

Initiating Coverage Coal India Ltd.

07-December-2020



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Mining	Rs. 133.3	Buy at LTP and add more on dips in Rs 120-122 band	Rs. 147	Rs. 165	2 quarters

HDFC Scrip Code	COALTD
BSE Code	533278
NSE Code	COALINDIA
Bloomberg	COAL IN
CMP Dec. 4, 2020	133.3
Equity Capital (Rscr)	6163
Face Value (Rs)	10
Equity Share O/S (cr)	616.3
Market Cap (Rscrs)	80479
Book Value (Rs)	52.2
Avg. 52 Wk Volumes	12316694
52 Week High	217.9
52 Week Low	109.5

Share holding Pattern % (Sept., 2020)	
Promoters	66.1
Institutions	29.1
Non Institutions	4.8
Total	100.0

Fundamental Research Analyst

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Our Take:

Coal is our country's irreplaceable primary energy source. Coal is at the forefront of the nation's energy march in meeting the fuel demand. Notwithstanding the projections over renewables displacing coal, it will continue to dominate India's electricity generation for few more decades. Additionally, coal will continue to stoke up many non-power industries as well viz. cement, fertilizers, sponge iron, aluminum and a host of other industries. In India, coal accounts for around 55% of the country's primary commercial energy and nearly 72% of the entire power generated in the country is coal based, which is a testimony to the importance of coal. The focus on renewable and other clean form of energy sources remains a concern for the longer term, however we believe that those concerns are already factored in the current prices. Coal India has taken major initiatives to build matching logistics infrastructure to ensure evacuation of planned quantity of production.

Valuations & Recommendation:

Coal India is the single largest producer of the coal in the world. The stock has significantly underperformed the benchmark indices over the last few years on the back of multiple factors acting against the company. We believe most of the negatives are priced in and the extent of de-rating in the stock is not justified given its fundamentals. We however do not have a very positive view on the stock for the long term but feel that there is tactical opportunity for the short term in the stock. We expect Coal India's earnings may gradually stabilise on the back of recovery in coal demand. This could ease the cash crunch at its subsidiaries caused by the slowdown in coal demand and record-high outstanding payments from power companies. Coal India is expected to maintain dividend around the same level of last year. Coal India may also consider buy-back of its shares. The stock is trading at significant discount compared to its 5 year historical average multiples. Government's strong push to replace thermal coal imports is helping CIL's volume growth. Coal-based generation grew 5.3% YoY in Nov (till the 26th), following growth of 14.6% in Oct. Recovery in industrial demand has driven the strong rebound.

We believe that at a dividend yield of ~10% coupled with attractive valuations and continuous underperformance of the stock (albeit not so underwhelming financial performance) provides a good opportunity for contrarian investors. The stock currently trades at ~2.7x FY22E EV/EBITDA. **We feel investors can buy stock at LTP (~2.7x FY22E EV/EBITDA) and add more on dips to Rs.120-122 band (~2.4x FY22E EV/EBITDA) for base case target of Rs. 147 (~3.1x FY22E EV/EBITDA) and bull case target of Rs. 165 (~3.6x FY22E EV/EBITDA).**

Financial Summary (Consolidated):

Rs in Cr	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Revenues	21153	20383	3.8	18487	14.4	99586	96080	86472	100308
EBITDA	3975	3610	10.1	3053	30.2	25006	21921	16257	23572
Depreciation	852	894	-4.7	853	-0.1	3450	3451	4118	4356
Other Income	1086	1630	-33.4	785	38.3	5837	6105	5448	6018
Tax	1113	754	47.6	723	53.9	9662	7371	4272	6184
APAT	2948	3523	-16.3	2078	41.9	17464	16700	12815	18551
EPS (Rs)	4.78	5.72		3.37		28.3	27.1	20.8	30.1
P/E (x)						4.7	4.9	6.4	4.4
EV / EBITDA (x)						2.1	2.7	3.8	2.8
RONW (%)						74.9	57.0	36.1	42.1

(Source: Company, HDFC sec)

Recent Developments

Revenues for Q2FY21 was up 4% yoy at Rs 21153 crore. Offtake was up 9% yoy to 134 MT given recovery in power demand and the low base of last year. Production increased 11% YoY at 115 MT. Other Income dipped 34% yoy at Rs 1086 crore. Lower other income, higher tax outgo and weak operating performance led to 16% yoy decline in PAT to Rs 2948 crore.

Management said that receivables stood at Rs 23800 crore in Oct vs. Rs 23300 cr in September. Coal India would put pressure on the state govt. to recover its dues. The company would try to bring down receivables to near FY20 levels (Rs 16000 crore) by end FY21.

Management said that they would try to maintain dividend at the same levels as the previous year. Company has already declared and paid interim dividend of Rs 7.5 per share for FY21.

