

Estimate change 

 TP change 

 Rating change 

Bloomberg	COAL IN
Equity Shares (m)	6,207
M.Cap.(INRb)/(USDb)	815.9 / 11.4
52-Week Range (INR)	218 / 119
1, 6, 12 Rel. Per (%)	1/-26/-32
12M Avg Val (INR M)	1788

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	960.8	891.2	1,052.2
EBITDA	219.2	150.9	245.1
Adj. PAT	167.0	110.1	177.1
EBITDA Margin (%)	22.8	16.9	23.3
Cons. Adj. EPS (INR)	27.1	17.9	28.7
EPS Gr. (%)	-4.4	-34.1	60.9
BV/Sh. (INR)	52.2	58.4	73.7

Ratios

Net D:E	-0.7	-0.6	-0.7
RoE (%)	51.9	30.6	39.0
RoCE (%)	56.4	30.3	40.9
Payout (%)	53.3	65.0	47.0

Valuations

P/E (x)	5.2	7.4	4.6
P/BV (x)	2.7	2.3	1.8
EV/EBITDA(x)	2.3	3.0	1.6
Div. Yield (%)	8.6	8.8	10.2
FCF Yield (%)	-1.8	4.5	22.2

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	66.1	66.1	71.0
DII	22.3	22.1	17.4
FII	7.9	8.2	9.0
Others	3.7	3.6	2.7

FII Includes depository receipts

CMP: INR132
TP: INR190 (+44%)
Buy

Negative operating leverage kicks in

Valuations attractive; Dividend yield of ~10%

- Coal India's (COAL) 1QFY21 results highlight the impact of lower volumes/e-auction realizations amid subdued thermal power demand. Adj. EBITDA (ex-OBR) was down 63% YoY.
- Muted power demand has impacted off-take and e-auction realizations. However, we expect Coal India to tide over the situation given its large cash position (Net cash: ~INR230b). Maintain **Buy** with target price of INR190/share based on 3.5x Sep'21 EV/EBITDA.

EBITDA declines 63% YoY on lower volumes and e-auction realizations

- 1QFY21 Adj. EBITDA (ex-OBR) was down 63% YoY to INR28b (in-line) on account of lower off-take/e-auction realizations. While FSA realization at INR1,359/t was below our est. INR1,400/t, it was offset by higher mix of e-auction volumes at 15.9mt (v/s est. 13.1mt).
- Revenue declined 26% YoY to ~INR185b (v/s est. INR194b). Overall off-take was down 22% YoY to 120.4mt given the lower power demand. Production was down 12% YoY to 121mt. Cash cost (ex-OBR) rose 15% YoY to INR1,180/t.
- FSA:** FSA volumes declined 22% YoY to 102.2mt (v/s est. 103.5mt); FSA realization was down 1% YoY to INR1,359/t (v/s est. INR1,400/t).
- E-auction:** E-auction volumes declined 17% YoY to 15.9mt (v/s est. 13.1mt); E-auction realization was down 26% YoY to INR1,598/t (v/s est. INR1,600/t).
- The company reported write-backs of INR2.5b on OBR (v/s est. INR9.6b expense) amidst strong focus and higher stripping ratio. This led to a beat on our reported PAT numbers. Overall, PAT was down 55% YoY to INR20.8b (v/s est. INR13.4b).

Management commentary: Receivables situation slowly improving

- COAL's management has noted that the company's receivables have increased to INR230b in 1QFY21 from INR178b at end-FY20. However, these receivables have decreased to INR210b at end-Aug'20. COAL expects the situation on receivables to improve further and normalize from Oct'20.
- COAL is focusing on import substitution and targeting ~100mt under the same. It is planning ~75mt of coal for the Non-Regulated Sector (NRS) and would seek to provide better quality of coal.

Valuations attractive; Maintain Buy

- Volumes and e-auction realizations have been under pressure on decline in power demand and significant stocks at both mines and power plants. However, power demand is showing signs of improvement and we expect volumes to recover in 2HFY21.
- Furthermore, we expect Coal India to tide over the current situation given its large cash position (Net cash: ~INR230b). The stock trades attractively at ~1.6x FY22E EV/adj. EBITDA (v/s historical average of 7x), P/E of 5x (v/s average of ~13x) and offers a dividend yield of ~10%. Maintain **Buy** with a target price of INR190/share.

