

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR225 TP: INR275 (+22%) Buy

Decent performance; outlook robust

Bloomberg	COAL IN
Equity Shares (m)	6207
M.Cap.(INRb)/(USDb)	1386 / 16.9
52-Week Range (INR)	263 / 149
1, 6, 12 Rel. Per (%)	2/3/39
12M Avg Val (INR M)	2611

Financials & Valuations (INR b)

Y/E MARCH	2023E	2024E	2025E
Sales	1,364	1,268	1,294
EBITDA	440	279	258
Adj. PAT	333	203	189
EBITDA Margin (%)	34.2	23.6	21.6
Cons. Adj. EPS (INR)	54	33	31
EPS Gr. (%)	91	-39	-7
BV/Sh. (INR)	97	114	129

Ratios

Net D:E	-0.3	-0.3	-0.2
RoE (%)	55.6	29.1	23.8
RoCE (%)	65.8	32.1	26.0
Payout (%)	50.0	50.0	50.0

Valuations

P/E (x)	4.2	6.8	7.3
P/BV (x)	2.3	2.0	1.7
EV/EBITDA(x)	2.6	4.0	4.4
Div. Yield (%)	12.0	7.3	6.8
FCF Yield (%)	5.8	11.1	5.9

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	66.1	66.1	66.1
DII	21.3	22.6	21.4
FII	7.9	6.7	6.6
Others	4.7	4.5	5.9

- COAL reported yet another quarter with in line revenue. Net sales grew 24% YoY and 18% QoQ to INR352b in 3QFY23. The YoY sales growth was driven by a 23% growth in blended ASP. ASP grew YoY across all the categories and total dispatch volumes registered a growth of 1.2% YoY.
- Dispatches were up 14% QoQ and 1.2% YoY, while blended ASP was up 4% QoQ and 23% YoY at INR1,845/t. E-auction ASP was up 160% YoY to INR5,047/t (down 17% QoQ; e-auction premium had touched its life-time high in 2QFY23).
- E-auction premium cooled off to 241% from an all-time high of 329% in the previous quarter.
- Adjusted EBITDA (net of OBR) grew 52% YoY and 40% QoQ after a strong 178% YoY growth in 1QFY23 and 100% YoY growth in 2QFY23 – **the highest ever third quarter EBITDA for COAL**. APAT grew 69% YoY and 28% QoQ to INR77b in 3QFY23.
- The company increased its OBR removal by 19.2% to make future coal excavation easier. The OBR as on December had surpassed its satisfaction target and stood at 100.8%.
- We believe the strength in the e-auction premiums as well as strong dispatches would help the growth momentum.

E-auction continues to drive profitability

- As indicated during our 2QFY23 Result Update [Note](#), though the e-auction premiums cooled off from their highs, it was compensated by higher volumes for e-auction.
- We expect COAL to register a better QoQ performance in 4Q with higher volumes on e-auction and almost similar levels on premium.
- 4Q is seasonally the best quarter for the company and we believe with robust demand for coal across sectors, COAL should in turn deliver yet another record quarter in 4QFY23.

Valuation and view – raising estimates again

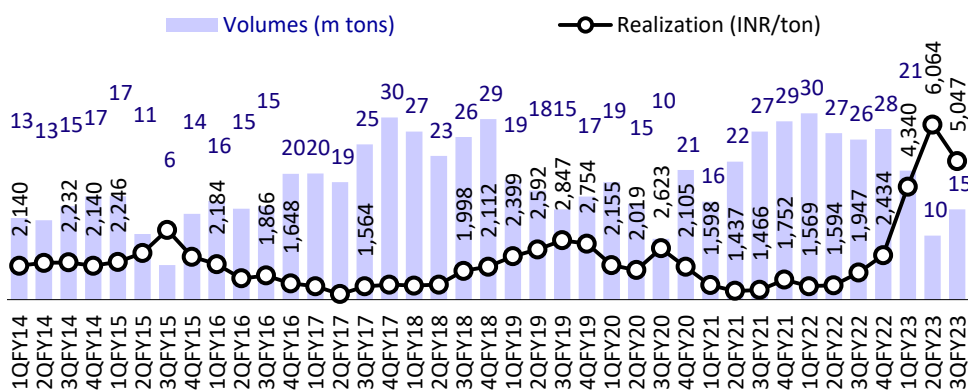
- We believe the world has come to terms that fossil fuel cannot be ignored, at least in the near term. Under-investment by the developed economies in the last decade has proven expensive with no alternate sources of Russian NG in sight other than coal.
- Renewables continue to be unreliable with problems either related to (a) availability, (b) costs, (c) storage or (d) safety. As a result, irrespective of investor preference, dependence on coal is likely to increase in the near term. Integration of all the five different modes of auction into a single e-auction has also led to improved price discovery of coal and has resulted in a structural shift in e-auction premium.

