COAL INDIA LTD

A Fundamental Story

by

Alok Daiya’s Trading Desk

Report Date: 25.09.2020 Price: ₹117.10

ABOUT THE COMPANY

- **Coal India Limited (CIL)** is an Indian public sector coal mining and refining company headquartered in Kolkata, West Bengal, India. It is the largest coal-producing company in the world and a Maharatna public sector undertaking

- The company contributes around **82% to the total coal production** in India

- As of 14 October 2015, CIL's market capitalization stood at ₹2.11 lakh crore (US$30 billion) making it India's **8th most valuable company**

- CIL ranks **8th among the top 20 firms** responsible for a third of all global carbon emissions

OPERATIONS

- CIL is the largest coal producing company in the world

- CIL operates through 83 mining areas in 8 states in India. As on 1 April 2015, it has 430 coal mines out of which 175 are open cast, 227 are underground and 28 are mixed mines

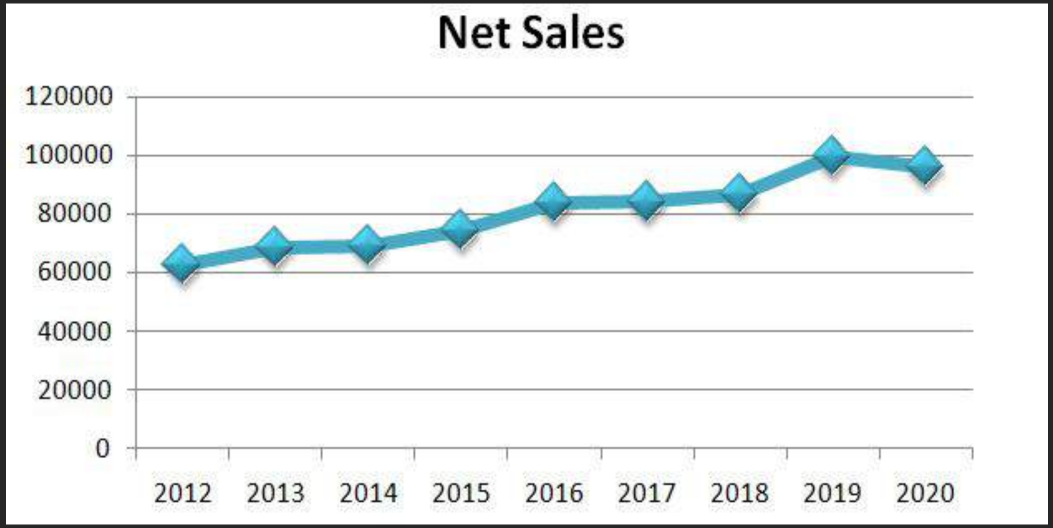
- CIL produces coal through seven of its wholly owned subsidiaries

Name of Subsidiary	Employees (as of 31 March 2015)	Revenue (₹ billion for FY2012-13)	Coal Production(in million Tons)		
			Coking Coal	Non-Coking Coal	Total Coal Production
Bharat Coking Coal Limited (BCCL)	56,051	89.37	26.970	4.243	31.213
Central Coalfields Limited (CCL)	45,011	92.38	16.156	31.905	48.061
Eastern Coalfields Limited (ECL)	68,681	97.40	0.043	33.868	33.911
Mahanadi Coalfields Limited (MCL)	22,259	120.93	-	107.894	107.894
Northern Coalfields Limited (NCL)	16,226	99.86	-	70.021	70.021
South Eastern Coalfields Limited (SECL)	67,800	176.48	0.157	118.062	118.219
Western Coalfields Limited (WCL)	50,071	74.23	0.330	41.957	42.287

GROWTH

NET SALES

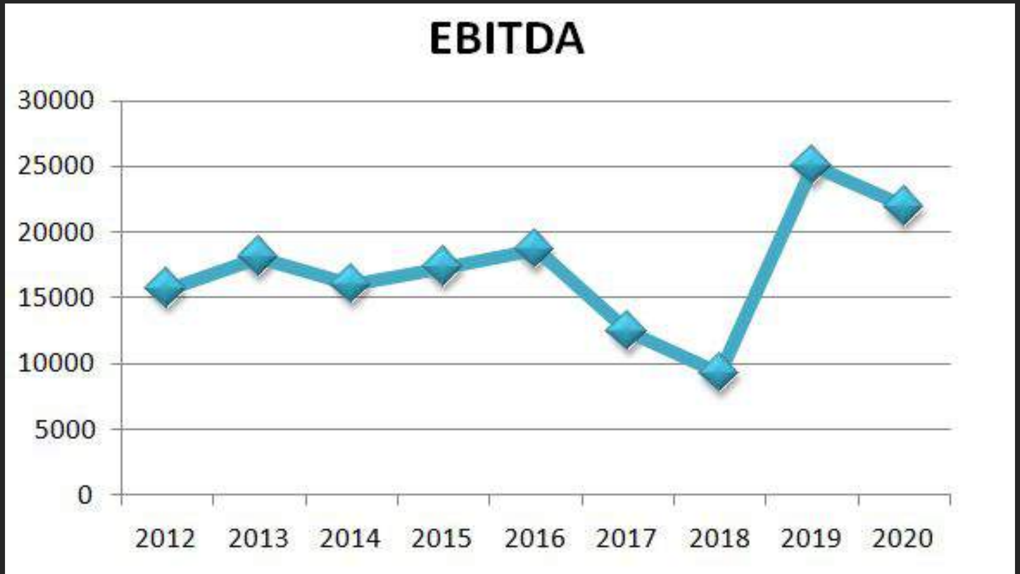
- Coal India net sales have been steadily increasing from the year 2012 till 2016 but have maintained a constant stance till 2018
- The net sales boomed in the year 2019 due to significant increase in sales
- However, in 2020, the sales declined due to the non functioning of industries and hence, lower demand due to the ongoing pandemic



