



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**  
Updated July 08, 2022 **37.19**

**High Risk**

NEGL	LOW	MED	<b>HIGH</b>	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

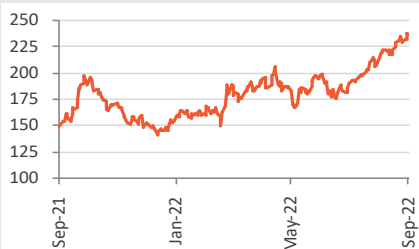
Company details

Market cap:	Rs. 145,594 cr
52-week high/low:	Rs. 242/139
NSE volume: (No of shares)	139.7 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	9.6	18.9	26.4	59.0
Relative to Sensex	8.2	11.0	17.2	56.6

Sharekhan Research, Bloomberg

<b>Energy &amp; Utilities</b>	<b>Sharekhan code: COALINDIA</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 236</b>	<b>Price Target: Rs. 280</b> ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- E-auction premium remains high at 290% of notified coal prices. We expect it to remain firm in FY23 given limited supply for e-auctions, high international coal prices and single e-auction window (to remove coal price disparity).
- CIL's coal production and offtake remain strong, rising by 21%/9% y-o-y to 253 mt/283 mt during April-August 2022 led by 18.6% y-o-y rise in supplies to power sector to 243 mt. We increase our FY23-24 earnings estimate to factor higher coal offtake and e-auction premium.
- CIL is focused on rationalising costs and aim to reduce manpower by 5% annually in the next 5-10 years, close unviable underground mines (13 mines already closed) and improve infrastructure for coal evacuation (building rail lines and mechanized coal transportation and loading system).
- We maintain a Buy on Coal India with increased PT of Rs. 280 (reflects upwards revision in FY24E EPS). CIL trades at an attractive valuation of 4.8x its FY24E EPS (close to trough valuation) and offers a high dividend yield of 12-13%.

Coal India Limited's (CIL) is in a sweet spot given earnings tailwinds from high e-auction realisations and positive coal offtake outlook from the power sector amid high electricity demand. E-auction premium is expected to remain firm led by factors like elevated international coal prices and lower domestic availability of coal for e-auction as supplies to the power sector rise. We increase our FY23E/FY24E EPS estimates by 7%/8% to factor higher e-auction premium and volume growth assumption. We maintain a Buy on CIL and raise the PT to Rs. 280.

- High international thermal coal prices to keep e-auction premium high:** The global demand for thermal coal is expected to remain strong given rising thrust to shift toward thermal-fired power plants in Europe because of energy crisis (geopolitical tensions impacted Russian gas and coal supply to Europe). This would drive up coal imports to Europe from countries such as South Africa and Australia, leading to demand-supply mismatch and driving up international coal price (Australian thermal coal prices are at a high of >\$400/bbl). Elevated international coal price, limited supply for e-auction as most of coal diverted to power sector and single e-auction window (versus five different auctions previously) would help sustain high e-auction premium (at 290% in July 2022). We raise our e-auction premium 128%/66% for FY23E/FY24E.
- Domestic coal demand to stay strong – expect CIL to post 6% volume CAGR over FY22-24E:** CIL's coal volume offtake grew strongly by 9% y-o-y to ~283 million tonnes during April-August 2022 led by robust from power sector (CIL's supplies to power plants grew by 18.6% y-o-y). We increase our FY23-24 coal offtake volume growth and now expect 6% volume CAGR over FY22-24E.
- Focus to reduce cost and potential FSA coal price hike - to offset impact of likely wage revision:** The management of Coal India has indicated that it is focused on rationalising its costs with the closure of uneconomical mines (especially underground mines, which accounts for 38% of employees while contribution to production is only 4%) and plans to reduce manpower by 5% annually (on FY22 base of 248,550 employees) for next 5-10 years. The above cost reduction initiatives and a potential FSA price hike (expected at 11%) would help mitigate likely wage price revision.

