

COAL INDIA

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	159
12 month price target (INR)	210
Market cap (INR bn/USD bn)	980/13.2
Free float/Foreign ownership (%)	33.9/7.9
What's Changed	
Target Price	—
Rating/Risk Rating	—

QUICK TAKE

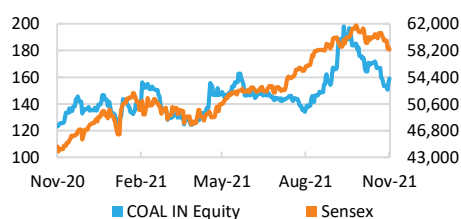
	Above	In line	Below
Profit			●
Margins			●
Revenue Growth		●	
Overall			●

FINANCIALS

(INR bn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	900.3	1,052.4	1,164.1	1,186.6
EBITDA	185.7	242.6	226.9	231.9
Adjusted profit	127.0	166.3	148.4	147.4
Diluted EPS (INR)	20.6	27.0	24.1	23.9
EPS growth (%)	(24.0)	31.0	(10.8)	(0.6)
RoAE (%)	37.0	42.3	34.3	32.4
P/E (x)	7.7	5.9	6.6	6.6
EV/EBITDA (x)	4.6	3.2	3.4	3.3
Dividend yield (%)	10.1	11.3	12.6	13.2

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Value through cash accretion

Coal India (CIL) missed consensus Q2FY22 forecasts. Key points: i) Blended realisation was impacted by higher sales to the power sector. ii) E-auction premium over FSA at 15% was lower than our estimate. iii) Cost impacted by higher diesel price. iv) Good cash accretion due to working capital unlocking. v) H1FY22 capex at INR44.1bn

Going ahead, we see several levers of stock performance: i) Higher e-auction premium. ii) Possible hike in FSA price. iii) Lower-than-expected wage hike. Owing to significant cash accretion, we expect a dividend yield of 12–13% over the next two years. Maintain 'BUY' on the stock with a TP of INR210 at an unchanged 9x FY23E EPS.

Lower realisation results in earnings miss

CIL's Q2FY22 EBITDA of INR39.1bn (down 2% QoQ) missed estimates. Key points: i) Higher sales to the power sector (up 13% YoY) resulted in lower realisation despite average grade remaining unchanged at G-11. ii) E-auction premium to FSA sales was at 15% (Q1FY22: 13%). iii) Contractual expense was up 9.6% YoY at INR271/t, mainly due to higher diesel cost. iv) Overburden removal was at 271.03m³. v) Wage hike provisioning of INR3bn in Q2FY22. vi) Significant cash accretion due to working capital unlocking resulting in cash balance of INR283bn. Going ahead, management expects: i) FY22 sales volume at 670–680mt; ii) e-auction volume flat YoY at ~94mt but at higher premium; and iii) wage hike to be lower than last time as one-time gratuity adjustment (accounting for 20-25% of the hike last time) is unlikely to be there.

Robust dividend yield likely

On analyst call, management indicated dividend is more tax efficient than buyback in their case. Cash balance was INR283bn (INR46/share) at Sep-21 end, and we expect earnings momentum to be higher in H2FY22 due to better e-auction premium (40–45%) and sales volume growth. Besides, an earnings-accretive FSA price hike (net of wage escalation) is likely to be a positive. Hence, we expect dividend at INR18/share (FY21: INR16/share), implying an FY22E dividend yield of 12.6%.

Outlook and valuation: A formidable dividend play; retain 'BUY'

Despite Q2FY22 results missing estimates, we are positive on CIL due to higher-than-expected volume growth and e-auction premium prospects. Besides, cash accretion is likely to improve further tracking lower receivables, leading to a potential dividend yield of 12-13%. Retain 'BUY' with an unchanged TP of INR210 on 9x FY23E EPS.

