Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Coal India Ltd

In-line Q1; attractive valuation

Energy & Utilities	Sharekhan code: COALINDIA	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 144**	
Price Target: **Rs. 185**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

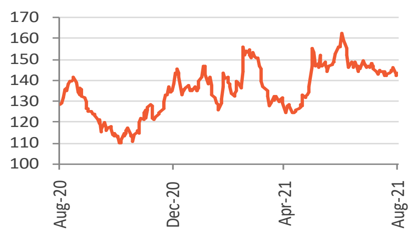
Company details

Market cap:	Rs. 89,325 cr
52-week high/low:	Rs. 165/110
NSE volume: (No of shares)	156.8 lakh
BSE code:	533278
NSE code:	COALINDIA
Free float: (No of shares)	208.7 cr

Shareholding (%)

Promoters	66.1
FII	6.6
DII	21.5
Others	5.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2	-6	8	12
Relative to Sensex	-6%	-18	2	-30

Sharekhan Research, Bloomberg

Summary

- Operating profit met expectations at Rs. 4,844 crore (up 58.7% y-o-y); but PAT of Rs. 3,170 crore (up 52.4% y-o-y) missed our estimates due to lower other income and higher depreciation. Coal offtake stood at 160 mt (up 33% y-o-y), while blended realisation stood at Rs. 1452/tonne (up 2.8% y-o-y).
- E-auction/FSA sales volume grew by 90%/25% y-o-y to 30 mt/127 mt but e-auction realisations declined by 10.4% q-o-q to Rs. 1,569/tonne while FSA realisations remained flat q-o-q at Rs. 1,394/tonne.
- Coal offtake remains robust with 28.4% y-o-y growth during April-July, while strong demand from power and elevated international coal price could result in improvement in e-auction prices. Potential efficient capital allocation for non-core investments (aluminium smelting and solar energy) could be key catalysts.
- Stock trades at an attractive valuation of 4.7x its FY2023E EPS (close to trough valuation) and offers a high dividend yield of 12%. Hence, we maintain a Buy on the stock with an unchanged PT of Rs. 185.

Coal India Limited's (CIL) Q1FY2022 consolidated operating profit at Rs. 4,844 crore (up 58.7% y-o-y; down 24.1% q-o-q) was largely in line with our estimate of Rs. 4,784 crore as both blended realisations at Rs. 1452/tonne (up 2.8% y-o-y; down 2.3% q-o-q) and coal offtake at 160 mt (up 33.3% y-o-y; down 2.7% q-o-q) broadly meets our expectations. The coal volume offtake mix was as follows – FSA volumes grew by 25% y-o-y to 127 million tonnes, while e-auction volumes increased sharply by 90% y-o-y to 30 million tonnes. However, e-auction realisations declined by 10.4% q-o-q to Rs1569/tonne while FSA realisation was stable q-o-q at Rs. 1,394/tonne. In-line blended EBITDA margin at Rs. 302/tonne (up 19.1% y-o-y) and adjusted EBITDA margin (excluding OBR) stood at Rs. 290/tonne (up 22.8% y-o-y). PAT at Rs. 3,170 crore (up 52.4% y-o-y; down 30.9% q-o-q) was 8.5% below our estimate of Rs. 3,465 crore due to lower-than-anticipated other income (down 13.3% y-o-y) and higher-than-expected depreciation (up 22.1% y-o-y) and effective tax rate of 26.8% (versus assumption of 25.2%). Volume growth (already up 28.4% y-o-y during April-July) outlook for FY2022 remains strong given increasing coal offtake from the power sector and e-auction realisations are also expected to improve in coming quarters as international coal prices have spiked in the last few months. This bodes well for strong earnings recovery for Coal India and thus we expect PAT CAGR of 22% over FY2021-FY2023E and high RoE of 44.5%. CIL is trading at an attractive valuation of 4.7x its FY2023E EPS, which is at a steep ~61% discount to its historical average one-year forward P/E multiple of 12.5x) and the stock also offers high dividend yield of 12%. Hence, we maintain a Buy on Coal India with an unchanged PT of Rs. 185.

Key positives

- Strong growth of 90%/25% y-o-y in e-auction/FSA volume to 30 mt/127 mt in Q1FY2022.
- Blended EBITDA margin increased by 19.1% y-o-y to Rs. 302/tonne.

Key negatives

- Lower-than-expected e-auction realisations of Rs. 1569/tonne (down 10.4% q-o-q).

