

## On strong footing...

**About the stock:** Coal India (CIL) is one of the largest coal producers in the world. In FY22, CIL produced 623 million tonnes (MT) while offtake was at 662 MT.

- CIL has 345 mines (as on April 1, 2021) of which 151 are underground, 172 open cast and 22 mixed mines
- CIL has extensive mining capabilities. It possesses advanced technology in open cast mining

### Key highlights of Q1FY23 Earnings Call:

- For FY23, CIL has maintained its production target of 700 million tonnes (MT). Of the 700 MT target for FY23 the production break-up is ~44% during H1FY23 and ~56% during H2FY23
- For FY22, the company incurred a capex of ₹ 15401 crore against the targeted capex of ₹ 14685 crore. Capex for Q1FY23 was at ₹ 3034 crore. For FY23, CIL is targeting capex to the tune of ₹ 16500 crore
- The company is aiming to achieve 1 billion tonnes (BT) of coal production by FY26. CIL plans to achieve coal production of ~900 MT by FY25
- **Attrition of manpower:** CIL has guided for ~5% reduction in manpower annually for the next five to 10 years (FY22 base of 248550 employees)
- For FY23, CIL is targeting sales e-auction sales volume of ~80-90 MT (quarterly run-rate of ~20-25 MT)

**What should investors do?** CIL's share price has given a return of ~58% in the last 12 months (from ~₹ 149 in September 2021 to ~₹ 236 levels in September 2022).

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value CIL at ₹ 275, 4.5x FY24E EV/EBITDA

### Key triggers for future price performance:

- Over FY22-24E, we expect CIL's consolidated topline to grow at a CAGR of 5.7% while consolidated EBITDA and consolidated PAT are expected to register a CAGR of 14.7% and 14.6%, respectively
- We expect CIL to report consolidated EBITDA margins of 30.3% for FY23E and 26.5% for FY24E (22.5% for FY22)

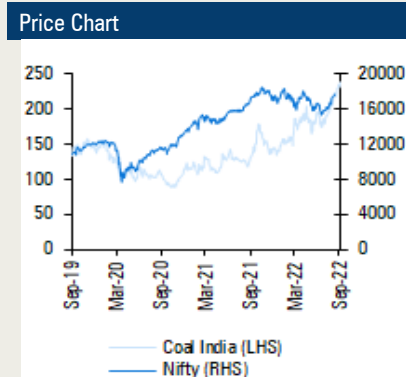
**Alternate Stock Idea:** Besides CIL, we also like Ratnamani Metals and Tubes.

- Ratnamani Metals and Tubes (RMTL) is a niche player with superior capabilities in the industrial pipes and tubes segment
- BUY with a target price of ₹ 2000



Particulars	
Particular	Amount
Market Capitalization	₹ 145594 crore
Total Debt (FY22)	₹ 3310 crore
Cash and Bank Balance(FY22)	₹ 29179 crore
EV	₹ 119725 crore
52 week H/L	242 / 139
Equity capital	₹ 6162.7 crore
Face value	₹ 10

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	66.1	66.1	66.1	66.1
FII	6.7	6.6	6.9	6.5
DII	22.0	21.3	21.8	22.5
Others	5.1	6.0	5.2	4.8
Total	100	100	100	100



- ### Key Risks
- Higher than expected increase in operating costs
  - Lower than expected increase in offtake

**Research Analyst**  
Dewang Sanghavi  
dewang.sanghavi@icicisecurities.com

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR in % (FY17-FY22)	FY23E	FY24E	CAGR (FY22-FY24E)
Total Operating Income	99,586	96,080	90,026	1,09,714	5.9%	1,21,209	1,22,607	5.7%
EBITDA	25,006	21,581	18,574	24,691	15.1%	36,778	32,467	14.7%
EBITDA Margin (%)	25.1	22.5	20.6	22.5		30.3	26.5	
PAT	17,464	16,700	12,702	17,378	3.8%	26,265	22,814	14.6%
EPS (₹)	28.3	27.1	20.6	28.2		42.6	37.0	
EV/EBITDA (x)	4.6	5.7	7.0	4.7		3.0	3.5	
RoCE (%)	86.3	54.6	42.3	52.0		60.0	44.2	
RoE (%)	66.0	51.9	34.8	40.3		46.0	33.2	