GROWTH

*EBITDA

- Coal India EBITDA has been fluctuating because of the fluctuations in operating expenses and witnessed a steep low in the year 2018.
- The EBITDA reached a high in the year 2019 and an increase of almost 169% because of less operating expenses and high revenue in hand
- However, in 2020, the EBITDA decreased because of high contractual and fuel costs both of which were 15-16% higher than the estimates

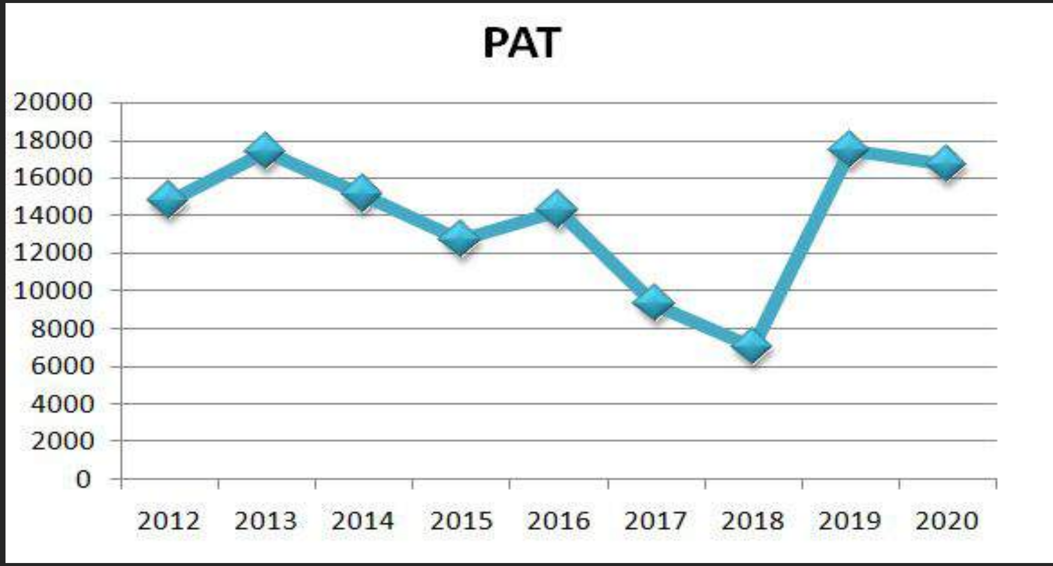


*EBITDA – Earnings before interest tax depreciation and amortization

GROWTH

*PAT

- Coal India PAT has been decreasing YoY mainly because of higher investments in plants
- The PAT reached a high in the year 2019 and an increase of almost 148% because of decrease in employee benefit expenses which is the second most heavy expense for the company
- However, in 2020, the PAT decreased because of a decline in revenue mainly due to less demand from power sector as well as closure of industries in the non-regulated sector due to COVID-19



*PAT – Profit After Tax

GROWTH POTENTIAL PARAMETER

A POTENTIAL PARAMETER is a graded measurement of certain aspects of a company on a scale of 1 to 10, 10 denoting the highest rating. Since judgment on equity is subjective because different people will have different expectation from their investments, it is better to study each aspect and give an individual grading to arrive at the final evaluation of a stock.

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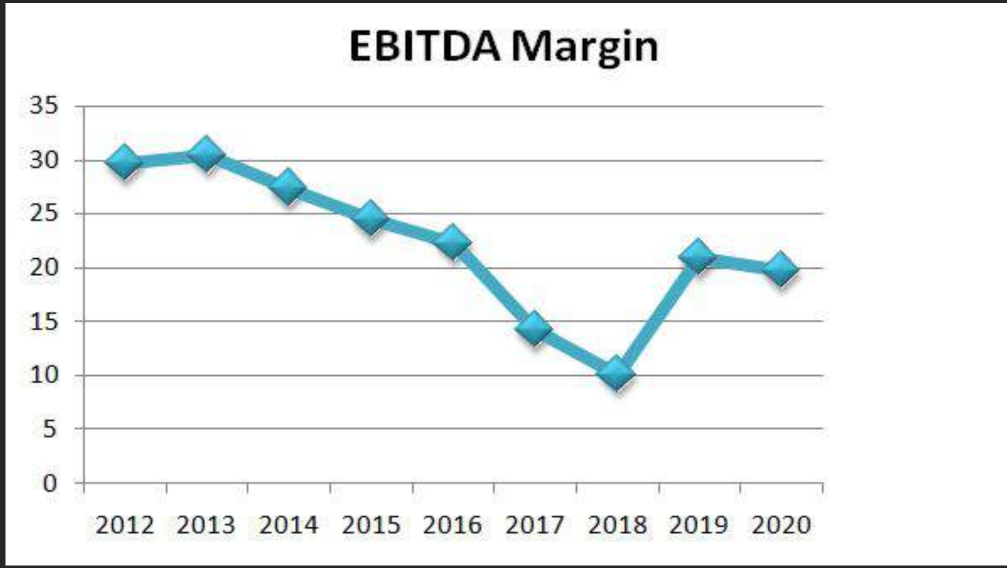
PROFITABILITY

