

BSE SENSEX
57,527

S&P CNX
16,945

Stock Info

Bloomberg	COAL IN
Equity Shares (m)	6207
M.Cap.(INRb)/(USDb)	1285.2 / 15.6
52-Week Range (INR)	263 / 165
1, 6, 12 Rel. Per (%)	-1/-4/13
12M Avg Val (INR M)	2342
Free float (%)	33.9

Financials Snapshot (INR b)

Y/E MARCH	2023E	2024E	2025E
Sales	1,364	1,268	1,294
EBITDA	466	299	279
Adj. PAT	333	203	189
EBITDA Margin (%)	34.2	23.6	21.6
Cons. Adj. EPS (INR)	54.0	33.0	30.7
EPS Gr. (%)	91.4	-38.8	-7.0
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)	3.9	6.3	6.8
P/BV (x)	2.1	1.8	1.6
EV/EBITDA(x)	2.4	3.6	4.1
Div. Yield (%)	13.0	7.9	7.4
FCF Yield (%)	6.3	12.0	6.4

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

FII Includes depository receipts

CMP: INR209
TP:INR275 (+32%)
Buy
Higher volumes and e-auction premium to drive profitability

Robust domestic demand, enhanced vision of 1bt production, and improved e-auction premium are all set to drive a strong near-term performance.

- COAL growth roadmap is in synergy with the government's commitment to bring about a transformative change in the power sector by providing 24x7 power supply to all homes sets the stage for COAL to achieve strong coal production over the next few years.
- COAL's long-term demand commitment from numerous power plant companies for FSA provides the company with a better business visibility.
- Though the e-auction premiums have cooled off from their highs, it was compensated by higher volumes in e-auction. We expect COAL to register a better QoQ performance in 4Q with higher volumes on e-auction and almost similar levels of premium.
- COAL trades at EV/EBITDA of 3.6x FY24E. We reiterate our Buy rating on the stock with a target price of INR275 (5x EV/EBITDA). We believe COAL is well placed to capitalize on the growth opportunity ahead.

National Coal Wage Agreement – XI

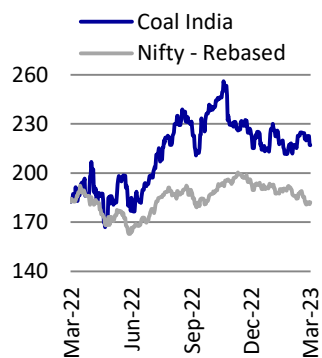
- COAL follows National Coal Wage Agreement (NCWA) for payment of salaries and wages to its non-executive employees. As on FY22, COAL had 232k non-executive employees on its payroll (consisting 93.7% of its total workforce) with an average monthly salary of INR118k.
- Recently, COAL and four central trade unions reached a mutual agreement of 19% Minimum Guaranteed Benefits (MGB) w.e.f. July '21 on emoluments (i.e., basic pay, VDA, SDA and attendance bonus). The current proposed wage hike was not only lower than the previous NCWA wage hikes, but also lower than originally anticipated. The periodicity of NCWA is for five years.
- Almost 50% of the workforce is over 50 years and are due for retirement in the next few years and the younger workforce replacing the outgoing employees will be commanding lower annual packages.
- COAL over the last two to three years has gradually reduced its hiring in the above 50 age group (zero hiring in executive role above 50 years in FY22) and is focusing on hiring and retaining younger generations with fresh talents. This will help COAL bring down the wage bill considerably in the next few years.
- In the near term, the wage hike is expected to increase the wage bill by INR58-60b p.a. However, in our current estimates, we have already accounted for a 15% wage hike and considering high wage employees of over 50 years retiring over the next two to three years, FY24 and FY25 estimates are kept unchanged.
- The last FSA price revision was taken in 2018 and COAL will eventually increase the FSA prices to pass on the higher wage bill, especially for a few subsidiaries, where the manpower cost is high.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Stock Performance (1-year)