Quarterly performance (consolidated) – INR m

Y/E March	FY20				FY21				FY20	FY21E	FY21 1QE	var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales	249.4	203.8	231.9	275.7	184.9	175.2	237.6	293.5	960.8	891.2	194.0	(5)
Change (%)	3.6	-6.9	-7.4	-3.4	-25.9	-14.0	2.5	6.5	-3.5	-7.2	-22.2	
Adj. EBITDA	75.1	42.5	61.8	95.2	28.0	26.0	63.2	83.7	274.6	200.9	28.2	(1)
As of % Sales	30.1	20.8	26.7	34.5	15.1	14.8	26.6	28.5	28.6	22.5	14.5	
Depreciation	7.3	7.9	8.9	10.3	8.5	8.3	9.3	9.8	34.5	35.9	7.6	12
OBR	9.0	6.4	12.1	27.9	-2.5	5.8	11.0	35.8	55.4	50.0	9.6	
Interest	0.2	1.7	1.5	1.7	1.8	1.7	1.5	0.0	5.0	5.1	0.2	
Other Income	11.5	16.3	14.1	19.1	7.9	9.9	8.6	10.8	61.1	37.3	7.0	12
EO Inc/(Exp)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	70.1	42.8	53.3	74.5	28.0	20.2	50.0	48.9	240.7	147.2	17.8	57
Tax	23.8	7.5	14.1	28.2	7.2	5.1	12.5	12.3	73.7	37.1	4.5	62
Tax Rate (%)	34.0	17.6	26.5	37.9	25.8	25.0	25.0	25.1	30.6	25.2	25.0	
Reported PAT	46.3	35.2	39.2	46.3	20.8	15.2	37.5	36.6	167.0	110.1	13.4	56
Adjusted PAT	46.3	35.2	39.2	46.3	20.8	15.2	37.5	36.6	167.0	110.1	13.4	56
Change (%)	22.4	14.2	-14.1	-23.2	-55.1	-57.0	-4.3	-20.8	-4.4	-34.1	-71.1	

Source: MOFSL, Company

Exhibit 1: Key Operating Parameters

Y/E March	FY20				FY21				FY20	FY21E	FY21 1QE	var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Volume (m tons)												
Production	136.9	104.0	147.5	213.7	121.0	100.6	142.7	217.6	601.6	582.0	121.0	0
Sales/Offtake	153.5	122.4	141.6	163.9	120.4	113.1	151.4	180.0	581.1	565.0	120.6	(0)
- FSA	130.3	103.8	127.7	139.2	102.2	81.8	134.5	146.1	501.0	464.7	103.5	(1)
- E-auction	19.1	15.5	9.8	21.0	15.9	28.2	12.8	28.2	65.4	85.2	13.1	21
- Washed Coal	3.1	2.3	2.3	3.3	1.7	2.4	2.4	4.9	11.0	11.4	3.2	(46)
- others	0.8	0.7	1.7	0.6	0.3	0.7	1.7	1.0	3.7	3.7	0.8	(58)
Realisation (INR/t)												
- FSA	1,370	1,438	1,411	1,446	1,359	1,383	1,423	1,450	1,416	1,410	1,400	(3)
- E-auction	2,155	2,019	2,623	2,105	1,598	1,426	1,575	1,599	2,177	1,538	1,600	(0)
- Washed Coal	3,171	2,951	2,667	2,548	2,668	2,919	2,638	2,869	2,831	2,800	3,100	(14)
- others	3,644	3,832	2,060	3,643	3,506	3,214	2,807	3,372	2,957	3,100	3,200	10
Per ton (INR)												
Revenue	1,513	1,551	1,523	1,562	1,412	1,437	1,471	1,525	1,538	1,469	1,478	(4)
cash EBITDA	489	347	437	581	232	230	417	465	473	356	234	(1)
PAT	302	288	277	282	173	134	248	203	287	195	111	56
Costs	1,024	1,204	1,086	981	1,180	1,207	1,054	1,060	1,065	1,113	1,245	(5)