Financials

Year to March	Q2FY22	Q2FY21	% Change	Q1FY22	% Change
Net Revenue	2,32,911	2,11,531	10.1	2,52,822	(7.9)
EBITDA	39,063	39,749	(1.7)	48,439	(19.4)
Adjusted Profit	29,018	29,508	(1.7)	31,752	(8.6)
Diluted EPS (INR)	4.7	4.8	(1.7)	5.2	(8.6)

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	9,00,260	10,52,407	11,64,101	11,86,613
Raw Material Cost	55,164	97,300	99,852	1,02,847
Employee costs	3,86,977	4,06,395	5,05,454	5,00,400
Other expenses	57,669	85,272	91,043	93,774
EBITDA	1,85,735	2,42,597	2,26,908	2,31,863
Depreciation	37,089	43,144	49,289	55,993
Less: Interest expense	6,447	6,447	6,447	6,447
Add: Other income	37,924	38,017	34,927	35,368
Profit before tax	1,80,093	2,31,024	2,06,099	2,04,792
Prov for tax	53,071	64,687	57,708	57,342
Less: Other adj	0	0	0	0
Reported profit	1,26,999	1,66,337	1,48,391	1,47,450
Less: Excp.item (net)	0	0	0	0
Adjusted profit	1,26,999	1,66,337	1,48,391	1,47,450
Diluted shares o/s	6,163	6,163	6,163	6,163
Adjusted diluted EPS	20.6	27.0	24.1	23.9
DPS (INR)	16.0	18.0	20.0	21.0
Tax rate (%)	29.5	28.0	28.0	28.0

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
EBITDA (INR/t)	349.0	432.4	393.3	390.7
Staff Costs (% of sales)	43.0	38.6	43.4	42.2
Output (t/worker)	2,284.1	2,572.6	2,870.5	3,112.2
EBITDA margin (%)	20.6	23.1	19.5	19.5
Net profit margin (%)	14.1	15.8	12.7	12.4
Revenue growth (% YoY)	(6.3)	16.9	10.6	1.9
EBITDA growth (% YoY)	(13.9)	30.6	(6.5)	2.2
Adj. profit growth (%)	(24.0)	31.0	(10.8)	(0.6)

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(8.0)	9.0	7.0	7.0
Repo rate (%)	4.0	4.0	4.3	5.3
USD/INR (average)	74.2	73.0	72.0	71.0
Production (mT)	596.1	637.8	676.1	696.4
Sales (mT)	573.8	642.7	674.8	695.1
FSA Volumes (mT)	466.4	530.0	554.1	568.3
e-Auction (mT)	94.4	97.7	102.7	105.8
FSA Realisation (INR/t)	1,441.9	1,502.6	1,582.9	1,566.5
e-Auction Premium (%)	8.8	23.4	20.3	15.4

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	7.7	5.9	6.6	6.6
Price/BV (x)	2.7	2.3	2.2	2.1
EV/EBITDA (x)	4.6	3.2	3.4	3.3
Dividend yield (%)	10.1	11.3	12.6	13.2

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	61,627	61,627	61,627	61,627
Reserves	3,03,546	3,58,954	3,84,091	4,02,123
Shareholders funds	3,65,174	4,20,581	4,45,718	4,63,751
Minority interest	4,411	4,411	4,411	4,411
Borrowings	58,753	58,753	58,753	58,753
Trade payables	76,376	80,703	83,496	86,001
Other liabs & prov	3,74,807	3,74,807	3,74,807	3,74,807
Total liabilities	15,77,203	16,72,226	17,38,671	17,98,878
Net block	4,23,595	4,71,451	5,18,162	5,70,169
Intangible assets	1,319	1,319	1,319	1,319
Capital WIP	1,04,037	1,43,037	1,67,037	1,79,037
Total fixed assets	5,28,951	6,15,807	6,86,518	7,50,524
Non current inv	23,176	29,176	29,176	29,176
Cash/cash equivalent	2,09,429	2,86,820	2,95,298	2,94,177
Sundry debtors	1,96,231	1,44,165	1,27,573	1,23,538
Loans & advances	6,376	6,376	6,376	6,376
Other assets	4,36,576	4,13,417	4,17,266	4,18,623
Total assets	15,77,203	16,72,226	17,38,671	17,98,878

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	1,26,999	1,66,337	1,48,391	1,47,450
Add: Depreciation	37,089	43,144	49,289	55,993
Interest (net of tax)	6,447	6,447	6,447	6,447
Others	(1,69,797)	2,52,630	1,20,849	1,00,931
Less: Changes in WC	48,231	(79,550)	(15,537)	(5,183)
Operating cash flow	1,05,599	3,24,321	2,51,732	2,48,296
Less: Capex	1,10,152	1,30,000	1,20,000	1,20,000
Free cash flow	(4,553)	1,94,321	1,31,732	1,28,296

