

BSE SENSEX

58,775

S&P CNX

17,522

CMP: INR236
TP: INR290 (+23%)
Buy

Stock Info

Bloomberg	COAL IN
Equity Shares (m)	6,207
M.Cap.(INRb)/(USDb)	1455.9 / 18.3
52-Week Range (INR)	242 / 139
1, 6, 12 Rel. Per (%)	8/13/56
12M Avg Val (INR M)	2878
Free float (%)	33.9

Financials Snapshot (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	1,097.1	1,243.1	1,230.5
EBITDA	284.5	426.1	308.4
Adj. PAT	173.8	287.9	199.4
EBITDA Margin (%)	25.9	34.3	25.1
Cons. Adj. EPS (INR)	28.2	46.7	32.3
EPS Gr. (%)	36.8	65.7	-30.8
BV/Sh. (INR)	70.0	93.4	109.5

Ratios

Net D:E	-0.8	-0.2	-0.1
RoE (%)	40.3	50.0	29.5
RoCE (%)	43.5	58.2	32.6
Payout (%)	60.3	50.0	50.0

Valuations

P/E (x)	8.4	5.1	7.3
P/BV (x)	3.4	2.5	2.2
EV/EBITDA(x)	4.0	3.2	4.5
Div. Yield (%)	7.2	9.9	6.8
FCF Yield (%)	20.0	0.5	5.9

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	66.1	66.1	66.1
DII	22.6	21.9	21.6
FII	6.5	6.9	6.6
Others	4.8	5.1	5.7

FII Includes depository receipts

Improvement in operating metrics continue

Open cast output and manpower productivity continue to rise

- COAL reported an improvement in its operating metrics, with output from open cast mines continuing to rise in overall output to 96% in FY22 from 95% in FY20, despite a 4% growth in total output.
- Manpower productivity in both UG and OC mines improved by 8%/7%. The manpower productivity at OC mines now stands at 4,061t per employee. With the opening up of additional mega mines, manpower productivity is likely to improve substantially.

Growth in e-auction premium outweighs a loss in volume

- Given the energy crisis globally, COAL has been diverting additional coal to the Power sector, leaving lesser coal available for the non-regulatory sector (NRS).
- In addition, reforms in the e-auction process has resulted in a consolidation of five e-auctions into a single e-auction for end-users. This, in turn, has led to a substantial hike in premium since Mar'22. Premiums have shot up more than 290% since the introduction of unified e-auction.

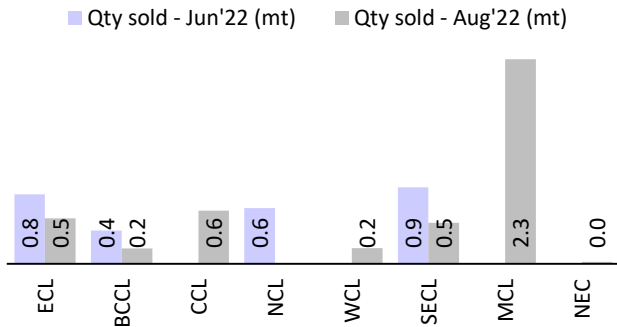
Coal evacuation projects continue, albeit at a slow pace

- COAL, in association with the Indian Railways, has completed a few important railway lines like Tori-Shivpur and Jharsuguda-Sardega lines, with a combined evacuation capacity of 66mt.
- Work is currently underway on doubling and extension of these lines, as well as the setting up of additional railway lines.

Valuation and view

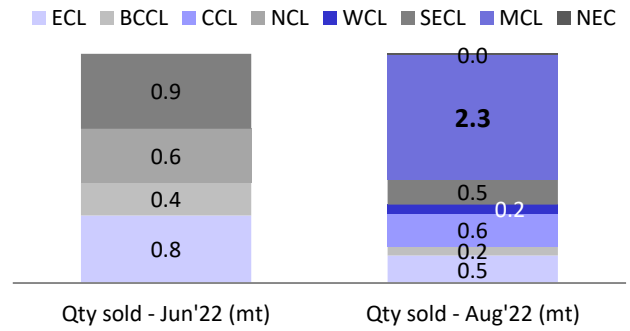
- The demand for thermal coal is likely to sustain over the next two-to-three years, with e-auction premiums over 200% in 2HFY23.
- The transition of Europe from Russian NG to renewables is about six to seven years appears optimistic. In the intervening period, the dependence on thermal coal will remain high, leaving coal in a sweet spot in the near term.
- The management expects to mine at least 900mt by FY25, which is a hike of ~29%, or an incremental production of 200mt. Of this, 100mt will be through the MDO route. We have assumed FY24 sales of 735mt, with an upside risk, if the MDO projects start delivering.
- COAL trades at 3.2x/4.4x FY23E/FY24E EV/adjusted EBITDA. We expect a 10% dividend yield at the CMP, driven by strong earnings and a dividend payout of 50%.
- We maintain our recently upgraded TP of INR290, based on 4x FY23E EV/EBITDA (refer our recent note on COAL [here](#)).

