Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Coal India Ltd

Strong Q1; potential FSA price hike key catalyst

Energy & Utilities	Sharekhan code: COALINDIA		
Reco/View: Buy ↔	CMP: **Rs. 230**	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 45.34

Updated Jun 08, 2023

Severe Risk

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

Source: Morningstar

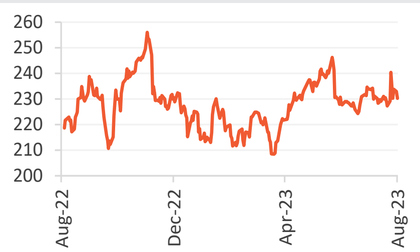
Company details

Market cap:	Rs. 1,41,897 cr
52-week high/low:	Rs. 263/207
NSE volume: (No of shares)	74.3 lakh
BSE code:	533278
NSE code:	COALINDIA
Free float: (No of shares)	227.2 cr

Shareholding (%)

Promoters	63.1
FII	9.3
DII	22.3
Others	5.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.6	-2.6	7.3	4.7
Relative to Sensex	-2.5	-9.2	-1.0	-7.2

Sharekhan Research, Bloomberg

Summary

- Q1 results were strong with a sharp 36% beat in consolidated PAT at Rs. 7,971 crore (up 44% q-o-q) led by better-than-expected margin given significantly lower employee cost and a marginally higher blended realization partially offset by lower other income.
- FSA/e-auction realisation of Rs. 1,536/Rs. 3,742 per tonne was 2%/30% above our estimate. E-auction premium of 144% was lower q-o-q but was above expectation of 90%. Coal offtake of 187mt (up 5% y-o-y; flat q-o-q) with FSA/e-auction volume at 168 mt/16mt, flat q-o-q.
- Soft international coal prices would lower e-auction realisations, while we expect Coal India (CIL) to take FSA coal price hike to offset higher cost. Also, coal production/offtake has witnessed strong growth of 10%/6% y-o-y during April-July 2023. Overall, we expect healthy earnings momentum to sustain although it would moderate compared to peak PAT seen in FY23.
- Valuation of 5.6x its FY25E EPS (close to trough valuation) is attractive and the stock offers a high dividend yield of ~10%. Hence, we maintain a Buy on Coal India with an unchanged PT of Rs. 270. Potential stake sale in Bharat Coking Coal Limited (BCCL) and subsequent listing would unlock value.

Q1FY24 consolidated operating profit of Rs. 10514 crore (down 14.2% y-o-y; up 52.4% q-o-q) was 47% above our estimate of Rs. 7,172 crore led by substantially lower employee/repairs cost (down 29%/52% q-o-q) and marginally higher-than-expected blended realisation of Rs. 1769/tonne (1% above estimate). Coal offtake volume of 187 million tonnes (up 5% y-o-y) was in line with provisional volume numbers. FSA/e-auction volume stood at 168 mt/16 mt, up 9%/-23% y-o-y and flat q-o-q. FSA realisations increased by 6.5% y-o-y to Rs. 1536/tonne (2% above estimate) while e-auction realisations stood at Rs. 3742/tonne (down 17% q-o-q and 30% above our estimate). The e-auction premium stood at 144% (versus our expectation of 90%) as compared to 192% in Q4FY23. EBITDA/tonne improved sharply by 52% q-o-q to at Rs. 562/tonne (42% below estimate). Consolidated PAT at Rs. 7,971 crore (down 9.8% y-o-y; up 44% q-o-q) was 36% above estimate of Rs. 5,866 crore led due to significant beat in margin, lower depreciation partially offset by lower other income.

Key positives

- Beat of 30% in e-auction realisation at Rs. 3,742/tonne.
- Substantially lower employee cost, down 29% q-o-q.

Key negatives

- Largely flat q-o-q e-auction sales volume at 16mt.

Revision in estimates – We maintain or FY24-25 earnings estimate.