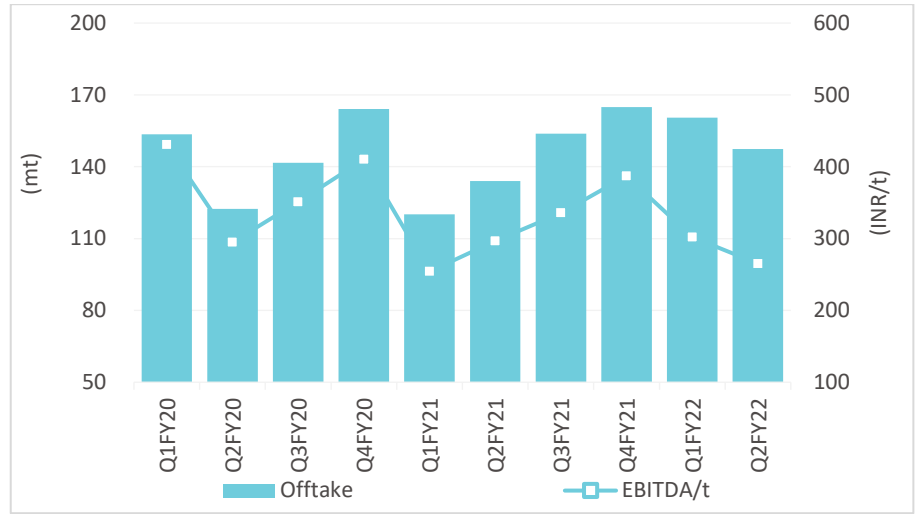
Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	37.0	42.3	34.3	32.4
RoCE (%)	37.9	45.1	37.1	35.2
Inventory days	515	292	249	251
Receivable days	69	59	43	39
Payable days	493	295	300	301
Working cap (% sales)	17.2	7.1	5.1	4.6
Gross debt/equity (x)	0.2	0.1	0.1	0.1
Net debt/equity (x)	(0.4)	(0.5)	(0.5)	(0.5)
Interest coverage (x)	23.1	30.9	27.6	27.3

Valuation Drivers

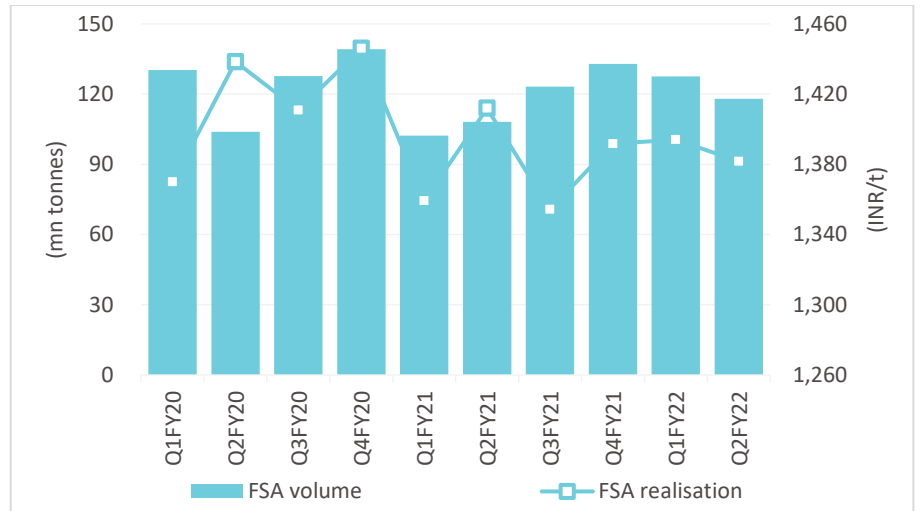
Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	(24.0)	31.0	(10.8)	(0.6)
RoE (%)	37.0	42.3	34.3	32.4
EBITDA growth (%)	(13.9)	30.6	(6.5)	2.2
Payout ratio (%)	77.6	66.7	83.1	87.8