- We maintain our e-auction premium estimate for FY23/24 at 231%/81% respectively. We retain our BUY rating for TP to INR 275, valuing the stock at 5x FY24EV/EBTIDA. COAL continues to be our top pick in the metals and mining sector. The stock at CMP of INR225 trades at an inexpensive valuation of 2.6x/4x on FY23/24 EV/EBTIDA.
- The company has declared a second interim dividend of INR 5.25 (record date 8 February 2023), taking the total to INR20.25 and we estimate DPS of INR 27 for FY23.

Consolidated quarterly performance (INR b)

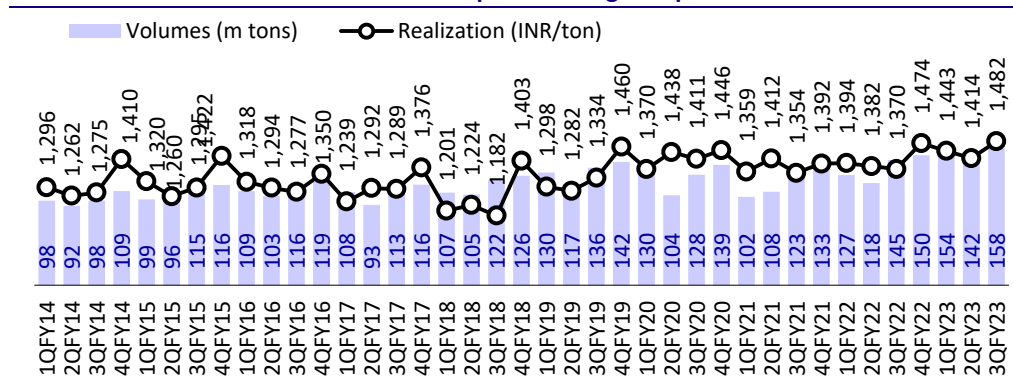
Y/E March	FY22				FY23E				FY22	FY23E	FY23	var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Sales	252.8	232.9	284.3	327.1	350.9	298.4	351.7	363.6	1,097.1	1,364.3	363.2	-3.2
Change YoY (%)	36.8	10.1	20.0	22.5	38.8	28.1	23.7	11.2	21.9	24.4	27.7	
Change QoQ (%)		-7.9	22.1	15.0	7.3	-15.0	17.9	3.4			21.7	
Adj. EBITDA	45.9	40.1	73.9	124.7	127.3	80.2	112.4	146.6	284.5	466.2	123.8	-9.3
Change YoY (%)	63.9	18.0	26.2	56.4	177.6	99.9	52.1	17.6	42.1	63.9	67.7	
Change QoQ (%)		-42.5	-12.5	84.1	68.8	2.1	-37.0	40.1	30.5		54.5	
EBITDA per tonne	285.7	272.8	425.3	688.6	716.5	518.8	639.2	781.2	429.6	669.9	688.0	
Depreciation	10.4	9.3	10.4	14.1	9.9	10.8	12.6	10.8	44.3	44.1	9.9	
OBR	-2.6	0.7	5.6	33.9	4.8	7.4	8.5	5.1	37.6	25.8	5.0	
Interest	1.5	1.4	1.3	1.2	1.5	1.4	2.0	1.8	5.4	6.7	1.3	
Other Income	6.8	7.8	6.5	17.9	9.7	16.2	16.7	14.8	39.0	57.5	6.2	
EO Inc/(Exp)	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	
PBT	43.4	36.5	63.1	93.3	120.8	76.9	105.9	143.7	236.2	447.0	113.7	-6.9
Tax	11.6	7.1	17.5	26.2	32.4	16.4	28.7	36.8	62.4	114.4	28.1	
Tax Rate (%)	26.8	19.5	27.7	28.1	26.9	21.4	27.1	25.6	26.4	25.6	24.7	
Reported PAT	31.7	29.4	45.6	67.1	88.3	60.4	77.2	107.0	173.8	332.6	85.6	-9.9
Adjusted PAT	31.7	29.4	45.6	67.1	88.3	60.4	77.2	107.0	173.8	332.6	85.6	-9.9
Change YoY (%)	52.7	-0.4	47.9	46.2	178.3	105.7	69.3	59.5	36.8	91.4	87.8	
Change QoQ (%)		-30.8	-7.4	55.2	47.1	31.7	-31.6	27.7	38.6		41.7	