- The recent judgment by Kolkata high court, which allows Indian National Mineworkers Federation (IMF) to participate in wage negotiations coupled with pan India agitation by All India Coal Pensioners Association to increase pension amount, which has been stagnant since '98, may result in fresh rounds of negotiations, which can increase the wage cost even further.
- However, since no action has been taken as on date and NCWA is under review by the government (Department of Public Enterprises), we have kept our wage estimates unchanged for FY24/FY25 at INR468b/INR489b, respectively.

e-auction continues to drive profitability

- Post the Russia-Ukraine war, e-auction premium for coal has been at elevated levels of over 200%. We also note that the reforms in e-auction process, in terms of unifying all the e-auction windows, to form a single coal e-auction window have helped remove market distortions and contributed to higher premiums.
- As indicated in our previous notes, though the e-auction premiums have cooled off from their highs, they were adequately compensated by higher volumes for e-auctions.
- COAL sells ~10% of its volumes in e-auction at auction-determined prices and we expect COAL to clock a total volume of ~60mt in FY23E.
- Higher sales via the auction route helps garner better profitability as the prices are higher than FSA-determined prices. Further, 4Q being a seasonally better quarter, we expect COAL to register higher volumes and similar levels of e-auction premiums in the quarter.
- COAL is investing heavily in land acquisitions and better equipment which will help COAL to improve production and consequently drive the offerings under e-auction.
- Coal supply via e-auction is inversely related to quantity supplied under FSA. With supply to FSA increasing this year, on the back of higher demand for power, the volume supplied under e-auction is expected to clock 58-60mt in FY23 from 110mt in FY22.

Long-term FSA through SHAKTI linkages

- Ministry of Coal has designed a policy for allocation of coal among thermal power plants in a transparent and objective manner. The main aim of SHAKTI is to ensure continuous coal availability to thermal power plants.
- COAL has long-term demand commitment with numerous power plants under the provisions of SHAKTI for linkages exceeding 600mt.
- With the addition of more power plants for allocation of coal linkages under SHAKTI, the company gains better future visibility.

Set to enhance the capacity to 1bt

- As per 'Vision 2024', COAL has envisaged 1bt coal production by FY25/FY26 to meet the ever-increasing coal demand in India.
- COAL has been undertaking strategic expansion by investing in machineries and land acquisitions, which will lay down the roadmap to reach the target of 1bt.
- Recently, COAL issued 7 LOAs through the MDO mode, which will augment the capacity by 100mt p.a. and eventually accrue to COAL's target of 1bt.

Record capex

- COAL has been investing heavily on land acquisitions, coal evacuation initiatives, rail infrastructure, contract finalizations, mining fleet, digitalization, etc., to eventually increase the production capacity and reach 1bt.
- The recent LOAs issued through the MDO mode would require a capex of INR206b, which will augment the capacity by 100mt with mine contract period of 25 years.
- The entire capex is funded by internal accruals.
- Higher capex is expected to yield results for the company in terms of higher production and better transportation infrastructure in the coming years.

Strong domestic demand

- 70-75% of the total power generation in India is via the thermal route and 80%-85% of the total coal production in India is supplied to the power sector. COAL is the largest supplier of thermal coal to power sectors (75%-80% of fuel requirement is met by COAL), and hence, power security in India is directly dependent on the performance of COAL.
- Demand for coal is expected to increase on the back of enhanced demand for power for rural electrification and 'Power For All Scheme'.
- India's peak power demand is expected to touch around 225gw in Apr '23 and the government has mandated power plants to function at full capacity to meet the higher anticipated demand, which will then drive the demand for thermal coal during the summer season.
- We believe the world has come to terms that fossil fuel cannot be ignored, at least in the near term. Renewables continue to be unreliable with problems either related to (a) availability, (b) costs, (c) storage, (d) safety or (e) project completion deadlines. As a result, irrespective of investor preference, dependence on coal is likely to increase in the near term.
- Coal is also diversifying and expanding to other verticals under 'Coal to Chemicals' business strategy, which will ensure greater value addition, and thereby, improve financial performance in a long-term sustainable manner.