Exhibit 1: e-auction sales improved in Aug'22 v/s Jul'22...



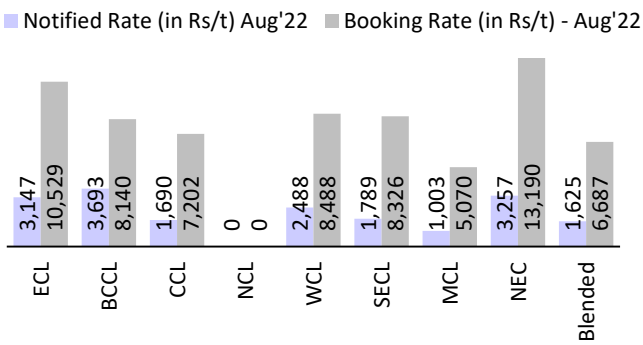
Source: MOFSL, Company

Exhibit 2: ...driven by higher sales (mt) from MCL, which did not contribute to e-auction sales in Jul'22



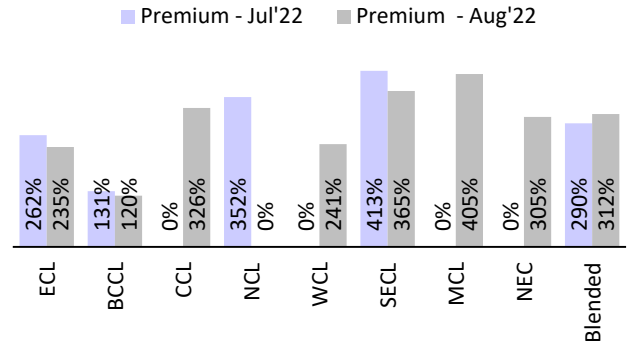
Source: MOFSL, Company

Exhibit 3: E-auction premium for e-auction was 312% in Aug'22 ...



