

August 16, 2021

Q1 operational performance impacted by one-off...

About the stock: Coal India (CIL) is world's largest pure play coal producer. In FY21, CIL produced 596 million tonnes (MT) while offtake for FY21 was at 574 MT.

- CIL has 345 mines (as on April 1, 2021) of which 151 are underground, 172 open cast and 22 mixed mines
- CIL has extensive mining capabilities. It has advanced technology in open cast mining

Q1FY22 Results: CIL's Q1FY22 performance was impacted by one-off in employee expense.

- For the quarter, sales volume was at 160 million tonnes (MT), up 33% YoY but down 3% QoQ. For Q1FY22, topline was at ₹ 25282 crore, up 37% YoY but down 5% QoQ, in line with our estimate of ₹ 25295 crore
- Consolidated EBITDA for the quarter was at ₹ 4844 crore (up 59% YoY but down 24% QoQ), lower than our estimate of ₹ 5691 crore. Consolidated EBITDA margin for the quarter was at 19.2% lower than our estimate of 22.5% (EBITDA margin of 23.9% in Q4FY21, 16.5% in Q1FY21). During Q1FY22, employee expense included one-time charge ~₹ 600 crore on actuarial valuation of higher medical benefits to retired employees
- Consolidated PAT for the quarter was at ₹ 3174 crore (up 53% YoY but down 31% QoQ), lower than our estimate of ₹ 4070 crore

What should investors do? Coal India share price has given a return of ~30% in the last 10 months (from ~₹ 110 in October 2020 to ~₹ 143 levels in August 2021).

- We maintain our HOLD rating on the stock

Target Price and Valuation: We value CIL at ₹ 160, 4.5x FY23E EV/EBITDA

Key triggers for future price performance:

- For FY22E, Coal India has given production target of ~630-640 MT and offtake target is ~710-720 MT
- Emphasis on digitisation of mines for increasing efficiency in overall capacity utilisation resulting in higher volumes of coal at lower costs
- CIL is working towards closure of unviable mines. CIL's underground mines employ ~43% of the workforce whereas they contribute ~5% of total production. Action is being taken to close the unviable mines of CIL in a phased manner. Production from 12 such underground mines has already being suspended

Alternate Stock Idea: In our mining sector coverage, we like NMDC.

- NMDC is India's largest merchant iron ore miner
- BUY with a target price of ₹ 210



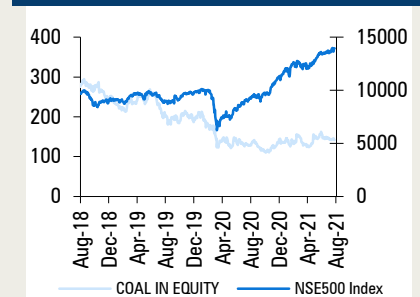
Particulars

Particular	Amount
Market Capitalization	₹ 90877 crore
Total Debt (FY21)	₹ 5875 crore
Cash and Investments (FY21)	₹ 9583 crore
EV	₹ 87169 crore
52 week H/L	164 / 109
Equity capital	₹ 6162.7 crore
Face value	₹ 10

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	66.1	66.1	66.1	66.1
FIs	7.2	6.5	6.5	6.6
DIs	21.9	22.2	21.9	21.5
Others	4.8	5.2	5.5	5.8
Total	100	100	100	100

Price Chart



Key Risks

- Higher than expected increase in operating costs can lead to lower than expected operating margins.
- Higher than expected offtake can lead to better than expected financial performance.

Research Analyst

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Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	CAGR (FY16-FY21)	FY22E	FY23E	CAGR (FY21-FY23E)
Total Operating Income	85,244	99,586	96,080	90,026	3%	1,04,536	1,12,001	12%
EBITDA	9,288	25,006	21,581	18,574	0%	20,734	22,081	9%
EBITDA Margin (%)	10.9	25.1	22.5	20.6		19.8	19.7	
PAT	7,038	17,464	16,700	12,702	-8%	15,473	17,067	16%
EPS (₹)	11.3	28.3	27.1	20.6		25.1	27.7	
EV/EBITDA (x)	6.2	2.3	3.1	4.0		3.9	3.9	
RoCE (%)	40.8	86.3	54.6	42.3		41.7	39.8	
RoE (%)	34.9	66.0	51.9	34.8		36.7	35.5	

Source: Company, ICICI Direct Research

Key highlights of the conference call...