Source: MOFSL, Company

Exhibit 2: CIL Valuation

	FY18	FY19	FY20E	FY21E	FY22E
Adjusted EBITDA	203,089	300,483	274,627	200,919	307,050
Target EV/EBITDA (x)			3.5	3.5	3.5
Target EV			961,195	703,217	1,074,675
Net debt	-311,085	-316,302	-235,315	-221,425	-337,535
Equity value			1,196,510	924,642	1,412,210
					1,168,426
TP (INR/share)					190

Source: MOFSL, Company

Exhibit 3: Adjusted P&L

	FY18	FY19	FY20E	FY21E	FY22E
Revenue	858,624	995,469	960,803	891,198	1,052,230
Power FSA	549,091	640,826	624,312	594,379	722,346
Non Power FSA	62,000	124,788	142,822	111,515	157,924
Eauction/MoU	247,533	229,856	193,669	185,304	171,960
Sales (mt)	580	608	581	565	665
YoY (%)	6.8	4.9	-4.5	-2.8	17.7
Power FSA	424	458	426	405	494
Share (%)	73	75	73	72	74
Non Power FSA	36	67	75	60	85
Eauction/MoU	120	83	80	100	86
Revenue per ton	1,480	1,637	1,653	1,577	1,582
YoY (%)	2.6	10.6	1.0	-4.6	0.3
Power FSA	1,295	1,399	1,465	1,469	1,463
Non Power FSA	1,723	1,851	1,904	1,859	1,858
Eauction/MoU	2,062	2,777	2,418	1,848	1,994
Cost of Mining (ex. OB)	655,535	694,986	686,176	690,279	745,180
CoP per ton	1,130	1,143	1,181	1,222	1,121
YoY (%)	-3.1	1.1	3.3	3.5	-8.3
Labor & social OH	616	644	688	704	606
Contract	220	220	239	265	243
R&M	143	144	146	146	136
Others	151	134	108	107	136
Adjusted EBITDA	203,089	300,483	274,627	200,919	307,050
EBITDA per ton	350	494	473	356	462

Source: MOFSL, Company

**Management call highlights**

- The company is focusing on OBR, which would help it to increase production in the coming months. It is targeting OB removal of ~1,500mt in FY21.
- Receivables have increased to INR230b in 1QFY21 from INR178b at end-FY20. However, these receivables have decreased to INR210b at end-Aug'20. COAL expects the situation to continue improving and normalize Oct'20 onwards.
- The company is focusing on import substitution. It is targeting ~100mt of substitution. It is planning ~75mt of coal for the Non-Regulated Sector (NRS) and would seek to provide better quality of coal.
- COAL is targeting production and off-take of 660mt for FY21 (v/s earlier target of 710mt).
- COAL has witnessed a premium of 9% on its e-auction sale in Aug'20. It will review the base price under e-auction at end-Sep'20 based on market conditions. It plans to sell 20% of its volumes under e-auction.
- The company has identified ~23 mines, which are producing <50,000t/ year and will either look to improve their productivity or seek closure. Labor at these mines would be transferred to other places.
- COAL believes that it does not need any coal block allocation. It is tendering contracts for ~53 projects with average capacity of 3mt each. Besides, it has identified 15 mines, which can give ~150mt production at peak levels. Also, the company is looking at increasing production through higher EC at its existing mines.
- Capex target for FY21 stands at INR100b. COAL has incurred capex of INR30b up to Aug'20 YTD.
- Wage revision is scheduled for July next year and the company would start negotiations for the same in Mar-Apr'21.
- COAL would try to maintain dividend at the same level as previous year.

