gross Block | 85925 | 95925 | 108925 | 121925 |
| Less: Acc Depreciation | 49084 | 52794 | 56596 | 60494 |
| Net Block | 36841 | 43131 | 52329 | 61431 |
| CWIP | 8271 | 10271 | 12271 | 14271 |
| Investments | 1973 | 1973 | 1973 | 1973 |
| Inventory | 6619 | 7002 | 8397 | 8020 |
| Debtors | 14408 | 19198 | 19362 | 19331 |
| Loans and Advances | 14924 | 16924 | 18924 | 21924 |
| Other Current Assets | 34834 | 35834 | 39334 | 42834 |
| Cash | 28447 | 22628 | 15167 | 8159 |
| Total Current Assets | 99231 | 101585 | 101182 | 100267 |
| Current Liabilities | 44028 | 47994 | 51631 | 53696 |
| Provisions | 67017 | 69517 | 72017 | 74517 |
| Current Liabilities & Prov | 111045 | 117511 | 123648 | 128213 |
| Net Current Assets | -11813 | -15926 | -22465 | -27946 |
| Others | 3706 | 4706 | 5706 | 6706 |
| Application of Funds | 38977 | 44155 | 49813 | 56435 |

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios

₹ crore

| (Year-end March) | FY20 | FY21E | FY22E | FY23E |
|------------------------------|------|-------|-------|-------|
| Per share data (₹) | | | | |
| Adj EPS | 27.1 | 20.3 | 21.1 | 22.7 |
| Cash EPS | 32.7 | 26.3 | 27.3 | 29.0 |
| BV | 52.2 | 60.5 | 69.6 | 80.3 |
| DPS | 12.0 | 12.0 | 12.0 | 12.0 |
| Cash Per Share | 46.2 | 36.7 | 24.6 | 13.2 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 22.8 | 19.7 | 18.3 | 18.4 |
| PBT / Total Operating income | 25.1 | 19.3 | 19.0 | 19.5 |
| PAT Margin | 17.4 | 13.8 | 13.2 | 13.6 |
| Inventory days | 33 | 35 | 38 | 35 |
| Debtor days | 59 | 80 | 75 | 72 |
| Creditor days | 41 | 46 | 46 | 46 |
| Return Ratios (%) | | | | |
| Adj RoE | 51.9 | 33.6 | 30.3 | 28.2 |
| Adj RoCE | 55.5 | 39.6 | 35.6 | 33.0 |
| Valuation Ratios (x) | | | | |
| P/E | 4.9 | 6.5 | 6.3 | 5.9 |
| EV / EBITDA | 2.7 | 3.7 | 4.1 | 4.3 |
| EV / Net Sales | 0.6 | 0.7 | 0.7 | 0.8 |
| Market Cap / Sales | 1.4 | 1.5 | 1.4 | 1.3 |
| Price to Book Value | 4.1 | 3.6 | 3.1 | 2.7 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 0.3 | 0.4 | 0.4 | 0.3 |
| Debt / Equity | 0.2 | 0.2 | 0.1 | 0.1 |
| Current Ratio | 0.9 | 0.9 | 0.8 | 0.8 |
| Quick Ratio | 0.8 | 0.8 | 0.8 | 0.7 |

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Metals and Mining)

| | CMP TP | | | M Cap (₹ Cr) | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | ROCE(%) | | | ROE(%) | | |
|---------------|--------|------|--------|-----------------|---------|-------|-------|---------|-------|-------|---------------|-------|-------|---------|-------|-------|--------|-------|-------|
| | (₹) | (₹) | Rating | | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E |
| Coal India | 133 | 140 | Hold | 82124 | 27.1 | 20.3 | 21.0 | 4.9 | 6.5 | 6.3 | 2.7 | 3.7 | 4.1 | 55.5 | 39.6 | 35.6 | 51.9 | 33.6 | 30.3 |
| Hindalco | 293 | 309 | Hold | 65994 | 18.2 | 31.9 | 35.1 | 16.0 | 9.2 | 8.4 | 7.4 | 6.8 | 6.2 | 7.8 | 9.2 | 9.6 | 6.9 | 11.1 | 10.9 |
| Hind Zinc | 298 | 290 | Hold | 125914 | 16.1 | 18.7 | 23.6 | 15.2 | 12.0 | 10.4 | 9.2 | 7.0 | 5.8 | 27.3 | 30.4 | 30.1 | 25.1 | 27.5 | 26.9 |
| JSW Steel | 410 | 400 | Hold | 98900 | 19.5 | 29.9 | 37.3 | 19.4 | 12.7 | 10.2 | 12.5 | 8.2 | 6.7 | 7.2 | 11.9 | 13.7 | 12.9 | 16.6 | 17.2 |
| NMDC | 113 | 125 | Hold | 34690 | 11.8 | 11.6 | 9.0 | 10.6 | 10.7 | 13.8 | 4.5 | 5.0 | 5.5 | 20.3 | 14.3 | 9.9 | 13.1 | 11.3 | 8.3 |
| Ratnamani | 1633 | 1900 | Buy | 7630 | 65.8 | 49.4 | 64.5 | 24.7 | 32.9 | 25.2 | 17.7 | 22.6 | 16.8 | 22.2 | 16.2 | 19.6 | 18.0 | 12.3 | 14.1 |
| Graphite Ind. | 419 | 185 | Hold | 8192 | 2.0 | -1.0 | 18.0 | 78.0 | NA | 10.5 | NA | NA | 3.6 | -2.6 | -5.7 | 4.4 | 1.0 | -0.4 | 7.3 |
| Tata Steel | 695 | 750 | Hold | 79582 | 41.4 | 62.7 | 80.0 | 16.8 | 11.1 | 8.7 | 10.7 | 6.4 | 5.4 | 4.8 | 9.4 | 10.5 | 6.4 | 9.2 | 10.2 |

Source: ICICI Direct Research, Company

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Reduce: -15% to -5%;

Sell: < -15%



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