

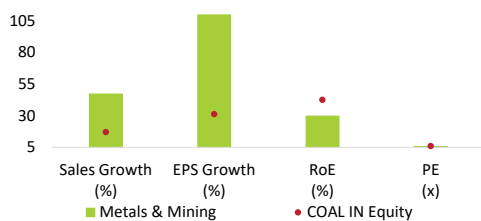
COAL INDIA

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	156
12 month price target (INR)	210
Market cap (INR bn/USD bn)	959/12.8
Free float/Foreign ownership (%)	33.9/7.9
What's Changed	
Target Price	—
Rating/Risk Rating	—

INVESTMENT METRICS

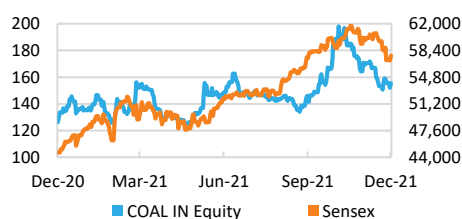


FINANCIALS

(INR mn)

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

Sustains good showing

Coal India (CIL) sustained a firm operating performance in Nov-21. Key points: i) Production at 1.79mt/day is the highest ever in FY22. ii) SECL's operating performance improved. iii) Offtake rose further to 1.89mt/day. Taking cognisance of year to Nov-21 performance, we expect our offtake estimate of 643mt (up 12% YoY) to be met easily.

Going ahead, we expect higher e-auction volume/price premium and robust demand to drive performance. Furthermore, pit-head inventory at 29mt is significantly lower than Mar-21 levels. We believe significant cash accretion through Mar-22 would result in a dividend yield of 12–13%. Maintain 'BUY' on CIL with an unchanged TP of INR210/share at 9x FY23E EPS.

Production/offtake continues to impress

CIL's Nov-21 production/offtake rose 4.3%/10.3% YoY. Key points: i) Production rate at 1.79mt/day is the highest ever for the month of November. ii) Demand remained buoyant with the offtake rate at 1.89/day—significantly higher than the past. iii) Pithead inventory reduced further to merely 29mt (Mar-21-end: 97mt) as demand outpaced production. iv) SECL/WCL showed a significant performance uptick while MCL continued to be the best performing subsidiary.

In our view, CIL's performance is likely to get a leg-up from the most profitable and productive subsidiaries – MCL, SECL and NCL – ramping up production. As a result, we expect our FY22E offtake of 643mt (up 12% YoY) to be met.

Cash accretion to result in robust dividend yield

We expect CIL's cash accretion to continue mainly due to higher sales volume and e-auction prices. On the working capital front, inventory continues to decline and receivables remain under check. Hence, we expect cash accretion to sustain in H2FY22. We believe that our FY22 dividend estimate of INR18/share (dividend yield: 11.3%) is likely to be met, particularly in light of the first interim dividend of INR9/share.

Outlook and valuation: A dividend play; maintain 'BUY'

Despite a rather lacklustre H1FY22 performance, we expect FY22 to be salubrious for CIL mainly due to volume growth and higher e-auction prices. On the working capital front, we already see a significant respite as both receivables and inventory have declined. We believe that significant cash balance/accretion would be utilised towards payment of dividend. We believe that the ensuing wage hike is likely to be offset by price increase of regulated coal, and be EBITDA-neutral in the worst case.

We maintain 'BUY/SO' on CIL with an unchanged TP of INR210 on 9x FY23E EPS. Our recommendation is also driven by a potential dividend yield of 11–13% over the next two years.

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

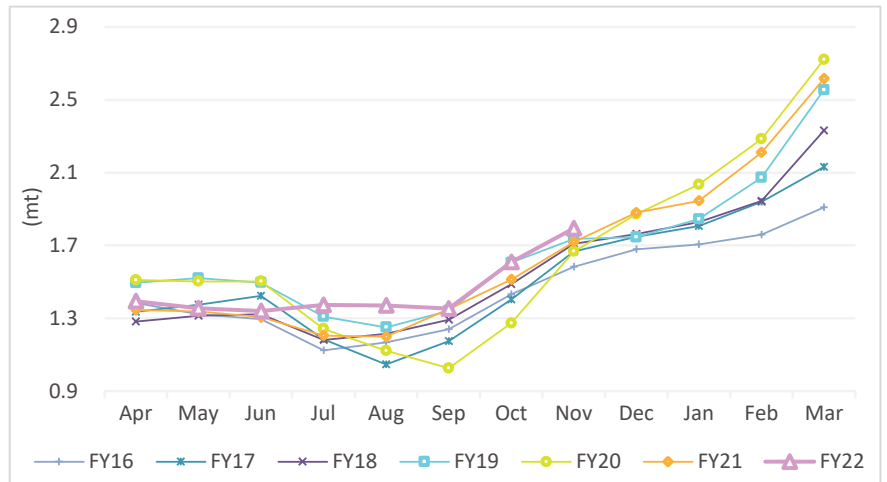
Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	(24.0)	31.0	(10.8)	(0.6)
RoE (%)	37.0	42.3	34.3	32.4
EBITDA growth (%)	(13.9)	30.6	(6.5)	2.2
Payout ratio (%)	77.6	66.7	83.1	87.8