Valuation and view

India's dependence on coal to continue

- India continues to depend on coal for ~70% of its electricity requirement – with coal-based generation forming 55% of the country's installed capacity (Coal: 205GW; All India: 370GW). Despite the increased focus on renewables, coal would continue to dominate India's electricity production. We note: per capita electricity consumption in India remains low (1/16th of the US; 1/5th of China and 1/3rd of the world average), implying significant room for coal and renewables to co-exist and grow. Assuming 6.5% CAGR of power demand growth over FY20-25 and average annual 14GW of renewable capacity addition (at 20% PLF), incremental renewable generation would be just 115BU, which is not sufficient to even meet the overall incremental demand (419 BU) over the next five years.
- We expect coal-based generation to increase at CAGR of 6.5% over the same period, driving the need for coal in India. From a domestic perspective, we do not expect the government's initiative to increase participation in commercial coal mining to dent production for Coal India. Given the procedural hurdles such as land acquisition and EC/FC clearances, output from such commercial mines will take time. Moreover, although Coal India accounts for ~80% of domestic coal production, it meets only ~70% of the domestic demand. Thus, there exists massive opportunity for import substitution (~110-150mt of imported coal can be substituted). As and when, commercial mines come up it would likely displace these imports.

Near-term headwinds; Negative operating leverage kicked in

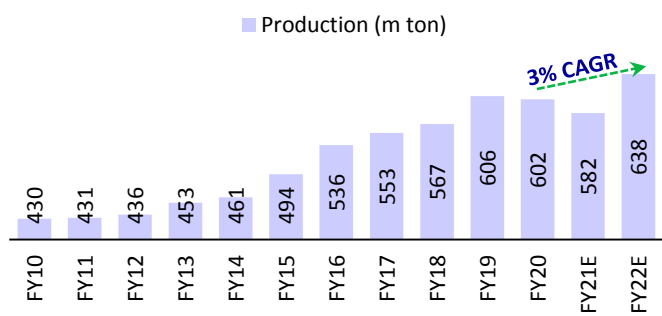
- Volumes and e-auction realizations have been under pressure. India's lock down given COVID-19 came at a time when (a) power demand was largely muted, and (b) production at Coal India's mines ramped up post the heavy monsoon season. Accordingly, inventory at both coal mines and power plants was high.
- Large proportion of Coal India's costs is fixed in nature with employee costs accounting for ~50% of the company's expenses. Further, with the company focusing on OBR removal activities, COAL would continue to utilize contractual employees, in our view. Thus, with lower dispatches, negative operating leverage has kicked in. However, power demand has shown signs of improvement and we expect volumes to recover in 2HFY21.

Valuations attractive; Dividend yield of ~10%

- Working capital has stretched with elevated receivables as cash issues due to lower demand materialized within the power value chain. However, we expect Coal India to tide over this situation given its large cash position (Net cash: ~INR230b). The stock trades attractively at ~1.6x FY22E EV/adj. EBITDA (v/s historical average of 7x), P/E of 5x (v/s average of ~13x) and offers a dividend yield of ~10%. Maintain **Buy** with a target price of INR190/share.

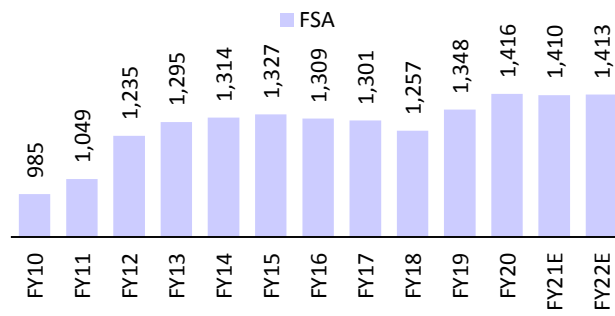
Story in Charts

Exhibit 4: Expect production to remain steady in the near term



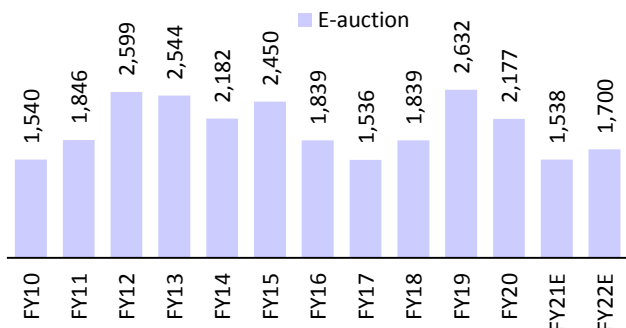
Source: MOFSL, Company

Exhibit 5: FSA realizations have improved...



