

BSE SENSEX
62,969

S&P CNX
18,634



Stock Info

Bloomberg	COAL IN
Equity Shares (m)	6207
M.Cap.(INRb)/(USDb)	1505.9 / 18.2
52-Week Range (INR)	263 / 175
1, 6, 12 Rel. Per (%)	2/8/19
12M Avg Val (INR M)	1930
Free float (%)	33.9

Financials Snapshot (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	1,383	1,341	1,372
EBITDA	406	283	299
Adj. PAT	281	200	215
EBITDA Margin (%)	29.4	21.1	21.8
Cons. Adj. EPS (INR)	45.6	32.5	34.9
EPS Gr. (%)	61.8	-28.9	7.6
BV/Sh. (INR)	93	109	127

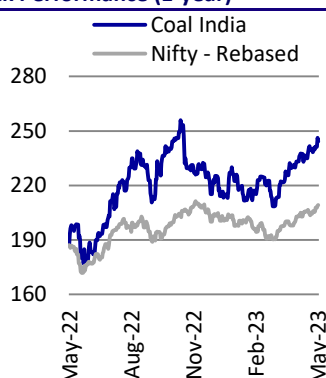
Ratios

Net D:E	-0.7	-0.6	-0.6
RoE (%)	49.1	29.7	27.6
RoCE (%)	56.7	31.2	27.9
Payout (%)	53.1	50.0	50.0

Valuations

P/E (x)	5.3	7.5	7.0
P/BV (x)	2.6	2.2	1.9
EV/EBITDA(x)	2.7	3.9	3.6
Div. Yield (%)	9.9	6.7	7.2
FCF Yield (%)	13.6	5.0	7.9

Stock Performance (1-year)



CMP: INR244

TP: INR290 (+19%)

Buy

COAL hikes high grade coal prices by 8%; would help partially offset the higher wage bill

■ COAL has approved a price revision for its high grade G2-G10 non-coking coal w.e.f. 31st May 2023. COAL has hiked prices by 8%, which is expected to realize an incremental revenue of INR27b in FY24.

The last FSA price revision was taken in 2018 and COAL has now taken the first major price hike. This is expected to offset almost 50% of higher wage bill, following the mutual agreement between COAL and four central trade unions under NCWA-XI. The price hike affects ~30% of the volumes.

■ The wage bill is expected to increase by ~INR60b in FY24, post the recent negotiations. This price hike would likely offset ~50% of the incremental wage bill.

■ We have increased our revenue estimates by 2% to factor in the incremental revenues due to the price hike. The e-auction premiums have drastically come off in April and May and the near-term outlook on premiums remain soft. We have increased our EBITDA/APAT estimate by 2.4%/2.5% to factor in the price hike benefit, which would be partially offset by the lower e-auction premiums. COAL trades at EV/EBITDA of 3.9x FY24E. We reiterate our BUY rating on the stock with a revised target price of INR290 (5x EV/EBITDA). We believe COAL is well placed to capitalize on the growth opportunity ahead.

Price hike to support earnings

■ Price hike of 8%, positively impacting 30% of the volumes, would help COAL partially offset the cost increases, especially the wage bill.

■ The wage bill is expected to be higher by INR60b in FY24 and the incremental revenue from the price hike is expected to be at INR27b.

■ More such increases are unlikely in the near term, considering the inflationary environment and upcoming elections.

e-auction cooling off, but still at elevated levels

■ COAL sells ~10% of its volumes in e-auction at auction-determined prices and we expect COAL to clock a total volume of ~65-70mt in FY24.

■ E-auction premium, which had touched a high post the Russia-Ukraine conflict, has now started cooling off. As indicated in our previous notes, although e-auction premiums have cooled off from their highs, the expected increase in volumes for e-auctions is expected to be adequately compensate for this decline.

■ Higher sales via the auction route should help garner better profitability as the prices are higher than FSA-determined prices.

■ We believe e-auction prices have substantially moderated from their highs; however, in our current estimates, we have already accounted for a reduction in e-auction premium, which is similar to the prevailing premiums, thus factoring in the potential reduction in revenues.