EBITDA MARGIN

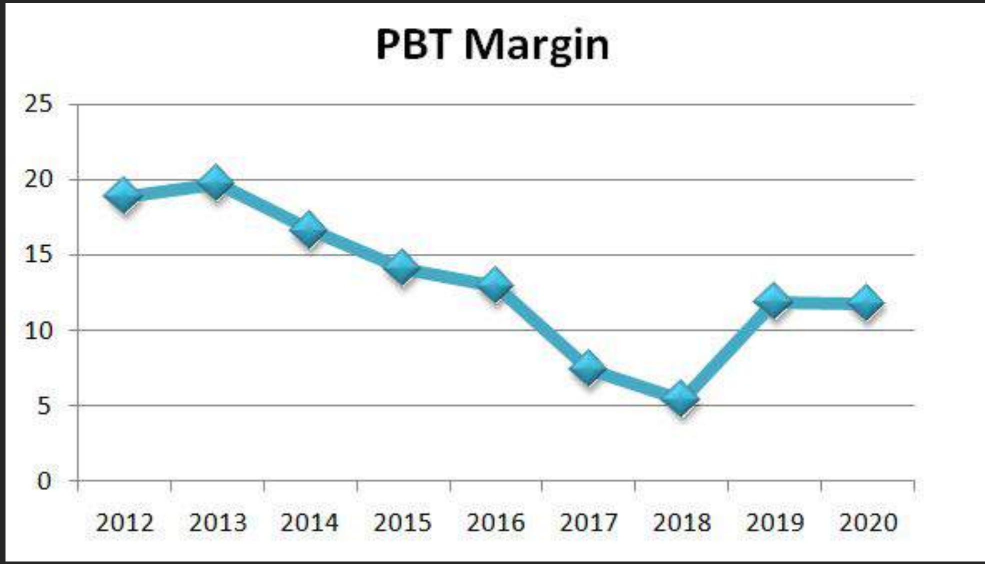
- Coal India EBITDA Margin has been declining till the year 2018 mainly because of a decrease in EBITDA as well as a decrease in revenue
- EBITDA margin saw a significant increase in the year 2019 mainly because of a high jump in EBITDA which was a result of lower operating expenses and high revenue
- However, in 2020, there was a decline in EBITDA margin because of the huge expenses incurred without an increase in the revenue for the company



PROFITABILITY

PBT MARGIN

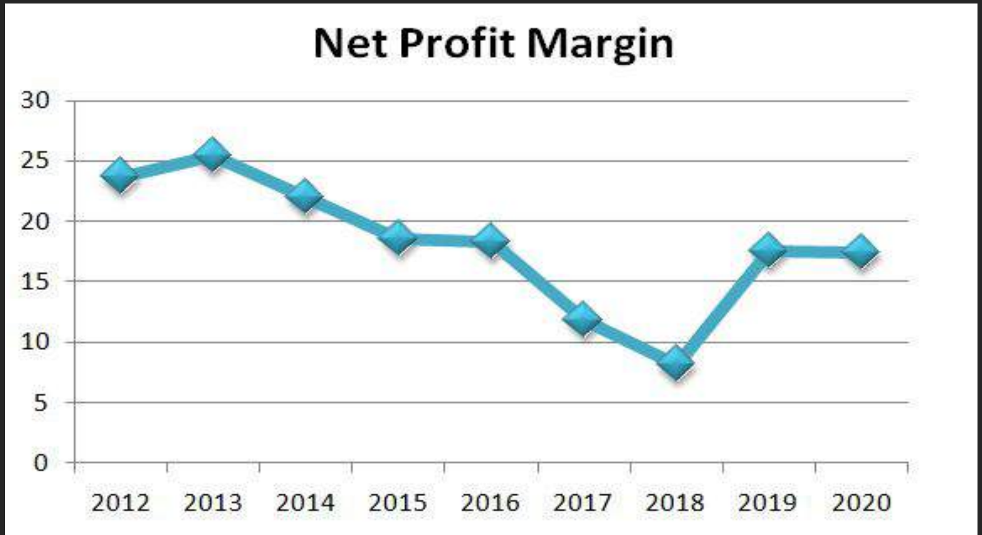
- Coal India’s PBT margin decreased till the year 2018 because of a contraction in profit as well as net sales.
- It witnessed an increase in the year 2019 mainly because of a significant increase in net sales for the company
- However, in 2020, the PAT margin decreased a bit because of a decrease in net sales attributing to less demand from the industries because of the pandemic



PROFITABILITY

NET PROFIT MARGIN

- Coal India’s NP margin continuously decreased till the year 2018 mainly because of contraction in profit and net sales
- It witnessed an increase in the year 2019 because of a huge increase in the net sales of the company to revive operations
- However, in 2020, the NP margin remained constant because the company was struggling to increase sales and profit due to the pandemic



PROFITABILITY POTENTIAL PARAMETER

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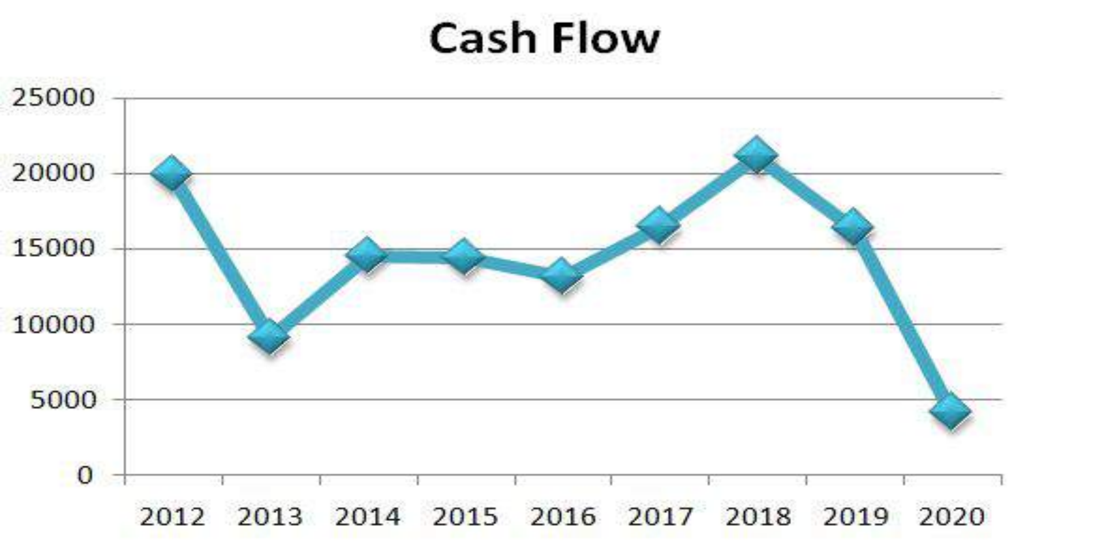
EFFICIENCY

