

Company update

Utilities/mining

Target price: Rs294

Shareholding pattern

	Dec '20	Mar '22	Jun '22
Promoters	66.1	66.1	66.1
Institutional investors	27.9	28.7	29.0
MFs and other	9.2	9.6	9.9
Insurance/FIs	12.1	12.2	12.3
FII	6.6	6.9	6.8
Others	6.0	5.2	4.9

Source: NSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	39.7	43.7	4.0
Environment	8.4	25.6	17.2
Social	40.9	39.3	(1.6)
Governance	69.8	66.1	(3.8)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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Coal India

BUY

Maintained

Rs238

Management meet highlights

We met the management of Coal India (CIL) to understand the outlook for H2FY23 particularly in terms of volumes and e-auctions. Following are the key takeaways:

- **E-auction prices for FY23 may average Rs5,000/te:** E-auction prices are difficult to predict as they are driven by several global factors as well as benchmark prices of other countries, especially Indonesia. Management expects e-auction prices to average Rs5,000/te on blended basis for FY23. Among subsidiaries, ECL and BCCL may clock higher average e-auction realisations, while the same for MCL may be lower. However, in the scenario where e-auction prices increase to sharply higher levels, consumers switch to procure power from the grid. In case of industries such as sponge iron, preference is towards imported coal only since the ash content is significantly lower.
- **E-auction volumes to increase Q3FY23 onwards:** 20mnte was sold under e-auctions during Q1FY23 of which, ~10mnte was under old pricing due to which average realisation was lower. Currently, supplies are substantially better compared to Oct'21, when overall coal supplies were disrupted. This is despite the continued focus on meeting the demand from the power sector, as directed by the government. Company believes that e-auction volumes will increase from Q3FY23 onwards. Given the higher sales to power sector, CIL expects to book higher incentive income by ~Rs10-20bn.
- **Price hikes may come with wage hike:** Company expects to take a price hike along with wage hikes, the negotiations of which are expected to complete by FY23-end.
- **Wage negotiations expected to be concluded by FY23-end:** CIL expects to increase provisions related to the expected wage hikes going forward, as it had mentioned after its Q1FY23 results. While the negotiations are still ongoing, we (I-Sec) believe the gross hit on the employee expense for CIL will be in the range of Rs30-40bn per annum, which will be somewhat offset due to employee retirements (net retirements to range between 12,000-13,000 employees per annum).
- **Production target of 700mnte for FY23 is achievable:** Company expects to achieve the 700mnte production target for FY23. For FY24, while the mandate from the Ministry of Coal is 840mnte, it may be difficult to achieve and the realistic target may be 780mnte. Company also expects to clock higher volumes during Q3FY23 compared to the original plan, which if achieved, will require much lower run rate in Q4FY23 to achieve the FY23 production target.
- **Capex to increase further in FY24:** CIL expects capex of Rs180-185bn for FY24 (Rs165bn for FY23), mostly aimed towards increasing production and JV related capex. Company's first mile connectivity (FMC) projects are expected to reduce transportation costs by Rs10-20/te but it is more important from the perspective of sustainable operations (reducing dust during coal transportation).

Market Cap	Rs1,467bn/US\$17.8bn
Reuters/Bloomberg	COAL.BO/ COAL IN
Shares Outstanding (mn)	6,162.7
52-week Range (Rs)	242/139
Free Float (%)	33.9
FII (%)	6.8
Daily Volume (US\$/000)	31,927
Absolute Return 3m (%)	20.2
Absolute Return 12m (%)	29.1
Sensex Return 3m (%)	8.2
Sensex Return 12m (%)	(3.0)

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	1,097,135	1,198,912	1,213,439	1,274,537
Net Income (Rs mn)	173,784	247,256	233,906	252,662
DEPS (Rs)	28.2	40.1	38.0	41.0
% Chg YoY	36.8	42.3	(5.4)	8.0
P/E (x)	8.4	5.9	6.3	5.8
CEPS (Rs)	41.5	54.3	53.3	57.5
EV/E (x)	4.0	2.8	2.8	2.7
Dividend Yield (%)	7.1	8.4	9.2	10.5
RoCE (%)	37.7	42.2	34.3	32.4
RoE (%)	39.7	44.0	35.4	33.3