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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'.
- 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 3.9x our FY24E EV/EBITDA and 2.2x our FY24E P/B. The demand for power is expected to increase, consequently driving the requirement for higher coal volumes by power plants.
- **We reiterate our BUY rating on the stock with a revised target price of INR290 (5x EV/EBITDA). We believe COAL is well placed to capitalize on the growth opportunity ahead.**

Exhibit 1: Key operating metrics

Key Metrics	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total dispatches	580	608	581	574	662	695	773	800
FSA dispatches (Power)	424	458	426	407	495	580	610	634
e-auction dispatches	106	68	65	94	111	62	68	71
FSA realizations (Power) (INR/t)	1,223	1,290	1,350	1,310	1,330	1,358	1,385	1,444
e-auction realizations	1,839	2,632	2,177	1,569	1,879	4,841	2,865	2,726
Adj. EBITDA (INR b)	203	300	275	200	285	406	283	299
Adj. EBITDA/t	350	494	473	349	430	584	367	374

Source: MOFSL, Company

- Although e-auction realizations are expected to cool down in FY24E, higher volumes are expected to support revenue.
- The increase in FSA rates for high grade coal is expected to result in an incremental revenue of INR27b. Additionally, higher dispatches of coal to power companies will support the revenue growth for the company. COAL has set a production target of 780mt for

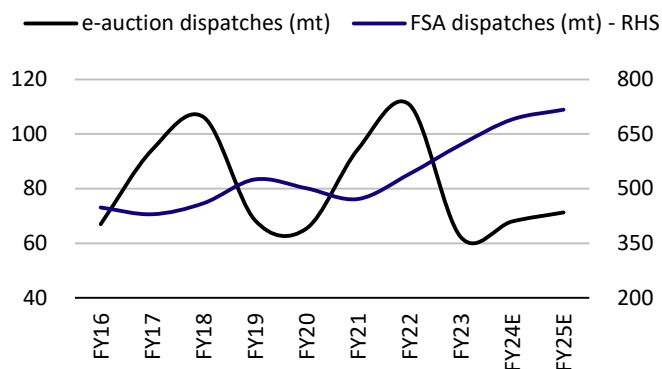
Exhibit 2: FY24E yearly target achievement of COAL subsidiaries – Apr'23

Subsidiary	Total Mines	FY24E Production target	Target achieved (Apr '23, %)
BCCL	31	41	7.8
CCL	37	84	6.4
MCL	19	204	7.2
ECL	78	51	6.3
NCL	10	133	8.6
SECL	67	200	7.1
WCL	53	67	8.2
Total	295	780	7.4

Source: MOFSL, Company, Ministry of Coal

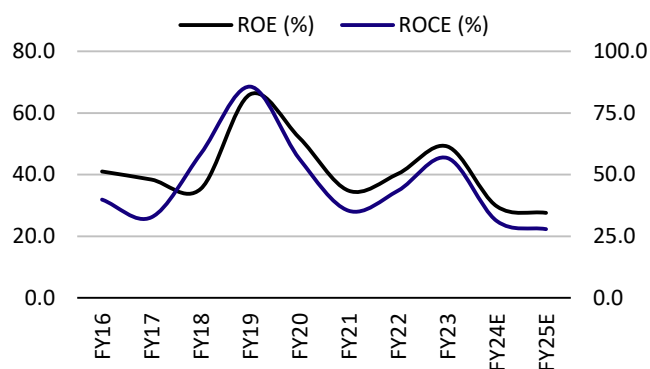
- COAL in FY23 increased its production by ~80mt and the volume momentum is expected to continue even in FY24E with a production target of 780mt.
- For Apr'23, COAL has already achieved 7.4% of its yearly target and the company is well on track to achieve production of 780mt and dispatches of 773mt.

