

04 September 2023

India | Equity research | Company update

## Coal India

Power/Mining

### Production and sales volume sustain the uptrend

Coal India's (CIL) Aug'23 operating numbers were robust. Key points: 1) production/sales volume continued at the highest-ever level for the fifth successive month in FY24; 2) SECL's volume revival has offset the flat volumes from MCL; 3) the traditional volume trough in Q2 is far lower in FY24 owing to increased rake availability; 4) higher volume to non-regulated sector (NRS), up 61% YoY in Aug'23, is likely to maintain FSA prices; and 5) pithead inventory at 45.3mnte remains at a comfortable level owing to production ramp-up. Going ahead, we believe CIL is likely to gain from operating leverage benefits accruing from higher sales volume for both NRS and e-auction customers, despite much lower e-auction premium than in FY23. Maintain **BUY** with an unchanged target price of INR 285 (7.2x FY25E EPS (core)).

### Robust production/sales volume

CIL reported strong operating performance for the fifth month in a row with both production and sales volume sustaining at historical highs. Key points: 1) sales volume at 1.9mt/day (up 15.2% YoY) was aided by sharp uptick in volume at SECL – up 24.6% YoY; 2) sales volume to power sector was up 8% YoY at 43.6mt, at 1.515mt/day, higher than the committed volume of 1.44mt/day; 3) offtake to NRS customers was up 61% YoY at 12.1mt as the company cleared the linkage backlog, besides meeting the requirement. In our view, this would result in better FSA prices; 4) CIL's pithead inventory was up 46% YoY at 45mt – allaying any concerns of coal shortage. Going ahead, we believe our FY24E sales volume estimate of 741mt (up 6.5% YoY) is likely to be achieved as CIL has already delivered 7.5% YoY growth in offtake YTD-Aug'23.

### Plenty of positives despite lower e-auction premiums

We see enhanced rake availability and higher e-auction bookings as major positives. Key points: 1) rake availability in Jul'23 improved by 4% YoY after two months of decline and we expect the uptrend to have sustained in Aug'23 as well; 2) our channel checks indicate that 5.01mt was booked (offered: 6.156mt) in e-auctions in Jul'23 against 2.66mt booked a year back. However, e-auction premiums over notified prices were at 58% compared to 290% a year back. In Jul'23, international coal prices have surged 20-25%, hence we expect progressive e-auction bookings to be done at higher prices.

### Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	10,97,135	13,77,822	13,67,278	14,02,348
EBITDA	2,46,905	3,63,481	3,29,685	3,32,766
EBITDA Margin (%)	22.5	26.4	24.1	23.7
Net Profit	1,73,870	2,63,060	2,42,812	2,49,530
EPS (INR)	28.2	42.7	39.4	40.5
EPS % Chg YoY	114.4	51.3	(7.7)	2.8
P/E (x)	8.4	5.5	6.0	5.9
EV/EBITDA (x)	4.3	2.6	2.6	2.3
RoCE (%)	34.7	45.0	32.7	26.7
RoE (%)	46.0	56.9	42.6	35.9

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#### Market Data

Market Cap (INR)	1,460bn
Market Cap (USD)	17,652mn
Bloomberg Code	COAL IN
Reuters Code	COAL.BO
52-week Range (INR)	263 /208
Free Float (%)	37.0
ADTV-3M (mn) (USD)	28.1

Price Performance (%)	3m	6m	12m
Absolute	4.7	10.2	14.2
Relative to Sensex	5.3	11.1	12.7

ESG Disclosure	2021	2022	Change
ESG score	43.2	40.6	(2.5)
Environment	25.6	23.9	(1.7)
Social	37.7	37.7	-
Governance	66.1	60.2	(5.9)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

#### Previous Reports

09-08-2023: [Q1FY24 results review](#)

31-05-2023: [Company update](#)