Company reported a 3.4 % rise in production at 51.7 MT in the month of November this year, as against 50 MT in the corresponding month of the previous year. The production in April-November 2020 has increased to 334.5 MT from 330.4 MT last year. Sales volumes were up 9% YoY in November. Pit-head inventory remains high at 52mt.

Long term Triggers

Largest coal producer and reserve holder in the world

Coal India produces around 83% of India's overall coal production where approximately 57% of primary commercial energy is coal dependent, Coal India alone meets to the tune of 40% of primary commercial energy requirement. The share of coal is expected to remain high at 48-54% till 2040. Coal India supplies coal at discounted prices in order to insulate Indian coal consumers against price volatility. During FY20, CIL produced 602.138 Million Tones (MTs) of coal under challenging and adverse conditions achieving 91% of its target. Northern Coalfields Limited and Western Coalfields Limited exceeded their respective annual production targets of FY20, achieving 102% and 103% of their respective targets. While NCL produced 108.05 MTs for the fiscal, WCL's was 57.64 Mts. Raw coal off-take for FY20 was 581.411 MT and Over Burden Removal (OBR) was 1154.33 M Cum. Dispatch of coal and coal products during FY20 was at 582.48 Mts and dispatch to power utilities (including special forward e-Auction) was 465.72 MTs.

Renewables unlikely to replace coal

Coal should dominate India's energy mix for the next few decades, despite the country's consistent improvement in moving toward cleaner energy sources since 2015, and its first CO2 emissions drop since 1982 in March 2020 due to the nationwide lockdown. Increased capital costs, the time required for land acquisition, inadequate transmission infrastructure, a lack of funding and the Covid-19 pandemic may hinder renewable energy developments. As of April, renewables contributed 35.8% to India's total installed capacity. Solar, Wind, Hydel and natural gas supplement coal in meeting energy needs but cannot substitute wholly. For the past couple of years, India accounted for around 11% of the global coal consumption. India remains the second largest coal consumer in the world. We believe it will take much longer time for renewable energy to have a larger share and renewables and coal have to co-exist for some time before renewable can significantly contribute to larger share of India's energy basket.

Imports of non-coking coal to fall

Non-coking coal consumption is expected to clock a CAGR of 3.5-4% to ~1,050 million tons (MT) in fiscal 2024 from 874 million tons in fiscal 2019, driven by ~4% CAGR growth in coal-based generation over the same period. Domestic supply is forecast to log a CAGR of 5-6% CAGR to 950 million tons from 733 million tons over fiscals 2020 to 2024. Growth in production will be driven by increase in production from Coal India Ltd (CIL) and commissioning of large captive coal blocks such as Pakri Barwadih, Parsa East and Kente Basan (15 MTPA each), primarily allotted to PSUs. Consequently, the share of imports in non-coking coal consumption is forecast to fall to 11% in fiscal 2024 from 18% in fiscal 2019. In absolute terms, non-coking coal imports are estimated to decline to 119 MT in fiscal 2024 from 158 MT in fiscal 2019.

Enhancement of Coal evacuation infrastructure

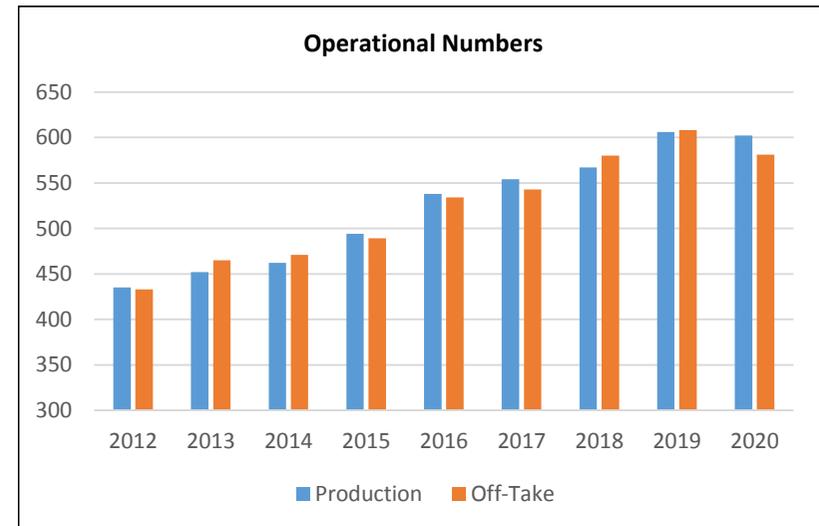
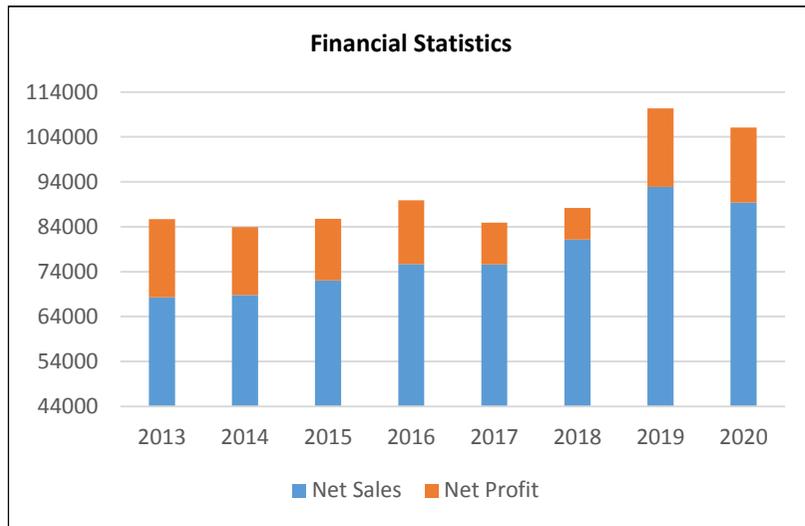
Coal India has taken major initiatives to build matching logistics infrastructure to ensure evacuation of planned quantity of production. To augment availability of rakes for evacuating increased quantities of coal in the South East Central Railway circuit, feeding to 15 Power Houses, Coal India, in a maiden venture, under General Purpose Wagon Investment Scheme introduced by Indian Railways, has approved procurement of 40 rakes of BOXN-S railway wagons at a capital cost of Rs 675 crore. Having its own rakes provides strength to the company to move supply of coal. This could facilitate enhanced indigenous supply and would also help reduce imports to some extent.