Valuations remain attractive

- COAL is trading at 3.6x our FY24E EV/EBITDA and 1.8x our FY24E P/B, respectively.
- 4Q is a seasonally stronger quarter with the onset of the summer season. The demand for power too increases, consequently driving the requirement for higher coal volumes by power plants.
- We maintain our e-auction premium estimate for FY23 at 231% and we reiterate our BUY rating on the stock with a target price of INR275 (5x EV/EBITDA). COAL continues to be our top pick in the mining sector. Any hike in FSA will further add to the financial performance of the company.
- COAL has declared a second interim dividend of INR5.25, thereby, taking the total dividend for FY23E to INR20.25. We have estimated full-year FY23 DPS of INR27.

Exhibit 1: Key operating metrics

Key Metrics	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total dispatches	533.5	541.3	580.5	608.2	581.1	573.6	662.3	696.0	730.8	767.3
FSA dispatches	447.7	429.8	460.0	525.4	501.0	466.4	540.2	625.3	655.2	688.0
e-auction dispatches	66.3	94.2	106.2	68.5	65.4	94.4	110.8	59.0	63.5	66.9
Blended realizations	1,417	1,392	1,407	1,527	1,538	1,442	1,519	1,821	1,597	1,547
FSA realizations	1,311	1,301	1,257	1,348	1,416	1,379	1,407	1,484	1,464	1,406
e-auction realizations	1,858	1,536	1,839	2,632	2,177	1,569	1,879	4,908	2,651	2,672
Adj. EBITDA (INR b)	215	149	203	300	275	200	285	466	299	279
Adj. EBITDA/t	403	275	350	494	473	349	430	670	410	364

Source: MOFSL, Company

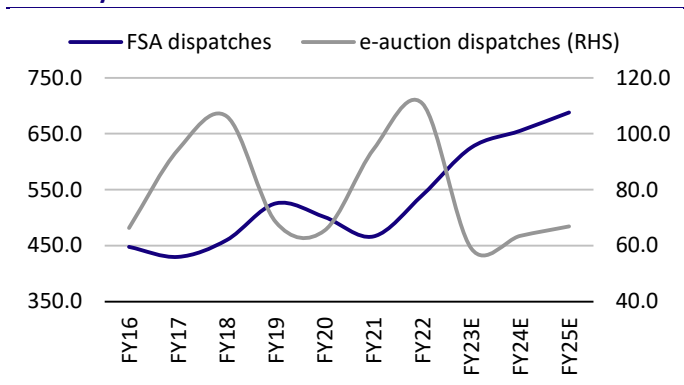
- Though the e-auction realizations are expected to cool down from FY24E, higher volumes are expected to support revenue growth. Similarly, though FSA rates are not expected to increase in the near term, higher dispatches to power companies will support the revenue growth for COAL.
- Though COAL can sell up to 10% of its total volumes via e-auctions, any increase in dispatches under FSA to power companies will pull down the volumes under e-auctions, which are a high premium category for the company.

Exhibit 2: COAL subsidiaries yearly target achievement – Feb '23

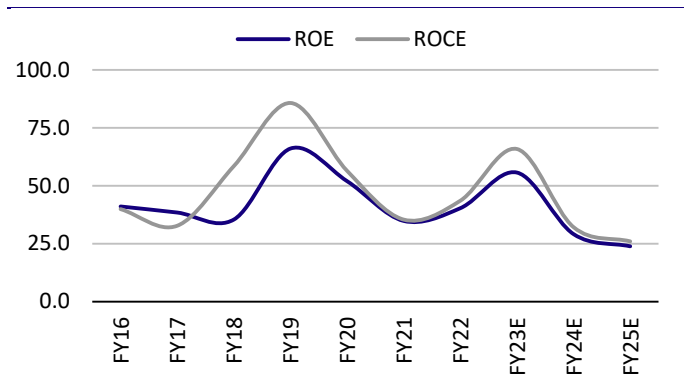
Subsidiary	Total mines	Total yearly production target FY23E	Target achieved YTD
BCCL	29	32	102
CCL	36	76	84
MCL	18	176	99
ECL	77	50	61
NCL	10	122	98
SECL	62	182	79
WCL	53	62	88
Total	285	700	89%

Source: MOFSL, Company, Ministry of Coal

- NCL, SECL, and MCL are the biggest contributors to the overall volume of COAL. Till Feb '23, NCL/SECL/MCL has produced 120mt/145mt/174mt, respectively. BCCL has already achieved its yearly target and MCL/NCL achieved 99%/98% of its yearly target.