Source: Company, ICICI Direct Research

## Key Highlights

- For FY23, CIL has maintained its production target of 700 MT. Of the 700 MT target for FY23, the production break-up is ~44% for H1FY23 and ~56% for H2FY23
- For the first five months of FY23 (April–August 2022), CIL has achieved production volume of 253.3 MT (up 21.1% YoY). At the current pace of production, if CIL's mining areas are not excessively affected by heavy seasonal deluge during September 2022, the company is hopeful of reaching close to the apportioned H1FY23 target of 306 MT
- CIL is aiming to achieve 1 billion tonnes (BT) of coal production by FY26. The company plans to achieve coal production of ~900 MT by FY25
- For FY23, CIL is targeting sales e-auction sales volume of ~80-90 MT (quarterly run-rate of ~20–25 MT). E-auction realisations continue to remain at healthy level.
- Wage negotiations are currently going on and quantum of impact of impact is difficult to predict. CIL has made wage provisioning to the tune of ~ ₹ 900 crore in FY22 for the impending wage increase. In FY23, the company is providing ₹ 100 crore per month and may increase it to ₹ 150 crore per month from Q3FY23 onwards.
- CIL will not invest in the Aluminium project if it doesn't receive bauxite mines on nomination basis and the project IRR is not more than 12%. The project continues to be at a drawing board stage.
- For FY22, CIL incurred a capex of ₹ 15401 crore against the targeted capex of ₹ 14685 crore. Capex for Q1FY23 was at ₹ 3034 crore. For FY23, the company is targeting capex to the tune of ₹ 16500 crore
- Mechanised evacuation is expected to increase from 151 million tonnes per annum (MTPA) currently to 622.5 MTPA by FY25

### Cost control measures

- **Attrition of manpower:** CIL has guided for ~5% reduction in manpower annually for the next five to 10 years (FY22 base of 248550 employees)
- Emphasis on digitisation of mines for increasing efficiency in overall capacity utilisation resulting in higher volumes of coal at lower prices
- First mile connectivity along with infrastructure creation to reduce costs
- **Closure of unviable mines:** Total 141 underground mines employ 38% of the workforce whereas they contribute merely 4.12% of total production. Action is being taken to close CIL's unviable mines in a phased manner. Production from 13 mines (11 in FY21, two in FY22) has already been suspended

### Status of railway lines

#### a) Status of railway lines commissioned so far

- Tori-Shivpur new BG single line (43.7 km) to evacuate ~32 MTPA was funded by CIL and commissioned in December 2019. Construction of the third line is under way and targeted for completion by March 2023. This is expected to enhance its capacity to evacuate ~ 100 MTPA of coal from the North Karanpura coalfield of Central Coalfields (CCL) (on deposit basis by EC Railway)
- Jharsuguda – Barpali – Sardega new BG line (52.41 km) to evacuate ~34 MTPA was funded by CIL and commissioned on April 5, 2018. Construction of doubling this rail line along with flyover complex at Jharsuguda is under way to enhance its evacuation capacity to ~65 MTPA (on deposit basis by SE Railway). Doubling works targeted to be completed by March 2023
- The rail connectivity of Lingaraj SILO with Deulbeda siding at Talcher Coalfields of Mahanadi Coalfields (MCL) was commissioned on May 18, 2021 (on deposit basis by Eco. Railway)

**b) Status of Railway lines Under construction**

- Chhattisgarh East Rail (CERL) – East Rail corridor in Chhattisgarh – CERL Phase I – Main corridor between Kharsia to Dharamjaigarh (0-74 km) commissioned on June 21, 2021. Balance work of feeder lines is in progress. It is expected to evacuate ~30 MTPA of coal and anticipated to be commissioned by September 2022. CERL – II – Land acquisition is under process. It is anticipated to be commissioned by March 2024
- Chhattisgarh East West Rail (CEWRL) – East West Rail corridor in Chhattisgarh – to evacuate ~65 MTPA of coal. Construction works are under execution. It is anticipated to be commissioned by March 2024
- Mahanadi Coal Rail (MCRL) – Angul – Balram rail link (14.22 Km) in Talcher coalfield of Odisha is in work in progress. It will facilitate evacuation of ~15 MTPA coal and is anticipated to be commissioned by September 2022
- The Shivpur – Kathautia rail connectivity is being executed by Rail JV, JCRL (Jharkhand Coal Railway) formed among CCL, Government of Jharkhand and Indian railway represented by IRCON, in Jharkhand. About 30 MTPA coal from mines of CCL are planned to be evacuated through this line. Land acquisition and financial closure are under process currently

Exhibit 1: EC, FC, land possession and approval of project report status...

