Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

# Coal India Ltd

## On track to achieve FY24 coal production guidance

| Energy & Utilities | Sharekhan code: COALINDIA |
|---|---|
| Reco/View: Buy ⇔ | CMP: Rs. 283 |
| | Price Target: Rs. 330 ↑ |

↑ 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 45.47

Updated Aug 08, 2023

Severe Risk

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

Source: Morningstar

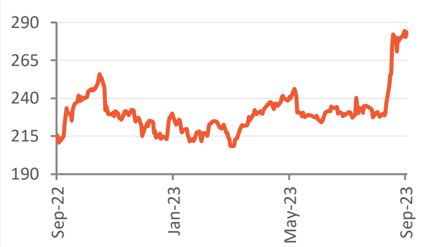
**Company details**

| | |
|---|---|
| Market cap: | Rs. 1,74,652 cr |
| 52-week high/low: | Rs. 288 / 208 |
| NSE volume: (No of shares) | 93.3 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 | 22.8 | 25.5 | 32.9 | 27.2 |
| Relative to Sensex | 21.9 | 20.6 | 18.9 | 13.6 |

Sharekhan Research, Bloomberg


**Summary**

- 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. Coal offtake grew by 8% y-o-y to 306 mt in 5MFY2024 and is likely to register >7% coal offtake growth for FY2024.
- CIL has levers for sustained strong margin – 1) rising volume from the non-power sector (NPS), which fetches better realisation, 2) benefit of operating leverage, given strong coal offtake outlook, and 3) potential hike in FSA coal realisation.
- We raise our FY2024/FY2025 earnings estimate by 7% each to factor higher volume, improved volume mix (towards NPS), and better abruption of fixed cost, given the benefit of operating leverage. Any potential FSA coal price hike could result in a positive earnings surprise for CIL.
- Valuation of 6.4x its FY2025E EPS (close to the trough level) is attractive, and the stock offers a high dividend yield of 8-9%. Hence, we maintain a Buy rating with a revised PT of Rs. 330. A potential stake sale in Bharat Coking Coal Limited (BCCL) and subsequent listing would unlock value.


**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 FY2024E/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 coal supplies to the power/NP sector at 47mt/12.1mt. 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 expection 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 FY2024E/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**

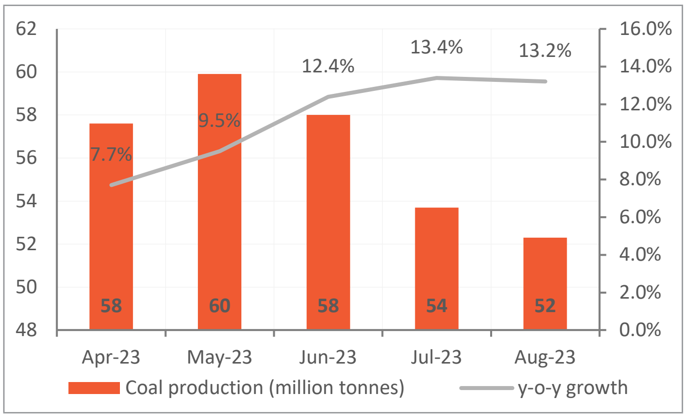
Lower-than-expected volume offtake amid any weakness in electricity demand and realisations (especially for e-auction) could affect margins and earnings outlook. The government's divestment plan could act as an overhang on the stock.

**Valuation (Consolidated)** Rs cr

| Particulars | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Revenue | 1,09,714 | 1,38,252 | 1,39,487 | 1,50,789 |
| OPM (%) | 22.5 | 26.6 | 21.9 | 22.9 |
| Adjusted PAT | 17,358 | 28,165 | 24,208 | 27,166 |
| % YoY growth | 36.7 | 62.3 | -14.0 | 12.2 |
| Adjusted EPS (Rs.) | 28.2 | 45.7 | 39.3 | 44.1 |
| P/E (x) | 10.1 | 6.2 | 7.2 | 6.4 |
| P/B (x) | 4.0 | 3.0 | 2.8 | 2.5 |
| EV/EBITDA (x) | 6.0 | 3.8 | 3.9 | 3.2 |
| RoNW (%) | 43.6 | 56.1 | 40.4 | 41.4 |
| RoCE (%) | 45.1 | 59.2 | 43.0 | 44.9 |