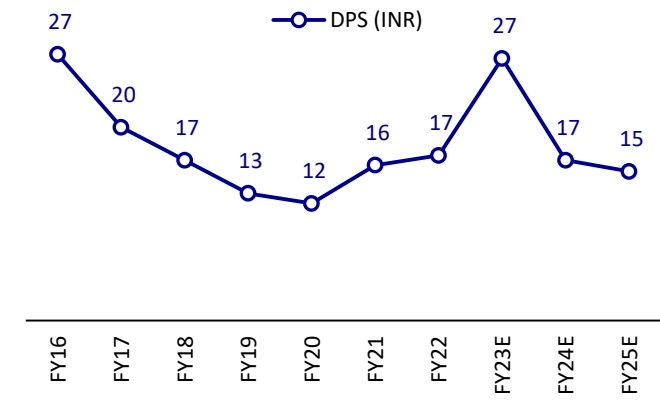
Exhibit 3: Dispatches (mt); e-auction and FSA dispatch are inversely related to each other

Source: MOFSL, Company

Exhibit 4: ROE/ROCE expected to peak in FY23E and stabilize thereafter

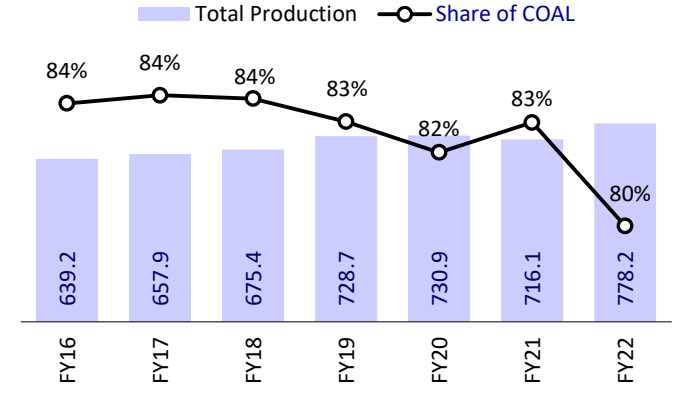
Source: MOFSL, Company

Exhibit 5: Healthy dividend payout; COAL has already declared two interim dividends aggregating to INR20.25



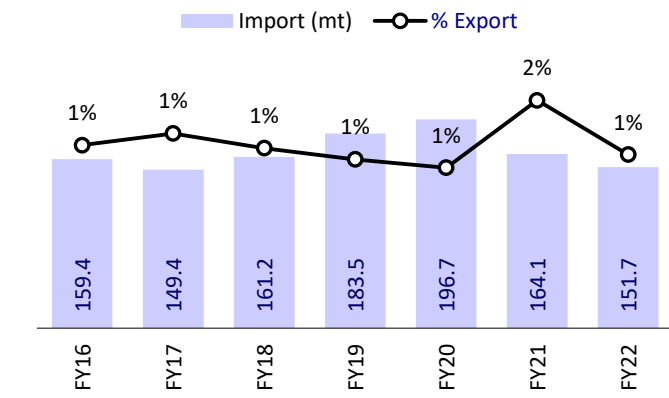
Source: MOFSL, Company

Exhibit 6: Share of COAL in the total coal production in India (mt); COAL current contribution as on Feb '23 stands at 79%