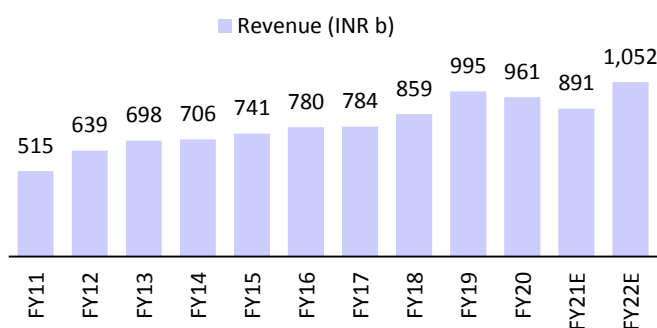
Source: MOFSL, Company

Exhibit 6: ...but, we build in lower e-auction realizations...



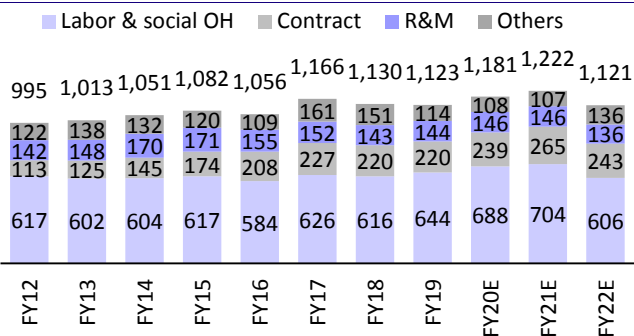
Source: MOFSL, Company

Exhibit 7: ...which could keep revenue under check



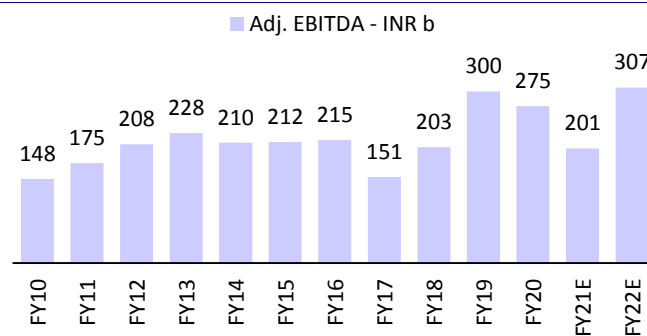
Source: MOFSL, Company

Exhibit 8: Negative operating leverage to kick in FY21...



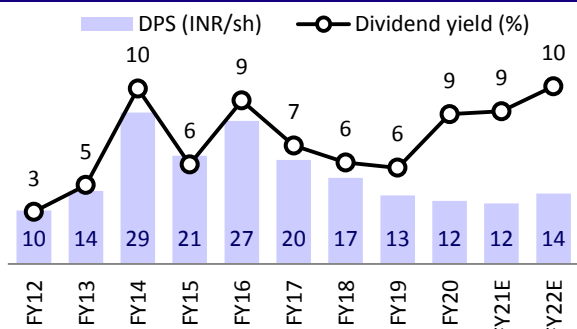
Source: MOFSL, Company

Exhibit 9: ...expect adj. EBITDA (ex- OBR) to recover in FY22E



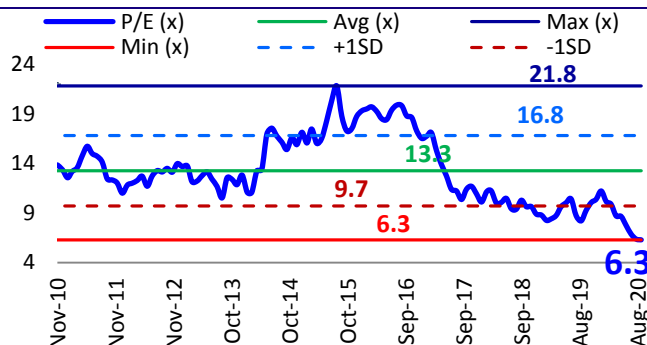
Source: MOFSL, Company

Exhibit 10: Dividend yield remains attractive...