Exhibit 1: Production and offtake for Nov-21

(mt)	Nov-21	Nov-20	Oct-21	YoY (%)	MoM (%)	FY22E	FY21	Growth %
Production volume	53.8	51.6	49.9	4.3	7.8	637.8	596.1	7.0
Despatch volume	56.7	51.4	56.7	10.3	0.0	642.7	573.8	12.0

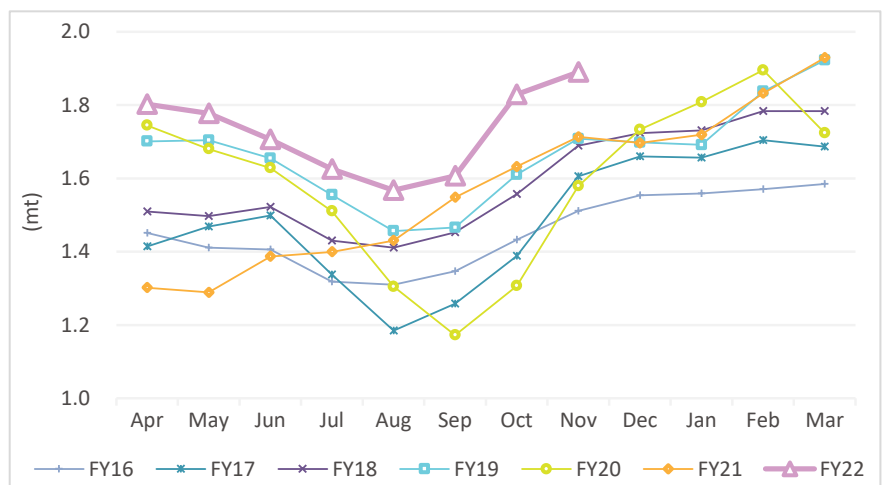
Source: Edelweiss Research, Company

Exhibit 2: Production rate has picked up



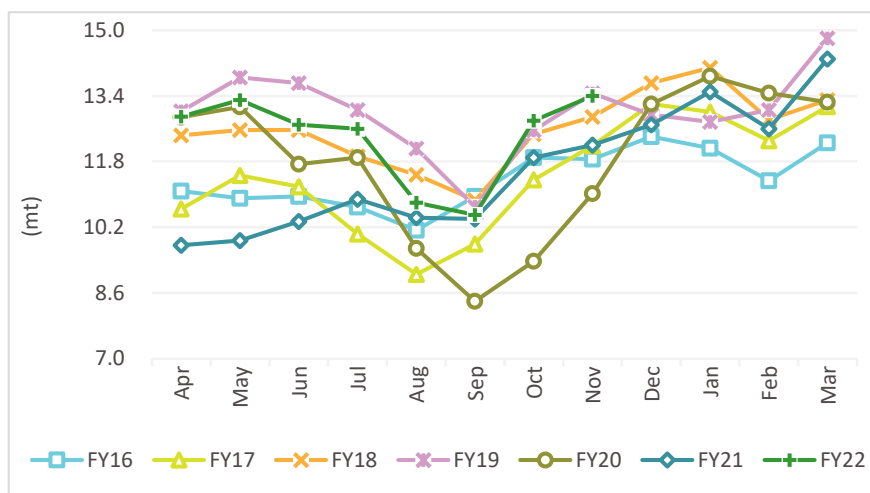
Source: Edelweiss Research, Company

Exhibit 3: Offtake continues to stay robust



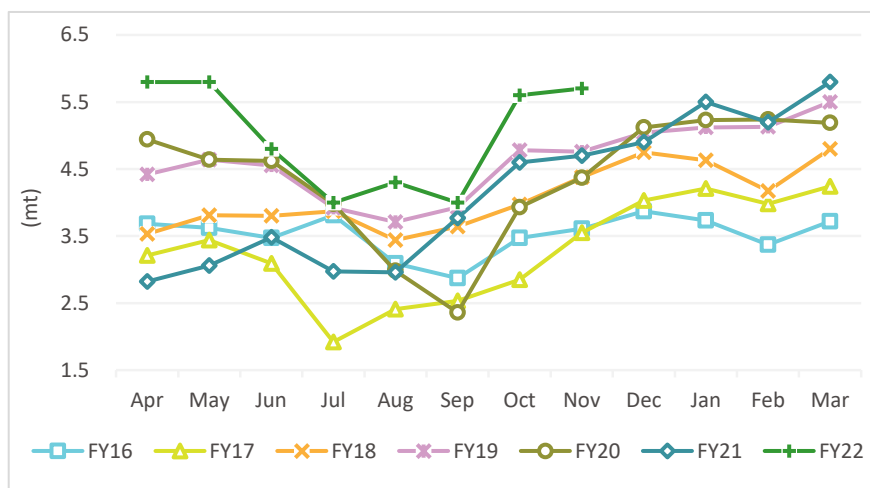
Source: Edelweiss Research, Company

Exhibit 4: SECL's performance has shown improvement



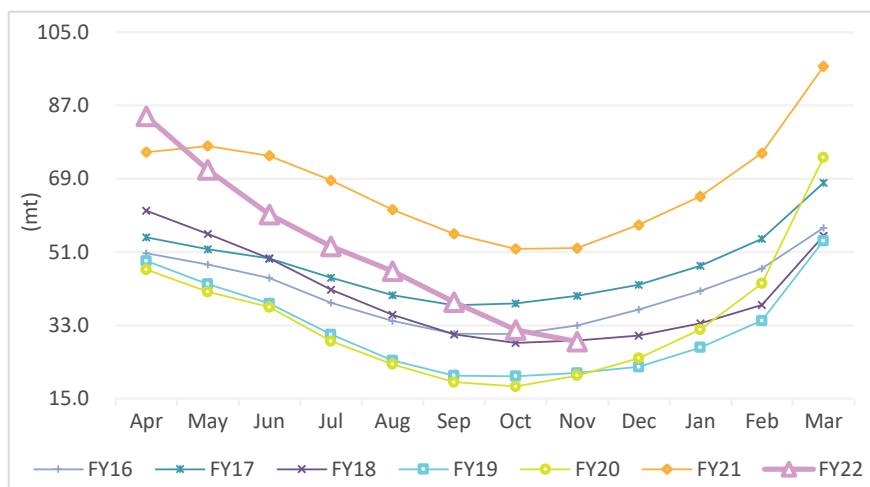
Source: Company, Edelweiss Research

Exhibit 5: WCL's offtake volume sees an uptick



Source: Edelweiss Research, Company

Exhibit 6: Inventory has declined significantly