Our Call

**Valuation – Maintain Buy on CIL with a revised PT of Rs. 280:** Improving earnings growth outlook (expect a 32% PAT CAGR over FY2022-FY2024E), high RoE of ~56%, and dividend yield of 12-13% make CIL's valuation attractive at 4x/4.8x its FY2023E/FY2024E EPS (close to trough levels). CIL's board has given an in-principle approval to divest a 25% stake in Bharat Coking Coal Limited (BCCCL) and awaits approval from the government. Stake sale and potential listing could help unlock value. We maintain a Buy recommendation on CIL with a revised price target (PT) of Rs. 280 (reflects upward revision in earnings estimates).

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)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	90,026	1,09,714	1,35,108	1,31,003
OPM (%)	20.6	22.5	35.4	30.1
Adjusted PAT	12,700	17,358	36,832	30,268
% YoY growth	-24.0	36.7	112.2	-17.8
Adjusted EPS (Rs.)	20.6	28.2	59.8	49.1
P/E (x)	11.5	8.4	4.0	4.8
P/B (x)	4.0	3.4	2.8	2.5
EV/EBITDA (x)	7.2	4.9	1.9	2.4
RoNW (%)	37.0	43.6	78.0	55.5
RoCE (%)	38.9	45.1	81.6	60.0

Source: Company; Sharekhan estimates

## Higher e-auction prices could boost earnings in FY23

International coal prices have rallied sharply with Australian thermal coal price at record level of >\$400/tonne as coal demand soars from Europe given ban on coal imports from Russia and swift over to coal (IEA expects Europe's coal consumption to increase by 7% this year after a 14% increase seen in last year) from gas for heating purposes. The elevated international coal price and limited domestic coal supply for e-auction bodes well for continued high e-auction premium (at 290% premium to notified coal price in July 2022). A potential hike in the FSA coal price (expected at 10-11% to pass on likely higher wage cost as wage revision negotiations going on and overall higher cost due to elevated diesel price) and would further drive CIL's profitability.

### Sensitivity analysis of FSA and e-auction on FY23E PAT

	FSA realisation (Rs/tonne)					
		1,350	1,400	1,450	1,500	1,550
E-auction realisation (Rs/tonne)	3,100	30,766	32,854	34,942	37,030	39,119
	3,200	31,711	33,799	35,887	37,976	40,064
	<b>3,300</b>	32,656	34,744	<b>36,832</b>	38,921	41,009
	3,400	33,601	35,689	37,777	39,866	41,954
	3,500	34,546	36,634	38,722	40,811	42,899

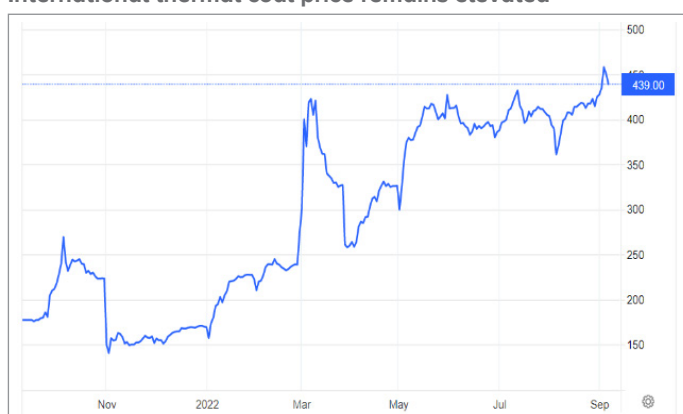
Source: Sharekhan Research

### Sensitivity analysis of FSA and e-auction on FY24E PAT

	FSA realisation (Rs/tonne)					
		1,350	1,400	1,450	1,500	1,550
E-auction realisation (Rs/tonne)	2,200	23,837	26,051	28,264	30,478	32,691
	2,300	24,839	27,052	29,266	31,480	33,693
	<b>2,400</b>	25,841	28,054	<b>30,268</b>	32,481	34,695
	2,500	26,842	29,056	31,269	33,483	35,696
	2,600	27,844	30,058	32,271	34,485	36,698