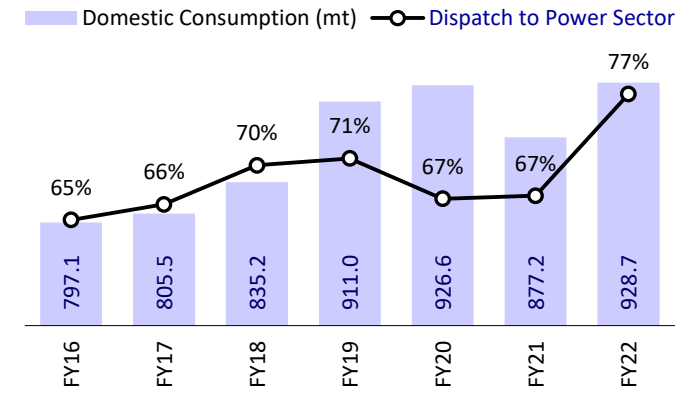
Source: MOFSL, Company, Ministry of Coal

Exhibit 7: India has been a net importer of Coal (mt)



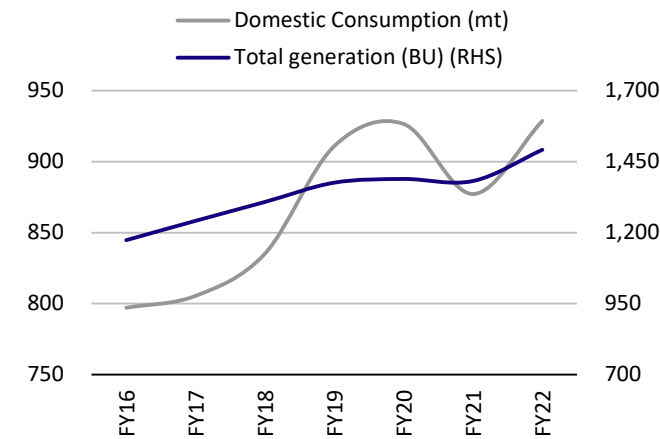
Source: MOFSL, Ministry of Coal

Exhibit 8: Dispatch to power sector



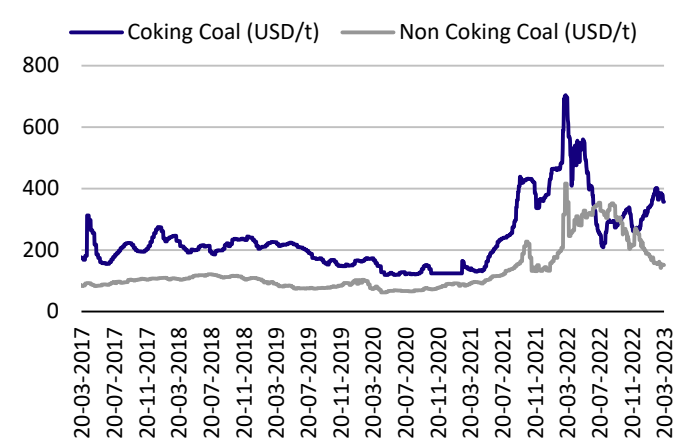
Source: MOFSL, Ministry of Coal

Exhibit 9: Domestic coal consumption (mt) is related to power generation (BU)



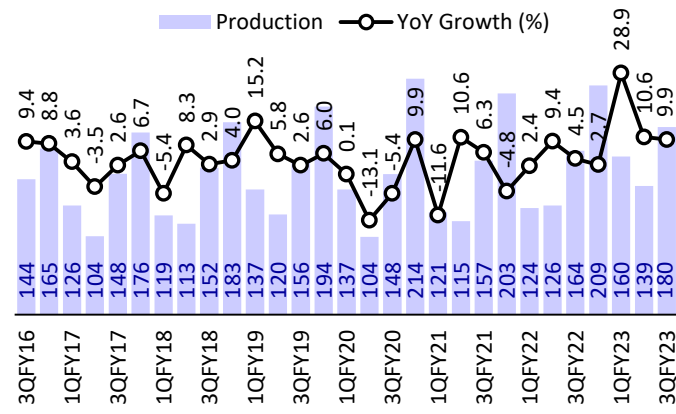
Source: MOFSL, Ministry of Coal, Ministry of Power