Exhibit 1: e-auction volumes drove the revenue; though the realizations cooled off QoQ, it continues to be at its historic high levels



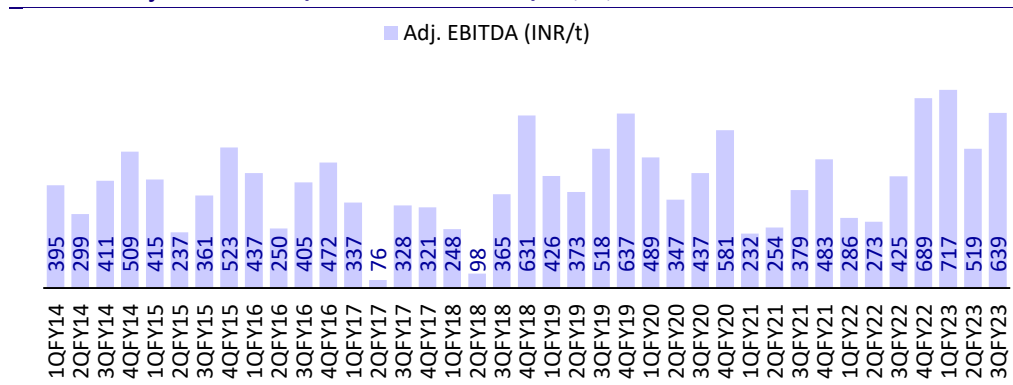
Source: MOFSL, Company

Exhibit 2: FSA volumes and realizations improve during the quarter



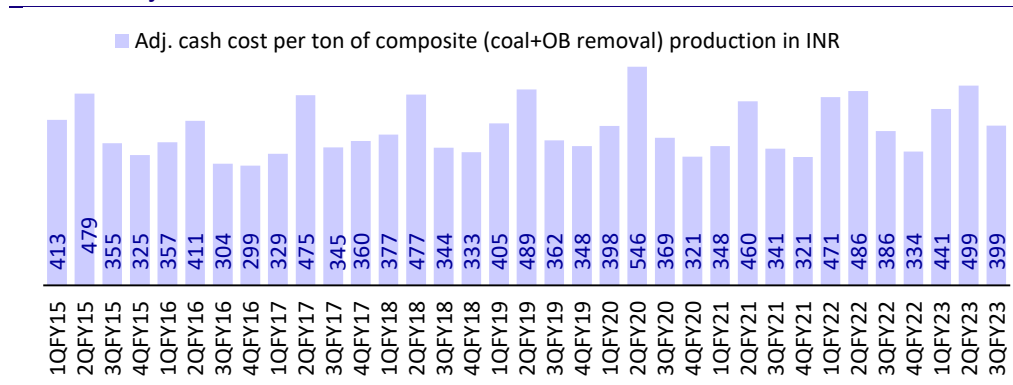
Source: MOFSL, Company

Exhibit 3: Adjusted EBITDA/t increased INR 120/t QoQ



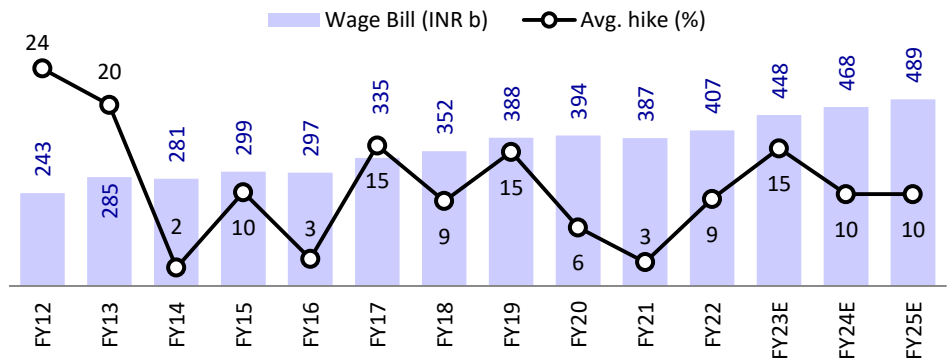
Source: Company, MOFSL

Exhibit 4: Adjusted cash cost remains under control



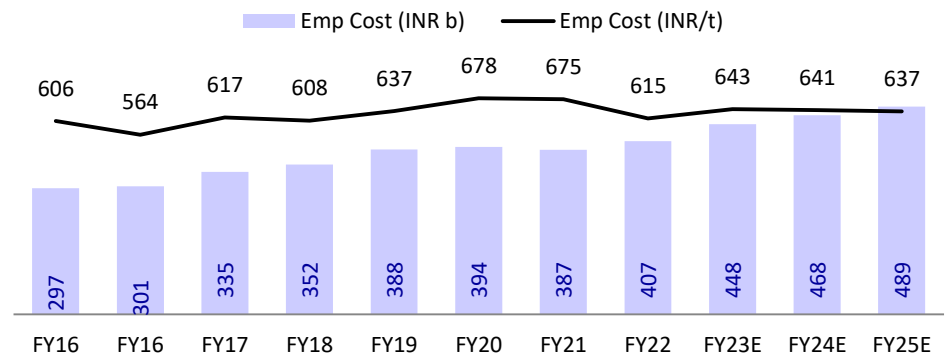
Source: CEA, MOFSL

Exhibit 5: Higher dispatches to adequately cover manpower cost; average wage hike to normalize in FY24 and FY25



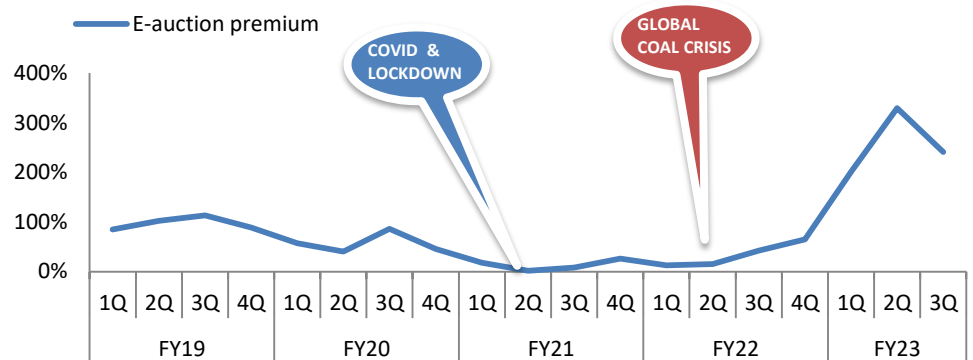
Source: MOFSL

Exhibit 6: Higher dispatches will keep a check on rising absolute employee cost; employee cost/t to reduce from FY23 onwards



Source: Industry, MOFSL

Exhibit 7: e-auction premium of 241% continues to remain elevated



Source: Industry, MOFSL

Exhibit 8: Adjusted P&L (INR m)

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9,95,469	9,60,803	9,00,260	10,97,135	13,64,294	12,68,333	12,93,602