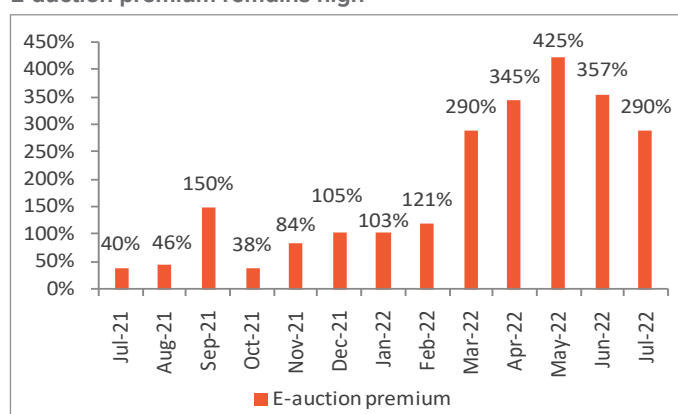
Source: Sharekhan Research

### International thermal coal price remains elevated



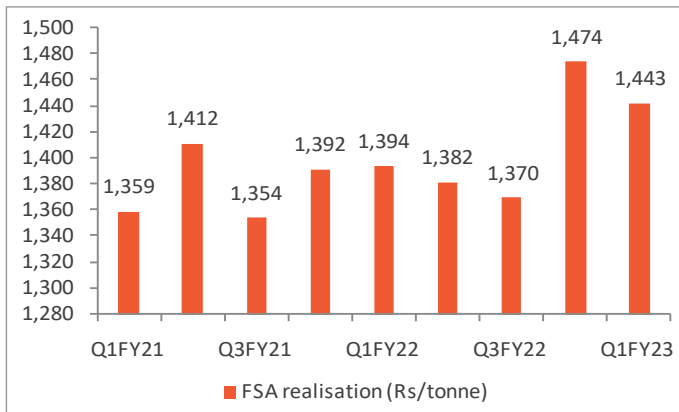
Source: Media articles, Industry sources; Sharekhan Research

### E-auction premium remains high



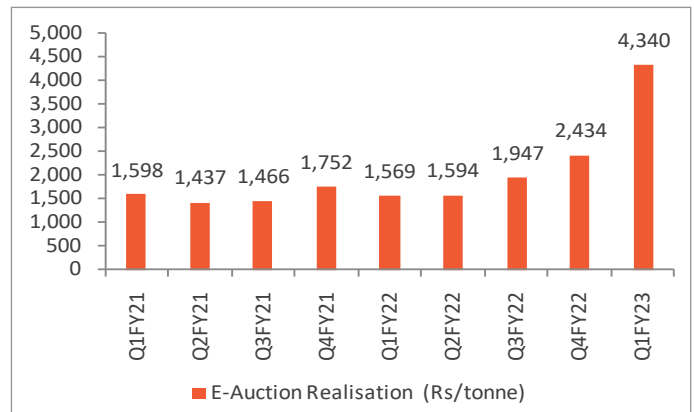
Source: Ministry of Coal; Sharekhan Research