Exhibit 10: Until Russia-Ukraine war, coking and non-coking coal moved in the same direction



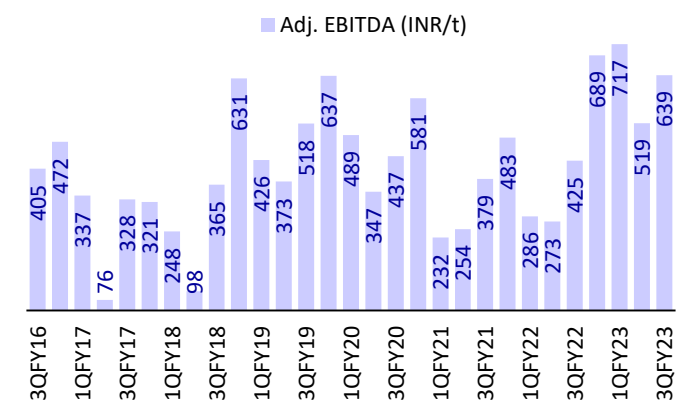
Source: MOFSL, SteelMint

Exhibit 11: Quarterly production (mt) and YoY Growth (%)



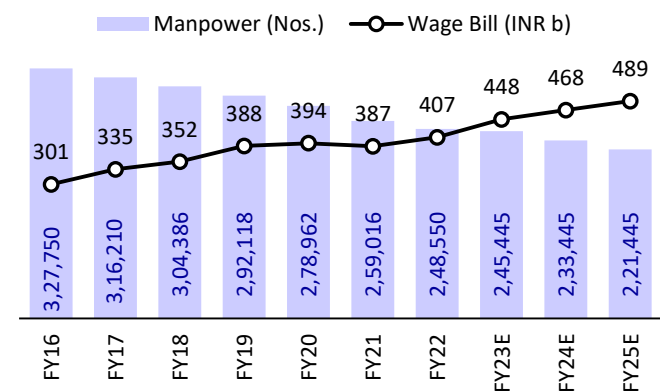
Source: MOFSL, Company

Exhibit 12: Adj. EBITDA (INR/t)