Power FSA	6,40,826	6,24,312	5,84,460	7,26,889	8,89,554	9,70,363	9,78,246
Non Power FSA	1,24,788	1,42,822	1,19,007	1,07,430	1,45,735	79,714	84,638
Eauction/MoU	2,29,856	1,93,669	1,96,793	2,62,816	3,29,006	2,18,256	2,30,718
Sales (mt)	608	581	574	662	696	731	767
YoY (%)	4.9	-4.5	-1.3	15.5	5.1	5.0	5.0
Power FSA	458	426	407	495	580	601	631
Share (%)	75	73	71	75	83	82	82
Non Power FSA	67	75	65	45	52	55	57
Eauction/MoU	83	80	102	122	64	76	79
Revenue per ton	1,637	1,653	1,569	1,657	1,960	1,736	1,686
YoY (%)	10.6	1.0	-5.1	5.5	18.3	-11.5	-2.9
Power FSA	1,399	1,465	1,438	1,467	1,533	1,616	1,551
Non Power FSA	1,851	1,904	1,831	2,398	2,799	1,458	1,475
Eauction/MoU	2,777	2,418	1,929	2,152	5,180	2,889	2,909
Cost of Mining (ex. OBR)	6,94,986	6,86,176	7,00,022	8,12,621	8,98,103	9,69,061	10,14,604
CoP per ton	1,143	1,181	1,220	1,227	1,290	1,326	1,322
YoY (%)	1.1	3.3	3.4	0.5	5.2	2.8	-0.3
Labor & social OH	644	688	682	623	650	648	644
Contract	220	239	279	285	318	365	377
R&M	158	129	121	202	205	194	180
Others	120	125	138	118	118	119	122
Adjusted EBITDA	3,00,483	2,74,627	2,00,238	2,84,514	4,66,192	2,99,273	2,78,998