### Outlook: Operating leverage a major enabler; maintain BUY

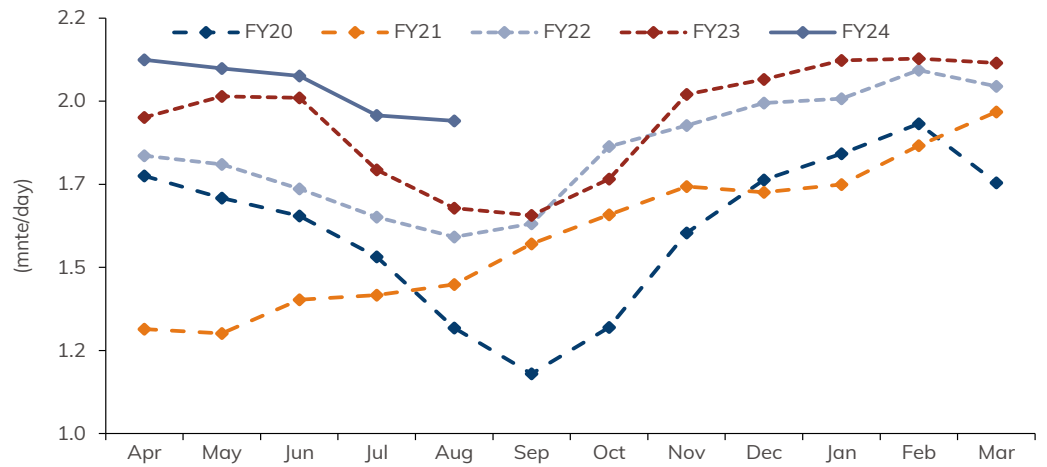
CIL's earnings are most sensitive to volumes and YTD-Aug'23 performance indicates volume uptick for both regulated and NRS customers, providing the company twin benefits of operating leverage and higher FSA prices. Besides, the recent uptick in international coal prices bodes well for the e-auction prices in future. Additionally, the volume uptick in SECL (the largest subsidiary) and BCCL (subsidiary with highest realisation) is a positive for keeping earnings momentum intact. We maintain **BUY** on CIL with an unchanged target price of INR 285 on 7.2x FY25E EPS (core).

#### Exhibit 1: Performance snapshot

(mnmt)	Aug-23	Aug-22	Jul-23	YoY (%)	MoM (%)	YTD Aug-24	YTD Aug-23	% growth	FY24E	FY23	Growth %
Production volume	52.3	46.3	53.7	12.9	(2.6)	279.0	253.4	10.1	739	703	5.0
Despatch volume	59.0	51.2	59.5	15.2	(0.8)	305.7	283.6	7.8	741	695	6.6