Please refer to important disclosures at the end of this report

- ▶ **SECL's performance to improve:** Company expects SECL's performance to improve as most of the issues plaguing the large mines of the subsidiary (land related issues) have now resolved. In FY23, production run rate from the three large mines of SECL – Dipka, Kusmunda and Gevra – is expected to range at 130-140mnte. These three mines can achieve 170mtpa, and even reach 200mtpa over the long term.
- ▶ **Siarmal mines of MCL may start production within FY23:** Company expects to expedite works to start production from Siarmal mine of MCL, for which, stage-II forest clearance has been filed recently. If the clearance is received on timely basis, the mine may produce 4-5mnte in FY23 and 10-15mnte in FY24 (mine will be developed through the MDO route).
- ▶ **Several volume growth drivers over the near-to-medium term:** Over the past few years, there have been a few notable changes in the functioning of the company as well, which include:
 - Earlier, outsourcing was limited to the equipment capacity which was internally unavailable, but now it is 1.5x the earlier figures and equipment shortage is no longer a hurdle.
 - Better government support on fast tracking EC, FC approvals and land availability.
 - CIL's has increased its investment in improving its mining infrastructure, which has improved operations.
 - Clearance timelines from railways have also expedited sharply from 1 year earlier to within 1.5 months now, helped by the implementation of Gati Shakti portal.
 - Company has improved its contract management and increased the quantum of production through the MDO route. This will help increase the production volume CAGR (over 5-year periods) from the 3-4% historically.
- ▶ **Coal gasification projects are still at nascent stages:** Company is currently in the process of signing MoUs. However, it is still working on understanding the feasibility of the project.

Valuation methodology and risks

We maintain our **BUY** rating and our DCF-based target price of Rs294 on the stock. CIL is currently trading at 6.3x P/E and 2.8x EV/EBITDA on FY24E basis with 35.4% RoE. We expect dividend payout to remain high, leading to 8-10% yield at CMP, despite heavy capex.

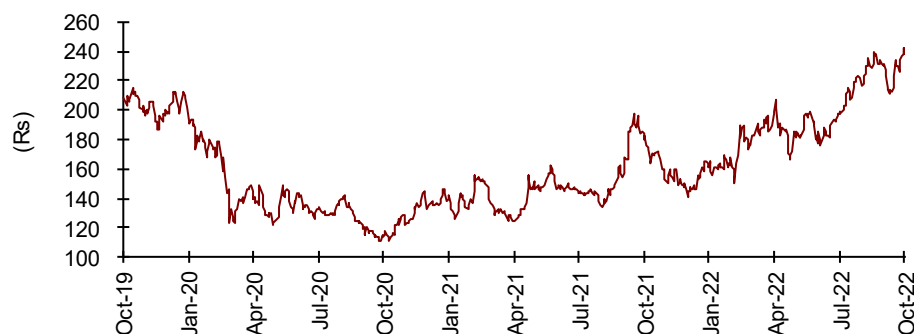
Table 1: Key assumptions

Particulars	FY22	FY23E	FY24E	FY25E
Annual sales volumes (mn te)	662	695	725	762
Average realisation (Rs/te)	1,520	1,587	1,536	1,535
EBITDA per tonne (Rs/te)	430	554	510	523

Source: I-Sec research

Key downside risks: 1) Weakness in power sector leading to lower volumes, 2) weakness in international coal prices (impacting the sentiment and making imported coal more competitive vs domestic coal), and 3) natural disasters impacting volumes.