Our Call

Valuation – Maintain Buy on CIL with an unchanged PT of Rs. 185: We have fine-tuned our FY2022-FY2023 earnings estimates to factor in Q1FY2022 results and introduce our FY2024 earnings estimates in this report. The management's focus on containing costs by cutting manpower expenses and closing loss-making mines would aid to profitability over FY2022E-FY2023E. We thus expect a strong recovery in CIL's earnings with a 22% PAT CAGR over FY2021-FY2023E and robust RoE of 44.5%. Potential efficient capital allocation for non-core investments (aluminium smelting and solar energy) could act as key catalysts for the stock. CIL's valuation of 4.7x FY2023E EPS is attractive (close to trough levels). The stock offers a high dividend yield of 12%. Hence, we maintain a Buy on Coal India with an unchanged PT of Rs. 185.

Key Risks

Lower-than-expected volume offtake amid any weakness in electricity demand given COVID-19 and realisations (especially for e-auction) could affect margins and earnings outlook. The government's divestment plan could act as an overhang on the stock.

Valuation (consolidated) Rs cr

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Revenues	96,080	90,026	1,00,402	1,05,301	1,12,462
OPM (%)	22.8	20.6	21.0	22.1	23.8
Adjusted PAT	16,714	12,700	16,539	18,802	21,124
% YoY growth	-4.3	-24.0	30.2	13.7	12.4
Adjusted EPS (Rs.)	27.1	20.6	26.8	30.5	34.3
P/E (x)	5.3	7.0	5.4	4.7	4.2
P/B (x)	2.8	2.4	2.2	2.0	1.8
EV/EBITDA (x)	3.0	4.2	3.0	2.6	2.1
RoNW (%)	57.0	37.0	43.1	44.5	45.3
RoCE (%)	60.7	38.9	43.8	46.1	47.9

Source: Company; Sharekhan estimates

In-line operating performance; PAT below estimate on lower other income and higher depreciation

Q1FY2022 consolidated operating profit at Rs. 4,844 crore (up 58.7% y-o-y; down 24.1% q-o-q) was largely in line with our estimate of Rs. 4,784 crore as both blended realisations at Rs. 1452/tonne (up 2.8% y-o-y; down 2.3% q-o-q) and coal offtake at 160 mt (up 33.3% y-o-y; down 2.7% q-o-q) broadly meets our expectations. The coal volume offtake mix was as follows – FSA volumes grew by 25% y-o-y to 127 million tonnes, while e-auction volumes increased sharply by 90% y-o-y to 30 million tonnes. However, e-auction realisations declined by 10.4% q-o-q to Rs1569/tonne while FSA realisation was stable q-o-q at Rs. 1,394/tonne. In-line blended EBITDA margin at Rs. 302/tonne (up 19.1% y-o-y) and adjusted EBITDA margin (excluding OBR) stood at Rs. 290/tonne. PAT at Rs. 3,170 crore (up 52.4% y-o-y; down 30.9% q-o-q) was 8.5% below our estimate of Rs. 3,465 crore due to lower-than-anticipated other income (down 13.3% y-o-y) and higher-than-expected depreciation (up 22.1% y-o-y) and effective tax rate of 26.8% (versus assumption of 25.2%).

Result (consolidated) Rs cr

Particulars	Q1FY22	Q1FY21	y-o-y (%)	Q4FY21	q-o-q (%)
Revenue	**25,282**	**18,487**	**36.8**	**26,700**	**-5.3**
Total Expenditure	20,438	15,435	32.4	20,318	0.6
Operating profit	**4,844**	**3,052**	**58.7**	**6,382**	**-24.1**
Other Income	681	785	-13.3	1274	-46.5
EBITDA	5,525	3,837	44.0	7,656	-27.8
Interest	148	183	-19.3	159	-7.2
Depreciation	1,041	853	22.1	1,088	-4.4
Exceptional income/(expense)	0	0	NA	0	NA
PBT	**4,337**	**2,801**	**54.8**	**6,409**	**-32.3**
Tax	1,161	723	60.7	1,817	-36.1
PAT before share of profit from JVs and MI	3,175	2,079	52.8	4,592	-30.9
Share of profit from JVs	-1	-1	NA	-3	NA
Minority interest	4	-2	NA	2	96.8
Reported PAT	**3,170**	**2,080**	**52.4**	**4,587**	**-30.9**
O/S Shares (cr)	616	616		616	
Reported EPS (Rs)	5.1	3.4	52.4	7.4	-30.9
Margins (%)			**BPS**		**BPS**
Operating profit margin (OPM)	19.2	16.5	265.2	23.9	-474.4
Net profit margin (NPM)	12.5	11.2	128.9	17.2	-464.1
Tax rate	26.8	25.8	98.5	28.4	-157.2