**EC, FC, Land & PR**



Environment Clearance (EC)

- In FY22 20 no. of proposals with incremental EC capacity of 21.94 MTY has been secured
- In Q1 of FY 2022-23, 9 Proposals with incremental EC capacity of 55.13 MTY have been secured



Forest Clearance (FC)

- In FY22, Stage-I FC for five (05) no. proposal for 51.42 Ha of forest land secured and in Q1 of FY 2022-23, two (2) proposals of FC (Stage-I) of 365.52 Ha. have been secured.
- In FY22 Stage-II FC for five (05) no. of proposals totaling 1081.24 Ha of forest land secured and in Q1 of FY 2022-23, one (1) proposals of FC (Stage-II) of 112.385 Ha. have been secured.



Land Possession

- In FY22 Possession of Land – 3731.05 Ha and in Q1 of FY 2022-23 possession of land 280.20 Ha.
- In FY22 Notification u/s 9 of CBA (A&D) Act, 1957– 1727.07 Ha & in Q1 of FY 2022-23 – 261.87 Ha .
- In FY22 Notification u/s 11 of CBA (A&D) Act, 1957 –1364.11 Ha & in Q1 of FY 22-23 - 61.49 Ha



Approval of Project Report

- In FY22, CIL has approved 16 Coal Mining Projects with a total capacity of 99.84 MTY and incremental capacity of 56.66 MTY and 3 non-mining projects costing Rs. 5551.09 Crs.
- In Q1 FY23, CIL has approved 4 Coal Mining Projects with a total capacity of 9.10 MTY and incremental capacity of 3.10 MTY.

Source: Company, ICICI Direct Research

Exhibit 2: Infrastructure building – First mile connectivity, other coal evacuation infra improvement projects...

**Infrastructure Building – First Mile Connectivity and Other Coal Evacuation Infra Improvement Projects**

**First Mile Connectivity Projects**

- CIL has taken steps to upgrade the mechanized coal transportation and loading system under 'First Mile Connectivity' projects .
- Phase-I: 35 projects of 414.5 MTPA awarded at a capital investment of INR 10,750 Cr.; 6 projects of 82 MTPA have been commissioned till date.
- Phase-II: 09 projects with total capacity of 57 MTPA will require an investment of about INR 2,500 Cr. LOA/WO has been issued for 3 FMC Projects of 14 MTPA capacity till date.
- Target completion of all the projects is FY-24 for Phase-I and FY-25 for Phase- II.
- Projects to help increase mechanized evacuation from 151 MTPA currently to 622.5 MTPA.
- Company expects improvement in coal quality, savings in under-loading charges and a positive impact on the environment.

- Mechanized evacuation to increase from 151 million tonnes to 622.5 million tonnes by FY25
- Total investment of INR 13,250 crore
- Substantial reduction in cost on evacuation & transportation charges

24 FMC Rail Connectivity Projects at an estimated INR 3,400 Cr.

Coal Evacuation Infra Projects

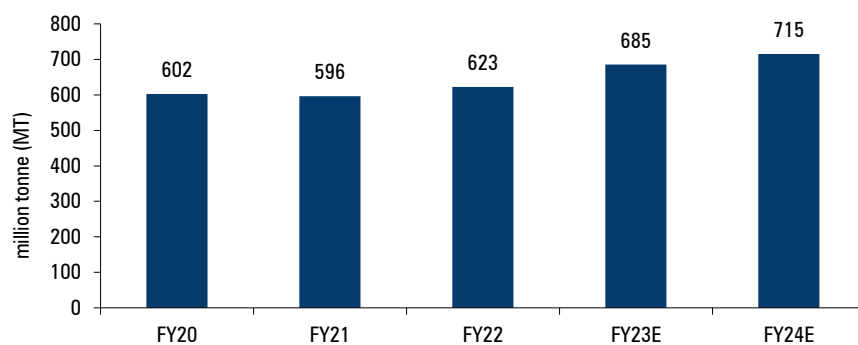
7 railway lines – estimated investment of INR 20,000 Cr.

21 railway sidings – estimated investment of INR 3,750 Cr.