Exhibit 1: EBITDA/t led to muted realisation



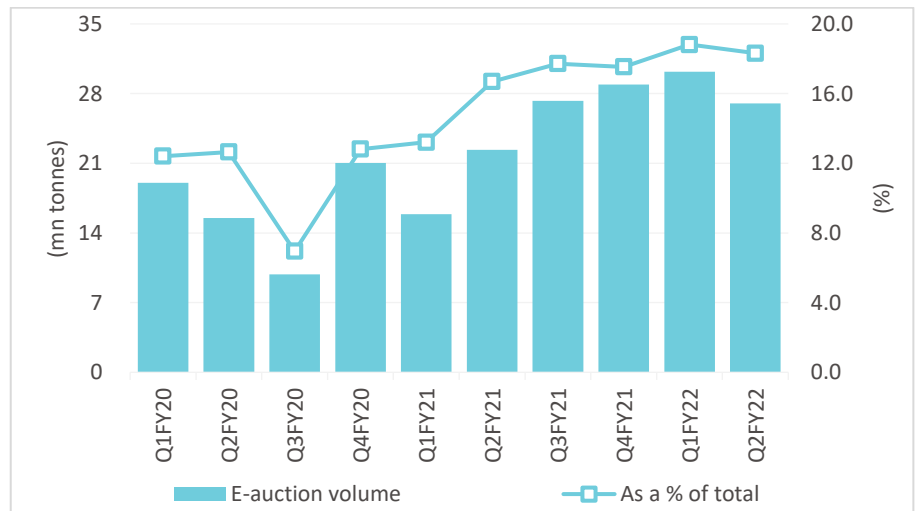
Source: Company, Edelweiss Research

Exhibit 2: FSA volume rose YoY due to higher volume to power sector



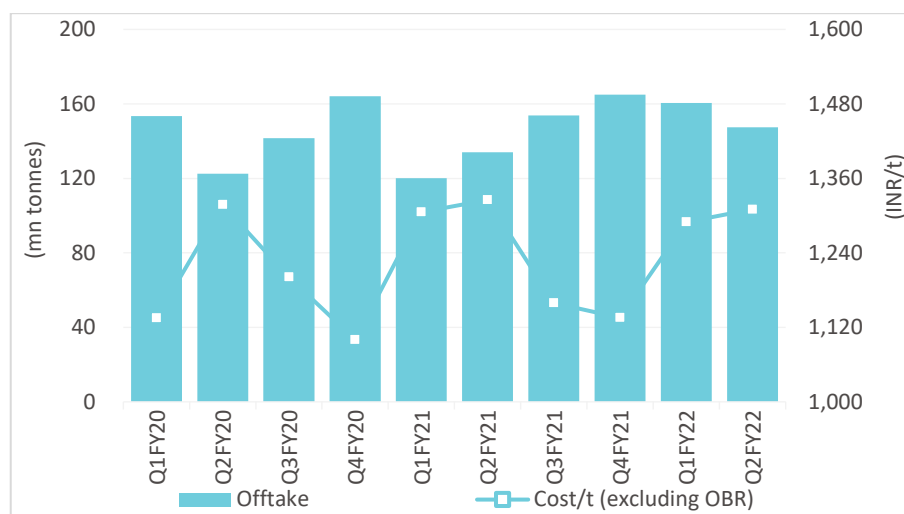
Source: Company, Edelweiss Research

Exhibit 3: E-auction volume was stable QoQ



Source: Company, Edelweiss Research

Exhibit 4: Cost/t rose mainly due to higher diesel cost



Source: Company, Edelweiss Research

Exhibit 5: Key operating data

	Q2FY22	Q2FY21	Y-o-Y (%)	Q4FY21	Q-o-Q (%)
Quantity (mt)					
FSA	118.0	108.2	9.1	127.5	(7.4)
e-auction	27.0	22.4	20.8	30.2	(10.5)
Washeries and others	2.0	3.6	(43.7)	2.9	(30.2)
Sales (INR mn)					
FSA	1,63,081	1,52,692	6.8	1,77,712	(8.2)
e-auction	43,043	32,134	33.9	47,367	(9.1)
Washeries	6,801	10,016	(32.1)	7,858	(13.4)
Realisation (INR/t)					
FSA	1,382	1,412	(2.1)	1,394	(0.9)
e-auction	1,594	1,437	10.9	1,569	1.6
Washeries	3,384	2,806	20.6	2,728	24.0
Operating cost (excluding OBR)					
	1,310	1,325	(1.1)	1,290	1.6
EBITDA					
	265	297	(10.7)	302	(12.2)
EBITDA (ex prior period provisions)					
	265	297	(10.7)	302	(12.2)