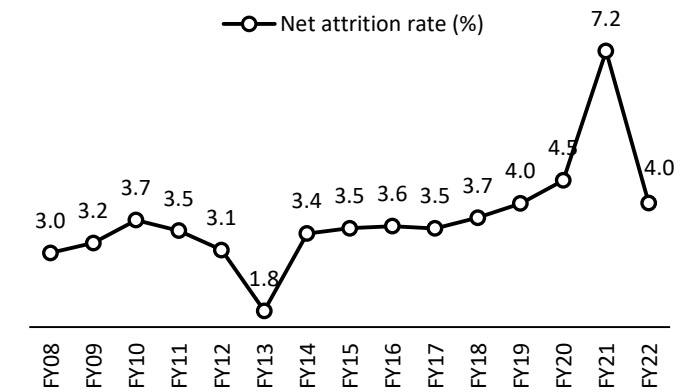
Source: MOFSL, Company

Exhibit 13: Wage bill is expected to go up post NCWA-XI coming into force



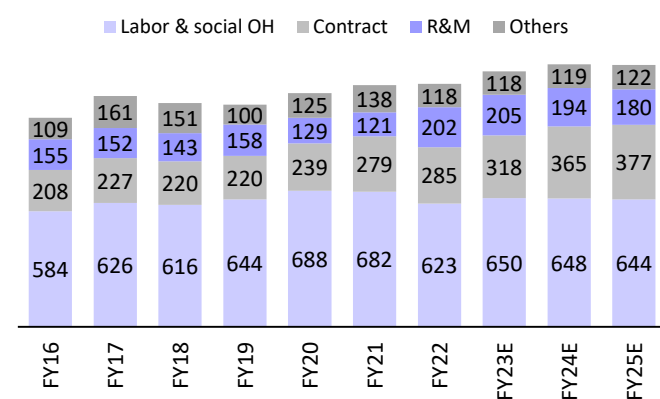
Source: MOFSL, Company

Exhibit 14: Average net attrition rate stands at 3.7%



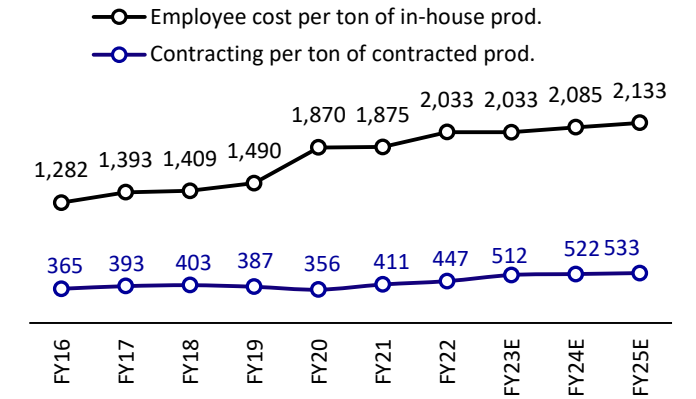
Source: MOFSL, Company

Exhibit 15: Cost per ton to be flattish (INR/t)



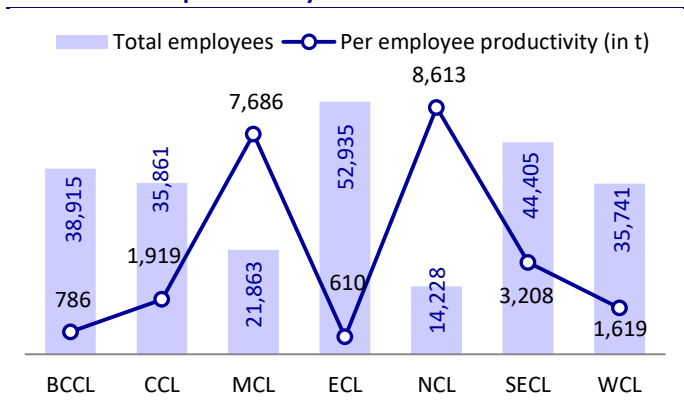
Source: MOFSL, Company

Exhibit 16: Contracting is cheaper than in-house production (INR/t)



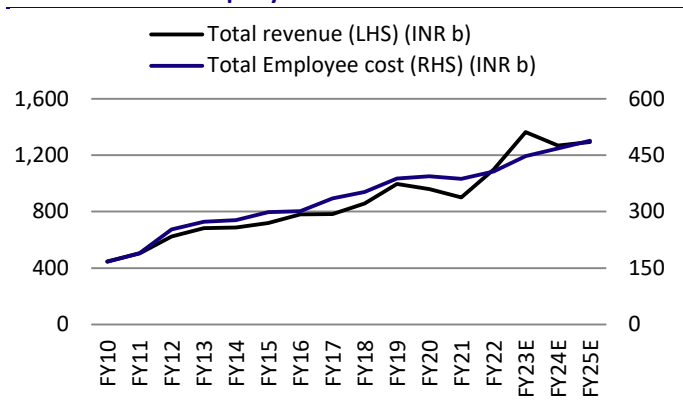
Source: MOFSL, Company

Exhibit 17: Productivity (t) across major mines; ECL and BCCL have the worst productivity levels across all subsidiaries



Source: MOFSL, Company (*data as on FY22)

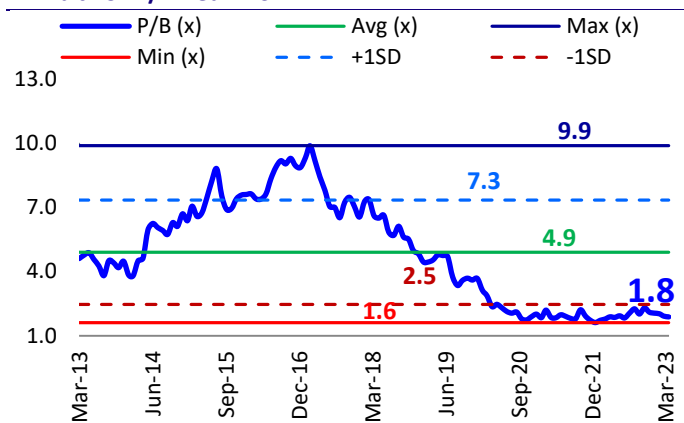
Exhibit 18: Total employee cost moves in tandem with the revenue of the company