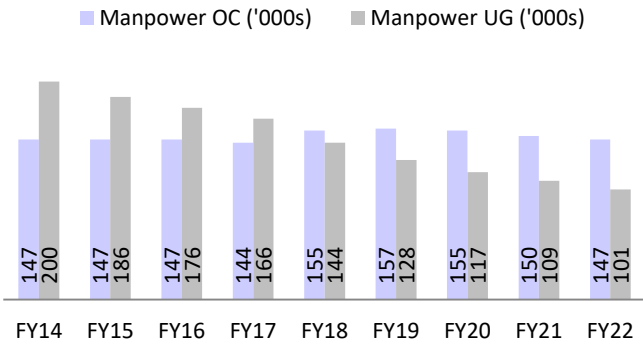
Source: MOFSL, Company

Exhibit 4: ...of this, MCL drove the premium to 405%



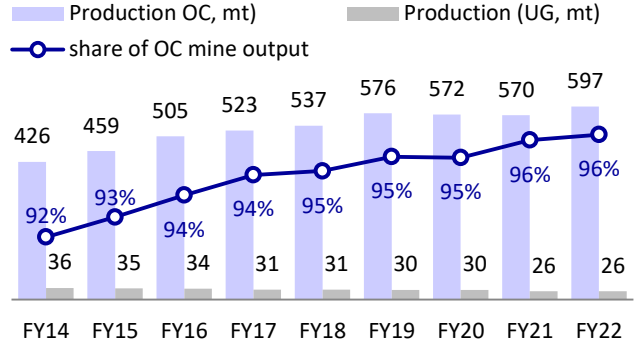
Source: MOFSL, Company

Exhibit 5: Manpower at UG mines continues to drop



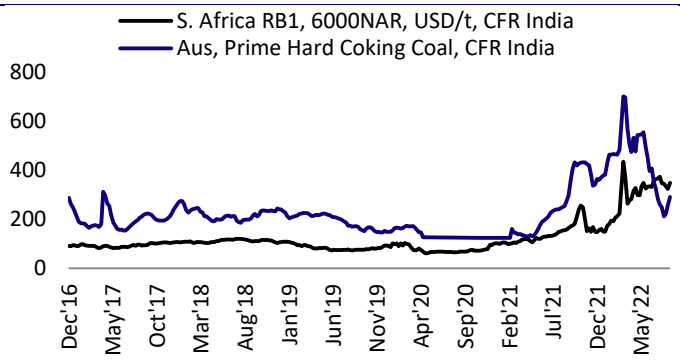
Source: MOFSL, Industry

Exhibit 6: As production rises, share of OC mines improves



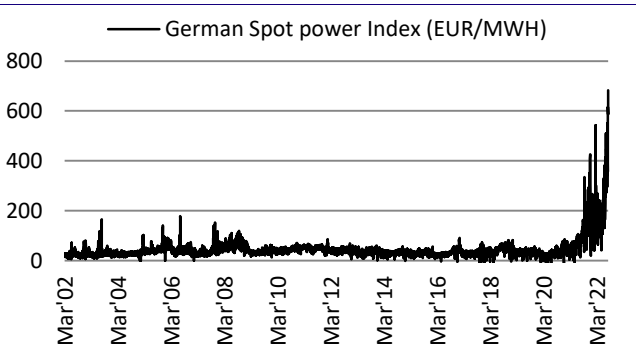
Source: MOFSL, Industry

Exhibit 7: Thermal coal is currently more expensive than coking coal for the first time in decades



Source: Bloomberg, SteelMint

Exhibit 8: Shift to power generation via coal to continue in Europe amid rising prices



Source: Bloomberg

Highlights from the management interaction

Demand

- Demand for thermal coal has risen due to increased power demand.
- Power generation has reduced substantially from port-based plants.
- Generation from CPPs using imported coal has fallen and they have switched to power from utilities.

Wage provisioning

- COAL had provisioned INR9b for wage hike till FY22.
- It has provisioned INR1b per month till 1QFY23.
- Going forward, it will provision INR1.5b per month.
- As negotiations are ongoing with the union, it is difficult for the management to provide any number at this point of time.
- Around 13,000 employees will retire in FY23, hence the net impact on total wage bill for COAL will be minimal.
- With an FSA hike due, the total impact will be negligible.
- The total retirees in any year for COAL is ~5%, and are on the higher cost side. A few are replaced and that too at the entry level.

E-auction

- The management is targeting e-auction sales of 80-90mt in FY23. But this depends on demand for coal from the Power sector.
- **The premium is likely to remain in the 300-400% range for the rest of FY23.**

Targets production of 1b tonne

- The management said that if it has to achieve 1,000mt in FY25, it should mine at least 840mt in FY24, which it believes is optimistic.
- However, it feels achieving 900mt by FY25 is a fairly reasonable as incremental production of ~100mt will accrue from the MDO route.

Receivables

- Receivables touched INR14b in Jun'22 v/s INR11b in Mar'22. However, the same now stands at INR13b.
- To ensure uninterrupted power supply, coal was supplied despite payment delays by SEBs. However, payments or receivable collections will be ensured from 1st Oct'22.

Windfall profit tax on the sale of coal

- COAL sells ~90% of its mined coal under FSA, which hardly drives profitability.
- The balance coal is being sold via e-auction, which is driving profitability.
- The management said there has never been any talk of a tax on windfall profits. Production has increased substantially, while wage costs have been contained. This has resulted in a lower cost per tonne and hence the gains.
- The company does not expect imposition of windfall gains on coal.

Coal production from captive mines:

- While captive mines do not have to pay a coal compensation cess of INR400/t, the management believes the exemption has been extended till FY26.
- It expects no significant production from captive mines which can dent demand for coal.

