Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Coal India Ltd

Higher e-auction prices drive Q1 beat

Energy & Utilities	Sharekhan code: COALINDIA

Reco/View: Buy	↔	CMP: **Rs. 219**	Price Target: **Rs. 260**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 37.19

Updated Jul 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

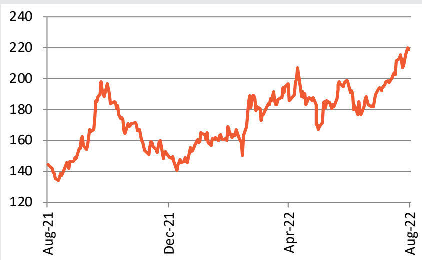
Company details

Market cap:	Rs. 1,34,717 cr
52-week high/low:	Rs. 226/133
NSE volume: (No of shares)	158.7 lakh
BSE code:	533278
NSE code:	COALINDIA
Free float: (No of shares)	208.7 cr

Shareholding (%)

Promoters	66.1
FII	6.5
DII	22.5
Others	4.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.8	31.1	31.3	51.4
Relative to Sensex	2.7	19.0	29.2	43.3

Sharekhan Research, Bloomberg

Summary

- Consolidated Q1FY23 PAT of Rs. 8,833 crore (2.8x y-o-y, up 32% q-o-q) was 50% above our estimates, led by a beat in blended realisations at Rs. 1,831/tonne (up 10% q-o-q), efficient cost management (employee cost down 3% y-o-y) and lower-than-expected depreciation that was offset by a higher tax rate.
- E-auction realisations rose 78% q-o-q to Rs. 4340/ tonne, with e-auction premium of 200% versus 65% in Q4FY22 while FSA realisation rose 3.5% y-o-y to Rs. 1443/tonne. In-line coal offtake at 178mt (up 11% y-o-y); FSA volume grew by 21% y-o-y, while e-auction volume declined by 31% y-o-y.
- Coal offtake is strong with a 10% y-o-y rise in FY23YTD and we have increased our FY23-24 earnings estimates by 36%/16% to factor in higher auction realisations. Potential stake sale in Bharat Coking Coal Limited (BCCL) and subsequent listing would unlock value.
- Stock trades at attractive valuation of 4.8x its FY2024E EPS (close to trough valuation) and offers a high dividend yield of 12-13%. Hence, we maintain a Buy with a revised PT of Rs. 260 (reflecting rise in earnings estimates).

Coal India Limited (CIL) reported stellar Q1FY23 numbers with a 46% beat in operating profit at Rs. 12,251 crore (up 153% y-o-y; up 35% q-o-q). The large beat was led by sharply higher-than-expected blended realisations of Rs. 1,831/tonne (up 26% y-o-y and 9.8% q-o-q) versus our estimate of Rs. 1,644/tonne and efficient cost management (employee cost down 3% y-o-y). In-line coal offtake at 178 million tonnes (up 10.6% y-o-y; down 1.5% q-o-q) with a robust 21% y-o-y growth in FSA volume to 154 million tonnes offset by 31% y-o-y decline in e-auction volume at 21 million tonnes. E-auction realisation surged 2.8x y-o-y and 78% q-o-q to Rs. 4,340/tonne (e-auction premium of 200%) while FSA realisation was up by 3.5% y-o-y to Rs. 1,443/tonne. Thus, EBITDA/tonne stood at Rs. 690 (up 2.3x y-o-y; up 37% q-o-q) and was 46% above our estimate. Resultantly, PAT of Rs. 8,833 crore (up 179% y-o-y; up 32% q-o-q) was 50% above our estimate of Rs. 5,888 crore, led by higher e-auction realisation and sharply lower-than-expected depreciation partially offset by higher tax rate of 26.8% (versus assumption of 25.2%).

Key positives

- Strong growth of 2.8x/78% y-o-y/q-o-q increase in e-auction realisation to Rs. 4,340/tonne.
- Coal offtake volumes grew by 10.6% y-o-y to Rs. 178 million tonne, led by 21% y-o-y rise in FSA volume.

Key negatives

- Lower-than-expected e-auction volume of 21 million tonnes, down 31% y-o-y.

Revision in estimates – We have raised our FY2023-FY2024 earnings estimates to factor higher e-auction realisation.

Our Call

Valuation – Maintain Buy on CIL with a revised PT of Rs. 260: Improving earnings growth outlook (expect a 27% PAT CAGR over FY2022-FY2024E), high RoE of ~52%, and dividend yield of 12-13% make CIL's valuation attractive at 3.9x/4.8x its FY2023E/FY2024E EPS (close to trough levels). CIL's board has given in-principle approval to divest a 25% stake in Bharat Coking Coal Limited (BCCL) and awaits approval from the government. Stake sale and a potential listing could help unlock value. We maintain a Buy recommendation on CIL with a revised price target (PT) of Rs. 260.

