Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Coal India Ltd

Wage provision hit Q4; valuations attractive & high dividend yield

Energy & Utilities	Sharekhan code: COALINDIA

Reco/View: Buy	↔	CMP: **Rs. 233**	Price Target: **Rs. 270**	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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 42.55

Updated Mar 08, 2023

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

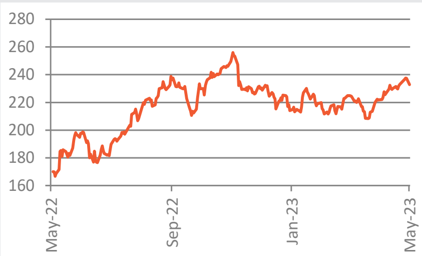
Company details

Market cap:	Rs. 1,43,530 cr
52-week high/low:	Rs. 263/165
NSE volume: (No of shares)	71.7 lakh
BSE code:	533278
NSE code:	COALINDIA
Free float: (No of shares)	208.7 cr

Shareholding (%)

Promoters	66.1
FII	7.8
DII	21.1
Others	5.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.1	8.6	-9.0	27.2
Relative to Sensex	3.2	1.6	1.2	13.4

Sharekhan Research, Bloomberg

Summary

- Q4FY23 results were weak with a sharp 36% miss in consolidated PAT at Rs. 5533 crore (down 17% y-o-y) due to sharp 57% y-o-y rise in employee cost (given wage provision of Rs5,870 crore), miss in e-auction realisation and higher depreciation & tax rate.
- E-auction realisations disappointed as it declined by 10% q-o-q to Rs. 4,525/tonne (e-auction premium at 192% was lower versus 241% in Q3FY23). FSA realisations increased by 4.6% q-o-q to Rs. 1,550/tonne (4% above our estimate) and in-line coal offtake of 187 mt (up 3.7%/6.3% y-o-y/q-o-q) with FSA/e-auction volume at 167mt/16mt, up 6%/12% q-o-q.
- FY23 numbers were the best ever with PAT soaring 62% y-o-y; but we expect the same to moderate in FY24 given lower e-auction realisation due to recent fall in imported coal price. Having said that, overall earnings would remain resilient and above historical levels given strong coal demand from thermal power plants and better price discovery (single window for e-auction of coal and likely FSA price hike).
- Stock trades at an attractive valuation of 6.3x/5.6x its FY24E/FY25E EPS (close to trough valuation) and offers a high dividend yield of ~10%. Hence, we maintain a Buy with a revised PT of Rs. 270. Potential stake sale in Bharat Coking Coal Limited (BCCL) and subsequent listing would unlock value.

Q4FY23 consolidated operating profit of Rs. 6,898 crore (down 24% y-o-y; down 33.6% q-o-q) was 42% below our estimate of Rs. 11,846 crore due to a 6% miss in blended realisation at Rs. 1,882/tonne and substantially higher employee cost (up 57% y-o-y; up 47% q-o-q) given wage provision of Rs. 5,870 crore in Q4FY23. Coal offtake volume of 187 million tonne (up 3.7% y-o-y) was in-line with provisional volume numbers. FSA/e-auction volume stood at 167 mt/16 mt, up 6%/12% q-o-q. FSA realisations increased by 4.6% q-o-q to Rs. 1550/tonne (above estimate) while e-auction disappointed with 10% q-o-q decline to Rs. 4,525/tonne (at a 192% premium over FSA realisation). EBITDA/tonne declined sharply by 27%/38% y-o-y/q-o-q to Rs. 369/tonne (42% below estimate). Consolidated PAT at Rs. 5,533 crore (down 17% y-o-y; down 29% q-o-q) was 36% below our estimate of Rs. 8,664 crore due to miss in margin, higher depreciation and tax rate partially offset by higher other income.

Key positives

- FSA realisation increased by 4.6% q-o-q to Rs. 1550/tonne (above estimate).
- Declared final dividend of Rs. 4/share, taking FY23 DPS to Rs. 24/ share, which implies dividend yield of 10% on CMP.

Key negatives

- Lower-than-expected e-auction realisation of Rs. 4,525 per tonne (down 10% q-o-q)
- Sharp rise of 57%/47% y-o-y/q-o-q in employee costs, given wage provision of Rs. 5870 crore in Q4FY23.

Revision in estimates – We lowered our FY24-25 earnings estimate by 17%/16% to factor higher employee costs.