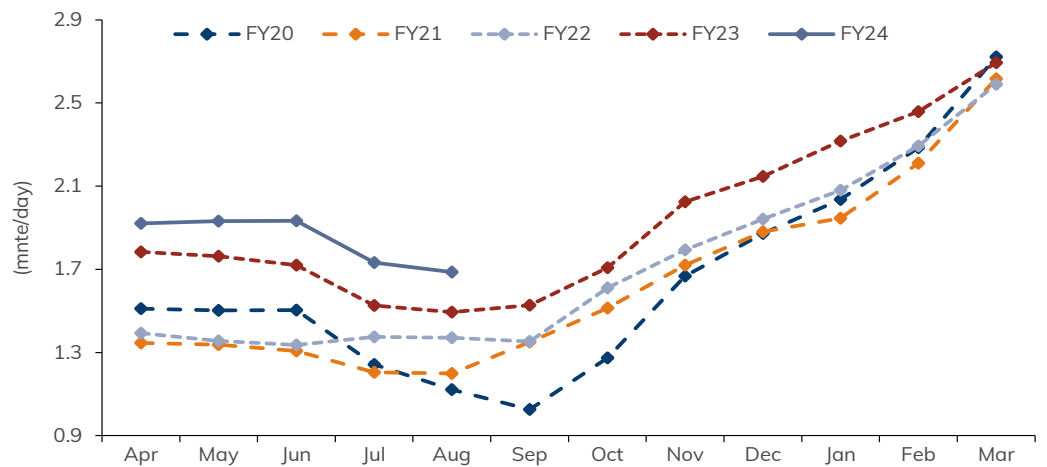
Source: I-Sec research, Company data

#### Exhibit 2: Sales volume progression



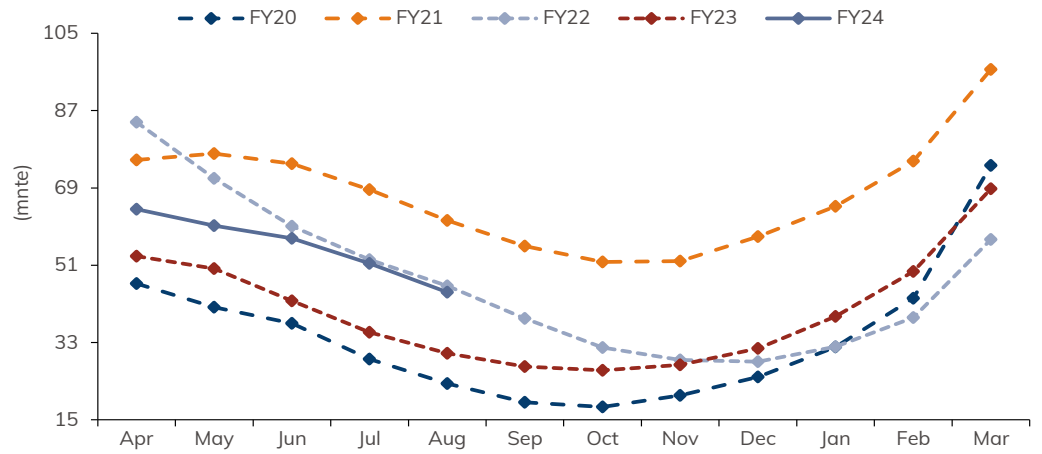
Source: I-Sec research, Company data

#### Exhibit 3: Robust production trajectory



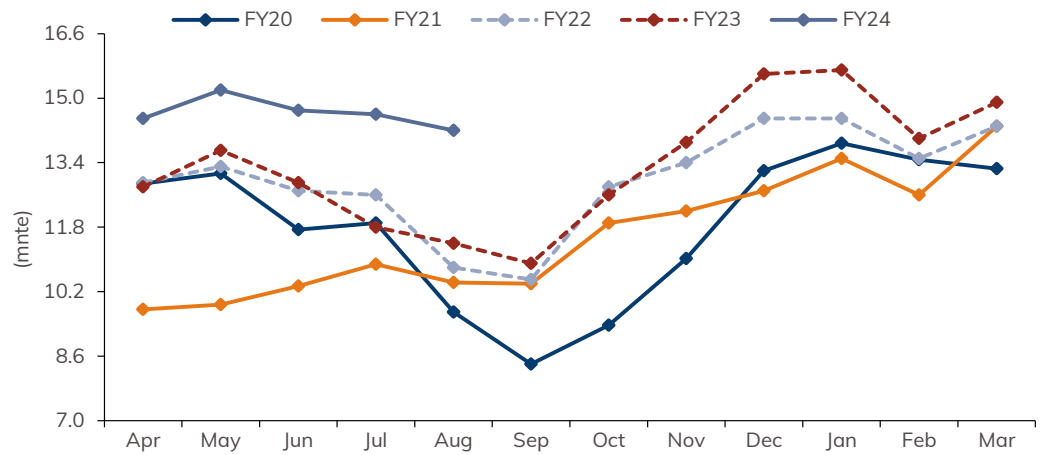
Source: I-Sec research, Company data

**Exhibit 4: Pithead inventory remains comfortable**



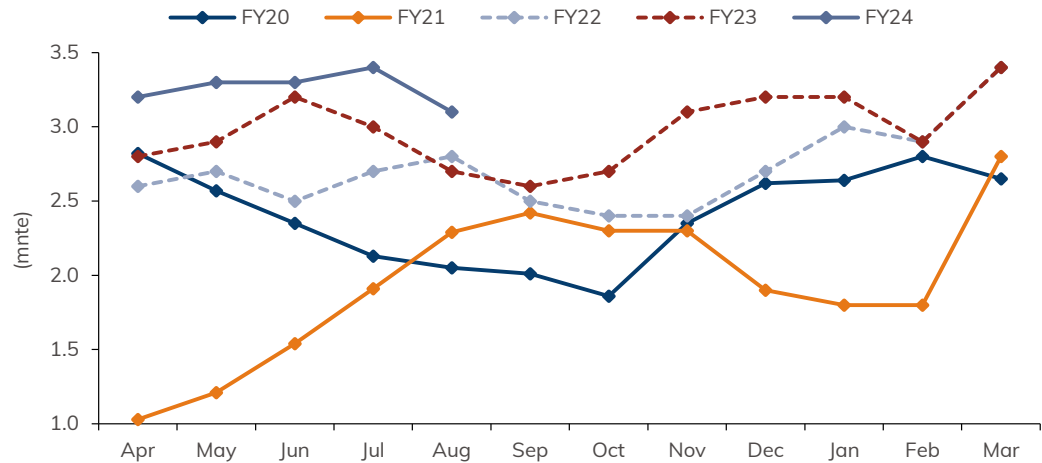
Source: I-Sec research, Company data

**Exhibit 5: SECL's improved performance is a major volume enabler**



Source: I-Sec research, Company data

**Exhibit 6: Improved BCCL's performance bodes well for realisation**



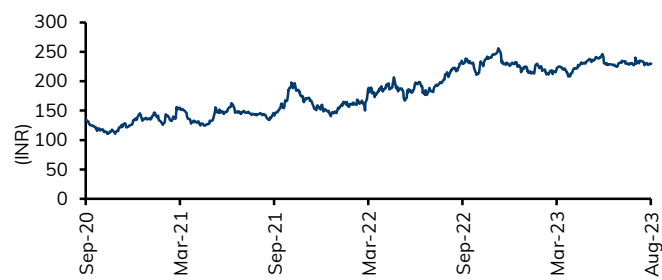
Source: I-Sec research, Company data

### Exhibit 7: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	66.1	66.1	63.1
Institutional investors	28.8	28.9	31.6
MFs and others	8.8	8.7	9.7
Insurance	12.1	12.4	12.3
FII's	7.9	7.8	9.6
Others	5.1	4.9	5.3

Source: Bloomberg

### Exhibit 8: Price chart



Source: Bloomberg

## Financial summary

### Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>10,97,135</b>	<b>13,77,822</b>	<b>13,67,278</b>	<b>14,02,348</b>
Operating Expenses	8,50,230	10,14,340	10,37,593	10,69,582
<b>EBITDA</b>	<b>2,46,905</b>	<b>3,63,481</b>	<b>3,29,685</b>	<b>3,32,766</b>
EBITDA Margin (%)	22.5	26.4	24.1	23.7
Depreciation & Amortisation	44,287	46,753	52,568	59,441
EBIT	2,02,618	3,16,729	2,77,117	2,73,325
Interest expenditure	5,415	6,447	6,447	6,447
Other Non-operating Income	39,045	55,080	66,568	79,692
<b>Recurring PBT</b>	<b>2,36,249</b>	<b>3,65,361</b>	<b>3,37,238</b>	<b>3,46,570</b>