Key Risks

Lower-than-expected volume offtake amid any weakness in electricity demand and realisations (especially for e-auction) could affect margins and earnings outlook. The government's divestment plan could act as an overhang on the stock.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	90,026	1,09,714	1,30,868	1,26,356
OPM (%)	20.6	22.5	34.2	28.8
Adjusted PAT	12,700	17,358	34,563	28,059
% YoY growth	-24.0	36.7	99.1	-18.8
Adjusted EPS (Rs.)	20.6	28.2	56.1	45.5
P/E (x)	10.6	7.8	3.9	4.8
P/B (x)	3.7	3.1	2.7	2.4
EV/EBITDA (x)	6.6	4.4	1.9	2.4
RoNW (%)	37.0	43.6	73.6	52.1
RoCE (%)	38.9	45.1	77.0	56.3

Source: Company; Sharekhan estimates

Stellar Q1; earnings beat estimates as e-auction realisations surge

Q1FY23 performance was robust with a 38.8%/7.3% y-o-y/q-o-q increase in revenue to Rs. 35,092 crore, which was 12.5% above our estimate of Rs. 31,200 crore led by strong blended realisation at Rs. 1,831/tonne (up 26% y-o-y and 9.8% q-o-q) versus our estimate of Rs. 1,644/tonne and decline of 3% y-o-y in employee cost. Coal offtake, at 177.7 million tonnes, was in line with our estimate and up 11% y-o-y. Operating profit of Rs. 12,251 crore (up 153% y-o-y; up 35% q-o-q) was 46% above our estimate of Rs. 8,421 crore on the account of better-than-expected e-auction realisations of Rs. 4340/tonne (up 2.8x y-o-y; up 79% q-o-q) while overall operating cost per tonne at Rs. 1,286 was in line with our estimate. PAT at Rs. 8,833 crore (up 179% y-o-y; up 32% q-o-q) was 50% above our estimate of Rs. 5,888 crore, led by higher realisations and a lower-than-expected depreciation partially offset by a higher tax rate.

Results (Consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	**35,092**	**25,282**	**38.8**	**32,707**	**7.3**
Total Expenditure	22,841	20,438	11.8	23,628	-3.3
Operating profit	**12,251**	**4,844**	**152.9**	**9,079**	**34.9**
Other Income	995	681	46.0	1789	-44.4
Interest	150	148	1.8	121	24.3
Depreciation	994	1,041	-4.5	1,412	-29.6
PBT	**12,101**	**4,337**	**179.0**	**9,335**	**29.6**
Tax	3,243	1,161	179.2	2,620	23.8
PAT before share of profit from JVs and MI	8,858	3,175	179.0	6,714	31.9
Share of profit from JVs	-24	-1		1	NA
Minority interest	1	4		22	-93.8
Reported PAT	**8,833**	**3,170**	**178.7**	**6,693**	**32.0**
O/S Shares (cr)	616	616		616	
Reported EPS (Rs.)	14.3	5.1	178.7	10.9	32.0
Margins (%)			**BPS**		**BPS**
OPM	34.9	19.2	1575.1	27.8	715.2
NPM	25.2	12.5	1263.3	20.5	470.7
Tax rate	26.8	26.8	1.8	28.1	-127.1

Source: Company; Sharekhan Research

Key operating performance

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Coal production (mt)	160	124	28.9	209	-23.6
Coal offtake (mt)	177	160	10.6	180	-1.5
Blended realisation (Rs. /tonne)	1,831	1,452	26.1	1,667	9.8
FSA realisation (Rs. /tonne)	1,443	1,394	3.5	1,474	-2.2
E-auction realisation (Rs. /tonne)	4,340	1,569	176.6	2,434	78.3
Adjusted EBITDA excluding OBR (Rs. /tonne)	719	290	147.7	690	4.1

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – India's coal demand expected to reach 1,250-1,500 million tonne with increased power generation

Coal accounts for 55% of India's total commercial energy production. Although its share in India's overall energy mix is expected to fall over the next decade, it would remain a primary energy source and absolute coal offtake is expected to improve given higher demand from sectors such as power and steel. Industry estimates suggest that India's coal demand could reach 1,250-1,500 million tonnes by FY2030, assuming a 6-8% growth in power demand and despite considering growth in renewable energy capacity to 450 GW by FY20230 (from 123 GW in FY2019).