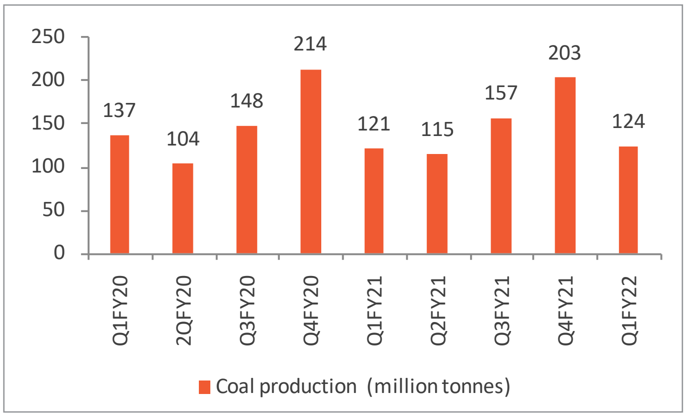
Source: Company, Sharekhan Research

Key operating metrics

Particulars	Q1FY22	Q1FY21	y-o-y (%)	Q4FY21	q-o-q (%)
Coal production (mt)	124	121	2.4	203	-39.1
Coal offtake (mt)	160	120	33.2	165	-2.7
Blended realisation (Rs/tonne)	1,452	1,412	2.8	1,486	-2.3
FSA realisation (Rs/tonne)	1,394	1,359	2.6	1,392	0.2
E-auction realisation (Rs/tonne)	1,569	1,598	-1.8	1,752	-10.4
Adjusted EBITDA excluding OBR (Rs/tonne)	290	236	22.8	492	-41.0