Our Call

Valuation – Maintain Buy on CIL with a revised PT of Rs. 270: CIL's valuation of 6.3x/5.6x FY24E/FY25E EPS is close to trough level and stock offers a high dividend yield of ~10%. The company's board has given in-principal approval to divest a 25% stake in Bharat Coking Coal Limited (BCCL) and a stake sale along with potential listing could help unlock value. We maintain a Buy recommendation on CIL with a revised price target (PT) of Rs. 270.

Key Risks

1) Lower-than-expected volume offtake amid weak electricity demand and 2) lower realisations (especially for e-auction) could affect margins and earnings outlook.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,09,714	1,38,252	1,38,277	1,49,473
OPM (%)	22.5	26.6	20.7	21.6
Adjusted PAT	17,358	28,165	22,702	25,482
% YoY growth	36.7	62.3	-19.4	12.2
Adjusted EPS (Rs.)	28.2	45.7	36.8	41.3
P/E (x)	8.3	5.1	6.3	5.6
P/B (x)	3.3	2.5	2.3	2.1
EV/EBITDA (x)	4.8	2.9	3.1	2.5
RoNW (%)	43.6	56.1	38.0	39.2
RoCE (%)	45.1	59.2	40.5	42.4

Source: Company; Sharekhan estimates

Weak Q4 performance; PAT missed estimate by 36% on substantially higher employee cost

Q4FY23 consolidated operating profit of Rs. 6,898 crore (down 24% y-o-y; up 33.6% q-o-q) was 42% below our estimate of Rs. 11,846 crore due to a 6% miss in blended realisation at Rs. 1,882/tonne and substantially higher employee cost (up 57% y-o-y; up 47% q-o-q) given wage provision of Rs. 5,870 crore in Q4FY23. Coal offtake volume of 187 million tonne (up 3.7% y-o-y) was in-line with provisional volume numbers. FSA/e-auction volume stood at 167 mt/16 mt, up 6%/12% q-o-q. FSA realisations increased by 4.6% q-o-q to Rs. 1550/tonne (above estimate) while e-auction disappointed with 10% q-o-q decline to Rs. 4,525/tonne (at a 192% premium over FSA realisation). EBITDA/tonne declined sharply by 27%/38% y-o-y/q-o-q to at Rs. 369/tonne (42% below estimate). Consolidated PAT at Rs. 5,533 crore (down 17% y-o-y; down 29% q-o-q) was 36% below estimate of Rs. 8,664 crore due to miss in margin, higher depreciation and tax rate partially offset by higher other income.

Results (Consolidated) — Rs cr

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	**38,152**	**32,709**	**16.6**	**35,169**	**8.5**
Total Expenditure	31254	23,607	32.4	24781	26.1
Operating profit	**6,898**	**9,102**	**-24.2**	**10,389**	**-33.6**
Other Income	2210	1766	25.2	1585	39.4
Interest	195	121	61.3	204	-4.3
Depreciation	1,342	1,412	-4.9	1,262	6.4
PBT	7,571	9,335	-18.9	10,508	-28.0
Tax	2,115	2,620	-19.3	2,875	-26.4
PAT before share of profit from JVs and MI	5,456	6,714	-18.7	7,633	-28.5
Share of profit from JVs	72	1		86	-16.5
Minority interest	-6	22		-36	-84.6
PAT	**5,533**	**6,693**	**-17.3**	**7,756**	**-28.7**
O/S Shares (cr)	616	616		616	
EPS (Rs.)	9.0	10.9	-17.3	12.6	-28.7
Margins (%)			**BPS**		**BPS**
OPM	18.1	27.8	-974.7	29.5	-1,145.9
NPM	14.5	20.5	-595.9	22.1	-754.9
Tax rate	27.9	28.1	-13.8	27.4	57.6

Source: Company; Sharekhan Research

Key operating performance

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Coal production (mt)	224	209	7.3	180	24.5
Coal offtake (mt)	187	180	3.7	176	6.3
Blended realisation (Rs. /tonne)	1,882	1,667	12.9	1,845	2.0
FSA realisation (Rs. /tonne)	1,550	1,474	5.1	1,482	4.6
E-auction realisation (Rs. /tonne)	4,525	2,434	85.9	5,047	-10.3

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 reduce 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).