Exhibit 9: Key assumptions and changes to our estimates

	UoM	FY23E			FY24E		
		New	Old	% change	New	Old	% change
Production	mt	700	700	0%	735	735	0%
Dispatch	mt						
- FSA	"	625	632	-1%	655	655	0%
- E-auction	"	59	57	4%	63	69	-7%
- Others	"	12	11	8%	12	11	8%
Total Dispatch	"	696	700	-1%	731	735	-1%
ASP							
- Blended	INR/t	1,821	1,830	0%	1,597	1,603	0%
- FSA	"	1,484	1,502	-1%	1,464	1,464	0%
- E-auction	"	4,908	5,086	-4%	2,651	2,644	0%
- E-auction premium	"	231%	239%	-793 bps	81%	81%	49 bps
Revenue	INR b	1,364	1,372	-0.6	1,268	1,273	-0.4
Adj EBITDA	INR b	466	474	-1.7	299	304	-1.7
PAT	INR b	333	332	0.2	203	195	4.2

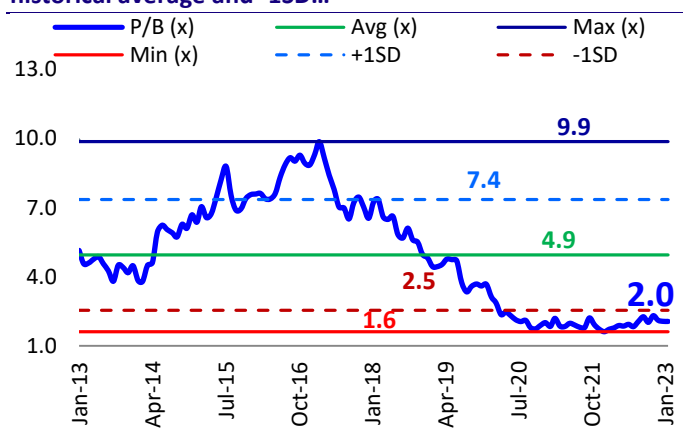
Source: MOSL, Company

Exhibit 10: Valuation remains attractive as demand for COAL remains strong

Target Price calculations	UoM	FY24E
Adjusted EBITDA	INR b	299
Target EV/EBITDA (x)	x	5.0
Target EV	INR b	1,496
Net debt	INR b	-191
Equity value	INR b	1,687
TP		275

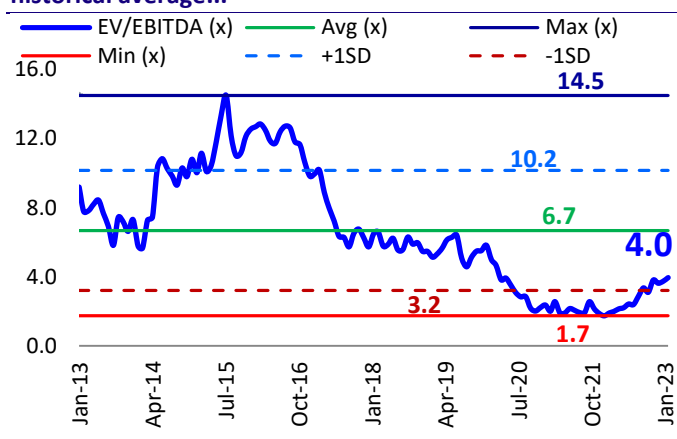
Source: Company, MOFSL

Exhibit 11: COAL P/E multiple remains cheap & below its historical average and -1SD...