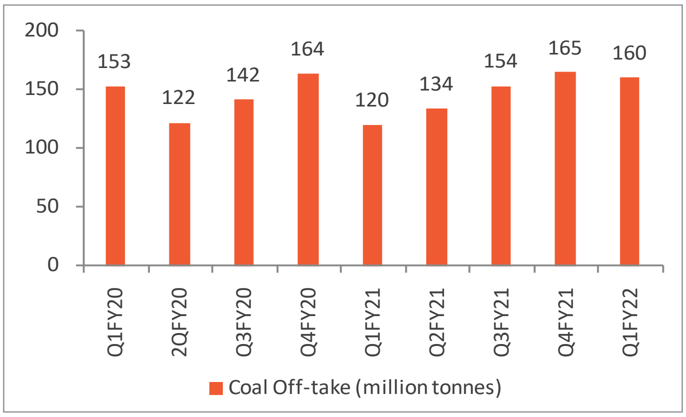
Source: Company, Sharekhan Research

Coal production trend



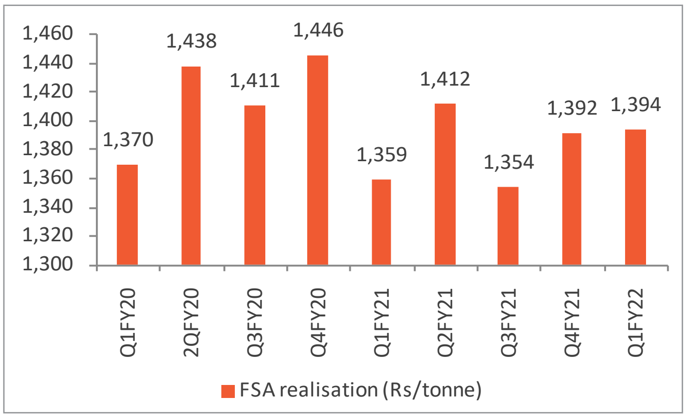
Source: Company, Sharekhan Research

Coal offtake trend



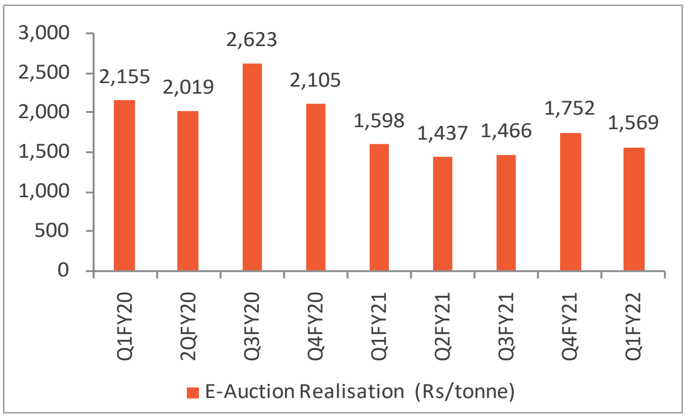
Source: Company, Sharekhan Research

FSA realisation



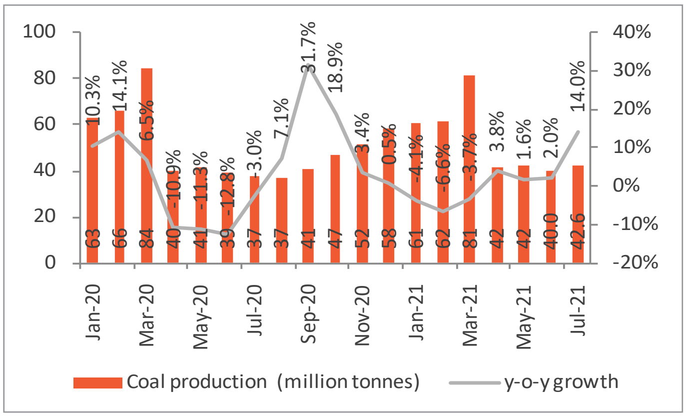
Source: Company, Sharekhan Research

E-auction realisation



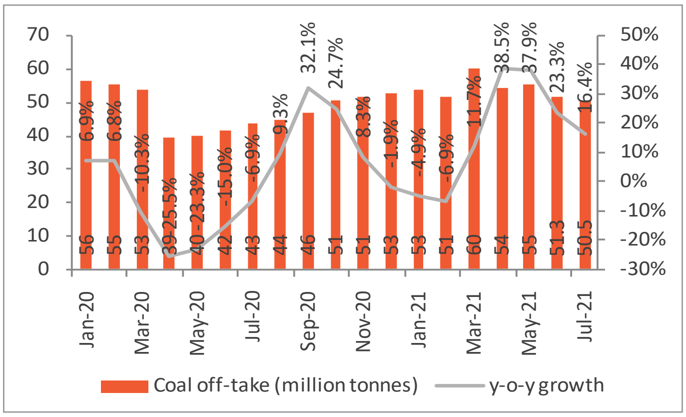
Source: Company, Sharekhan Research

Monthly coal production



Source: Company, Sharekhan Research

Monthly coal off-take



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - India's coal demand expected to reach 1250-1500 million tonne with rise in power generation**

Coal accounts for 55% of India's total commercial energy production. Although its share in overall energy mix of India is expected to go down over next decade but it would remain a primary energy source and absolute coal demand is expected to improve given higher demand from sectors such as power and steel. Industry estimates suggests that India's coal demand could reach 1,250-1,500 million tonnes by FY2030 assuming 6-8% growth in power demand and despite considering growth in renewable energy capacity to 450 GW by FY20230 (from 123 GW in FY2019).