Source: Company, ICICI Direct Research,

## Financial story in charts

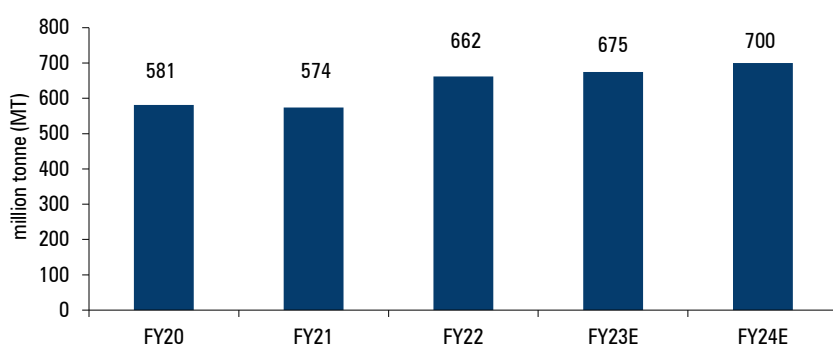
Exhibit 3: Trend in production



We model coal production of 685 MT for FY23E and 715 MT for FY24E

Source: Company, ICICI Direct Research

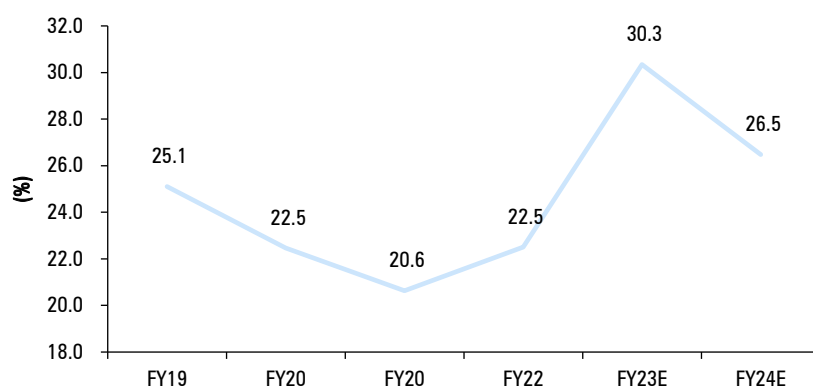
Exhibit 4: Trend in offtake



We model coal offtake of 675 MT for FY23E and 700 MT for FY24E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in reported consolidated EBITDA margin (in %)



We expect CIL to report consolidated EBITDA margin of 30.3% for FY23E and 26.5% for FY24E. We expect the company to report EBITDA/tonne of ₹ 545/tonne for FY23E and ₹ 464/tonne for FY24E (₹ 373/tonne for FY22)

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Matrix

	Op. Inc.	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20	96,080	-3.5	27.1	-4.4	8.7	5.7	51.9	54.6
FY21	90,026	-6.3	20.6	-23.9	11.4	7.0	34.8	42.3
FY22	1,09,714	21.9	28.2	36.8	8.4	4.7	40.3	52.0
FY23E	1,21,209	10.5	42.6	51.1	5.5	3.0	46.0	60.0
FY24E	1,22,607	1.2	37.0	-13.1	6.4	3.5	33.2	44.2

Source: Company, ICICI Direct Research

**Exhibit 7: Valuation**

<b>Particulars</b>	<b>Units</b>	<b>Mar-24E</b>
EBITDA (FY24E)	₹ crore	32,467
Multiple	x	4.5
EV (A)	₹ crore	146103
Gross Debt (FY24E)	₹ crore	3310
Cash and Bank Balance (FY24E)	₹ crore	26,937
Net Cash and Bank Balance (FY24E) (B)	in crore	23628
Derived Market Cap (A) + (B)	in crore	<b>169730</b>
No. of Equity Shares	in crore	616
<b>Target price of Coal India</b>	<b>in ₹/share</b>	<b>275</b>
CMP of Coal India	in ₹/share	236
Upside (%)	in %	17%