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



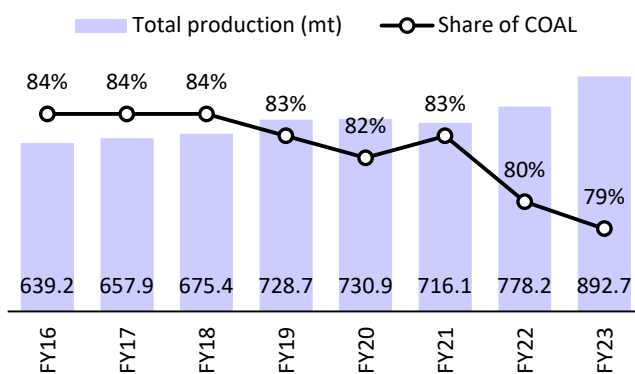
Source: MOFSL, Company

Exhibit 4: ROE/ROCE are expected to stabilize



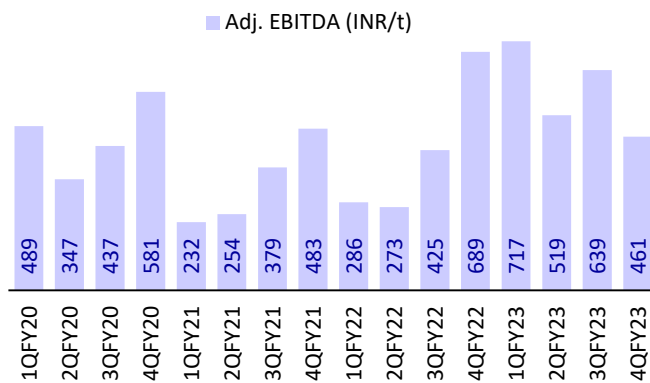
Source: MOFSL, Company

Exhibit 5: Share of COAL in the total coal production in India (mt); COAL current contribution as on Mar '23 stands at 79%



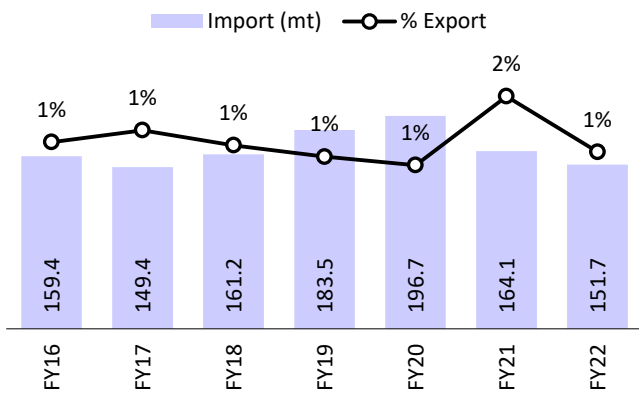
Source: MOFSL, Company, Ministry of Coal

Exhibit 6: Quarterly Adj. EBITDA/t (INR/t)