Source: Company, Edelweiss Research

Exhibit 6: Segment-wise break-up of sales volume

	Q2FY22	Q2FY21	Y-o-Y (%)	Q4FY21	Q-o-Q (%)
Power	118	104	13.4	127	(7.1)
CPP	9	10	(4.5)	10	(8.2)
Steel	1	1	16.0	1	11.5
Cement	1	1	(10.9)	1	(1.1)
Sponge Iron	2	2	(22.5)	2	2.9
Others	17	16	1.8	20	(16.1)
Total	147	134	9.9	160	(8.1)

Source: Ministry of Coal, Edelweiss Research

Q2FY22 conference call: Key takeaways

In focus

- Production/sales targets contingent on demand: Production- 640mt/710mt for FY22/FY23. Sales- 670-680mt/710mt
- Wage hike provisioning of INR3bn in Q2FY22. Expect wage hike to be lower than last time owing to one-off impact of higher gratuity not being there
- Current dispatch rate is at 1.9mt/day of which close to 1.6mt/day is to power sector
- Expect FY22 e-auction volume to stay flat YoY, however, premium over FSA price has risen to 40-45%
- Current receivable is at INR120bn. Company has adopted a scheme wherein, one-third of payment made is adjusted towards pending receivable
- Capex target at INR170bn for FY22 and INR400-500bn over next three years. H1FY22 capex at INR70bn. Most of the capex has been spent on equipment and infrastructure augmentation
- Have been successful in replacing imported coal to the extent of G9-G13 grades
- Cost escalation due to diesel is at INR1.3bn for every INR1/litre rise in diesel cost
- Dividend is more tax efficient than buyback for CIL

Production and sales volume

- E-auction (booking) volume on an annualised basis is likely to be similar YoY, however, materialisation and premiums are higher. The volumes offered under e-auction depend on thermal power demand and coal inventory at power plants.
- Supply to the non-regulated sector declined in October-21 owing to low inventories at power plants.
- CIL has replaced ~45-50% of imported coal in the domestic market for G9-G13 grades, aided by high prices of international coal.
- Management is targeting 640mt of production in FY22, 700mt in FY23 and 1bnt in FY25 depending on demand.
- Currently, the daily offtake stands at 1.9mt/day, of which ~1.65mt/day is to the power sector. Supplies to the non-regulated sector have increased in Q3FY22 versus Q2FY22.
- Overburden removal in the quarter was 271.03m³.
- CIL had identified 23 mines for closure of which 12-13 have been closed. About 4-5 mines are being merged or production is being enhanced at ECL. In one mine at SECL, continuous miner has been deployed to improve the profitability.

Pricing and costs

- FSA realisations dipped in Q2FY22 owing to higher dispatches to the power sector which has 20% lower prices vis-à-vis non-regulated sector.
- E-auction premiums have risen to 45-50% from 9-10% in the beginning of FY22.

- Diesel prices are expected to have an annualised impact of INR1.3bn per rupee increase.
- Management is hopeful of the FSA price hike being taken soon.
- CIL has taken an ad hoc provision of INR3bn on wage hikes. The possible hike due to actuarial valuation is difficult to quantify at this stage, owing to the huge employee base.

Cash management

- Management envisages to spend INR170bn on capex in FY22, with spends of INR70bn so far in FY22. Bulk of the expenditure have been towards core operations. An investment of INR10bn is anticipated on the solar power projects.
- CIL is on course to spend INR400-500bn in capex over the next 3-4 years, with several projects lined up and progress monitored stringently.
- Receivables have reduced to ~INR120bn from INR190bn at the end of FY21, with active focus by the management to reduce receivables from DISCOMs. Receivables have been reduced across subsidiaries with reduction heavier in BCCL and ECL.
- Management has not taken any decisions on other projects barring solar power for which some investments are being made and some towards the fertiliser plant.