What could go wrong?

- Decrease in coal demand and increase in proportion of renewables in the energy mix.
- Inherent inferior quality of indigenous coal due to high ash content dampens the ability of Coal India to sometimes meet the quality parameters of the customers.
- The outstanding payment from power companies continues to remain a concern (Rs 23000 crore as of Oct end). The write-off of power sector receivables will impact company's working capital. This accompanied by higher inventories at CIL (53mt vs 22mt in Nov-19) remain concerns for working capital management.
- Increase in use of renewables at a faster pace than envisaged could affect company's volumes.
- Weakness in international coal prices.
- Coal India plans to invest Rs65000 cr over the next 5 years to reach its aspirational goal of 1bn tons production capacity. Unless the E-auction premium rises substantially, operational cashflow will not be able to fund the steep capex.
- Allocation of Coal mines to private parties for captive use / third party sales could impact demand for CIL in future.
- CIL has a very large labour force – these costs which could drag its financials in adverse times.
- The stake of the promoter i.e. GoI is 66.13%. Due to divestment proceeds shortfall, the GoI may reduce its stake in one or more tranches through OFS creating and overhang on the stock
- CIL scores low on ESG ratings (35) due to mainly due to environmental reasons. Investors following ESG ratings may not buy the stock and others may start following this ratings resulting in selling pressure on the stock.

Company Profile:

Coal India is a coal mining company, which is engaged in the production and sale of coal. Coal India is a *Maharatna* company - a privileged status conferred by Government of India to select state owned enterprises in order to empower them to expand their operations and emerge as global giants. Coal India is the one of the largest coal producer in the world. Coal India functions through its 11 direct and indirect subsidiaries in 84 mining areas spread over eight (8) states of India. Coal India has 352 mines (as on 1st April, 2020) of which 158 are underground, 174 opencast and 20 mixed mines. Coal India produces around 83% of the nation's entire coal output. In India, coal accounts for around 55% of the country's primary commercial energy. The Company's major consumers are power plants accounting for 78% of its offake in FY18. Its other consumers include steel, cement, fertiliser, brick kilns and a host of other industries.



(Source: Company, HDFC sec)

Financials (Consolidated)

Income Statement

Particulars (Rs in crore)	FY18	FY19	FY20	FY21E	FY22E
Income from operations	85244	99586	96080	86472	100308
Material Cost	8493	8188	6084	5448	6520
Employee Cost	42622	38773	39384	38913	40625
Other expenses	24841	27619	28692	25855	29591
Total expenses	75956	74580	74159	70216	76736
EBITDA	9288	25006	21921	16257	23572
Depreciation	3063	3450	3451	4118	4356
EBIT	11200	27393	24575	17586	25234
Other Income	4975	5837	6105	5448	6018
Interest	430	264	503	500	500
Profit before tax	10770	27129	24072	17086	24734
Tax Expenses	3732	9662	7371	4272	6184
Profit After Tax	7038	17466	16702	12815	18551
Adj. PAT	7038	17464	16700	12815	18551
EPS	11.3	28.3	27.1	20.8	30.1