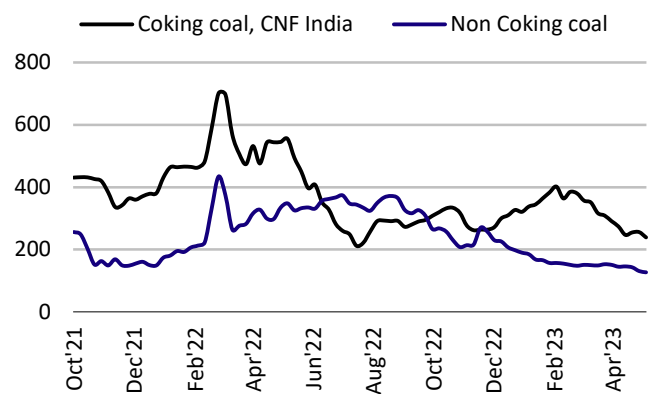
Source: MOFSL, Company

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



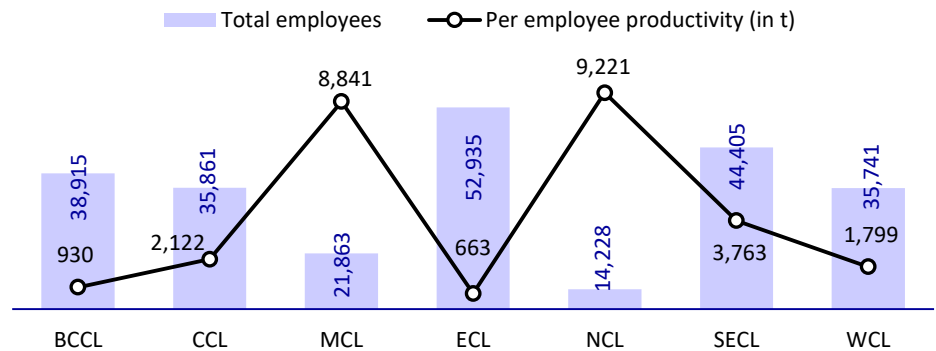
Source: MOFSL, Ministry of Coal

Exhibit 8: Coal price movement (USD/t)



Source: MOFSL, Bloomberg, SteelMint

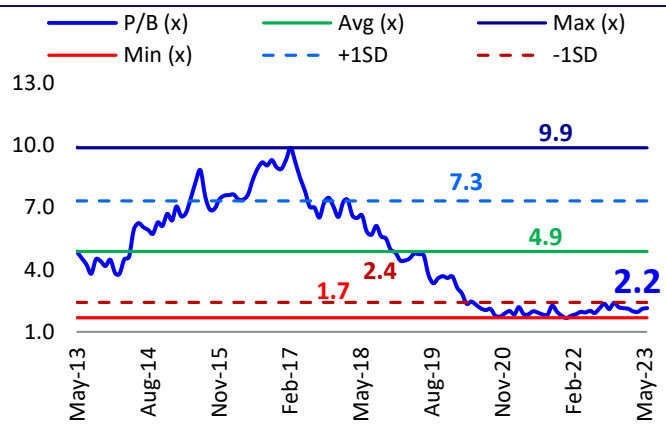
Exhibit 9: Employee productivity across mines; BCCL and ECL have the worst productivity



Source: MOFSL, Company

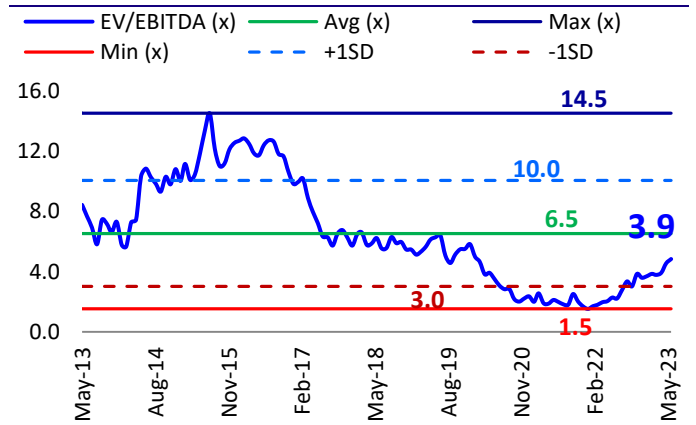
- The productivity level of COAL is one of the lowest compared to international peers, such as China Shenhua and Adaro Energy. The per employee productivity (as on FY23) for COAL stands at ~2,883t as against ~3,940t and ~4,440t for China Shenhua and Adaro Energy, respectively.
- Increasing per employee productivity will help COAL reach closer to its 1bt target.

Exhibit 10: P/B near -1SD



Source: MOFSL, Company Data

Exhibit 11: ...EV/EBITDA is over -1SD



Source: MOFSL, Company Data

- COAL is trading at 3.9x our FY24E EV/EBITDA and 2.2x our FY24E P/B. The demand for power is expected to increase, consequently driving the requirement for higher coal volumes by power plants.
- **We reiterate our BUY rating on the stock with a revised target price of INR290 (5x EV/EBITDA). We believe COAL is well placed to capitalize on the growth opportunity ahead.**

Exhibit 12: TP calculation

Y/E March	UoM	FY24E
Adjusted EBIDTA	INR b	283
Target EV/EBITDA (x)	x	5.0
Target EV	INR b	1,403
Net debt	INR b	-391
Equity value	INR b	1,794
TP		290