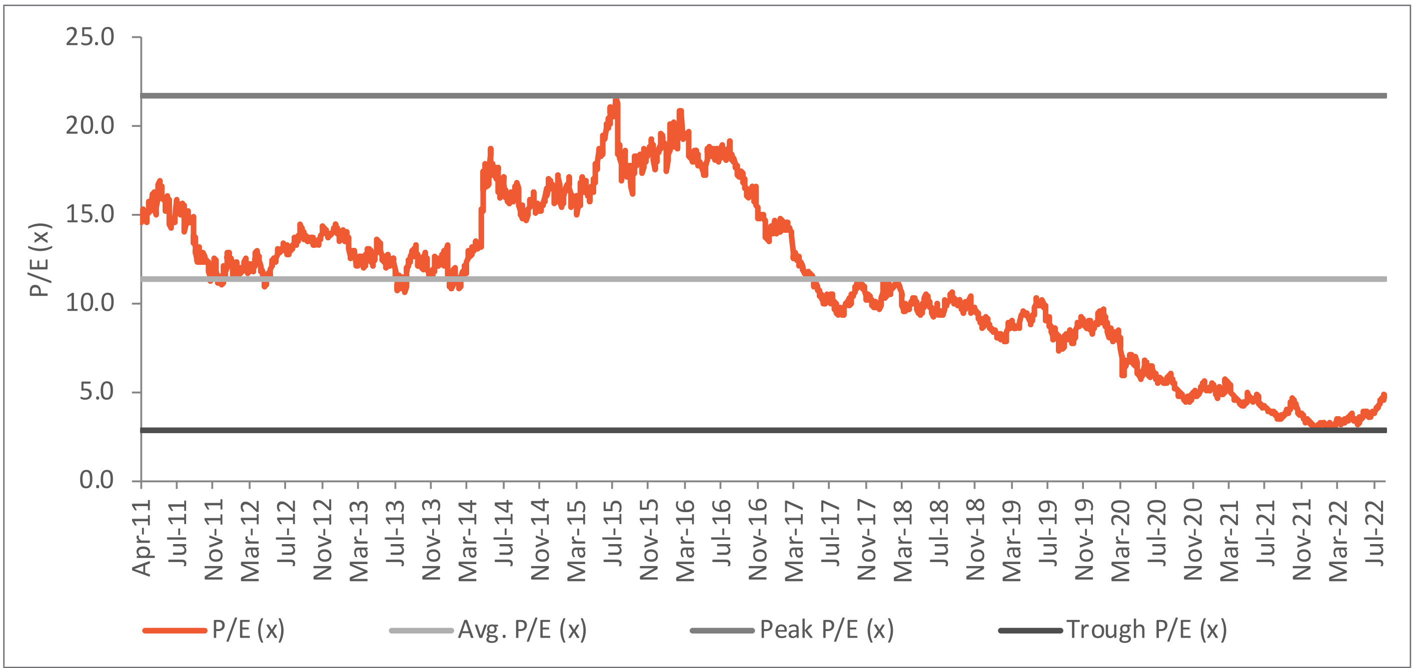
■ Company outlook – Improving volume and likely higher realisation to drive earnings recovery

CIL's earnings outlook has improved considerably as coal shortage bodes well for volume growth while improving e-auction realisation given elevated international coal prices would improve CIL's earnings profile. Thus, we expect a strong 27% PAT CAGR over FY2022E-FY2024E.

■ Valuation – Maintain Buy on CIL with a revised PT of Rs. 260

Improving earnings growth outlook (expect a 27% PAT CAGR over FY2022-FY2024E), high RoE of ~52%, and dividend yield of 12-13% make CIL's valuation attractive at 3.9x/4.8x its FY2023E/FY2024E EPS (close to trough levels). CIL's board has given in-principle approval to divest a 25% stake in Bharat Coking Coal Limited (BCCL) and awaits approval from the government. Stake sale and a potential listing could help unlock value. We maintain a Buy recommendation on CIL with a revised price target (PT) of Rs. 260.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

About the company

CIL is engaged in the production and sale of coal. The company operates through ~82 mining areas across eight states and contributes to 82% of India's coal production. The company's products include coking coal (used in steel making and metallurgical industries), semi-coking coal (used in steel making, merchant coke manufacturing, and other metallurgical industries), non-coking coal (mainly used in power generation; also used for cement, fertiliser, glass, ceramic, paper, and chemical), and washed and beneficiated coal (manufacturing of hard coke for steel making, power generation, cement, and sponge iron).

Investment theme

The government's plans to increase coal production to substitute imports (stands at more than 200 million tonne) would help CIL to register sustainable volume growth over the next couple of years. Moreover, cost-control initiatives such as reduction of manpower (employee cost accounts for 53-54% of overall cost) would cushion margins. Moreover, valuations are at a steep discount to historical averages and the stock offers high dividend yield.

Key Risks

- Lower-than-expected volume offtake and realisation (especially e-auction) could impact margin and earnings outlook.
- The government's divestment plan could act as an overhang on the stock.

Additional Data

Key management personnel

Pramod Agrawal	Chairman and Managing Director
S. Sarkar	Director – Finance
Binay Dayal	Director – Technical

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	11.0
2	HDFC Asset Manangement Co. Ltd	4.2
3	Nippon Life India Asset Management Ltd	2.4
4	Vanguard Group Inc./The	1.1
5	Bharat 22	1.1
6	BlackRock Inc.	0.9
7	ICICI Prudential Asset Management Co. Ltd/India	0.9
8	SBI Funds Management Pvt. Ltd	0.7
9	Aditya Birla Sun Life Asset Management Co. Ltd	0.4
10	Lazard Ltd.	0.3

Source: Bloomberg (Old data)

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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