Coal India Limited's (CIL) production has been robust and it is on track to achieve its FY24 guidance of 780 million tonne (implies 11% y-o-y growth). This would be followed by 850mt/1000mt of coal production target for FY2025E/FY2026E. A production CAGR of 12% over FY2023-FY2026E, improving volume mix with rising share of NPS (up 43% y-o-y in 5MFY24) and benefit of operating leverage. Robust FCF generation would mean sustained high dividend payout (average of 60% in the last five years). Valuation of 6.4x its FY2025E EPS is attractive and, hence, we maintain our Buy rating on CIL with a revised PT of Rs. 330.

Coal India Limited (CIL) has levers to sustain its strong earnings growth momentum, given its focus on ramping up coal production to 780mt/850mt/1000mt in FY2024/FY2025E/FY2026E, which implies a production CAGR of 12% over FY2023-FY2026E, improving volume mix with rising share of NPS (up 43% y-o-y in 5MFY24) and benefit of operating leverage. Robust FCF generation would mean sustained high dividend payout (average of 60% in the last five years). Valuation of 6.4x its FY2025E EPS is attractive and, hence, we maintain our Buy rating on CIL with a revised PT of Rs. 330.

- **Robust coal offtake provides confidence on strong volume growth:** CIL’s coal volume offtake grew strongly by 8% y-o-y to ~306 million tonne during April-August 2023, led by a robust 43.4% y-o-y increase in the non-power sector supplies at 57 million tonne and healthy 2% y-o-y growth in coal supplies to the power sector at 249 mt. August 2023 data was more encouraging with strong 61%/8% y-o-y growth in the non-power sector supplies at 57 million tonne and healthy 2% y-o-y growth in coal supplies to the power sector at 249 mt. Moreover, CIL’s pithead inventory of 45mt as of August 2023 was 46% higher on a y-o-y basis and provides visibility on ample coal supply in case of a rise in demand from the power sector. Overall, we expect coal demand to remain robust over the next couple of years, given elevation of strong power consumption and continued focus of state PSUs to add new thermal power capacities. With 11% y-o-y growth in CIL’s coal production during April-August 2023, we believe the company is on track to achieve its FY2024 coal production target of 780 million tonne. We factor strong 7%/7% y-o-y growth in CIL’s coal offtake at 743mt/795mt in FY2024/FY2025E.

- **Higher NPS volume and operating leverage bode well for margins:** The recent surge in coal supplies to the non-power sector (up 43% y-o-y in the first five months of FY2024) and potential hike in FSA coal price bode well for better realisation going forward despite declining e-auction premium. With wage hike concerns largely over, the benefit of operating leverage (6-7% p.a. volume growth) and better-blended realisation bode well for EBITDA margin (to sustain in the range of Rs. 410-435/tonne) of CIL.

- **Strong cash flows to keep dividend payouts high:** CIL generates strong operating cash flow (FY2022/FY2023 at Rs. 41,107 crore/Rs. 35,686 crore) and its capex plan of ~Rs. 16,600 crore would mean a significant cash surplus for dividend. Thus, we expect dividend payout to remain high (average of 60% over FY2019-FY2023).

**Our Call**

Valuation – Maintain Buy on CIL with a revised PT of Rs. 330: We have increased our FY2024-FY2025 earnings estimate to factor a higher coal offtake volume and better margin, given the rise in volume towards NPS (which fetches better realisation). Despite a sharp run-up of 26% in CIL’s stock price, its valuation of 7.2x/6.4x FY2024E/FY2025E EPS is attractive and the stock offers a high dividend yield of 8-9%. 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 a potential listing could help unlock value. We maintain our Buy recommendation on CIL with a revised price target (PT) of Rs. 330 (valued at 7.5x its FY2025E EPS).

**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.
CIL’s coal production trend remains robust

Coal offtake growth was also strong in July/August 2023

CIL coal supply to the power sector

CIL coal supply to NPS

CIL coal production target (figures in million tonne)

Source: Company, Sharekhan Research

Source: Company, Sharekhan Research

Source: Company, Sharekhan Research

Source: Company

48 50 52
62 64 66
7.7% 9.5% 12.4%
12.4% 13.4% 13.2%
44% 48% 58%
11.8 10.5 11.1 11.7 12.1
0.0% 2.0% 4.0% 6.0% 8.0% 10.0% 12.0% 14.0% 16.0%
Apr-23 May-23 Jun-23 Jul-23 Aug-23
 Coal production (million tonnes) y-o-y growth

51 53 50 48 47
3% 2% 10% 8%
4.2% 3.6% 15.3%
11.8 10.5 11.1 11.7 12.1
0.0% 2.0% 4.0% 6.0% 8.0% 10.0% 12.0% 14.0% 16.0%
Apr-23 May-23 Jun-23 Jul-23 Aug-23
 Coal supply to Power sector y-o-y growth