Source: MOFSL, Company

Exhibit 11: The stock trades attractively at significant discount to historical valuations



Source: MOFSL, Company

Financials and Valuations

Income Statement								(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	741,201	780,073	783,719	858,624	995,469	960,803	891,198	1,052,230
Change (%)	5.0	5.2	0.5	9.6	15.9	-3.5	-7.2	18.1
EBITDA	173,354	187,309	123,912	169,507	249,771	219,209	150,941	245,087
% of Net Sales	23.4	24.0	15.8	19.7	25.1	22.8	16.9	23.3
Depreciation	23,198	28,259	29,101	30,664	34,504	34,508	35,933	37,358
Interest	73	3,862	4,117	4,318	2,750	5,029	5,079	5,130
Other Income	65,706	59,406	55,156	46,583	58,737	61,054	37,258	34,183
Extra Ordinary	-50	0	0	73,844	0	0	0	0
PBT	215,839	214,594	145,850	107,264	271,255	240,725	147,186	236,782
Tax	78,573	71,719	51,660	37,067	96,625	73,710	37,091	59,669
Rate (%)	36.4	33.4	35.4	34.6	35.6	30.6	25.2	25.2
PAT before Min. Int.	137,266	142,876	94,190	70,198	174,630	167,015	110,095	177,113
Minority Interest								
Reported PAT	137,266	142,876	94,190	70,198	174,630	167,015	110,095	177,113
Change (%)	-9.2	4.1	-34.1	-25.5	148.8	-4.4	-34.1	60.9
Adjusted PAT	137,266	142,876	94,190	118,942	174,630	167,015	110,095	177,113
Change (%)	-14.1	4.1	-34.1	26.3	46.8	-4.4	-34.1	60.9

Balance Sheet								(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	63,164	63,164	62,074	62,074	61,627	61,627	61,627	61,627
Reserves	340,367	285,168	183,194	136,392	202,912	259,942	298,475	392,345
Net Worth	403,531	348,332	245,268	198,466	264,539	321,569	360,103	453,972
Minority Interest	658	1,048	3,459	3,625	4,068	3,941	3,941	3,941
Loans	4,019	11,921	30,078	15,309	22,027	64,260	64,260	64,260
Defferd tax Liability	-19,591	-20,445	-27,328	-53,551	-42,692	-33,110	-33,110	-33,110
Capital Employed	388,617	340,855	251,477	163,849	247,943	356,660	395,194	489,063
Gross Fixed Assets	448,080	234,137	276,883	325,733	401,631	473,802	568,802	663,802
Less: Depreciation	286,929	26,824	55,984	84,805	115,888	150,397	186,330	223,689
Net Fixed Assets	161,150	207,314	220,900	240,928	285,742	323,405	382,472	440,113
Capital Work in Progress	51,594	59,044	103,078	137,710	136,984	127,714	127,714	127,714
Investments		73	106	3,443	4,622	4,622	4,622	4,622
Current Assets	873,074	841,406	809,377	839,286	857,149	1,011,365	1,006,951	1,125,291
Inventory	61,838	75,692	89,453	64,439	55,839	66,189	85,457	92,250
Debtors	85,219	114,476	107,359	86,892	54,986	144,082	134,290	129,727
Other Current Assets	61,808	241,078	285,187	351,324	391,553	490,106	490,106	490,106
Loans and Advances	105,150	1,024	358	10,238	16,441	11,412	11,412	11,412
Cash	559,060	409,137	327,021	326,394	338,330	299,575	285,685	401,795
Current Liabilities	697,201	766,982	881,984	1,057,518	1,036,554	1,110,445	1,126,565	1,208,677
Payables	9,208	32,972	39,002	45,169	68,155	101,076	67,217	87,366
Other current liabilities	687,994	734,010	842,981	1,012,348	968,399	1,009,370	1,059,348	1,121,311
Net Curr. Assets	175,873	74,424	-72,607	-218,232	-179,405	-99,081	-119,614	-83,386
Application of Funds	388,617	340,855	251,477	163,849	247,943	356,660	395,194	489,063