- In FY21, the company reported receivables of ~₹ 19,600 crores, which has been reduced by ~₹ 2500 crore to ~₹ 17,100 crores at the end of July 2021.
- For FY22E, the management has given a capex guidance of ₹ 17,000 crore. This includes capex chalked out for Hindustan Urvarak & Rasayan (HURL) & Talcher Fertilizers (TFL)
- For FY22E, Coal India has given production target of ~630-640 MT and offtake target is ~710-720 MT
- CIL is making efforts towards import substitution. However, it has limitations with regards to type of coal imported and coal imports by the coastal plants
- During Q1FY22, employee expense included one-time charge to the tune of ~₹ 600 crore on actuarial valuation of higher medical benefits for retired employees
- Emphasis on digitisation of mines for increasing efficiency in overall capacity utilisation resulting in higher volumes of coal at lower costs
- CIL is working towards closure of unviable mines. CIL's underground mines employ 43% of the workforce whereas contributes 5% of total production. Action is being taken to close unviable mines in CIL in a phased manner. Production from 12 such underground mines has already been suspended

Peer comparison

Exhibit 1: Peer Comparison

Company	CMP		TP	Mcap (₹)	Topline(in ₹ crore)			EBITDA (in ₹ crore)			Adj. PAT(in ₹ crore)			P/E(x)			EV/EBITDA(x)		
	(₹)	(₹)			Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Coal India	143	160	Hold	88145	90026	104536	112001	18,574	20,734	22,081	12,702	15,473	17,067	7.1	5.7	5.2	4.1	3.9	3.9
NMDC	172	210	Buy	50523	15370	22428	18229	8,796	10,156	8,088	6,253	7,230	5,700	8.3	7.2	9.2	5.5	4.6	5.3

Source: Company, ICICI Direct Research

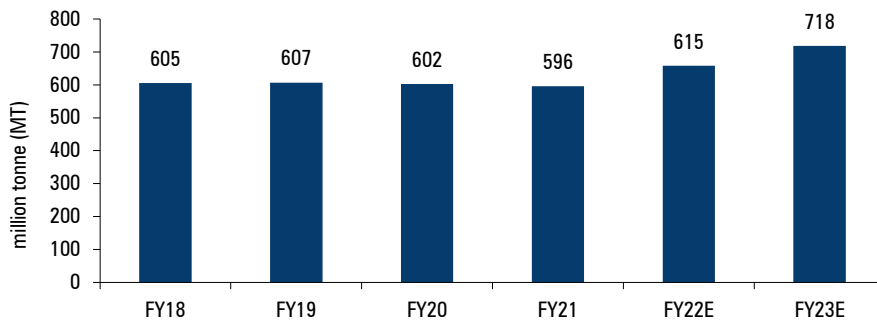
Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	25282	25295	18487	37	26700	-5	Topline came in line with our estimate
Other Income	681	1100	785	-13	1274	-47	
Total Expenditure	20438	19604	15435	32	20318	1	
EBITDA	4844	5691	3052	59	6382	-24	EBIDTA came in below than our estimate
EBITDA Margin (%)	19.2	22.5	16.5	265 bps	23.9	-474 bps	
Depreciation	1041	1150	853	22	1088	-4	
Interest	148	200	183	-19	159	-7	
Share of JV	-1	-3	-1	2	-3	-62	
PBT	4336	5441	2800	55	6406	-32	
Total Tax	1161	1371	723	61	1817	-36	
PAT	3174	4070	2078	53	4589	-31	PAT came in below than our estimate
Key Metrics							
Coal Sales (million tonne)	160	160	120	33	165	-3	Sales volumes came broadly in line with our estimate
FSA Volumes	127	130	102	25	133	-4	FSA sales volume came in lower than our estimate
FSA Realisations	1394	1350	1360	3	1392	0	FSA realisations came in higher than our estimate
E-auction volumes	30	27	16	89	29	4	E-auction sales volume came in higher than our estimate
E-auction realisations	1569	1850	1598	-2	1752	-10	E-auction realisations came in lower than our estimate
EBITDA/tonne	302	355	253	19	387	-22	

