

# Pick of the week



## Coal India Ltd

### Recommendation

**Buy**

### Time Period

**12 Months**

### Current Price

**₹ 138**

### Target Price

**₹ 180**

### Potential Upside

**30.4%**

## Investment Argument

- Coal India (CIL) reported improvement in performance in 2QFY21 aided by 9.4% YoY increase in sales volume, reversal of overburden provision of Rs570 cr and 44% YoY increase in e-auction volumes despite weak auction prices.
- Operationally, production in 2QFY21 stood at 115 mn tons (+10.6% yoy) and sales at 134 mn tons (+9.4% yoy). Coal production target for FY21 is at 660 mn tons.
- Coal India declared interim dividend of Rs7.5/share in November 2020. Management is hopeful of exceeding FY2020 dividends of Rs74 bn (Rs13/share), while in the process for formalizing a transparent payout policy. Dividend yield is expected to be around 16.4% as on report date.
- We expect EBITDA/tonne to decline in FY21 to Rs166/tonne and increase gradually in FY22E and FY23E to Rs175/tonne and Rs182/tonne, respectively. We expect CIL to report Freecash flow (FCF) of Rs31,238 cr during FY21-23E.
- CIL remains attractively valued on adjusted earnings of FY22E. We have a Fair Value of Rs.180 based on Mar'22 earnings. We value the core business at 8x FY22E.