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

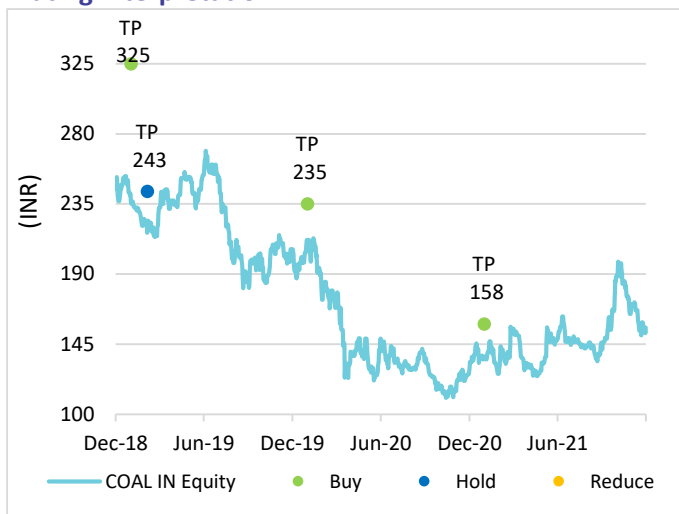
Recent Company Research

Date	Title	Price	Reco
24-Nov-21	Value through cash accretion; <i>Result Update</i>	159	Buy
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

Recent Sector Research

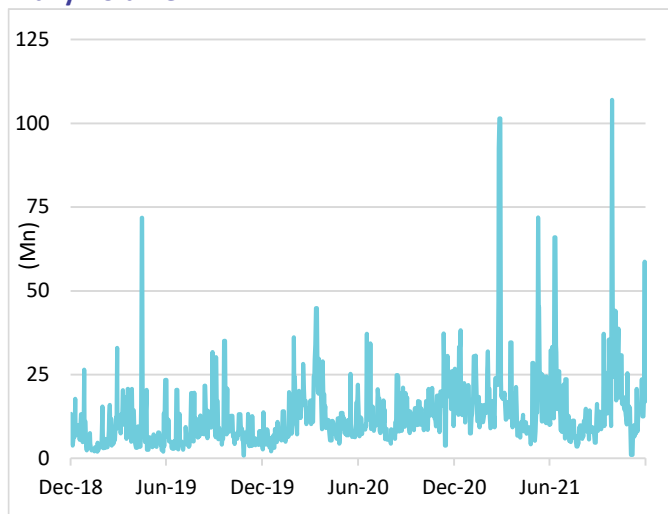
Date	Name of Co./Sector	Title
25-Nov-21	Metals & Mining	Steel: Chinese cheers; <i>Sector Update</i>
18-Nov-21	Metals & Mining	Steel: Prices fall but respite in sight; <i>Sector Update</i>
16-Nov-21	Metals & Mining	Shifting gears; <i>Sector Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	186	52	18	257
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	229	42	4	275

*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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