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Taxes	62,379	1,02,301	94,427	97,040
PAT	1,73,870	2,63,060	2,42,812	2,49,530
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>1,73,870</b>	<b>2,63,060</b>	<b>2,42,812</b>	<b>2,49,530</b>
<b>Net Income (Adjusted)</b>	<b>1,73,870</b>	<b>2,63,060</b>	<b>2,42,812</b>	<b>2,49,530</b>

Source Company data, I-Sec research

### Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	8,55,635	10,34,887	11,13,991	12,23,808
of which cash & cash eqv.	2,91,795	3,99,219	4,87,543	5,92,154
Total Current Liabilities & Provisions	5,73,505	6,86,665	6,77,261	6,82,164
<b>Net Current Assets</b>	<b>2,82,131</b>	<b>3,48,222</b>	<b>4,36,730</b>	<b>5,41,644</b>
Investments	98,898	1,00,388	1,00,388	1,00,388
Net Fixed Assets	4,65,713	4,93,728	5,49,160	5,97,720
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,27,137	1,52,626	1,64,626	1,76,626
Total Intangible Assets	1,056	25,881	25,881	25,881
Other assets	2,50,459	3,00,834	3,00,834	3,00,834
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>12,28,929</b>	<b>14,25,402</b>	<b>15,81,342</b>	<b>17,46,815</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>33,540</b>	<b>41,744</b>	<b>41,744</b>	<b>41,744</b>
<b>Deferred Tax Liability</b>	<b>8,110</b>	<b>13,307</b>	<b>13,307</b>	<b>13,307</b>
provisions	7,49,110	7,90,195	8,32,741	8,78,101
other Liabilities	-	-	-	-
Equity Share Capital	61,627	61,627	61,627	61,627
Reserves & Surplus	3,69,803	5,10,822	6,24,216	7,44,329
<b>Total Net Worth</b>	<b>4,31,430</b>	<b>5,72,449</b>	<b>6,85,843</b>	<b>8,05,956</b>
Minority Interest	6,738	7,707	7,707	7,707
<b>Total Liabilities</b>	<b>12,28,929</b>	<b>14,25,402</b>	<b>15,81,342</b>	<b>17,46,815</b>