51 53 50 48 47
3% 2% 10% 8%
4.2% 3.6% 15.3%
11.8 10.5 11.1 11.7 12.1
0.0% 2.0% 4.0% 6.0% 8.0% 10.0% 12.0% 14.0% 16.0%
Apr-23 May-23 Jun-23 Jul-23 Aug-23
 Coal supply to NPS y-o-y growth

Source: Company

Source: Company, Sharekhan Research

Source: Company, Sharekhan Research

Source: Company, Sharekhan Research

Source: Company
Financials in charts

Healthy volume growth outlook

- FY22: 623 million tonnes
- FY23: 703 million tonnes
- FY24E: 745 million tonnes
- FY25E: 798 million tonnes

Source: Company, Sharekhan Research

Realisation to remain decent

- FY22: Rs 1,407.9
- FY23: Rs 1,475
- FY24E: Rs 1,475
- FY25E: Rs 1,500

Source: Company, Sharekhan Research

Revenue trend

- FY22: Rs 24,691 crore
- FY23: Rs 36,818 crore
- FY24E: Rs 30,591 crore
- FY25E: Rs 34,594 crore

Source: Company, Sharekhan Research

PAT/EBITDA trend

- FY22: Rs 24,691 crore
- FY23: Rs 36,818 crore
- FY24E: Rs 30,591 crore
- FY25E: Rs 34,594 crore

Source: Company, Sharekhan Research

RoE trend

- FY22: 43.6%
- FY23: 56.1%
- FY24E: 40.4%
- FY25E: 41.4%

Source: Company, Sharekhan Research

RoCE trend

- FY22: 45.1%
- FY23: 59.2%
- FY24E: 43.0%
- FY25E: 44.9%

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 tonne by FY2030, assuming 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

CIL posted best-ever performance in FY2023 with PAT soaring by 62% y-o-y; however, we expect the same to moderate in FY2024, given lower e-auction realisation due to the recent fall in imported coal price. Having said that, overall earnings would still 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. 330

We have increased our FY2024-FY2025 earnings estimate to factor a higher coal offtake volume and better margin, given the rise in volume towards NPS (which fetches better realisation). Despite a sharp run-up of 26% in CIL’s stock price, its valuation of 7.2x/6.4x FY2024E/FY2025E EPS is attractive and the stock offers a high dividend yield of 8-9%. 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 a potential listing could help unlock value. We maintain our Buy recommendation on CIL with a revised price target (PT) of Rs. 330 (valued at 7.5x its FY2025E EPS).
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 the reduction of manpower (employee cost accounts for 53-54% of the overall cost) would cushion margins. Moreover, valuations are at a steep discount to historical averages and the stock offers a 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

<table>
<thead>
<tr>
<th>Key management personnel</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>P M Prasad</td>
<td>Chairman and Managing Director</td>
</tr>
<tr>
<td>Debasish Nanda</td>
<td>Director – Business Development and Finance</td>
</tr>
<tr>
<td>B. Veera Reddy</td>
<td>Director – Technical</td>
</tr>
</tbody>
</table>

Source: Company Website

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Holder Name</th>
<th>Holding (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Life Insurance Corp of India</td>
<td>11.0</td>
</tr>
<tr>
<td>2</td>
<td>Nippon Life India Asset Management</td>
<td>3.10</td>
</tr>
<tr>
<td>3</td>
<td>HDFC Asset Management Co Ltd</td>
<td>2.32</td>
</tr>
<tr>
<td>4</td>
<td>ICICI Prudential Asset Management</td>
<td>1.72</td>
</tr>
<tr>
<td>5</td>
<td>PPFAS Asset Management</td>
<td>1.52</td>
</tr>
<tr>
<td>6</td>
<td>Vanguard Group Inc/The</td>
<td>1.47</td>
</tr>
<tr>
<td>7</td>
<td>SBI Funds Management Ltd</td>
<td>1.10</td>
</tr>
<tr>
<td>8</td>
<td>BlackRock Inc</td>
<td>0.88</td>
</tr>
<tr>
<td>9</td>
<td>GQG Partners LLC</td>
<td>0.80</td>
</tr>
<tr>
<td>10</td>
<td>FMR LLC</td>
<td>0.73</td>
</tr>
</tbody>
</table>

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.
### Understanding the Sharekhan 3R Matrix

#### Right Sector

<table>
<thead>
<tr>
<th>Positive</th>
<th>Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies</td>
</tr>
<tr>
<td>Negative</td>
<td>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.</td>
</tr>
</tbody>
</table>

#### Right Quality

<table>
<thead>
<tr>
<th>Positive</th>
<th>Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>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</td>
</tr>
<tr>
<td>Negative</td>
<td>Weakening growth trend 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</td>
</tr>
</tbody>
</table>

#### Right Valuation

<table>
<thead>
<tr>
<th>Positive</th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>Trading at par to historical valuations and having limited scope of expansion in valuation multiples.</td>
</tr>
<tr>
<td>Negative</td>
<td>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.</td>
</tr>
</tbody>
</table>

Source: Sharekhan Research