**CIL FSA price trend**



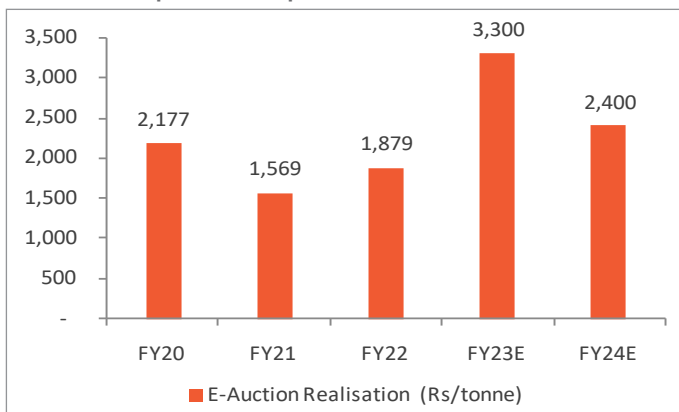
Source: Company Sharekhan Research

**CIL e-auction price trend**



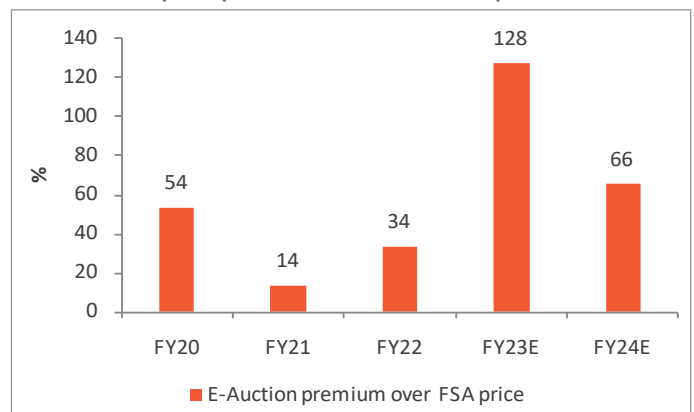
Source: Company Sharekhan Research

**CIL e-auction price assumption**



Source: Company Sharekhan Research

**CIL e-auction price premium to notified coal price**

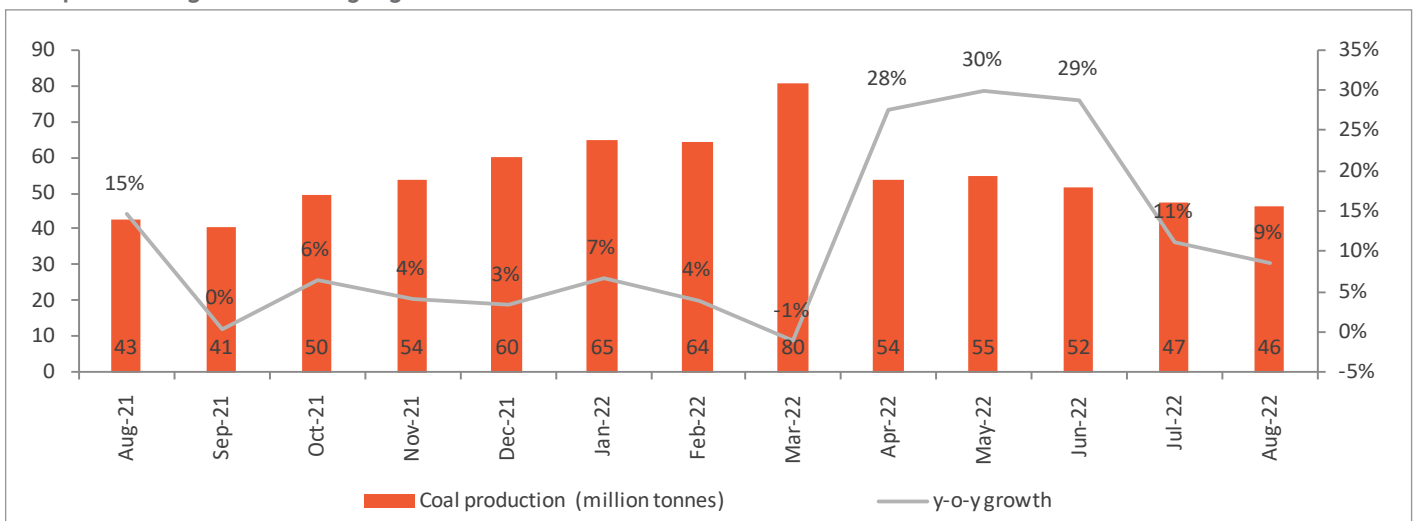


Source: Company Sharekhan Research

**High global coal prices to drive strong domestic coal offtake– expect 7% volume CAGR over FY22-24E for CIL**

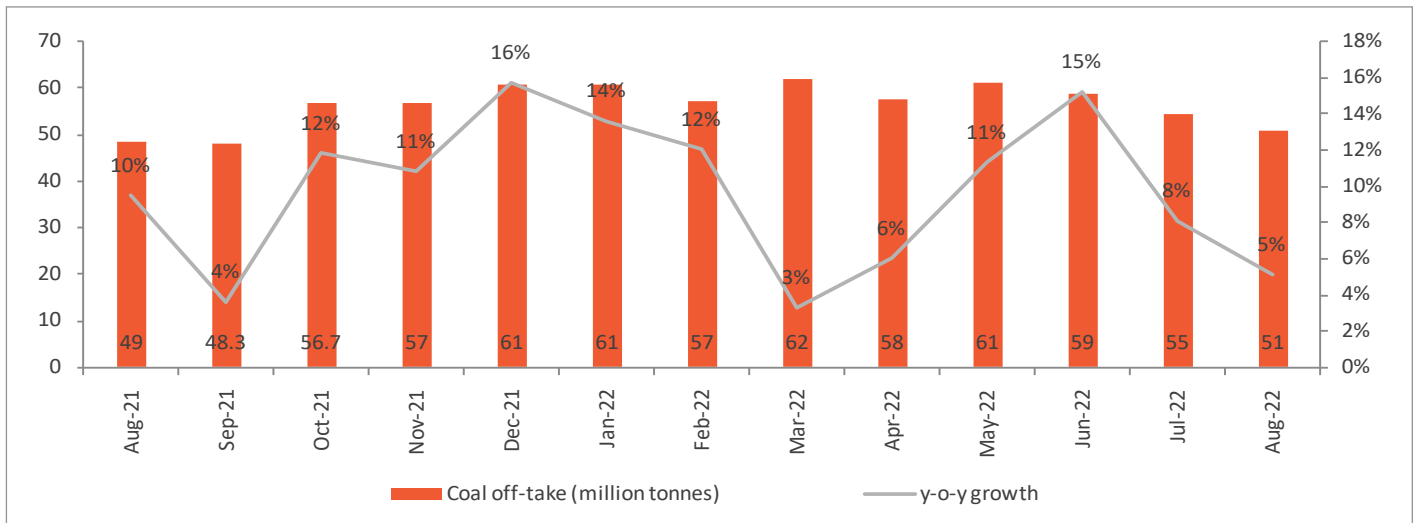
Coal India’s volume offtake has recovered strongly with y-o-y volume growth for 13 consecutive months since August 2021. Overall, coal offtake has witnessed strong growth of 9% y-o-y to 283 million tonnes during April-August 2022, which is 103% of its annual action plan (AAP). The growth in offtake is supported by 18.6% y-o-y rise in coal supplies to power sector to 243 million tonnes (108% of APP target). Given elevated international coal prices, we believe that Coal India’s coal dispatches would remain strong and expect a 6% CAGR in its coal offtake over FY22-24E and reach 744 million tonnes in FY2024E.

**Coal production growth of 21% y-o-y in FY23YTD**



Source: Company Sharekhan Research

**CIL witnessed positive coal offtake growth for 13 consecutive months**



Source: Company Sharekhan Research

**Focus to reduce cost to offset impact of likely wage revision**

CIL's management has indicated that it is focused on rationalising its costs with the closure of uneconomical mines (especially underground mines, which accounts for 38% of employees while contribution to production is only 4%) and plans to reduce manpower by 5% annually (on FY22 base of 248,550 employees) for next 5-10 years. The above cost reduction initiatives and a potential FSA price hike (expected at 11%) would help mitigate likely wage price revision.