Exhibit 7: Quarterly financial snapshot (consolidated)

INR mn	Q2FY22	Q2FY21	% change	Q1FY22	% change	YTD FY22	FY22E	FY23E
Total net revenue	2,32,911	2,11,531	10.1	2,52,822	(7.9)	4,85,732	10,52,407	11,64,101
(Inc)/ Dec in stock	14,676	11,230	30.7	22,088	(33.6)	36,764	36,764	-
Cost of materials	19,210	17,204	11.7	19,122	0.5	38,332	60,535	99,852
Employee costs	95,842	91,225	5.1	1,03,936	(7.8)	1,99,779	4,06,395	5,05,454
Power and fuel	6,973	6,812	2.4	6,180	12.8	13,152	26,957	28,298
Social overhead	752	800	(6.0)	1,168	(35.6)	1,920	5,489	5,768
Repairs	3,174	2,964	7.1	2,608	21.7	5,781	15,080	15,902
Contractual expenses	39,923	33,110	20.6	40,225	(0.8)	80,147	1,70,079	1,87,560
Miscellaneous expenses	11,203	10,653	5.2	10,947	2.3	22,150	49,983	52,528
Overburden removal charges	688	(5,752)	NA	(2,572)	NA	(1,885)	35,289	38,515
Provisions/ write-offs	1,408	3,537	(60.2)	681	106.6	2,089	3,239	3,317
Total expenditure	1,93,848	1,71,782	12.8	2,04,383	(5.2)	3,98,230	8,09,810	9,37,193
EBITDA	39,063	39,749	(1.7)	48,439	(19.4)	87,502	2,42,597	2,26,908
Depreciation	9,344	8,523	9.6	10,406	(10.2)	19,750	43,144	49,289
EBIT	29,719	31,226	(4.8)	38,033	(21.9)	67,752	1,99,453	1,77,619
Interest	1,414	1,473	(4.0)	1,476	(4.2)	2,890	6,447	6,447
Other income	7,818	10,848	(27.9)	6,810	14.8	14,627	38,017	34,927
Prior period items	(11)	-	NA	-	NA	(11)	-	-
Exceptional items	-	-	NA	-	NA	-	-	-
Profit Before Tax	36,113	40,600	(11.1)	43,366	(16.7)	79,479	2,31,024	2,06,099
Tax	7,105	11,092	(35.9)	11,614	(38.8)	18,719	64,687	57,708
Reported Profit	29,007	29,508	(1.7)	31,752	(8.6)	60,760	1,66,337	1,48,391
Less: Exceptional Items	-	-	-	-	-	-	-	-
Adjusted Profit	29,018	29,508	(1.7)	31,752	(8.6)	60,770	1,66,335	1,48,389
Diluted shares (mn)	6,163	6,163	-	6,163	-	6,163	6,163	6,163
Adjusted Diluted EPS	4.7	4.8	(1.7)	5.2	(8.6)	9.9	27.0	24.1
As a % of revenue						0.1		
Cost of materials	8.2	8.1	-	7.6	-	7.9	5.8	8.6
Employee costs	41.1	43.1	-	41.1	-	41.1	38.6	43.4
Power and fuel	3.0	3.2	-	2.4	-	2.7	2.6	2.4
Welfare expenses	0.3	0.4	-	0.5	-	0.4	0.5	0.5
Repairs	1.4	1.4	-	1.0	-	1.2	1.4	1.4
Contractual expenses	17.1	15.7	-	15.9	-	16.5	16.2	16.1
Miscellaneous expenses	4.8	5.0	-	4.3	-	4.6	4.7	4.5
Overburden removal charges	0.3	(2.7)	-	(1.0)	-	(0.4)	3.4	3.3
Provisions/ write-offs	0.6	1.7	-	0.3	-	0.4	0.3	0.3
Total expenditure	83.2	81.2	-	80.8	-	82.0	76.9	80.5
EBITDA	16.8	18.8	-	19.2	-	18.0	23.1	19.5
Reported net profit	12.5	13.9	-	12.6	-	12.5	15.8	12.7
Tax rate	19.7	27.3	-	26.8	-	23.6	28.0	28.0

Source: Company, Edelweiss Research

Company Description

Coal India Limited (CIL) is an India-based holding company. The Company is a coal mining company, which is engaged in the production and sale of coal. The Company offers products, including Coking Coal, Semi Coking Coal, Non-Coking Coal, Washed and Beneficiated Coal, Middlings, Rejects, Coal Fines/Coke Fines, and Tar/Heavy Oil/Light Oil/Soft Pitch. Its Middlings are used in power generation, brick manufacturing units and cement plants. The Washed and Beneficiated Coal products are used in the manufacturing of hard coke for steel making and power generation. Its Semi Coking Coal products are used as blend-able coal in steel making, merchant coke manufacturing and other metallurgical industries. Its Non-Coking Coal products are used for cement, fertilizer, glass, ceramic, paper, chemical and brick manufacturing, and for other heating purposes. CIL operates through approximately 82 mining areas spread over eight provincial states of India.