Diversification projects:

- Other than solar power, which it has to undertake to offset carbon emissions, the management is not looking at any projects with an IRR below 12%.
- Hindustan Urvarak & Rasayan's (HURL) plant has partly begun operations.
- Operations at Talcher Fertilizers (TFL) have been delayed by 18 months due to COVID-related issues and delays in the issuance of visa to experts.
- Its aluminum project is still on the drawing board.

Exhibit 9: Valuations remain inexpensive

Target price calculation	UoM	FY19	FY20	FY21	FY22	FY23E
Adjusted EBIDTA	INR b	300	275	200	285	426
Target EV/EBITDA	x					4.0
Target EV	INR b					1,704
Net debt	INR b	-316	-231	-151	-331	-98
Equity value	INR b					1,802
TP	INR					290

Source: MOFSL

Exhibit 10: Global comparative valuation of coal companies

Company	M-cap (USD m)	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24
COAL*	18,265	8.4	6.5	8.3	4.0	4.2	5.2	3.4	2.7	2.3	40.3	41.1	27.7
China Shenhua	87,412	6.4	7.2	7.2	4.5	4.6	4.5	1.1	1.1	1.1	18.0	15.8	15.2
Banpu	2,596	2.6	4.0	6.0	2.5	3.4	2.6	1.0	1.0	0.8	37.3	24.9	15.0
Bukit Asam	3,345	4.3	5.2	6.6	2.6	3.1	3.7	1.6	1.5	1.4	42.7	30.5	21.6
Adaro Energy	8,452	3.9	6.4	8.8	2.1	3.1	3.9	1.5	1.4	1.4	40.1	22.7	15.4

Source: MOFSL, Bloomberg

Financials and valuations

Income Statement								(INR b)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	780	784	859	995	961	900	1,097	1,243	1,231
Change (%)	0.0	0.5	9.6	15.9	-3.5	-6.3	21.9	13.3	-1.0
Operating Expenses	593	660	689	746	742	715	850	825	933
EBITDA	187	124	170	250	219	186	247	419	297
% of Net Sales	24.0	15.8	19.7	25.1	22.8	20.6	22.5	33.7	24.1
Adjusted EBITDA	215	151	203	300	275	200	285	426	308
Adj. EBITDA/t	403	277	350	494	473	349	430	609	420
Depreciation	28	29	31	35	35	37	44	46	48
Interest	4	4	4	3	5	6	5	5	6
Other Income	59	55	47	59	61	38	39	27	23
Extra Ordinary income	0	0	74	0	0	0	0	0	0
PBT	215	146	107	271	241	180	236	394	267
Tax	72	52	37	97	74	53	62	106	67
Rate (%)	33.4	35.4	34.6	35.6	30.6	29.5	26.4	26.9	25.2
PAT before Min. Int.	143	94	70	175	167	127	174	288	199
Minority Interest									
Reported PAT	143	94	70	175	167	127	174	288	199
Change (%)	0.1	-34.1	-25.5	148.8	-4.4	-23.9	36.8	65.7	-30.8
Adjusted PAT	143	94	119	175	167	127	174	288	199
Change (%)	0.1	-34.1	26.3	46.8	-4.4	-23.9	36.8	65.7	-30.8

Balance Sheet								(INR b)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	63	62	62	62	62	62	62	62	62
Reserves	285	183	136	203	260	304	370	514	613
Net Worth	348	245	198	265	322	365	431	575	675
Minority Interest	1	3	4	4	4	4	7	7	7
Loans	12	30	15	22	64	59	33	33	33
Differed tax Liability	-20	-27	-54	-43	-33	-41	-41	-41	-41
Capital Employed	341	251	164	248	357	388	430	574	674
Gross Fixed Assets	234	277	326	402	474	565	660	780	920
Less: Depreciation	27	56	85	116	150	187	232	278	326
Net Fixed Assets	207	221	241	286	323	378	428	502	594
Capital Work in Progress	59	103	138	137	128	151	168	248	308
Investments	0	0	3	5	9	23	24	44	49
Current Assets	841	809	839	857	1,007	1,025	1,141	1,101	1,054
Inventory	76	89	64	56	66	89	71	85	84
Debtors	114	107	87	55	144	196	114	204	169
Other Current Assets	241	285	351	392	490	524	588	677	711
Loans and Advances	1	0	10	16	11	6	4	4	4
Cash	409	327	326	338	295	209	365	131	87
Current Liabilities	767	882	1,058	1,037	1,110	1,189	1,331	1,321	1,332
Payables	33	39	45	68	101	76	86	68	67
Other current liabilities	734	843	1,012	968	1,009	1,113	1,245	1,253	1,264
Net Curr. Assets	74	-73	-218	-179	-104	-164	-190	-220	-277
Application of Funds	341	251	164	248	357	388	430	574	674