CASH FLOW

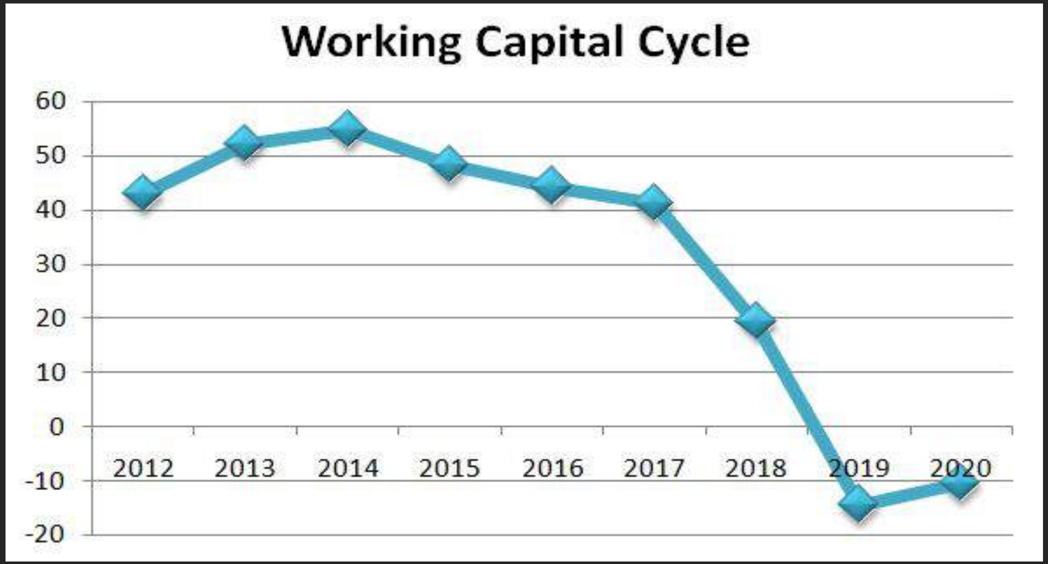
- Coal India CFO has been rich but experienced a major decline of almost 74% because of having cash crunch due to suspension in operating activities
- CFI has increased because of huge investments made in order to sustain
- CFF has been negative for the company which indicates that the company has been paying out capital



EFFICIENCY

WORKING CAPITAL CYCLE

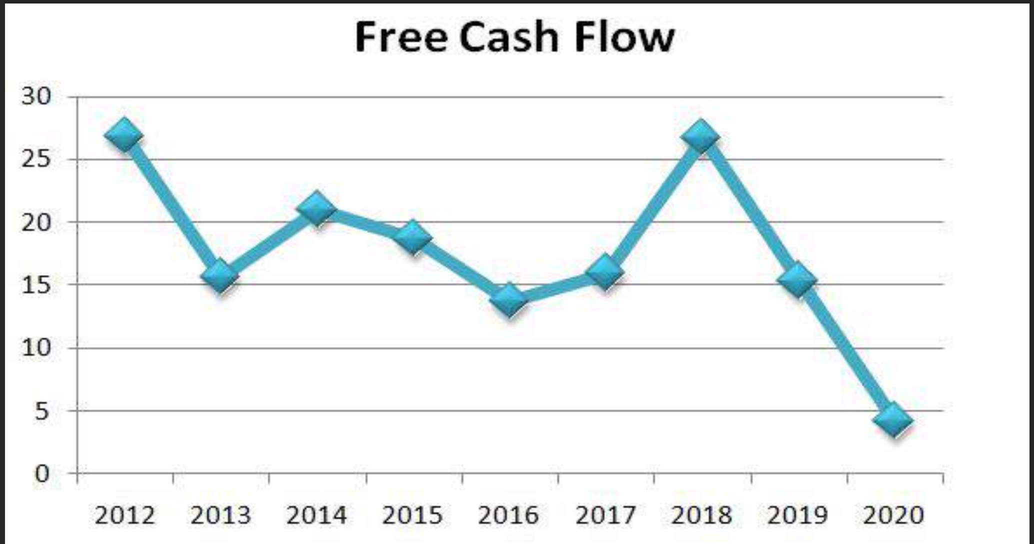
- Coal India working capital cycle has not been significantly strong but however it experienced a good phase in the year 2019 due to a significant decrease in days receivables and days of inventory
- However, in 2020, it experienced an increase because of an increase all the three days of receivables, payables and inventory



EFFICIENCY

FREE CASH FLOW

- Coal India has been witnessing a positive free cash flow mainly because of a positive cash flow from operations
- However, in 2020, free cash flow decreased significantly because the company was not able to generate enough cash from it’s main operations as there was suspension of activity because of the pandemic



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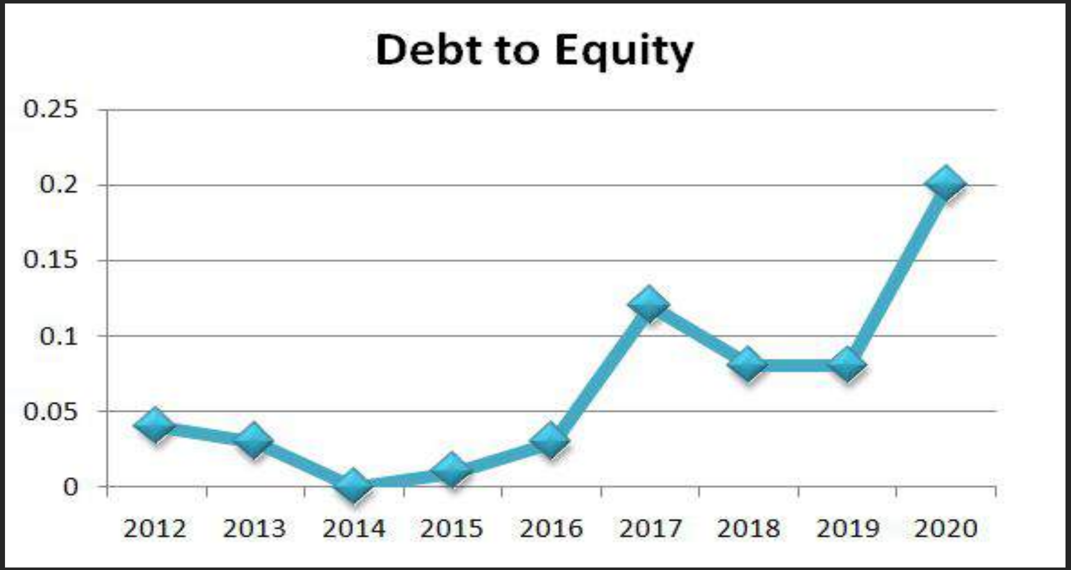
SOLVENCY