Source Company data, I-Sec research

### Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	2,98,381	3,51,693	3,81,523	3,59,832
% growth (YoY)	28.1	23.7	16.6	2.5
EBITDA	72,802	1,03,887	68,981	1,05,139
Margin %	24.4	29.5	18.1	29.2
Other Income	17,612	15,850	22,100	15,378
Extraordinaries	-	-	-	-
Adjusted Net Profit	60,440	77,191	55,276	79,414

Source Company data, I-Sec research

### Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>4,45,126</b>	<b>4,78,008</b>	<b>2,95,196</b>	<b>3,08,668</b>
Working Capital Changes	1,01,751	(31,604)	(184)	(303)
Capital Commitments	(1,19,956)	(1,41,027)	(1,20,000)	(1,20,000)
<b>Free Cashflow</b>	<b>3,25,171</b>	<b>3,36,981</b>	<b>1,75,196</b>	<b>1,88,668</b>
<b>Other investing cashflow</b>	-	-	-	-
Cashflow from Investing Activities	(1,19,956)	(1,41,027)	(1,20,000)	(1,20,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(25,732)	8,052	-	-
Dividend paid	(1,07,834)	(1,43,281)	(1,29,417)	(1,29,417)
Others	-	-	-	-
Cashflow from Financing Activities	(1,33,566)	(1,35,229)	(1,29,417)	(1,29,417)
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,91,605</b>	<b>2,01,751</b>	<b>45,779</b>	<b>59,251</b>
Closing cash & balance	3,64,708	4,93,546	4,44,997	5,46,794

Source Company data, I-Sec research

### Exhibit 13: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	28.2	42.7	39.4	40.5
Adjusted EPS (Diluted)	28.2	42.7	39.4	40.5
Cash EPS	35.4	50.3	47.9	50.1
Dividend per share (DPS)	17.0	24.0	21.0	21.0
Book Value per share (BV)	70.0	92.9	111.3	130.8
Dividend Payout (%)	60.3	56.2	53.3	51.9
<b>Growth (%)</b>				
Net Sales	21.9	25.6	(0.8)	2.6
EBITDA	76.7	47.2	(9.3)	0.9
EPS (INR)	114.4	51.3	(7.7)	2.8
<b>Valuation Ratios (x)</b>				
P/E	8.4	5.5	6.0	5.9
P/CEPS	6.7	4.7	4.9	4.7
P/BV	3.4	2.6	2.1	1.8
EV / EBITDA	4.3	2.6	2.6	2.3
P / Sales	1.3	1.0	1.0	1.0
Dividend Yield (%)	7.2	10.1	8.9	8.9
<b>Operating Ratios</b>				
Gross Profit Margins (%)	89.2	90.3	90.5	90.2
EBITDA Margins (%)	22.5	26.4	24.1	23.7
Effective Tax Rate (%)	26.4	28.0	28.0	28.0
Net Profit Margins (%)	15.8	19.1	17.8	17.8
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.8)	(0.8)	(0.8)	(0.8)
Net Debt / EBITDA (x)	(1.4)	(1.3)	(1.7)	(2.0)
<b>Profitability Ratios</b>				
RoCE (%)	34.7	45.0	32.7	26.7
RoE (%)	46.0	56.9	42.6	35.9
RoIC (%)	123.5	171.4	170.7	136.5
Fixed Asset Turnover (x)	2.6	3.0	2.7	2.6
Inventory Turnover Days	26	26	22	20
Receivables Days	42	42	36	34
Payables Days	32	28	22	21

Source Company data, I-Sec research

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