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Is Govt biggest destructor of national wealth?



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Sharing operational numbers of a PSU company. It will be an interesting read for people who are dug deep in capital markets and who invariably talk about value investing. It is also an eye opener on how Governments can be so short-sighted and will do everything that destroys the wealth of such enterprises.

INR in Crores	Mar'11	Mar'12	Mar'13	Mar'14	Mar'15	Mar'16	M
Net Sales	50229	62415	68302	68810	74120	78007	78

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PBDIT Margin %	36.53	37.17	39.28	36.23	32.25	31.61	20
PBT Margin %	32.87	33.93	36.56	33.24	29.11	27.48	18
ROCE %	18.35	20.32	20.68	18.93	16.71	17.51	20
ROE %	32.62	36.55	35.79	35.63	34.01	40.95	37
Debt/Equity (x)	0.04	0.03	0.02	0.00	0.01	0.03	0.
Basic EPS	17.19	23.47	27.63	23.92	21.73	22.59	14

The above data are Audited numbers for the past 10 financial years of Coal India Limited. Show this to an Equity analyst and he will be keen to look at the company a bit closely. Give him a proposition that this company was available for an EV/EBIDTA in single digit (around 9x) at the start of the period (March'11) and if he still wishes, there is a window which allows him to invest at that price point even today. It might not be surprising that his eyes will glow with excitement. Make him further aware, that this company operates in an almost

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monopolistic situation, and I can bet this guy will jump of his chair to grab the stock.

Assuming his senses fall for the value (trap), let us see how his investment has grown over the years. To his utter dismay, he will find almost 40% of his wealth eroded. The table below details the yearly drop in EV/EBIDTA from 9.53 to 3.81 despite making excellent ROCE.

INR in Crores	Mar'11	Mar'12	Mar'13	Mar'14	Mar'15	Mar'16	Mar'17
Enterprise Value	174833	159898	134175	129693	176280	147719	110000
EV/EBIDTA (x)	9.53	6.89	5.01	5.19	7.37	5.99	3.81

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Market Cap / Operating rev (x)	4.36	3.47	2.86	2.64	3.09	2.36	2
INR 100 investment @	100	91	77	74	101	84	8

@dividends not accounted for

The poor chap might be completely lost and wondering what hit him.

An enterprise which has been consistently making profits from inception, generating high level ROCE for consecutive ten years, has doubled the sales in the past ten years and enjoys near monopolistic status has negative returns!!! How regressive that could be? What could have happened?

Well this is what has happened...

INR in Crores	Mar'11	Mar'12	Mar'13	Mar'14	Mar'15	Mar'16	Mar'
Profit after tax	10867	14788	17356	15111	13726	14267	9281

Dividend (A)	2463	6316	8842	18317	13074	17307	1235
Dividend pay-out %	22.66	42.71	50.94	121.21	95.25	121.31	133.1

Look at the numbers in the above table and notice that the company has been drained of cash flows year on year. A massive amount of Dividend-payout ratio which at times has been

~150% of that year's profits. Even the aggregate outflow on account of Dividend in the

mentioned period has been mind-blowing 90% of the cumulative profits of the same period. Should we infer that the business doesn't need cash for expanding / innovating and growing that there is negative retention ratio? Has the company stopped growing? Do we therefore infer that it is folding? But don't the sales give a different direction. Should not such companies, which form the pillar of Indian Economy, be boosted with reserves so that our dependency on energy is secured? Should not the majority owner (the Govt of the day) be answerable? As to why this company is milked as if there is no tomorrow!!!

It all boils down to the myopic view, every other Govt has shown in milking such Navratnas. Just to window dress the Financial Budget announced year on year and to show the adherence on the fiscal deficit number (and more to get the

pat of those financial experts immediately after the budget speech) the majority owners (The Government in this case) arm twists the PSU's for a dividend pay-out which is financially toxic for the enterprise. Add to the woes of the PSE - this financially obnoxious move comes along with the massive Dividend-tax that only increases with such largess. It is sometimes the later part which forces the Govt of the day to call for pay-out ratios as high as 150% of the profits.

Should companies be permitted to draw dividend more than profits of that particular year? Should the majority shareholders barge their decisions on minority, when the motive is ulterior to the interest of the enterprise? Let me help you with some numbers: - For every 100 Rupee that is declared as dividend the Government gets INR 20 as Dividend tax (haven't counted the surcharges etc). Which means to begin-with, there is only INR 80 to be distributed as against the original INR 100. Understand, that both, the Dividend and the Div-Tax go into the same kitty, filling the Revenues of the Financial Budget which goes to reduce the fiscal deficit. The minority shareholders, sitting on 25% of holding lands up getting INR 20 out of that INR 100 declared as dividend - an unequal distribution. Ask every shareholder other than Govt - and they would want small or almost zero dividend. They would be happy seeing their Book value grow. But majority prevails. Where is SEBI in this whole scheme of things? Wasn't it created to take care of minority shareholders? Sick situation happening year on year.

If the above is not enough - try and work on the taxes which this PSU pays dues to such large dividend pay-outs. Only the Direct taxes counted which includes the Corporate taxes plus the Dividend Tax and you will be amazed to see that in those absurd years, it has reached 60% of that year's profits - Higher than few

MNC's. Domestic companies taxed higher than foreign companies and we talk of sovereignty.

The consequence - slowly such great Navratna called 'Coal India Limited', will become another 'Air-India' or 'BSNL' or 'MTNL' or 'HMT' - umpteen examples to see their fate. And surprisingly, the Government has been the biggest loser over long term in terms of Market Capital - but who is looking at Long term.

Let us raise our red flag on such short term moves by the Govt, or else it will be soon that we start paying our taxes (our hard-earned income) to support the losses of another sick PSU.

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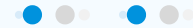
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