Price chart



Source: Bloomberg

Financial summary (consolidated)

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Operating Income (Sales)	858,624	995,469	960,803	900,260	1,097,135	1,198,912	1,213,439	1,274,537
Operating Expenses	762,962	745,698	741,595	714,526	850,230	851,147	881,402	913,341
EBITDA	95,663	249,771	219,208	185,734	246,905	347,765	332,037	361,195
<i>Margins</i>	<i>11.1%</i>	<i>25.1%</i>	<i>22.8%</i>	<i>20.6%</i>	<i>22.5%</i>	<i>29.0%</i>	<i>27.4%</i>	<i>28.3%</i>
Depreciation & Amortisation	30,664	34,504	34,508	37,089	44,287	49,721	57,033	64,346
Gross Interest	4,318	2,750	5,029	6,447	5,415	5,415	5,415	5,415
Other Income	46,583	58,737	61,042	37,894	38,959	41,500	46,500	50,000
Recurring PBT	107,264	271,255	240,713	180,092	236,163	334,130	316,089	341,435
Add: Extraordinaries	-	(8)	-	-	-	-	-	-
Less: Taxes	(37,067)	(96,625)	(73,710)	(53,071)	(62,379)	(86,874)	(82,183)	(88,773)
Net Income (Reported)	137,742	174,622	167,003	127,022	173,784	247,256	233,906	252,662
Recurring Net Income	70,198	174,622	167,003	127,022	173,784	247,256	233,906	252,662

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Assets								
Total Current Assets	696,288	687,114	840,511	812,285	859,169	972,523	999,751	1,038,073
<i>of which cash & cash eqv.</i>	<i>314,751</i>	<i>311,242</i>	<i>284,468</i>	<i>173,103</i>	<i>291,795</i>	<i>391,113</i>	<i>415,397</i>	<i>425,679</i>
Total Current Liabilities & Provisions	1,002,216	975,013	1,042,577	1,116,343	1,233,387	1,284,817	1,281,686	1,282,069
Net Current Assets	(305,929)	(287,898)	(202,066)	(304,057)	(374,218)	(312,294)	(281,935)	(243,995)
Investments	15,086	31,710	19,729	59,502	97,064	97,064	97,064	97,064
<i>of which</i>								
<i>Other Marketable</i>	<i>15,086</i>	<i>31,710</i>	<i>19,729</i>	<i>59,502</i>	<i>97,064</i>	<i>97,064</i>	<i>97,064</i>	<i>97,064</i>
Net Fixed Assets	378,638	422,726	451,119	528,951	595,741	657,819	725,785	786,439
<i>of which</i>								
<i>Capital Work-in-Progress</i>	<i>102,864</i>	<i>96,616</i>	<i>83,283</i>	<i>104,898</i>	<i>128,971</i>	<i>128,270</i>	<i>140,770</i>	<i>153,270</i>
Total Assets	272,701	352,176	457,639	501,454	569,046	693,048	791,373	889,967
Liabilities								
Borrowings	15,309	22,027	64,260	58,753	33,098	33,098	33,098	33,098
Deferred Tax Liability/(Asset)	-	-	-	-	-	-	-	-
Equity Share Capital	62,074	61,627	61,627	61,627	61,627	61,627	61,627	61,627
<i>Face Value per share (Rs)</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>
Reserves & Surplus	140,016	206,980	263,883	307,957	376,541	500,542	598,868	697,461
Net Worth	202,090	268,607	325,510	369,584	438,168	562,170	660,495	759,089
Total Liabilities	272,701	352,176	457,639	501,454	569,046	693,048	791,373	889,967

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Operating Cashflow	100,862	209,134	201,512	164,111	218,071	296,977	290,939	317,008
Working Capital Changes	197,054	7,611	(28,767)	16,978	218,363	37,395	(6,075)	(27,658)
Capital Commitments	(65,454)	(70,063)	(54,148)	(107,089)	(118,400)	(111,798)	(125,000)	(125,000)
Free Cashflow	232,461	146,681	118,597	74,000	318,034	222,573	159,864	164,350
Cashflow from Investing Activities	-	-	-	-	-	-	-	-
Issue of Share Capital	-	(447)	-	-	-	-	-	-
Buyback of shares	-	-	-	-	-	-	-	-
Inc (Dec) in Borrowings	(109,368)	(55,287)	(56,628)	(86,762)	(94,576)	-	-	-
Dividend paid -including tax	(119,834)	(94,456)	(88,743)	(98,604)	(104,766)	(123,255)	(135,580)	(154,068)
Extraordinary Items	-	-	-	-	-	-	-	-
Chg. in Cash & Bank balances	3,259	(3,509)	(26,774)	(111,365)	118,692	99,319	24,284	10,281