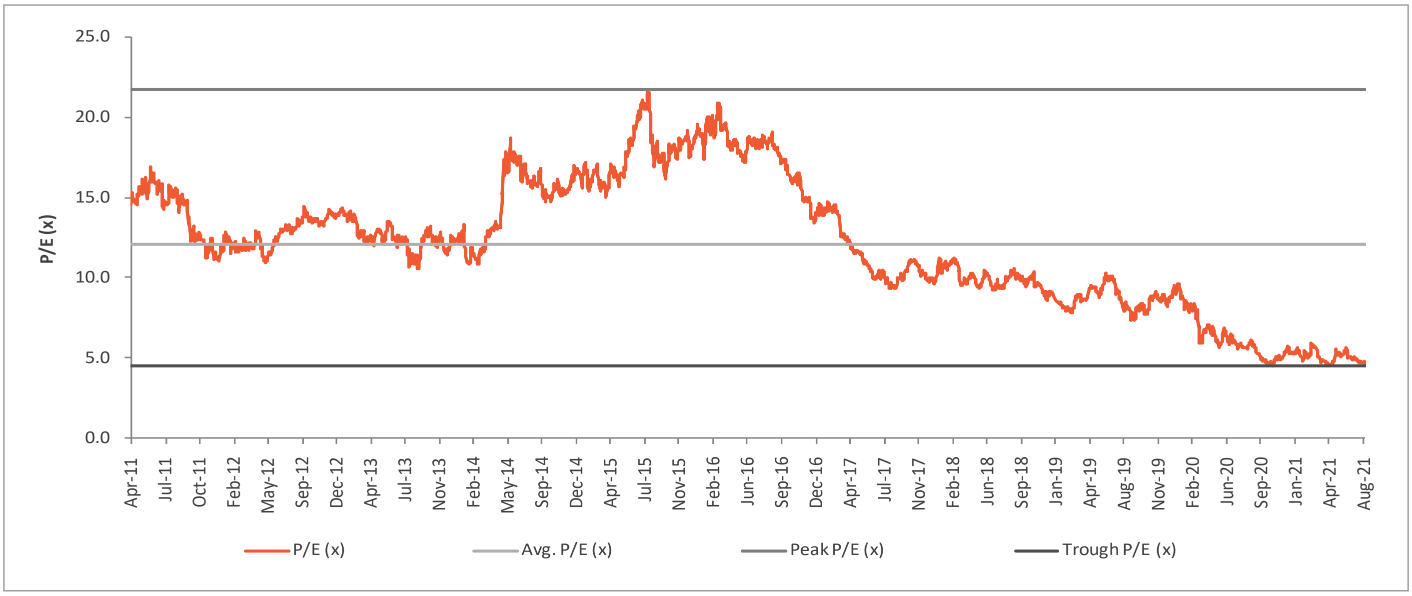
■ **Company outlook - Improving volume and likely higher e-auction price to drive earnings recovery**

Coal India's earnings outlook has improved considerably led by sharp jump of 28.4% y-o-y in coal volume offtake during April-July 2021 and expectation of improvement in e-auction realisations on a likely rise in coal demand and elevated international coal prices (up 2x since April 2021 to $219/tonne). We thus expect a strong earnings revival for Coal India with likely PAT growth of 30.2%/13.7%/12.4% y-o-y for FY2022E/ FY2023E/FY2024E.

■ **Valuation - Maintain Buy on Coal India with an unchanged PT of Rs. 185**

We have fine-tuned our FY2022-FY2023 earnings estimates to factor in Q1FY2022 results and introduce our FY2024 earnings estimates in this report. The management's focus on containing costs by cutting manpower expenses and closing loss-making mines would aid to profitability over FY2022E-FY2023E. We thus expect a strong recovery in CIL's earnings with a 22% PAT CAGR over FY2021-FY2023E and robust RoE of 44.5%. Potential efficient capital allocation for non-core investments (aluminium smelting and solar energy) could act as key catalysts for the stock. CIL's valuation of 4.7x FY2023E EPS is attractive (close to trough levels). The stock offers a high dividend yield of 12%. Hence, we maintain a Buy on Coal India with an unchanged PT of Rs. 185

One-year forward P/E (x) band



Source: Sharekhan Research

About company

CIL is engaged in the production and sale of coal. The company operates through ~82 mining areas across eight states and contributes to 82% of India's coal production. The company's products include coking coal (used in steel making and metallurgical industries), semi-coking coal (used in steel making, merchant coke manufacturing, and other metallurgical industries), non-coking coal (mainly used in power generation; also used for cement, fertilizer, glass, ceramic, paper and chemical), and washed and beneficiated coal (manufacturing of hard coke for steel making, used in power generation, cement and sponge iron).

Investment theme

The government's plans to increase coal production to substitute imports (stands more than 200 million tonne) would help CIL to register sustainable volume growth over the next couple of years. Moreover, cost-control initiatives such as reduction of manpower (employee cost accounts for 53-54% of overall cost) would cushion margins. Moreover, valuations are at a steep discount to historical averages and the stock also offers high dividend yield.

Key Risks

- Lower-than-expected volume offtake and realisation (especially e-auction) could impact margin and earnings outlook.
- The government's divestment plan could act as an overhang on the stock.

Additional Data

Key management personnel

Pramod Agrawal	Chairman and Managing Director
S. Sarkar	Director – Finance
Binay Dayal	Director – Technical

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	11.0
2	HDFC Asset Management Co Ltd	4.1
3	Nippon Life India Asset Management	2.3
4	ICICI Prudential Asset Management	1.2
5	Vanguard Group Inc/The	1.0
6	BHARAT 22	1.0
7	BlackRock Inc	0.9
8	SBI Funds Management Pvt Ltd	0.7
9	Aditya Birla Sun Life Asset Management	0.5
10	Lazard Limited	0.3

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;