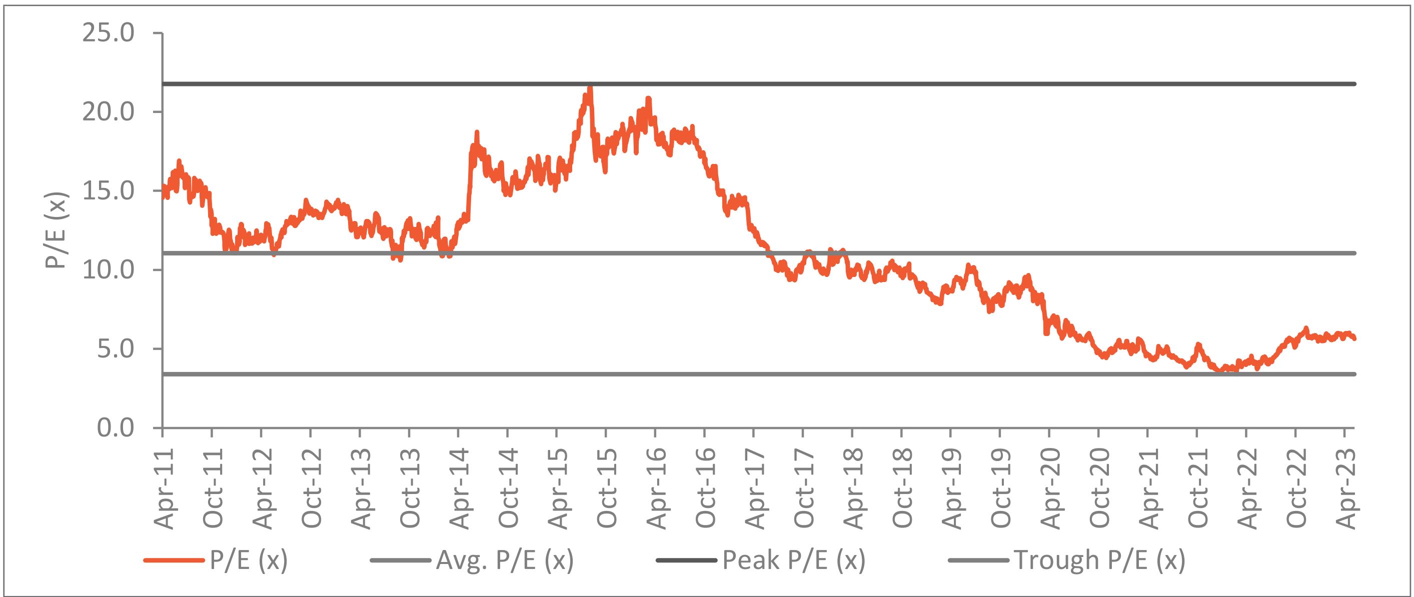
■ **Company Outlook – Expect earnings to remain resilient led by volume growth and better coal realisation**

Coal India posted its best-ever performance in FY23 with PAT soaring by 23% y-o-y but we expect the same to moderate in FY24 given lower e-auction realisation due to recent fall in imported coal price. Having said that, overall earnings would remain resilient and above historical levels given strong coal demand from thermal power plants and better price discovery (single window for e-auction of coal and likely FSA price hike).

■ **Valuation – Maintain Buy on CIL with a revised PT of Rs. 270**

CIL's valuation of 6.3x/5.6x FY24E/FY25E EPS is close to trough level and stock offers a high dividend yield of ~10%. The company's board has given in-principal approval to divest a 25% stake in Bharat Coking Coal Limited (BCCL) and a stake sale along with potential listing could help unlock value. We maintain a Buy recommendation on CIL with a revised price target (PT) of Rs. 270.

One-year forward P/E (x) band



Source: Sharekhan Research

About the 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 amid any weakness in electricity demand.
- Lower-than-expected realisation (especially e-auction) could impact margin and earnings outlook.

Additional Data

Key management personnel

Pramod Agrawal	Chairman and Managing Director
S. Sarkar	Director – Finance
Binay Dayal	Director – Technical

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	11.0
2	Nippon Life India Asset Management	3.0
3	HDFC Asset Management Co Ltd	2.4
4	Vanguard Group Inc/The	1.3
5	PPFAS Asset Management	1.1
6	BlackRock Inc	0.9
7	SBI Funds Management Ltd	0.7
8	ICICI Prudential Asset Management	0.6
9	GQG Partners LLC	0.5
10	UTI Asset Management Co Ltd	0.3

Source: Bloomberg

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 detoriating 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

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