Source: MOFSL, Company

Exhibit 12: Even the EV/EBITDA multiple is below its historical average...



Source: MOFSL, Company

Exhibit 13: Comparable valuation of global coal companies

Company	M-Cap USD mn	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*	16,808	8.0	4.2	6.8	3.7	2.6	4.0	3.2	2.3	2.0	40.3
China Shenhua	80,464	5.7	6.2	6.3	3.9	4.3	4.3	1.1	1.0	1.0	18.8	17.0	16.1
Banpu	3,170	1.8	3.3	5.6	2.0	2.6	3.1	0.9	0.8	0.8	43.7	24.5	13.6
Bukit Asam	2,668	3.1	3.8	4.5	1.9	2.2	2.6	1.3	1.2	1.1	45.2	32.4	24.5
Adaro Energy	6,533	2.8	4.1	5.7	1.2	1.8	2.2	1.1	1.0	0.9	43.8	25.7	16.0

Source: MOFSL, Company, Bloomberg. (*) denotes MOFSL estimates

Financials and valuations

Income Statement										(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	780	784	859	995	961	900	1,097	1,364	1,268	1,294
Change (%)	0.0	0.5	9.6	15.9	-3.5	-6.3	21.9	24.4	-7.0	2.0
Operating Expenses	593	660	689	746	742	715	850	924	989	1,036
EBITDA	187	124	170	250	219	186	247	440	279	258
% of Net Sales	24.0	15.8	19.7	25.1	22.8	20.6	22.5	32.3	22.0	19.9
Adjusted EBITDA	215	151	203	300	275	200	285	466	299	279
adj. EBITDA/ton	403	277	350	494	473	349	430	670	410	364
Depreciation	28	29	31	35	35	37	44	44	41	38
Interest	4	4	4	3	5	6	5	7	6	6
Other Income	59	55	47	59	61	38	39	57	39	39
Extra Ordinary income	0	0	74	0	0	0	0	0	0	0
PBT	215	146	107	271	241	180	236	447	272	253
Tax	72	52	37	97	74	53	62	114	69	64
Rate (%)	33.4	35.4	34.6	35.6	30.6	29.5	26.4	25.6	25.2	25.2
PAT before Min. Int.	143	94	70	175	167	127	174	333	203	189
Minority Interest										
Reported PAT	143	94	70	175	167	127	174	333	203	189
Change (%)	0.1	-34.1	-25.5	148.8	-4.4	-23.9	36.8	91.4	-38.8	-7.0
Adjusted PAT	143	94	119	175	167	127	174	333	203	189
Change (%)	0.1	-34.1	26.3	46.8	-4.4	-23.9	36.8	91.4	-38.8	-7.0

Balance Sheet										(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	63	62	62	62	62	62	62	62	62	62
Reserves	285	183	136	203	260	304	370	536	638	732
Net Worth	348	245	198	265	322	365	431	598	699	794
Minority Interest	1	3	4	4	4	4	7	7	7	7
Loans	12	30	15	22	64	59	33	33	33	33
Deferred tax Liability	-20	-27	-54	-43	-33	-41	-41	-41	-41	-41
Capital Employed	341	251	164	248	357	388	430	596	698	793
Gross Fixed Assets	234	277	326	402	474	565	660	517	375	232
Less: Depreciation	27	56	85	116	150	187	232	276	316	355
Net Fixed Assets	207	221	241	286	323	378	428	241	58	-123
Capital Work in Progress	59	103	138	137	128	151	168	460	753	1,045
Investments	0	0	3	5	9	23	24	44	49	54
Current Assets	841	809	839	857	1,007	1,025	1,141	1,196	1,198	1,199
Inventory	76	89	64	56	66	89	71	93	87	89
Debtors	114	107	87	55	144	196	114	224	174	177
Other Current Assets	241	285	351	392	490	524	588	677	711	746
Loans and Advances	1	0	10	16	11	6	4	4	4	4
Cash	409	327	326	338	295	209	365	198	224	184
Current Liabilities	767	882	1,058	1,037	1,110	1,189	1,331	1,346	1,361	1,383
Payables	33	39	45	68	101	76	86	75	69	71
Other current liabilities	734	843	1,012	968	1,009	1,113	1,245	1,271	1,291	1,313
Net Curr. Assets	74	-73	-218	-179	-104	-164	-190	-150	-162	-184
Application of Funds	341	251	164	248	357	388	430	596	698	793