Source: Company, ICICI Direct Research

## Financial summary (Consolidated)

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>90026</b>	<b>109714</b>	<b>121209</b>	<b>122607</b>
Growth (%)	-6.3	21.9	10.5	1.2
Total Operating Expenditure	71453	85023	84431	90140
<b>EBITDA</b>	<b>18574</b>	<b>24691</b>	<b>36778</b>	<b>32467</b>
Growth (%)	-13.9	32.9	49.0	-11.7
Depreciation	3709	4429	4982	5655
Interest	645	541	555	569
Other Income	3792	3905	3859	4245
Exceptional Item	3	-9	0	0
<b>PBT</b>	<b>18010</b>	<b>23616</b>	<b>35100</b>	<b>30488</b>
Total Tax	5307	6238	8835	7674
<b>PAT</b>	<b>12702</b>	<b>17378</b>	<b>26265</b>	<b>22814</b>
Growth (%)	-23.9	36.8	51.1	-13.1
<b>Adj EPS (₹)</b>	<b>20.6</b>	<b>28.2</b>	<b>42.6</b>	<b>37.0</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>12702</b>	<b>17378</b>	<b>26265</b>	<b>22814</b>
Add: Depreciation	3709	4429	4982	5655
Add: Interest	645	541	555	569
(Inc)/dec in Current Assets	-11265	4120	-6	-3820
Inc/(dec) in CL and Prov.	7595	14171	158	78
<b>CF from operating activities</b>	<b>13387</b>	<b>40639</b>	<b>31955</b>	<b>25296</b>
(Inc)/dec in Investments	-3977	-3756	-25	-25
(Inc)/dec in Fixed Assets	-13115	-15401	-16500	-16500
Others	435	-279	-1000	-1000
<b>CF from investing activities</b>	<b>-16658</b>	<b>-19437</b>	<b>-17525</b>	<b>-17525</b>
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-551	-2566	0	0
Interest Paid	-645	-541	-555	-569
Dividend paid & dividend tax	-9860	-10477	-12325	-11093
Others	3188	4249	50	50
<b>CF from financing activities</b>	<b>-7867</b>	<b>-9334</b>	<b>-12830</b>	<b>-11612</b>
Net Cash flow	-11139	11869	1599	-3841
Opening Cash	28449	17310	29179	30778
<b>Closing Cash</b>	<b>17310</b>	<b>29179</b>	<b>30778</b>	<b>26937</b>

Source: Company, ICICI Direct Research

Exhibit 10 : Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Share Capital	6163	6163	6163	6163
Reserve and Surplus	30355	36980	50920	62642
Total Shareholders funds	36517	43143	57083	68804
Total Debt	5875	3310	3310	3310
Minority Interest	441	674	724	774
<b>Total Liabilities</b>	<b>42834</b>	<b>47126</b>	<b>61116</b>	<b>72888</b>
<b>Assets</b>				
Gross Block	95796	104594	119094	133594
Less: Acc Depreciation	53305	57733	62716	68371
Net Block	42491	46861	56378	65224
CWIP	10404	12714	14714	16714
Investments	5950	9706	9731	9756
Inventory	8947	7076	6940	6915
Debtors	19623	11368	13009	12831
Loans and Advances	13658	14886	11886	14386
Other Current Assets	41051	45830	47330	48853
Cash	17310	29179	30778	26937
Total Current Assets	100590	108338	109943	109922
Current Liabilities	49301	61190	58848	56426
Provisions	69645	71927	74427	76927
Current Liabilities & Prov	118946	133117	133275	133353
Net Current Assets	-18356	-24778	-23332	-23430
Others	2345	2624	3624	4624
<b>Application of Funds</b>	<b>42834</b>	<b>47126</b>	<b>61116</b>	<b>72888</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Adj EPS	20.6	28.2	42.6	37.0
Cash EPS	26.6	35.4	50.7	46.2
BV	59.3	70.0	92.6	111.6
DPS	16.0	17.0	20.0	18.0
Cash Per Share	28.1	47.3	49.9	43.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	20.6	22.5	30.3	26.5
PBT / Total Operating income	20.0	21.5	29.0	24.9
PAT Margin	14.1	15.8	21.7	18.6
Inventory days	46	30	30	28
Debtor days	87	41	40	40
Creditor days	49	43	38	39
<b>Return Ratios (%)</b>				
Adj RoE	34.8	40.3	46.0	33.2
Adj RoCE	42.3	52.0	60.0	44.2
<b>Valuation Ratios (x)</b>				
P/E	11.4	8.4	5.5	6.4
EV / EBITDA	7.0	4.7	3.0	3.5
EV / Net Sales	1.4	1.1	0.9	0.9
Market Cap / Sales	1.6	1.3	1.2	1.2
Price to Book Value	4.0	3.4	2.5	2.1
<b>Solvency Ratios</b>				
Debt/EBITDA	0.3	0.1	0.1	0.1
Debt / Equity	0.2	0.1	0.1	0.0
Current Ratio	0.8	0.8	0.8	0.8
Quick Ratio	0.8	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com



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