DEBT TO EQUITY

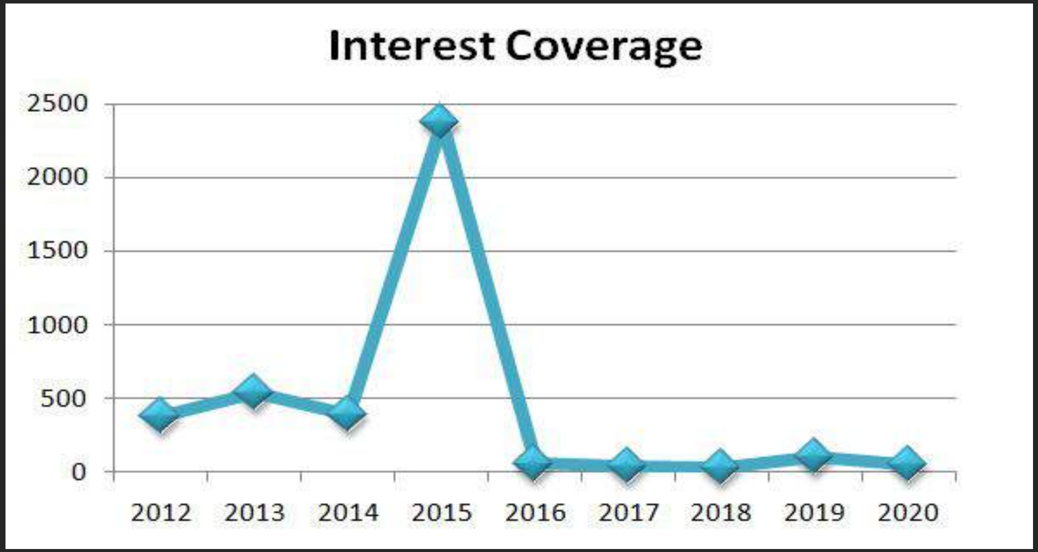
- Coal India's debt equity ratio has been lower over the years because of low borrowings and has been able to fund its major expenses through share capital
- However, in 2021, the company raised capital majorly through borrowings which increased by an approximate 12% and there was no increase in share capital



SOLVENCY

INTEREST COVERAGE

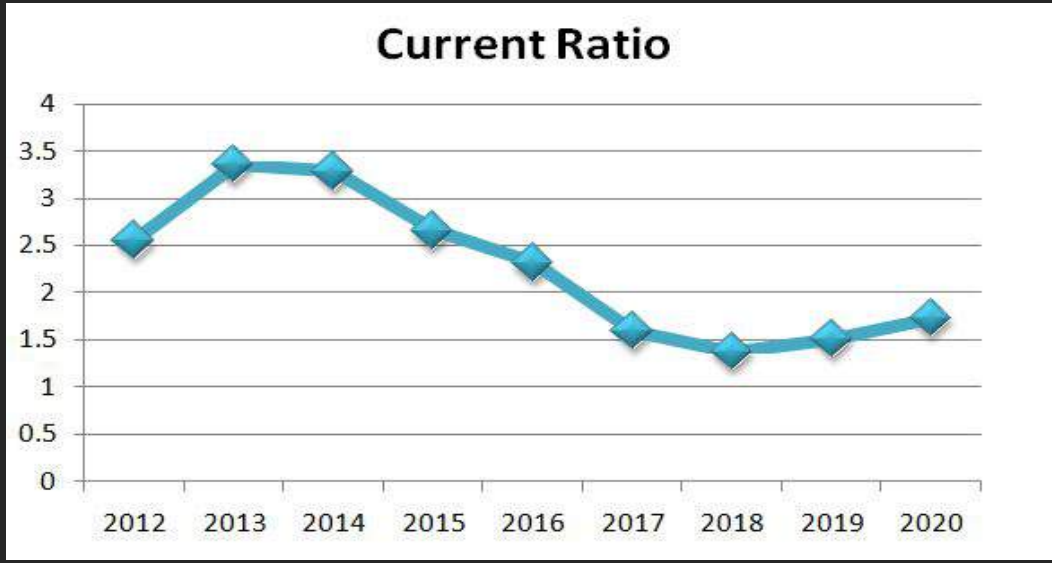
- Coal India's interest coverage ratio has been low during the years however it accelerated in the year 2015 because of recognition of interest in relation to the leases
- The interest coverage ratio has been negligible for the following years because of raising debt majorly from the government since it is a PSU



SOLVENCY

CURRENT RATIO

- Coal India’s current ratio declined and then gained momentum from the year 2018 mainly because decrease in current liabilities for the company
- The gain in current liability shows that the company has comfortable liquidity to meet the short term obligations.