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic									
Adjusted EPS	22.6	15.2	19.2	28.3	27.1	20.6	28.2	46.7	32.3
Cash EPS	31.5	24.2	29.5	42.2	41.7	29.0	41.5	55.4	42.0
Book Value	55.1	39.5	32.0	42.9	52.2	59.3	70.0	93.4	109.5
DPS	27.4	19.9	16.5	13.1	12.0	16.0	17.0	23.4	16.2
Payout (incl. Div. Tax.)	145.5	160.3	103.3	55.5	53.3	77.6	60.3	50.0	50.0
Valuation (x)									
P/E	12.9	19.3	14.8	8.4	4.9	6.3	8.4	5.1	7.3
Cash P/E	9.3	12.1	9.6	5.6	3.2	4.5	5.7	4.3	5.6
P/BV	5.3	7.4	8.9	5.5	2.5	2.2	3.4	2.5	2.2
EV/Adj. EBITDA	6.7	10.1	7.1	3.8	2.1	3.3	4.0	3.2	4.5
Dividend Yield (%)	9.4	6.8	5.8	5.5	9.1	12.3	7.2	9.9	6.8
EV/t of Reserves	66.6	69.9	66.6	52.7	26.8	30.0	51.7	62.5	64.5
Profitability Ratios (%)									
Debtor (Days)	53.6	50.0	36.9	20.2	54.7	79.6	37.8	60.0	50.0
Inventory (Days)	35.4	41.7	27.4	20.5	25.1	36.3	23.5	25.0	25.0
Payables (Days)	15.4	18.2	19.2	25.0	38.4	31.0	28.6	20.0	20.0
Asset turnover (x)	2.3	3.1	5.2	4.0	2.7	2.3	2.6	2.2	1.8
Profitability Ratios (%)									
RoE	41.0	38.4	35.4	66.0	51.9	34.8	40.3	50.0	29.5
RoCE	39.9	32.7	58.4	85.7	56.4	35.4	43.5	58.2	32.6
RolC	-60.6	-40.0	-37.7	-51.7	-83.4	-295.0	-243.4	2,258	98
Leverage Ratio									
Net Debt/Equity (x)	-1.1	-1.2	-1.6	-1.2	-0.7	-0.4	-0.8	-0.2	-0.1

Cash Flow Statement

(INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Adj. EBITDA*	215	151	203	300	275	200	285	426	308
Non-cash exp./(income)	22	37	-55	11	10	19	15	9	9
(Inc.)/Dec. in WC	-27	60	138	-49	-123	-57	174	-123	36
Taxes paid	-79	-89	-74	-95	-119	-57	-63	-106	-67
CF from Operations	132	158	213	167	41	106	411	207	286
Capex	-58	-87	-85	-73	-56	-110	-120	-200	-200
Free Cash Flow	74	72	127	94	-15	-4	291	7	86
(Pur.)/Sale of Investments	0	0	-3	-1	-5	-8	-8	-20	-5
Interest/dividend	50	35	24	31	35	24	11	17	14
Other investing activity	-83	-12	-13	-10	11	-14	-5	-88	-34
CF from Investments	-91	-65	-77	-54	-15	-107	-121	-291	-225
Equity raised/(repaid)	0	-46	0	0	0	0	0	0	0
Debt raised/(repaid)	10	18	-15	7	23	-6	-26	0	0
Interest paid	0	0	0	0	-1	-2	-1	-5	-6
Dividend (incl. tax)	-208	-151	-123	-112	-97	-77	-108	-144	-100
Other financing	3	3	3	4	5	0	0	0	0
CF from Fin. Activity	-196	-176	-136	-102	-70	-85	-134	-149	-105
Inc./Dec. in Cash	-155	-82	-1	12	-43	-86	155	-234	-44
Add: Beginning Balance	564	409	327	326	338	295	209	365	131
Closing Balance	409	327	326	338	295	209	365	131	87

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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