Source: MOFSL, Company

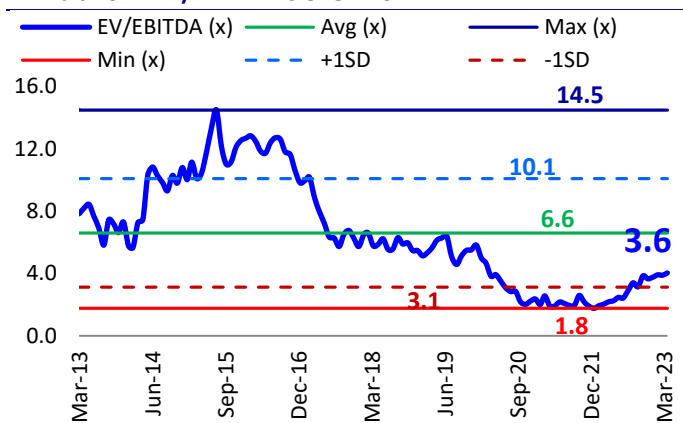
- The productivity level of COAL is one of the lowest compared to international peers such as China Shenhua and Adaro Energy. The per employee productivity (as on FY22) for COAL stands at ~2,800t as against ~3,940t and ~4,440t for China Shenhua and Adaro Energy, respectively. Increasing per employee productivity will help COAL reach closer to its 1bt target.

Exhibit 19: P/B near -1SD



Source: MOFSL, Company Data

Exhibit 20: ...EV/EBITDA is over -1SD



Source: MOFSL, Company Data

- COAL is trading at 3.6x our FY24E EV/EBITDA and 1.8x our FY24E P/B. We believe COAL is well placed to capitalize on the growth opportunities ahead. We reiterate our Buy rating on the stock for a target price of INR275 (5x FY24E EV/EBITDA).

Exhibit 21: TP calculation

Y/E March	UoM	FY24E
Adjusted EBIDTA	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: MOFSL

Exhibit 22: Global comparative valuations

Company	M-Cap	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
	USD m	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*	15,957	7.4	3.9	6.3	3.3	2.4	3.6	3.0	2.1	1.8	40.3	55.6	29.1
China Shenhua	80,051	5.9	6.4	6.6	4.0	4.3	4.3	1.1	1.1	1.0	19.0	16.6	15.8
Banpu	2,629	1.6	3.4	5.7	1.9	2.5	3.2	0.7	0.7	0.7	47.1	18.9	11.3
Bukit Asam	2,826	3.3	4.2	5.4	2.2	2.5	3.1	1.4	1.3	1.2	45.8	32.1	22.6
Adaro Energy	5,713	2.4	3.9	5.6	1.1	1.6	1.9	0.9	1.0	0.9	43.8	25.3	15.8

Source: MOFSL, Company. (*) 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	7.4	3.9	6.3	6.8
Cash P/E	9.3	12.1	9.6	5.6	3.2	4.5	5.0	3.2	4.8	5.1
P/BV	5.3	7.4	8.9	5.5	2.5	2.2	3.0	2.1	1.8	1.6
EV/Adj. EBITDA	6.7	10.1	7.1	3.8	2.1	3.3	3.3	2.4	3.6	4.1
Dividend Yield (%)	9.4	6.8	5.8	5.5	9.1	12.3	8.2	13.0	7.9	7.4
EV /ton of Reserves	66.6	69.9	66.6	52.7	26.8	30.0	43.7	51.4	50.2	52.0
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
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

(INR b)

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

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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