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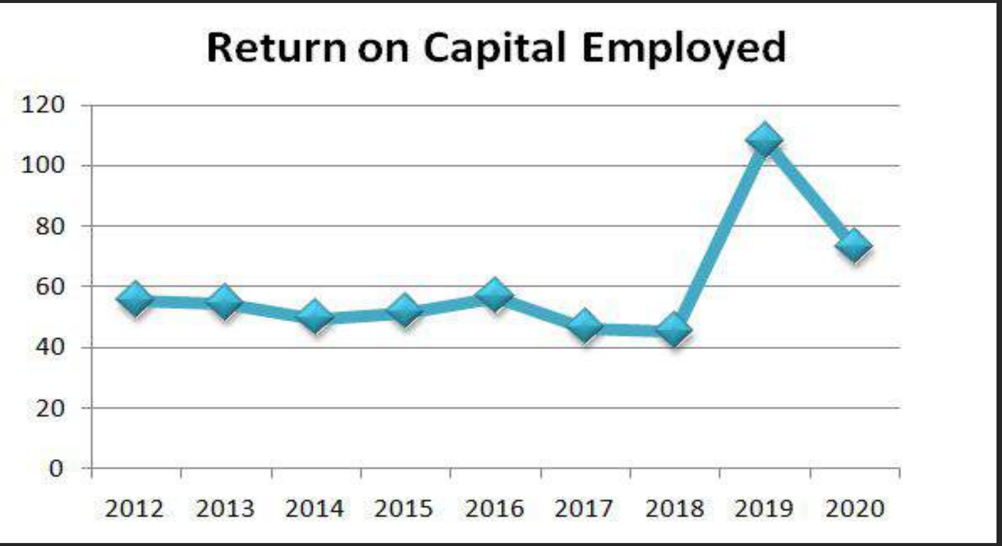
RETURN

*ROCE

- Coal India ROCE has maintained a constant stance till 2018 mainly because of a constant EBITDA
- It experienced a huge increase in the year 2019 mainly because of high value of assets and less liabilities combined with a high EBITDA
- However, in 2021, ROCE declined by 32% because of a decrease in earnings and a significant amount of current laibilities



*ROCE – Return on Capital Employed

RETURN

*ROE

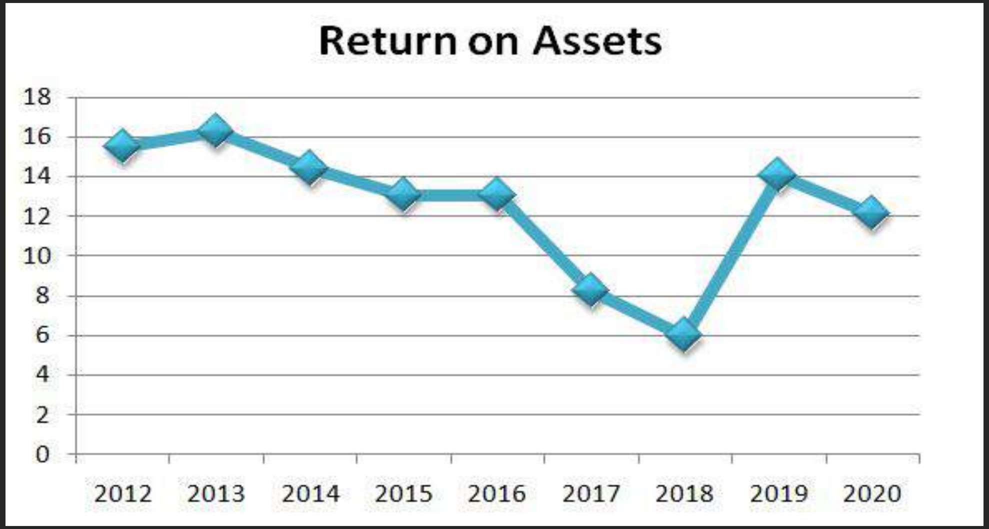
- Coal India ROE has maintained a constant stance till 2018 mainly because of a constant net income
- It experienced a huge increase in the year 2019 mainly because of increase in net income.
- However, in 2021, ROCE declined by 24% because of a decrease in net income and high borrowings in order to sustain the operations

*ROE – Return on Equity

RETURN

*ROA

- Coal India ROA decreased because of investment in huge asset bases because of new operations
- It experienced a huge increase in the year 2019 because the company started earning money on the investment base
- However, in 2021, ROA declined by 27% because of more investment in assets without generating much return



*ROA – Return on Assets

RETURN POTENTIAL PARAMETER

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VALUATION

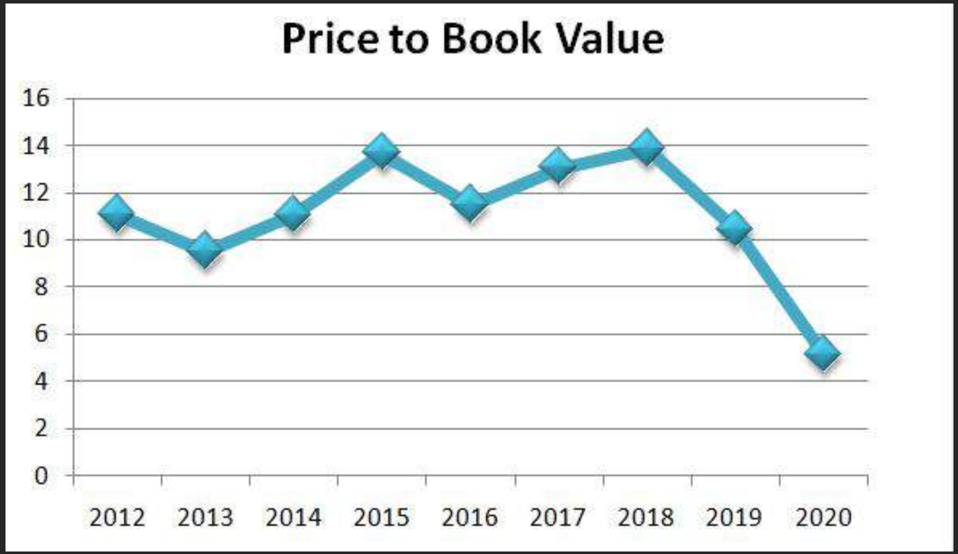
PRICE TO EARNINGS RATIO

- Coal India's P/E ratio has been fluctuating through the years however, it reached an absolute high in the year 2018 because of immense investor expectation of Coal India being a good investment opportunity in terms of it's competitors
- However, in 2021, the P/E ratio declined due to a decline in investor's expectations because of the ongoing pandemic and privatisation of coal sector