Balance Sheet

Particulars (Rs in crore)	FY18	FY19	FY20	FY21E	FY22E
EQUITY AND LIABILITIES					
Share Capital	6207.4	6162.7	6162.7	6162.7	6162.7
Reserves and Surplus	13971	20292	25994	32646	43185
Shareholders' Funds	20179	26455	32157	38809	49348
Minority Interest	362	408	394	394	394
Long Term borrowings	1054	1472	1993	1993	1993
Deferred Tax Liabilities (Net)	-13352	-13472	-18792	-18792	-18792
Other Long Term Liabilities	5532	6208	6787	6485	6721
Long Term Provisions	50024	52380	60227	57485	59273
Non-current Liabilities	43259	46589	50214	47171	49195
Short Term Borrowings	477	730	4433	4433	4433
Trade Payables	6974	9418	10108	9003	10443
Other Current Liabilities	28835	29123	27133	24402	15115
Short Term Provisions	12033	6827	6790	6481	6683
Current Liabilities	48319	46098	48464	44318	36673
TOTAL	112119	119550	131229	130692	135610
ASSETS					
Fixed Assets					
Gross Block	32499	40085	46826	55653	58870
Less: Acc. Depreciation	8439	11539	14524	18642	22999
Net Block	24060	28546	32302	37011	35871
Intangible Assets	30	74	95	91	86
Capital work-in-progress	10273	9619	8271	7444	6327
Non-current Investments	1303	1420	1873	1873	1873
Long-Term Loans and Advances	1020	1142	639	692	1906
Other Non-current Assets	17315	18280	20018	19024	26080
Non-current Assets	19638	20842	22530	21589	29859
Current Investments	401	1750	100	100	100
Inventories	6444	5584	6619	6160	6321
Trade Receivables	6258	5499	14408	14215	18962
Cash and Bank Balances	31280	31124	28447	27500	21595
Short-Term Loans and Advances	4	502	503	0	0
Other Current Assets	13733	16010	17954	16584	16489
Current Assets	58119	60469	68031	64558	63467
TOTAL	112119	119550	131229	130692	135610

Cash Flow Analysis

Particulars (Rs in crore)	FY18	FY19	FY20	FY21E	FY22E
Profit Before Tax	10770.3	27128.9	24072.5	17086.2	24734.4
Depreciation	3062.7	3450.4	3450.8	4118.4	4356.4
Others	-292.3	529.5	896.3	1139.3	-7535.0
Change in working capital	15007.1	-4975.0	-12326.8	-4361.4	-10670.4
Tax expenses	-7432.9	-9778.2	-11946.3	-4271.5	-6183.6
CF from Operating activities	21114.9	16355.5	4146.5	13711.0	4701.8
Net Capex	-6762.5	-6504.8	-5238.1	-8000.0	-2100.0
Other investing activities	601.5	-896.5	5944.4	0.0	0.0
CF from Investing activities	-7746.9	-7896.5	332.4	-7995.0	-2095.0
Proceeds from Eq Cap	0.0	-1050.0	0.0	0.0	0.0
Borrowings / (Repayments)	-1477.8	-58.7	2277.6	0.0	0.0
Dividends paid	-12301.2	-9946.8	-9676.0	-6162.7	-8011.5
Interest paid	-36.5	-12.4	-68.6	-500.0	-500.0
CF from Financing activities	-13564.2	-10884.8	-6950.2	-6662.7	-8511.5
Net Cash Flow	-196.2	-2425.8	-2471.2	-946.8	-5904.8

Financial Ratios

Particulars	FY18	FY19	FY20	FY21E	FY22E
EPS (Rs)	11.3	28.3	27.1	20.8	30.1
Cash EPS (Rs)	16.3	33.9	32.7	27.5	37.2
BVPS (Rs)	32.5	42.9	52.2	63.0	80.1
PE (x)	11.8	4.7	4.9	6.4	4.4
P/BV (x)	4.1	3.1	2.6	2.1	1.7
Mcap/Sales (x)	1.0	0.8	0.9	1.0	0.8
EV/EBITDA (x)	5.6	2.1	2.7	3.8	2.8
EBITDAM (%)	10.9	25.1	22.8	18.8	23.5
EBITM (%)	13.1	27.5	25.6	20.3	25.2
PATM (%)	8.3	17.5	17.4	14.8	18.5
ROCE (%)	51.6	108.8	73.1	42.0	50.0
RONW (%)	34.9	74.9	57.0	36.1	42.1
Current Ratio (x)	1.2	1.3	1.4	1.5	1.7
Quick Ratio (x)	1.1	1.2	1.3	1.3	1.6
Debt-Equity (x)	0.1	0.1	0.2	0.2	0.1
Debtor days	27	22	38	60	60
Inventory days	28	22	23	27	23
Creditor days	30	30	37	40	35

(Source: Company, HDFC sec)

One Year Stock Price Chart



(Source: Company, HDFC sec)

Disclosure:

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