Source: Company, ICICI Direct Research

Financial story in charts

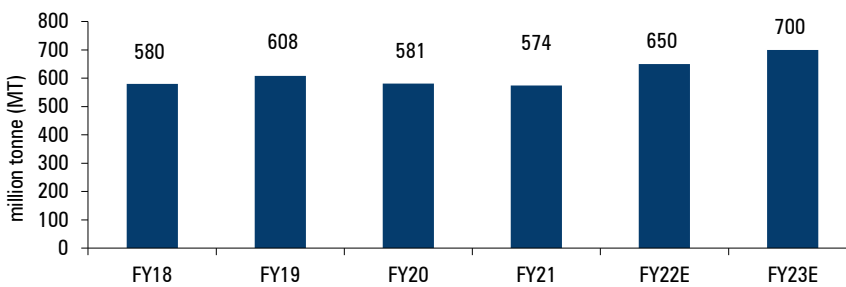
Exhibit 3: Trend in production



Model coal production of 615 MT for FY22E and 718 MT for FY23E.

Source: Company, ICICI Direct Research

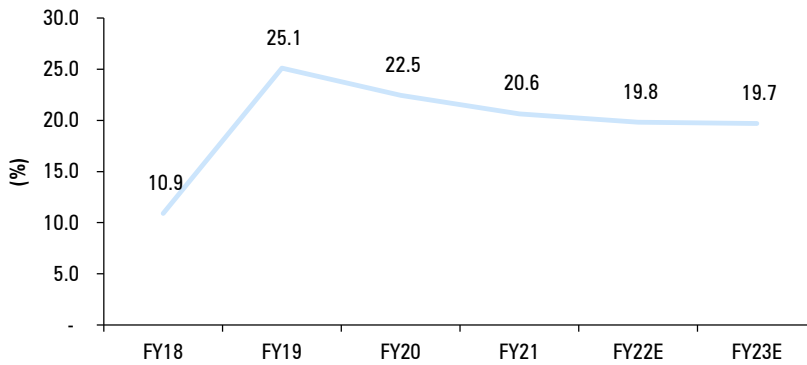
Exhibit 4: Trend in offtake



Model coal offtake of 650 MT for FY22E and 700 MT for FY23E.

Source: Company, ICICI Direct Research

Exhibit 5: Trend in reported consolidated EBITDA margin (in %)



Over the next couple of years i.e. for FY22E and FY23E, we expect EBITDA margin to hover at ~20%

Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Op. Inc.	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY18	85,244	9.0	11.3	-51.2	12.7	6.2	34.9	40.8
FY19	99,586	16.8	28.3	149.9	5.1	2.3	66.0	86.3
FY20	96,080	-3.5	27.1	-4.4	5.3	3.1	51.9	54.6
FY21	90,026	-6.3	20.6	-23.9	7.0	4.0	34.8	42.3
FY22E	1,04,536	16.1	25.1	21.8	5.7	3.9	36.7	41.7
FY23E	1,12,001	7.1	27.7	10.3	5.2	3.9	35.5	39.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	96080	90026	104536	112001
Growth (%)	-3.5	-6.3	16.1	7.1
Total Operating Expenditure	74499	71453	83803	89920
EBITDA	21581	18574	20734	22081
Growth (%)	-13.7	-13.9	11.6	6.5
Depreciation	3451	3709	3802	3897
Interest	503	645	484	363
Other Income	6445	3792	3508	3859
Exceptional Item	1	3	0	0
PBT	24071	18010	21945	24102
Total Tax	7371	5307	6472	7034
PAT	16700	12702	15473	17067
Growth (%)	-4.4	-23.9	21.8	10.3
Adj EPS (₹)	27.1	20.6	25.1	27.7

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Share Capital	6163	6163	6163	6163
Reserve and Surplus	25994	30355	35967	41942
Total Shareholders funds	32157	36517	42130	48105
Total Debt	6426	5875	6426	6426
Minority Interest	394	441	491	541
Total Liabilities	38977	42834	49047	55072
Assets				
Net Block	36841	42491	51690	60793
CWIP	8271	10404	12404	14404
Investments	1973	5950	5950	2318
Inventory	6618	8947	8725	8622
Debtors	14408	19623	19939	20614
Loans and Advances	13434	13658	15658	18658
Other Current Assets	37554	41051	44551	48051
Cash	28449	17310	10561	5608
Total Current Assets	100463	100590	99434	101553
Current Liabilities	44346	49301	51631	53696
Provisions	67005	69645	72145	74645
Current Liabilities & Prov	111350	118946	123775	128341
Net Current Assets	-10887	-18356	-24341	-26788
Others	2779	2345	3345	4345
Application of Funds	38977	42834	49047	55072