VALUATION

PRICE TO BOOK VALUE

- Coal India's P/B ratio has been fluctuating through the years. This ratio clearly indicates whether the company is undervalued or overvalued
- However, since 2018, the P/B ratio has been declining majorly because of decrease in an asset base and the price decrease is reflected in the year 2020



VALUATION

DIVIDEND YIELD

- Coal India has been constantly paying dividends to its investors since the year 2012
- The dividend yield for the year 2020 was 10% which is a strong dividend yield in comparison to its competitors

Book Value / Share	55.55	Trailing Twelve Months Ending 2020-06
Price to Book Value	2.15	Calculated using Price: 119.6
Dividend Yield	10.03	Period Ending 2020-03
No. of Shares Subscribed	616.27 Cr.	6,162,728,327 Shares
FaceValue	10	

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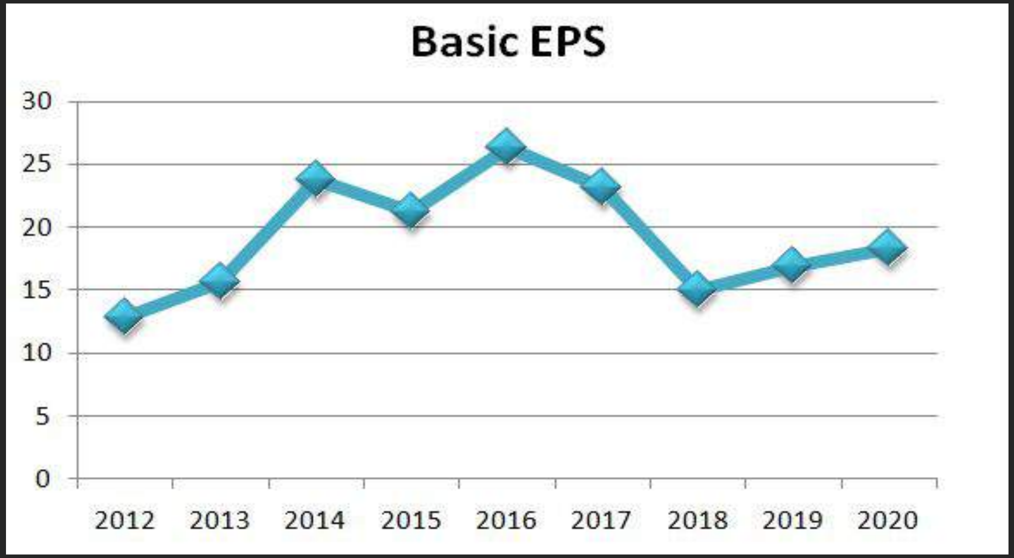
PER SHARE RATIOS

BASIC EPS

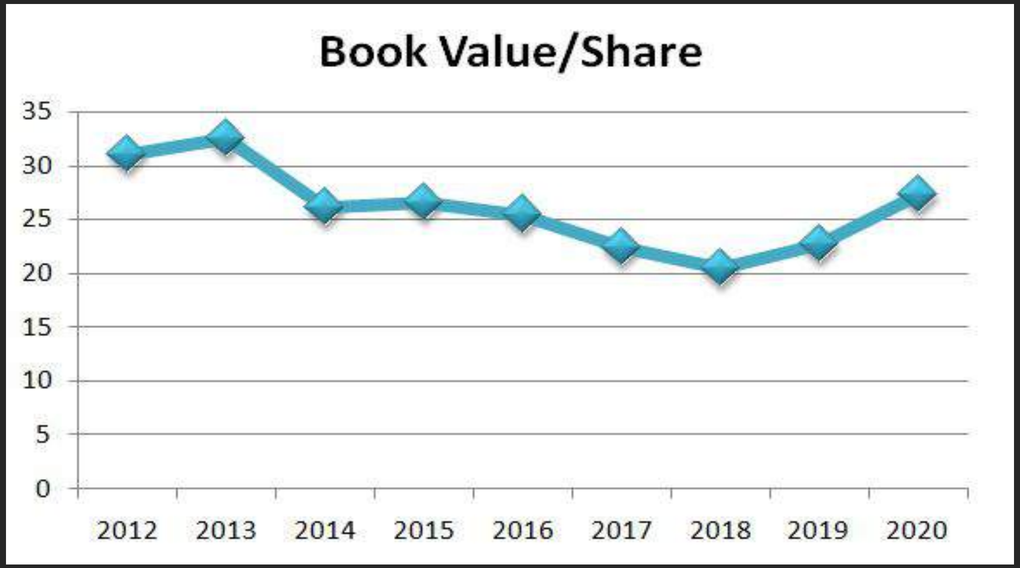
- The Basic EPS for the company has been fluctuating over the years because of investor's perception through the years
- It reached a low in 2018 and then gained momentum because of increasing profits, revenues and this translated directly into investor confidence