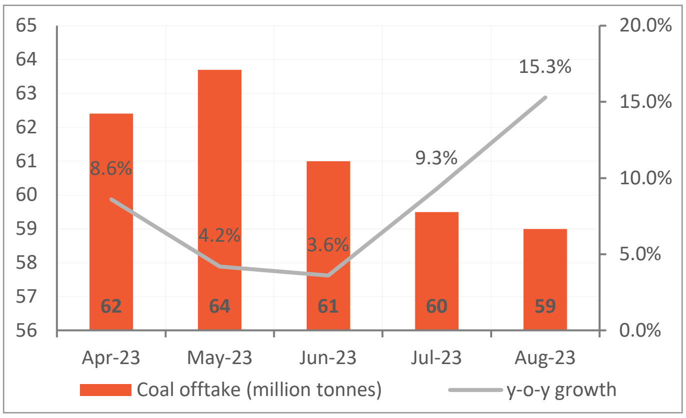
Source: Company; Sharekhan estimates

**CIL's coal production trend remains robust**



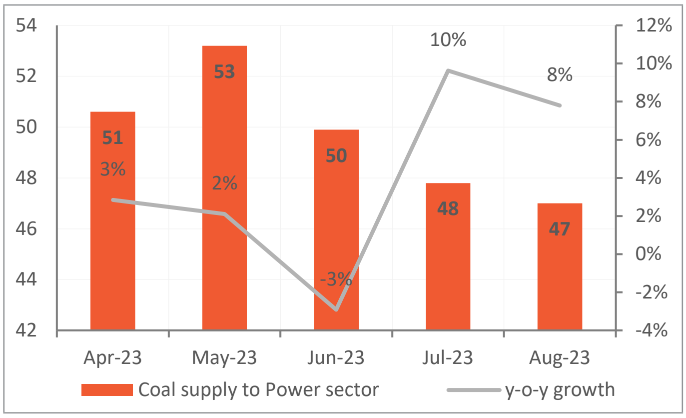

Source: Company, Sharekhan Research

**Coal offtake growth was also strong in July/August 2023**



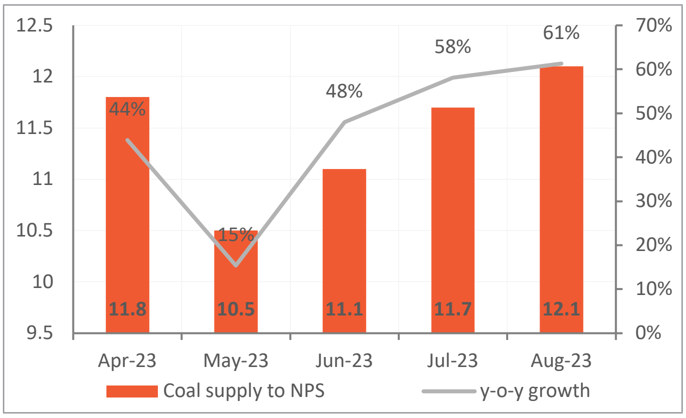

Source: Company, Sharekhan Research

**CIL coal supply to the power sector**




Source: Company, Sharekhan Research

**CIL coal supply to NPS**



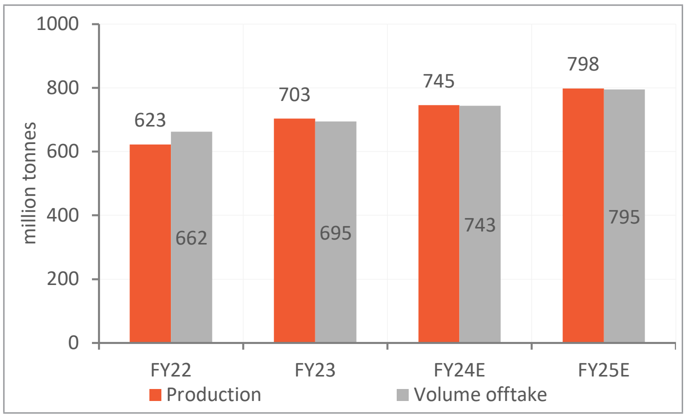

Source: Company, Sharekhan Research

**CIL coal production target (figures in million tonne)**


Source: Company