Investment Theme

Government's focus on ramping-up domestic production (to counter rising imports) will lead to sustainable volume growth for CIL. Further, commissioning of railway lines has augmented evacuation capabilities. We believe, the company will benefit from its prices being lower compared to imported coal. Additionally, CIL is also likely to gain from grade control measures. However, potential OFS by the Government of India remains an overhang. Nonetheless, dividend yield of ~11% through to FY23E is a positive.

Key Risks

Government of India's OFS

Lower-than-expected new FSA demand.

Loss of volume-linked incentive.

Lower-than-expected volume growth

Additional Data

Management

Chairman	Pramod Agrawal
Director (Finance)	Sanjiv Soni
Director (Marketing)	S.N. Tiwary
Director (Technical)	Binay Dayal
Auditor	Ray & Ray

Holdings – Top 10*

	% Holding		% Holding
LIC of India	11.01	SBI MF	0.72
HDFC AMC	4.17	ICICI Prudentia	0.67
Nippon Life Ind	2.38	ABSL AMC	0.47
Vanguard Group	1.10	Lazard	0.27
BlackRock Inc	0.89	UTI AMC	0.22

*Latest public data

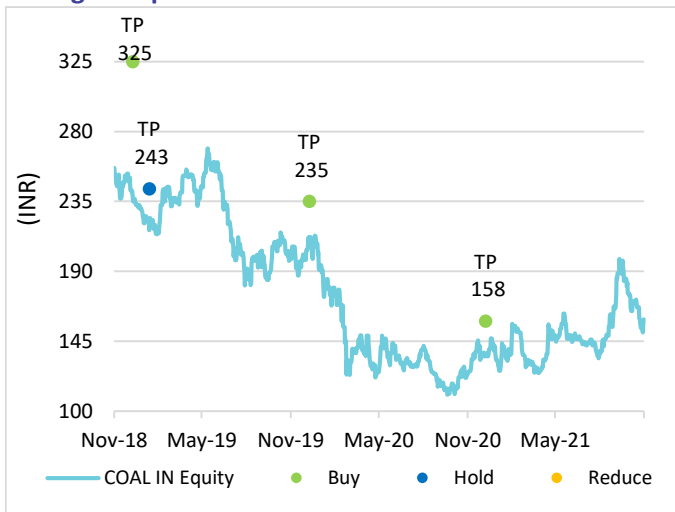
Recent Company Research

Date	Title	Price	Reco
01-Nov-21	Offtake trumps production again; <i>Company Update</i>	164	Buy
01-Sep-21	Volume continues to delight; <i>Company Update</i>	143	Buy
12-Aug-21	Better times ahead; <i>Result Update</i>	143	Buy

Recent Sector Research

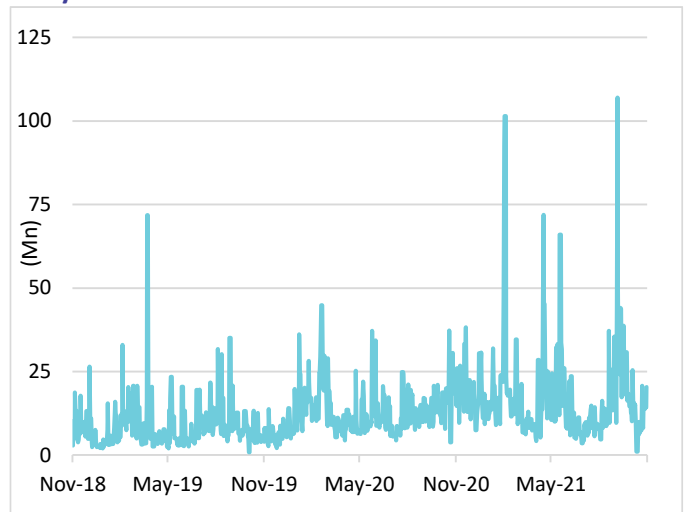
Date	Name of Co./Sector	Title
18-Nov-21	Metals & Mining	Steel: Prices fall but respite in sight; <i>Sector Update</i>
16-Nov-21	Metals & Mining	Shifting gears; <i>Sector Update</i>
12-Nov-21	Tata Steel	Europe shines; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	186	51	18	256
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	231	40	3	274

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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