Source: MOFSL

Exhibit 13: Change in estimates

	UoM	FY24E			FY25E		
		New	Old	% change	New	Old	% change
Production	mt	773	773	0%	811	811	0%
Dispatch	mt						
- FSA	"	690	690	0%	717	723	-1%
- E-auction	"	68	68	0%	71	62	15%
- Others	"	15	15	0%	12	15	-23%
Total Dispatch	"	773	773	0%	800	800	0%
Revenue	INR b	1,341	1,314	2.0	1,372	1,337	2.7
Adj EBITDA	INR b	283	277	2.4	299	286	4.6
PAT	INR b	200	195	2.5	215	205	4.8

Source: MOFSL

Financials and valuations

Income Statement										(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	780	784	859	995	961	900	1,097	1,383	1,341	1,372
Change (%)	0.0	0.5	9.6	15.9	-3.5	-6.3	21.9	26.0	-3.0	2.4
Operating Expenses	593	660	689	746	742	715	850	1,014	1,099	1,109
EBITDA	187	124	170	250	219	186	247	368	242	264
% of Net Sales	24.0	15.8	19.7	25.1	22.8	20.6	22.5	26.6	18.0	19.2
Adjusted EBITDA	215	151	203	300	275	200	285	406	283	299
adj. EBITDA/ton	403	277	350	494	473	349	430	584	367	374
Depreciation	28	29	31	35	35	37	44	47	50	53
Interest	4	4	4	3	5	6	5	7	8	8
Other Income	59	55	47	59	61	38	39	65	83	85
Extra Ordinary income	0	0	74	0	0	0	0	0	0	0
PBT	215	146	107	271	241	180	236	380	267	288
Tax	72	52	37	97	74	53	62	99	67	73
Rate (%)	33.4	35.4	34.6	35.6	30.6	29.5	26.4	26.0	25.2	25.2
PAT before Min. Int.	143	94	70	175	167	127	174	281	200	215
Minority Interest										
Reported PAT	143	94	70	175	167	127	174	281	200	215
Change (%)	0.1	-34.1	-25.5	148.8	-4.4	-23.9	36.8	61.8	-28.9	7.6
Adjusted PAT	143	94	119	175	167	127	174	281	200	215
Change (%)	0.1	-34.1	26.3	46.8	-4.4	-23.9	36.8	61.8	-28.9	7.6
Balance Sheet										(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	63	62	62	62	62	62	62	62	62	62
Reserves	285	183	136	203	260	304	370	511	611	718
Net Worth	348	245	198	265	322	365	431	572	672	780
Minority Interest	1	3	4	4	4	4	7	8	8	8
Loans	12	30	15	22	64	59	33	41	58	58
Deffered tax Liability	-20	-27	-54	-43	-33	-41	-41	-42	0	0
Capital Employed	341	251	164	248	357	388	430	580	739	846
Gross Fixed Assets	234	277	326	402	474	565	660	812	960	1,095
Less: Depreciation	27	56	85	116	150	187	232	279	328	381
Net Fixed Assets	207	221	241	286	323	378	428	470	632	714
Capital Work in Progress	59	103	138	137	128	151	168	225	242	257
Investments	0	0	3	5	9	23	24	31	31	31
Current Assets	841	809	839	857	1,007	1,025	1,141	1,344	1,364	1,412
Inventory	76	89	64	56	66	89	71	82	79	81
Debtors	114	107	87	55	144	196	114	131	147	150
Other Current Assets	241	285	351	392	490	524	588	688	688	688
Loans and Advances	1	0	10	16	11	6	4	4	0	0
Cash	409	327	326	338	295	209	365	440	450	493
Current Liabilities	767	882	1,058	1,037	1,110	1,189	1,331	1,491	1,530	1,568
Payables	33	39	45	68	101	76	86	85	83	85
Other current liabilities	734	843	1,012	968	1,009	1,113	1,245	1,405	1,447	1,483
Net Curr. Assets	74	-73	-218	-179	-104	-164	-190	-147	-166	-156
Application of Funds	341	251	164	248	357	388	430	580	739	846