**CIL's cost control measures and MDO for production enhancement**

<p><b>01</b> Attrition of manpower: Around 5% reduction in manpower annually for the next 5-10 years (FY22 base of 2,48,550 employees)</p>	<p><b>03</b> First mile connectivity &amp; infrastructure creation to reduce costs.</p>
<p><b>02</b> Emphasis on digitization of mines for increasing efficiency in overall capacity utilization resulting in higher volumes of coal at lower costs</p>	<p><b>04</b> Closure of unviable mines: 141 underground mines employ 38% of the workforce whereas contributes 4.12% of total production. Action is being taken to close the unviable mines in CIL in a phased manner. Production from 13 (11 mines in 2020-21, 02 mines in 2021-22) Underground Mines has already been suspended</p>

**Output enhancement through MDO (Mine Developer cum Operators)**

For efficient operationalization of greenfield projects, CIL devised a transformative plan to engage MDO for 15 projects (10 OC and 5 UG) with combined total targeted capacity of about 170 MTY.

Out of the 15 projects,

- LOA issued for 6 project of 96.74 MTY (out of which Agreement signed for 4 Projects of 95 MTY)
- Bid opened - 3 Projects of 27.51 MTY.
- To be retendered - 2 Projects of 7.83 MTY.
- Tender floated - 3 Projects of 26.50 MTY.
- Tender to be floated - 1 Project of 10 MTY.

Source: Company

**CIL's focus on 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

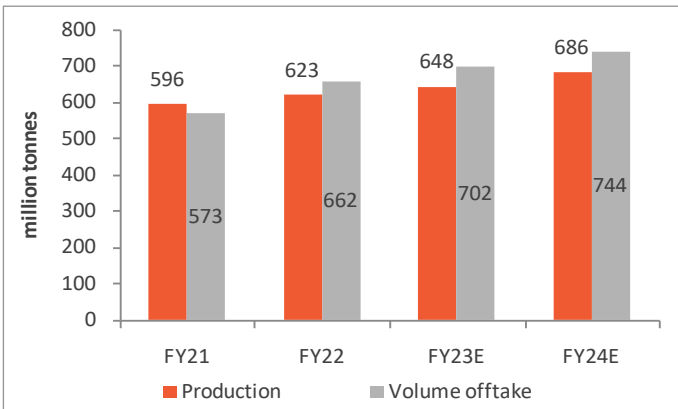
7 railway lines – estimated investment of INR 20,000 Cr.