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	16700	12702	15473	17067
Add: Depreciation	3451	3709	3802	3897
Add: Interest	503	645	484	363
(Inc)/dec in Current Assets	-19085	-11265	-5593	-7073
Inc/(dec) in CL and Prov.	7935	7595	4829	4565
CF from operating activities	9504	13387	18994	18819
(Inc)/dec in Investments	1197	-3977	0	3633
(Inc)/dec in Fixed Assets	-6287	-13115	-15000	-15000
Others	743	435	-1000	-1000
CF from investing activities	-4347	-16658	-16000	-12367
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	4223	-551	551	0
Interest Paid	-503	-645	-484	-363
Dividend paid & dividend tax	-7972	-9860	-9860	-11093
Others	-3040	3188	50	50
CF from financing activities	-7292	-7867	-9743	-11405
Net Cash flow	-2136	-11139	-6749	-4954
Opening Cash	30585	28449	17310	10561
Closing Cash	28449	17310	10561	5608

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adj EPS	27.1	20.6	25.1	27.7
Cash EPS	32.7	26.6	31.3	34.0
BV	52.2	59.3	68.4	78.1
DPS	12.0	16.0	16.0	18.0
Cash Per Share	46.2	28.1	17.1	9.1
Operating Ratios (%)				
EBITDA Margin	22.5	20.6	19.8	19.7
PBT / Total Operating income	25.1	20.0	21.0	21.5
PAT Margin	17.4	14.1	14.8	15.2
Inventory days	32	35	38	35
Debtor days	59	80	75	72
Creditor days	41	49	45	43
Return Ratios (%)				
Adj RoE	51.9	34.8	36.7	35.5
Adj RoCE	54.6	42.3	41.7	39.8
Valuation Ratios (x)				
P/E	5.3	7.0	5.7	5.2
EV / EBITDA	3.1	4.0	3.9	3.9
EV / Net Sales	0.7	0.8	0.8	0.8
Market Cap / Sales	0.9	1.0	0.8	0.8
Price to Book Value	2.8	2.4	2.1	1.8
Solvency Ratios				
Debt/EBITDA	0.3	0.3	0.3	0.3
Debt / Equity	0.2	0.2	0.2	0.1
Current Ratio	0.9	0.8	0.8	0.8
Quick Ratio	0.8	0.8	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Coal India	143	160	Hold	88145	20.6	25.1	27.7	7.1	5.9	5.3	4.1	3.9	3.9	42.3	43.1	41.2	34.8	36.7	35.5
Hindalco	440	525	Buy	99065	25.5	46.0	51.1	17.3	9.6	8.6	8.3	6.2	5.4	8.8	12.4	13.0	8.5	14.3	13.9
Hind Zinc	331	340	Hold	139900	18.9	22.3	25.6	17.6	14.9	13.0	10.8	8.1	6.8	27.8	33.1	37.8	24.7	26.3	26.0
JSW Steel	761	850	Buy	184108	32.9	87.7	71.6	22.7	8.5	10.4	11.5	6.1	6.8	13.8	24.2	18.2	17.0	31.3	20.4
NMDC	172	210	Buy	50523	21.3	24.7	9.5	8.3	7.2	9.2	5.5	4.6	5.3	27.0	24.9	17.2	21.0	20.5	14.6
Ratnamani	2080	9719	Buy	9696	59.0	76.2	96.0	33.9	26.2	20.8	22.1	16.1	13.0	15.7	19.3	20.1	13.9	15.7	16.9
Graphite Ind.	667	825	Buy	13031	-2.0	46.0	81.0	NA	15.4	8.8	NA	10.5	5.3	-5.4	19.0	28.8	-5.7	20.0	30.3
Tata Steel	1519	1750	Buy	182809	77.1	260.2	179.9	18.9	5.6	8.1	8.4	4.0	4.9	13.1	29.5	20.2	12.4	30.5	17.5
Sail	134	160	Buy	55549	9.2	26.4	21.2	14.2	4.9	6.1	7.0	4.1	4.8	10.9	18.4	13.9	8.9	20.7	14.7

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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