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data (Rs)								
EPS(Basic Recurring)	11.3	28.3	27.1	20.6	28.2	40.1	38.0	41.0
Diluted Recurring EPS	11.3	28.3	27.1	20.6	28.2	40.1	38.0	41.0
Recurring Cash EPS	21.7	42.2	41.7	29.0	41.5	54.3	53.3	57.5
Dividend per share (DPS)	16.5	13.1	12.0	16.0	17.0	20.0	22.0	25.0
Book Value per share (BV)	32.6	43.6	52.8	60.0	71.1	91.2	107.2	123.2
Growth Ratios (%)								
Operating Income	9.8	15.9	(3.5)	(6.3)	21.9	9.3	1.2	5.0
EBITDA	(21.8)	161.1	(12.2)	(15.3)	32.9	40.8	(4.5)	8.8
Recurring Net Income	(24.3)	148.8	(4.4)	(23.9)	36.8	42.3	(5.4)	8.0
Diluted Recurring EPS	(24.3)	150.6	(4.4)	(23.9)	36.8	42.3	(5.4)	8.0
Diluted Recurring CEPS	(9.5)	94.7	(1.1)	(30.5)	43.1	30.9	(1.8)	7.9
Valuation Ratios (x)								
P/E	19.0	7.6	7.9	10.4	7.6	5.4	5.7	5.2
P/CEPS	9.9	5.1	5.2	7.4	5.2	4.0	4.0	3.7
P/BV	6.6	4.9	4.1	3.6	3.0	2.4	2.0	1.7
EV / EBITDA	6.9	3.3	4.9	6.2	3.5	2.4	2.4	2.3
EV / Operating Income	1.2	1.0	1.1	1.3	0.9	0.7	0.7	0.7
EV / Operating FCF	4.3	6.8	9.1	15.6	3.0	3.9	5.3	5.1
Operating Ratios								
Employee cost / Revenue (%)	49.7	38.9	41.0	43.0	37.1	35.0	35.0	33.2
Operating exp / Revenue (%)	88.9	74.9	77.2	79.4	77.5	71.0	72.6	71.7
Other Income / PBT (%)	43.4	21.7	25.4	21.0	16.5	12.4	14.7	14.6
Effective Tax Rate (%)	34.6	35.6	30.6	29.5	26.4	26.0	26.0	26.0
WC / Total Assets (%)	(112.2)	(81.7)	(44.2)	(60.6)	(65.8)	(45.1)	(35.6)	(27.4)
Inventory Turnover	11.2	16.6	15.7	11.6	13.7	18.0	19.2	19.1
Receivables (days)	36.9	20.2	54.7	79.6	37.8	41.4	41.3	45.9
Payables (days)	-	-	-	-	-	-	-	-
Net D/E Ratio (%)	(148.2)	(107.7)	(67.7)	(30.9)	(59.0)	(63.7)	(57.9)	(51.7)
Profitability Ratios (%)								
Recurring Net Income Margins	8.2	17.5	17.4	14.1	15.8	20.6	19.3	19.8
RoCE	64.7	60.7	43.7	30.7	37.7	42.2	34.3	32.4
RoNW	68.2	65.0	51.3	34.4	39.7	44.0	35.4	33.3
Dividend Payout Ratio	145.9	46.6	44.3	77.6	60.3	49.8	58.0	61.0
Dividend Yield	7.7	6.1	5.6	7.4	7.9	9.3	10.2	11.6
EBITDA Margins	11.1	25.1	22.8	20.6	22.5	29.0	27.4	28.3

Source: Company data, I-Sec research

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