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

Source: Company

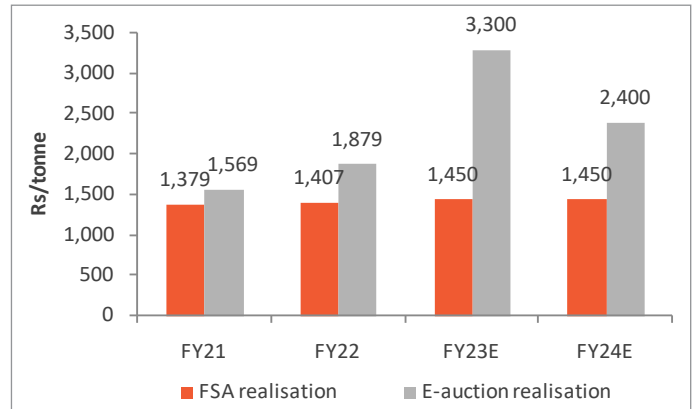
Financials in charts

Volume to clock 6% CAGR over FY22-24E



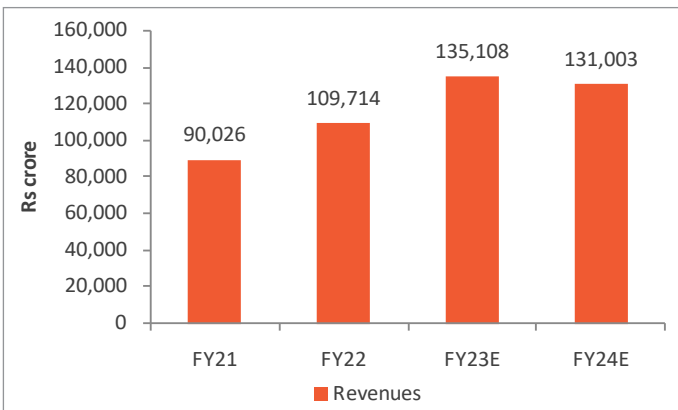
Source: Company, Sharekhan Research

Higher e-auction realisations bode well for earnings growth



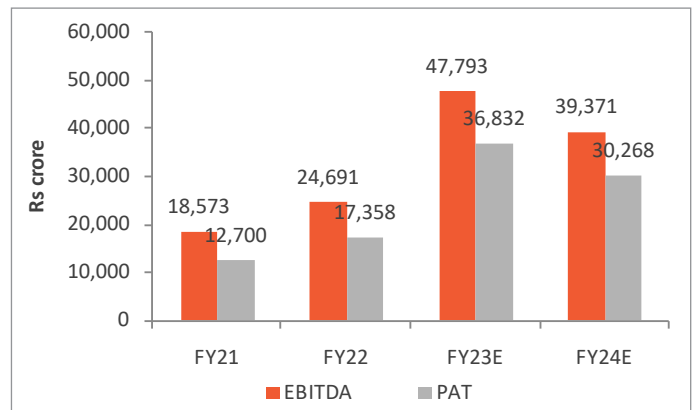
Source: Company, Sharekhan Research

Revenue trend



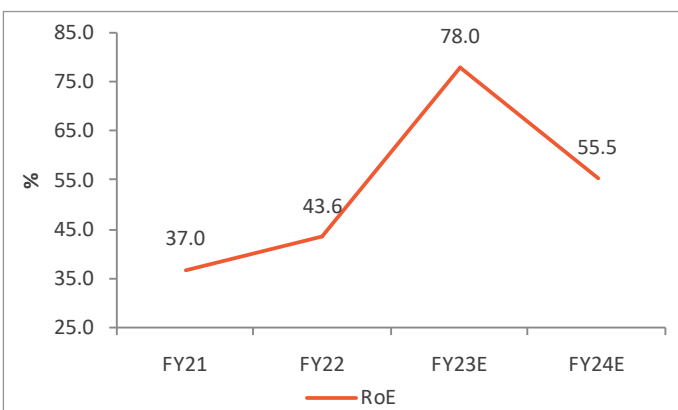
Source: Company, Sharekhan Research

PAT/EBITDA to clock 26%/32% CAGR over FY22-24E



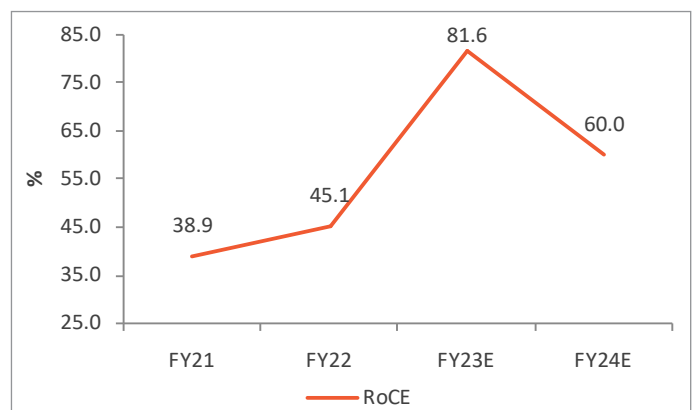
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



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).