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic										
Adjusted EPS	22.6	15.2	19.2	28.3	27.1	20.6	28.2	54.0	33.0	30.7
Cash EPS	31.5	24.2	29.5	42.2	41.7	29.0	41.5	65.3	42.9	40.4
Book Value	55.1	39.5	32.0	42.9	52.2	59.3	70.0	97.0	113.5	128.9
DPS	27.4	19.9	16.5	13.1	12.0	16.0	17.0	27.0	16.5	15.4
Payout (incl. Div. Tax.)	145.5	160.3	103.3	55.5	53.3	77.6	60.3	50.0	50.0	50.0
Valuation (x)										
P/E	12.9	19.3	14.8	8.4	4.9	6.3	8.0	4.2	6.8	7.3
Cash P/E	9.3	12.1	9.6	5.6	3.2	4.5	5.4	3.4	5.2	5.6
P/BV	5.3	7.4	8.9	5.5	2.5	2.2	3.2	2.3	2.0	1.7
EV/Adj. EBITDA	6.7	10.1	7.1	3.8	2.1	3.3	3.7	2.6	4.0	4.4
Dividend Yield (%)	9.4	6.8	5.8	5.5	9.1	12.3	7.6	12.0	7.3	6.8
EV /ton of Reserves	66.6	69.9	66.6	52.7	26.8	30.0	48.5	56.2	55.0	56.8
Profitability Ratios (%)										
Debtor (Days)	53.6	50.0	36.9	20.2	54.7	79.6	37.8	60.0	50.0	50.0
Inventory (Days)	35.4	41.7	27.4	20.5	25.1	36.3	23.5	25.0	25.0	25.0
Payables (Days)	15.4	18.2	19.2	25.0	38.4	31.0	28.6	20.0	20.0	20.0
Asset turnover(x)	2.3	3.1	5.2	4.0	2.7	2.3	2.6	2.3	1.8	1.6
Profitability Ratios (%)										
RoE	41.0	38.4	35.4	66.0	51.9	34.8	40.3	55.6	29.1	23.8
RoCE	39.9	32.7	58.4	85.7	56.4	35.4	43.5	65.8	32.1	26.0
RoIC	-60.6	-40.0	-37.7	-51.7	-83.4	-295.0	-243.4	-253	-82	-40
Leverage Ratio										
Net Debt/Equity (x)	-1.1	-1.2	-1.6	-1.2	-0.7	-0.4	-0.8	-0.3	-0.3	-0.2

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Adj EBITDA	215	151	203	300	275	200	285	466	299	279
Non cash exp. (income)	22	37	-55	11	10	19	15	23	22	21
(Inc)/Dec in WC	-27	60	138	-49	-123	-57	174	-144	52	-4
Taxes paid	-79	-89	-74	-95	-119	-57	-63	-114	-69	-64
CF from Operations	132	158	213	167	41	106	411	230	304	232
Capex	-58	-87	-85	-73	-56	-110	-120	-150	-150	-150
Free Cash Flow	74	72	127	94	-15	-4	291	80	154	82
(Pur)/Sale of Investments	0	0	-3	-1	-5	-8	-8	-20	-5	-5
Interest/dividend	50	35	24	31	35	24	11	35	17	19
Other investing activity	-83	-12	-13	-10	11	-14	-5	-88	-34	-36
CF from Investments	-91	-65	-77	-54	-15	-107	-121	-224	-171	-172
Equity raised/(repaid)	0	-46	0	0	0	0	0	0	0	0
Debt raised/(repaid)	10	18	-15	7	23	-6	-26	0	0	0
Interest paid	0	0	0	0	-1	-2	-1	-7	-6	-6
Dividend (incl. tax)	-208	-151	-123	-112	-97	-77	-108	-166	-102	-95
Other financing	3	3	3	4	5	0	0	0	0	0
CF from Fin. Activity	-196	-176	-136	-102	-70	-85	-134	-173	-107	-100
Inc/Dec of Cash	-155	-82	-1	12	-43	-86	155	-166	26	-40
Add: Beginning Balance	564	409	327	326	338	295	209	365	198	224
Closing Balance	409	327	326	338	295	209	365	198	224	184

(INR b)

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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