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic										
Adjusted EPS	22.6	15.2	19.2	28.3	27.1	20.6	28.2	45.6	32.5	34.9
Cash EPS	31.5	24.2	29.5	42.2	41.7	29.0	41.5	59.4	47.3	49.4
Book Value	55.1	39.5	32.0	42.9	52.2	59.3	70.0	92.9	109.1	126.6
DPS	27.4	19.9	16.5	13.1	12.0	16.0	17.0	24.3	16.2	17.5
Payout (incl. Div. Tax.)	145.5	160.3	103.3	55.5	53.3	77.6	60.3	53.1	50.0	50.0
Valuation (x)										
P/E	12.9	19.3	14.8	8.4	4.9	6.3	8.7	5.3	7.5	7.0
Cash P/E	9.3	12.1	9.6	5.6	3.2	4.5	5.9	4.1	5.2	4.9
P/BV	5.3	7.4	8.9	5.5	2.5	2.2	3.5	2.6	2.2	1.9
EV/Adj. EBITDA	6.7	10.1	7.1	3.8	2.1	3.3	4.1	2.7	3.9	3.6
Dividend Yield (%)	9.4	6.8	5.8	5.5	9.1	12.3	7.0	9.9	6.7	7.2
EV /ton of Reserves	66.6	69.9	66.6	52.7	26.8	30.0	53.9	50.8	51.2	49.2
Profitability Ratios (%)										
Debtor (Days)	53.6	50.0	36.9	20.2	54.7	79.6	37.8	34.5	40.0	40.0
Inventory (Days)	35.4	41.7	27.4	20.5	25.1	36.3	23.5	21.5	21.5	21.5
Payables (Days)	15.4	18.2	19.2	25.0	38.4	31.0	28.6	22.6	22.6	22.6
Asset turnover(x)	2.3	3.1	5.2	4.0	2.7	2.3	2.6	2.4	1.8	1.6
Profitability Ratios (%)										
RoE	41.0	38.4	35.4	66.0	51.9	34.8	40.3	49.1	29.7	27.6
RoCE	39.9	32.7	58.4	85.7	56.4	35.4	43.5	56.7	31.2	27.9
RoIC	-60.6	-40.0	-37.7	-51.7	-83.4	-295.0	-243.4	-196	-285	387
Leverage Ratio										
Net Debt/Equity (x)	-1.1	-1.2	-1.6	-1.2	-0.7	-0.4	-0.8	-0.7	-0.6	-0.6

Cash Flow Statement

(INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Adj EBITDA*	215	151	203	300	275	200	285	406	283	299
Non cash exp. (income)	22	37	-55	11	10	19	15	22	41	45
(Inc)/Dec in WC	-27	60	138	-49	-123	-57	174	26	-16	-3
Taxes paid	-79	-89	-74	-95	-119	-57	-63	-97	-67	-73
CF from Operations	132	158	213	167	41	106	411	357	240	268
Capex	-58	-87	-85	-73	-56	-110	-120	-152	-165	-150
Free Cash Flow	74	72	127	94	-15	-4	291	205	75	118
(Pur)/Sale of Investments	0	0	-3	-1	-5	-8	-8	-7	0	0
Interest/dividend	50	35	24	31	35	24	11	27	42	40
Other investing activity	-83	-12	-13	-10	11	-14	-5	-13	-17	0
CF from Investments	-91	-65	-77	-54	-15	-107	-121	-145	-140	-110
Equity raised/(repaid)	0	-46	0	0	0	0	0	0	0	0
Debt raised/(repaid)	10	18	-15	7	23	-6	-26	8	17	0
Interest paid	0	0	0	0	-1	-2	-1	-1	-8	-8
Dividend (incl. tax)	-208	-151	-123	-112	-97	-77	-108	-143	-100	-108
Other financing	3	3	3	4	5	0	0	0	0	0
CF from Fin. Activity	-196	-176	-136	-102	-70	-85	-134	-137	-90	-115
Inc/Dec of Cash	-155	-82	-1	12	-43	-86	155	75	10	43
Add: Beginning Balance	564	409	327	326	338	295	209	365	440	450
Closing Balance	409	327	326	338	295	209	365	440	450	493

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NOTES

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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