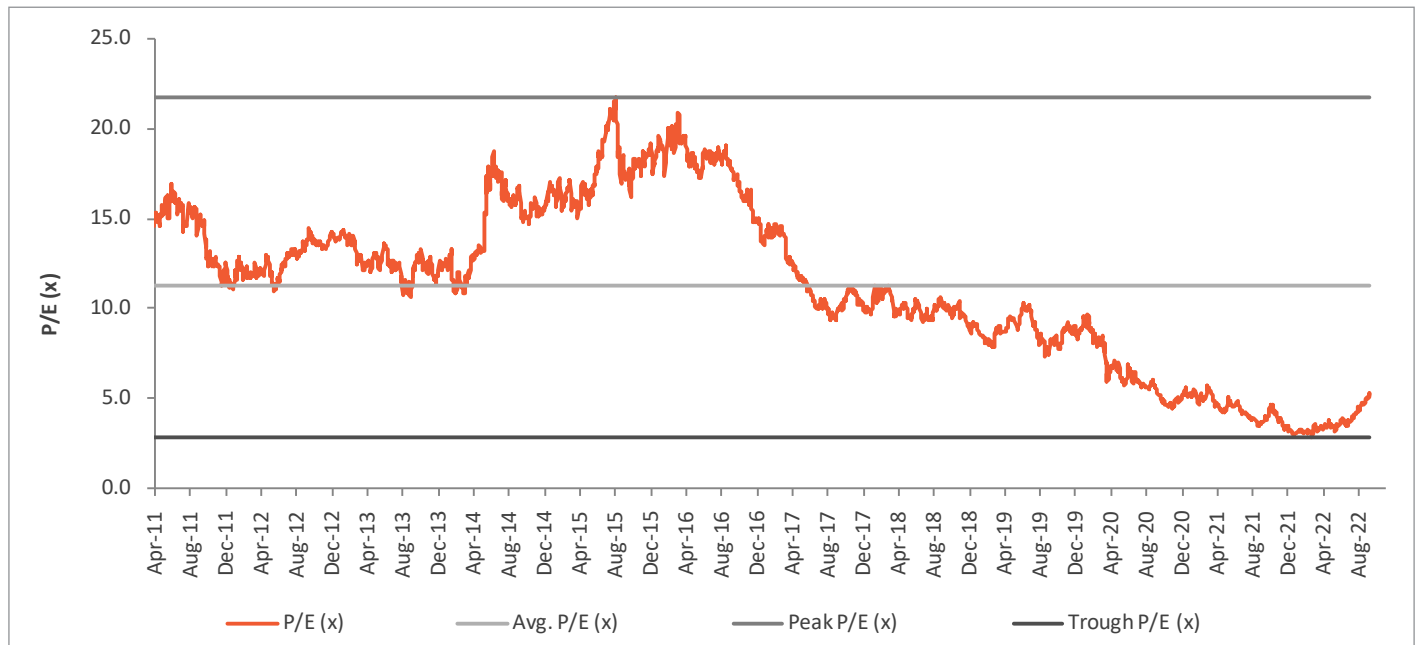
### ■ Company outlook - Improving volume and likely higher realisation to drive earnings recovery

CIL's earnings outlook has improved considerably as coal shortage bodes well for volume growth while improving e-auction realisation as high international coal prices would improve the company's earnings profile. Thus, we expect a strong 32% PAT CAGR over FY2022-FY2024E.

### ■ Valuation - Maintain Buy on CIL with a revised PT of Rs. 280

Improving earnings growth outlook (expect a 32% PAT CAGR over FY2022-FY2024E), high RoE of ~56%, and dividend yield of 12-13% make CIL's valuation attractive at 4x/4.8x its FY2023E/FY2024E EPS (close to trough levels). CIL's board has given an in-principle approval to divest a 25% stake in Bharat Coking Coal Limited (BCCL) and awaits approval from the government. Stake sale and potential listing could help unlock value. We maintain a Buy recommendation on CIL with a revised price target (PT) of Rs. 280 (reflects upward revision in earnings estimates).

#### One-year forward P/E (x) band



Source: Sharekhan Research

## About 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
Debasish Nanda	Director – Business Development
Dr. B. Veera Reddy	Director – Technical

Source: Bloomberg

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	11.0
2	HDFC Asset Management 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)

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.



## 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 deteriorating 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

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Priya Sonavane; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.