Financials and Valuations

Cash Flow Statement								(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Adj EBITDA*	211,621	215,423	150,634	203,089	300,483	274,627	200,919	307,050
Non cash exp. (income)	21,428	21,565	37,046	-54,587	10,718	9,569	10,930	10,434
(Inc)/Dec in WC	6,487	-26,697	60,216	138,450	-48,918	-123,268	-43,334	17,919
Taxes paid	-95,721	-78,754	-89,427	-74,329	-95,329	-119,463	-37,091	-59,669
CF from Operations	143,815	131,538	158,469	212,623	166,955	41,465	131,424	275,733
Capex	-49,014	-57,857	-86,761	-85,293	-73,393	-56,120	-95,000	-95,000
Free Cash Flow	94,801	73,681	71,707	127,330	93,561	-14,654	36,424	180,733
(Pur)/Sale of Investments	9,615	-1	-50	-3,332	-1,184	-4,539	0	0
Interest/dividend	52,871	50,349	34,642	24,044	31,410	34,573	26,328	23,750
Other investing activity	-9,615	-3,344	-209	-297	9,054	9,055		
CF from Investments	3,857	-10,852	-52,379	-64,878	-34,114	-17,032	-68,672	-71,250
Equity raised/(repaid)	0	0	-45,531	0	0	0	0	0
Debt raised/(repaid)	1,935	9,902	18,169	-14,778	6,718	22,776	0	0
Interest paid	-73	-207	-306	-370	-96	-686	-5,079	-5,130
Dividend (incl. tax)	-155,963	-208,302	-151,031	-123,238	-112,110	-96,760	-71,562	-83,243
Other financing	3,844	2,732	2,720	2,513	3,972	5,169		
CF from Fin. Activity	-150,257	-195,874	-175,980	-135,873	-101,516	-69,502	-76,641	-88,373
Inc/Dec of Cash	-2,585	-75,188	-69,890	11,872	31,325	-45,068	-13,889	116,110
Add: Beginning Balance	561,644	559,060	409,137	327,021	326,394	338,330	299,575	285,685
Closing Balance	559,060	483,872	339,247	338,893	357,719	293,262	285,685	401,795

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Adjusted EPS	21.7	22.6	15.2	19.2	28.3	27.1	17.9	28.7
Cash EPS	31.5	31.5	24.2	29.5	42.2	41.7	31.8	44.9
Book Value	63.9	55.1	39.5	32.0	42.9	52.2	58.4	73.7
DPS	20.7	27.4	19.9	16.5	13.1	12.0	11.6	13.5
Payout (incl. Div. Tax.)	112.9	145.5	160.3	103.3	55.5	53.3	65.0	47.0
Valuation (x)								
P/E	16.7	12.9	19.3	14.8	8.4	5.2	7.4	4.6
Cash P/E	11.5	9.3	12.1	9.6	5.6	3.4	4.2	3.0
P/BV	5.7	5.3	7.4	8.9	5.5	2.7	2.3	1.8
EV/Adj. EBITDA	8.2	6.7	10.1	7.1	3.8	2.3	3.0	1.6
Dividend Yield (%)	5.7	9.4	6.8	5.8	5.5	8.6	8.8	10.2
EV /ton of Reserves	79.7	66.6	69.9	66.6	52.7	28.9	27.3	22.0
Profitability Ratios (%)								
Debtor (Days)	42.0	53.6	50.0	36.9	20.2	54.7	55.0	45.0
Inventory (Days)	30.5	35.4	41.7	27.4	20.5	25.1	35.0	32.0
Payables (Days)	4.5	15.4	18.2	19.2	25.0	38.4	27.5	30.3
Asset turnover(x)	1.9	2.3	3.1	5.2	4.0	2.7	2.3	2.2
Profitability Ratios (%)								
RoE	34.0	41.0	38.4	35.4	66.0	51.9	30.6	39.0
RoCE	34.5	39.9	32.7	58.4	85.7	56.4	30.3	40.9
RoIC	-45.5	-60.6	-40.0	-37.7	-51.7	-83.4	-175.4	-457.7
Leverage Ratio								
Net Debt/Equity (x)	-1.4	-1.1	-1.2	-1.6	-1.2	-0.7	-0.6	-0.7

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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