Our Call

Valuation – Maintain Buy on CIL with an unchanged PT of Rs. 270: CIL's valuation of 6.3x/5.6x FY24E/FY25E EPS is close to trough level and stock offers high dividend yield of ~10%. The company's board has given in-principle 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 an unchanged price target (PT) of Rs. 270.

Key Risks

Lower-than-expected volume offtake amid any weakness in electricity demand and realisations (especially for e-auction) could affect margins and earnings outlook. The government's divestment plan could act as an overhang on the stock.

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)	8.2	5.0	6.3	5.6
P/B (x)	3.3	2.5	2.3	2.1
EV/EBITDA (x)	4.7	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

Strong Q1; PAT beat estimate on better realisation and lower employee cost

Q1FY24 consolidated operating profit of Rs. 10514 crore (down 14.2% y-o-y; up 52.4% q-o-q) was 47% above our estimate of Rs. 7,172 crore led by substantially lower employee/repairs cost (down 29%/52% q-o-q) and marginally higher-than-expected blended realisation of Rs. 1769/tonne (1% above estimate). Coal offtake volume of 187 million tonnes (up 5% y-o-y) was in line with provisional volume numbers. FSA/e-auction volume stood at 168 mt/16 mt, up 9%/-23% y-o-y and flat q-o-q. FSA realisations increased by 6.5% y-o-y to Rs. 1536/tonne (2% above estimate) while e-auction realisations stood at Rs. 3742/tonne (down 17% q-o-q and 30% above our estimate). The e-auction premium stood at 144% (versus our expectation of 90%) as compared to 192% in Q4FY23. EBITDA/tonne improved sharply by 52% q-o-q to at Rs. 562/tonne (42% below estimate). Consolidated PAT at Rs. 7,971 crore (down 9.8% y-o-y; up 44% q-o-q) was 36% above estimate of Rs. 5,866 crore led due to significant beat in margin, lower depreciation partially offset by lower other income.

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	**35,983**	**35,092**	**2.5**	**38,152**	**-5.7**
Total Expenditure	25469	22,841	11.5	31254	-18.5
Operating profit	**10,514**	**12,251**	**-14.2**	**6,898**	**52.4**
Other Income	1538	995	54.6	2210	-30.4
Interest	178	150	18.4	195	-8.8
Depreciation	1,138	994	14.6	1,342	-15.2
PBT	**10,735**	**12,101**	**-11.3**	**7,571**	**41.8**
Tax	2,771	3,243	-14.6	2,115	31.0
PAT before share of profit from JVs and MI	7,964	8,858	-10.1	5,456	46.0
Share of profit from JVs	-23	-24		72	-132.1
Minority interest	-30	1		-6	428.3
Reported PAT	**7,971**	**8,833**	**-9.8**	**5,533**	**44.1**
O/S Shares (cr)	616	616		616	
Reported EPS (Rs.)	12.9	14.3	-9.8	9.0	44.1
Margins (%)			**BPS**		**BPS**
OPM	29.2	34.9	-569.2	18.1	1,113.8
NPM	22.2	25.2	-301.8	14.5	764.9
Tax rate	25.8	26.8	-98.9	27.9	-212.1

Source: Company, Sharekhan Research

Key operating performance

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Coal production (mt)	175	160	9.8	224	-21.7
Coal offtake (mt)	187	177	5.3	187	0.0
Blended realisation (Rs. /tonne)	1,769	1,831	-3.4	1,882	-6.0
FSA realisation (Rs. /tonne)	1,536	1,443	6.5	1,550	-0.9
E-auction realisation (Rs. /tonne)	3,742	4,340	-13.8	4,525	-17.3
Adjusted EBITDA excluding OBR (Rs. /tonne)	597	719	-16.9	491	21.6

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 fall 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).