PER SHARE RATIOS

BOOK VALUE/SHARE

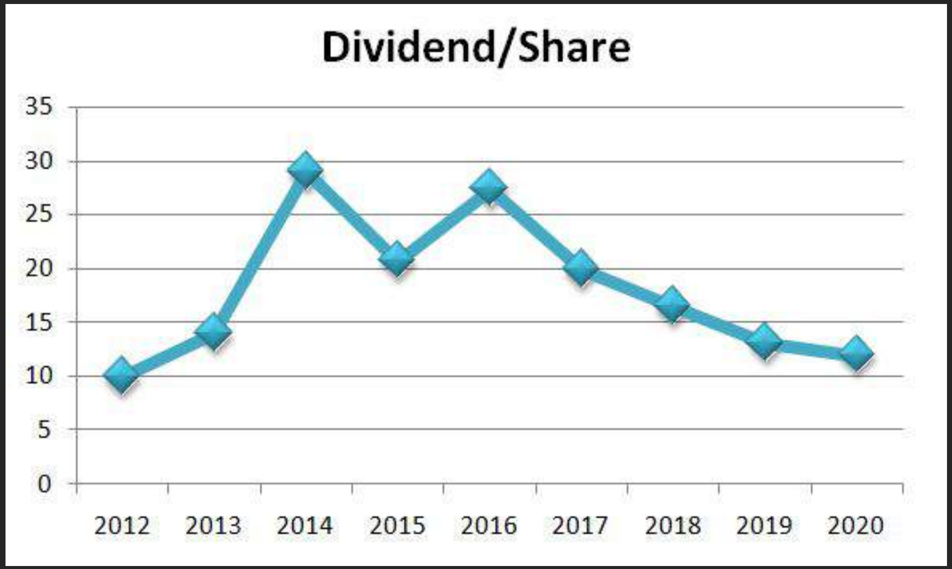
- The book value per share for the company has been somewhat similar over the years.
- It experienced a low in 2018 and then started increasing because of issuing common equity and an increase in earnings majorly in the year 2019



PER SHARE RATIOS

DIVIDEND/SHARE

- The company has been regularly paying dividends since 2010 however, the company paid huge amount of dividends in the year 2014 and 2016 in order to attract investors
- However, after 2016, the company has been retaining most of its earnings because of investment in new operations and projects



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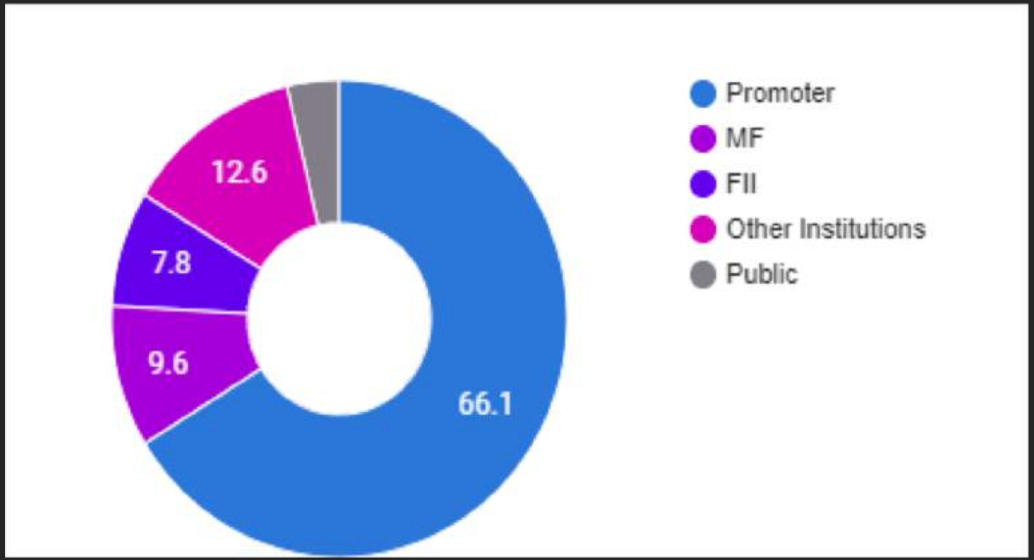
QUALITY

SHAREHOLDING PATTERN

On 30 January 2015, 79.65% of the equity shares of the company were owned by the Government of India and the remaining 20.35% were owned by others. On 30 January 2015, in an Offer For Sale (OFS), Government of India sold a further 10% stake in CIL. Priced at ₹358 (equivalent to ₹440 or US$6.10 in 2019) per share, the sale fetched the government ₹22,557.63 crore (US$3.2 billion), making it the largest ever equity offering in the Indian share market. On 18 November 2015, Government of India approved another 10% stake sale in CIL.



QUALITY

SECTOR POTENTIAL

- India has the fifth largest coal reserves in the world.
- The country's coal production has increased from~431 MT in 2006-07 to ~554 MT* in 2011-12 (an increase of 28.5%). On the other hand, the demand for coal has grown at a CAGR of more than 7% in the last decade and has reached around 600 MT
- Currently, the government enjoys a monopoly in producing coal with over 90% of the production coming from government-controlled mines. The policy for captive mining was introduced in 1993.
- Although India has the fifth largest reserves of coal in the world, it is not able to meet its domestic demand. Since FY 04, the country's coal import has grown at a CAGR of 15% (till 2010-11). During the same period the thermal coal import grew at a CAGR of ~25%. According to projections, India's coal import requirement will be more than 200 MT by the end of the 12th Five Year Plan.

QUALITY

FUTURE PROSPECTS

- Coal India (CIL) is looking beyond solid fuel to remain relevant in future, when fossil fuel would give way to renewable, and becoming a dominant player in the energy space. It is planning to set up 20,000 MW of solar capacity over the next 10 years, which will entail an investment of Rs 100,000 crore.
- It will also scale up its efforts towards adoption of clean coal technologies and commercialisation of coal-to-liquid, coal-to-gas and CBM projects.
- For the solar expansion, CIL proposes to use about 40,000 hectares of surplus land. It would add capacity in phases and may rope in other PSU players as well to jointly develop projects.
- CIL also holds about 80 per cent of the CBM bearing areas and the government's move to grant it the rights to explore coal seam gas would help the company expedite production of gas.

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POTENTIAL PARAMETER

8 Potential Parameters	Score
Growth	7
Profitability	7
Efficiency	6
Solvency	8
Return	7
Valuation	7
Per Share Basis	7
Quality	9
TOTAL	58

Would suggest a BUY call for Coal India Ltd. The share prices have fallen drastically due to the pandemic as well as due to privatisation of coal industry, however, this 45 year old public undertaking stands strong and the bright future prospects makes it an attractive investment in the days to come.

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