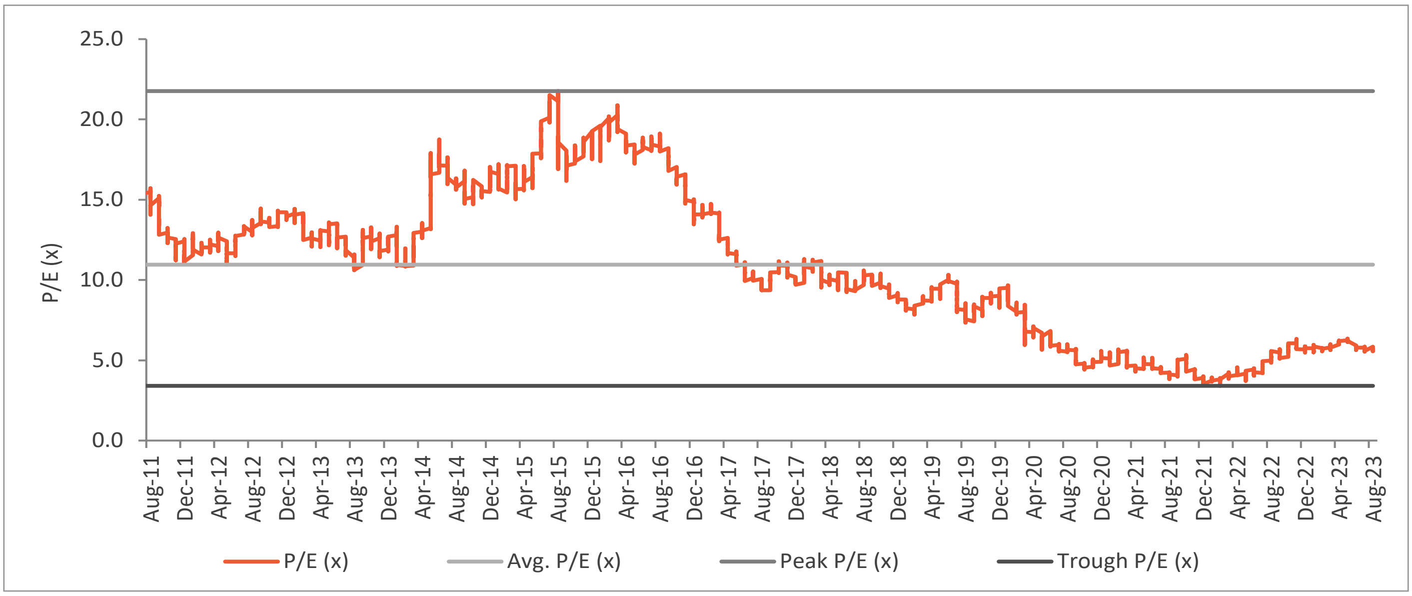
■ **Company outlook - Expect earnings to remain resilient led by volume growth and better coal realisation**

Coal India posted its best-ever performance in FY23 with PAT soaring by 62% y-o-y but we expect the same to moderate in FY24 given lower e-auction realisations due to a 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 an unchanged PT of Rs. 270**

CIL's valuation of 6.3x/5.6x FY24E/FY25E EPS is close to trough level and stock offers high dividend yield of ~10%. The company's board has given in-principle 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 an unchanged price target (PT) of Rs. 270.

One-year forward P/E (x) band



Source: Sharekhan Research

About 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 and realisation (especially e-auction) could impact margin and earnings outlook.
- The government's divestment plan could act as an overhang on the stock.

Additional Data

Key management personnel

P M Prasad	Chairman and Managing Director
Debasish Nanda	Director – Business Development and Finance
B. Veera Reddy	Director – Technical

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	11
2	Nippon Life India Asset Management	3.08
3	HDFC Asset Management Co Ltd	2.29
4	PPFAS Asset Management	1.36
5	Vanguard Group Inc/The	1.23
6	ICICI Prudential Asset Management	1.06
7	SBI Funds Management Ltd	0.93
8	BlackRock Inc	0.88
9	GQG Partners LLC	0.6
10	FMR LLC	0.3

Source: Bloomberg

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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

Sharekhan

by BNP PARIBAS

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