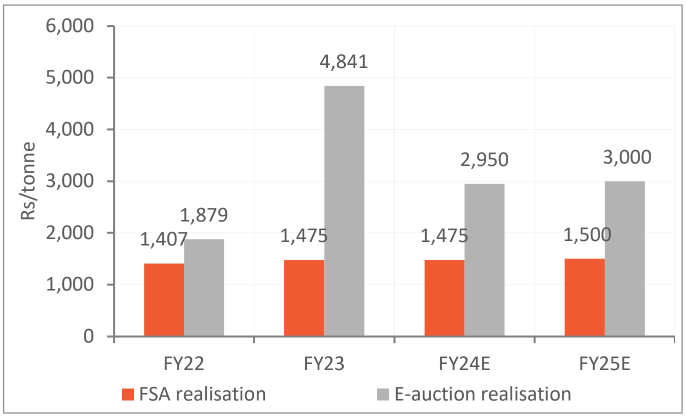
## Financials in charts

### Healthy volume growth outlook



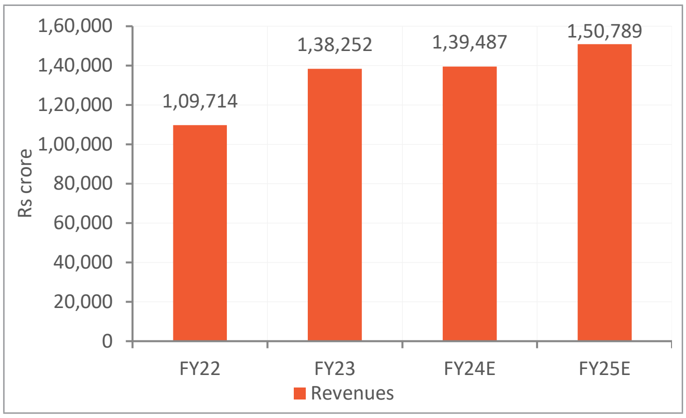

Source: Company, Sharekhan Research

### Realisation to remain decent



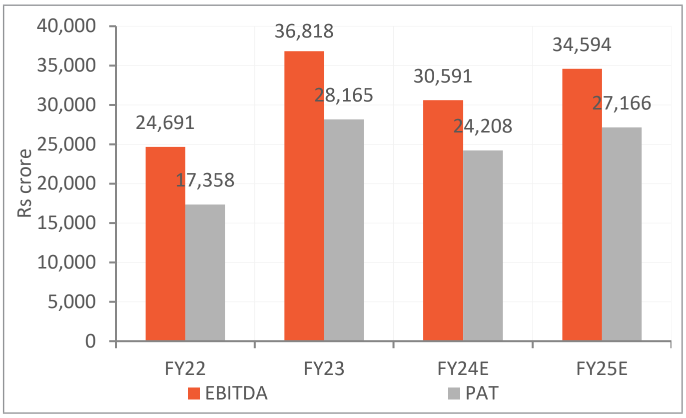

Source: Company, Sharekhan Research

### Revenue trend



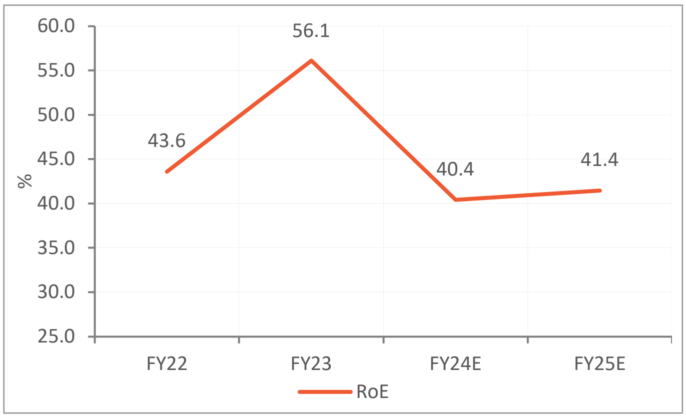

Source: Company, Sharekhan Research

### PAT/EBITDA trend



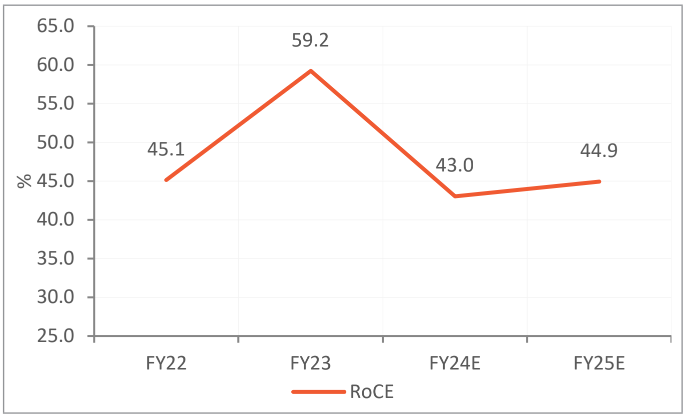

Source: Company, Sharekhan Research

### RoE trend




Source: Company, Sharekhan Research

### RoCE trend




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).

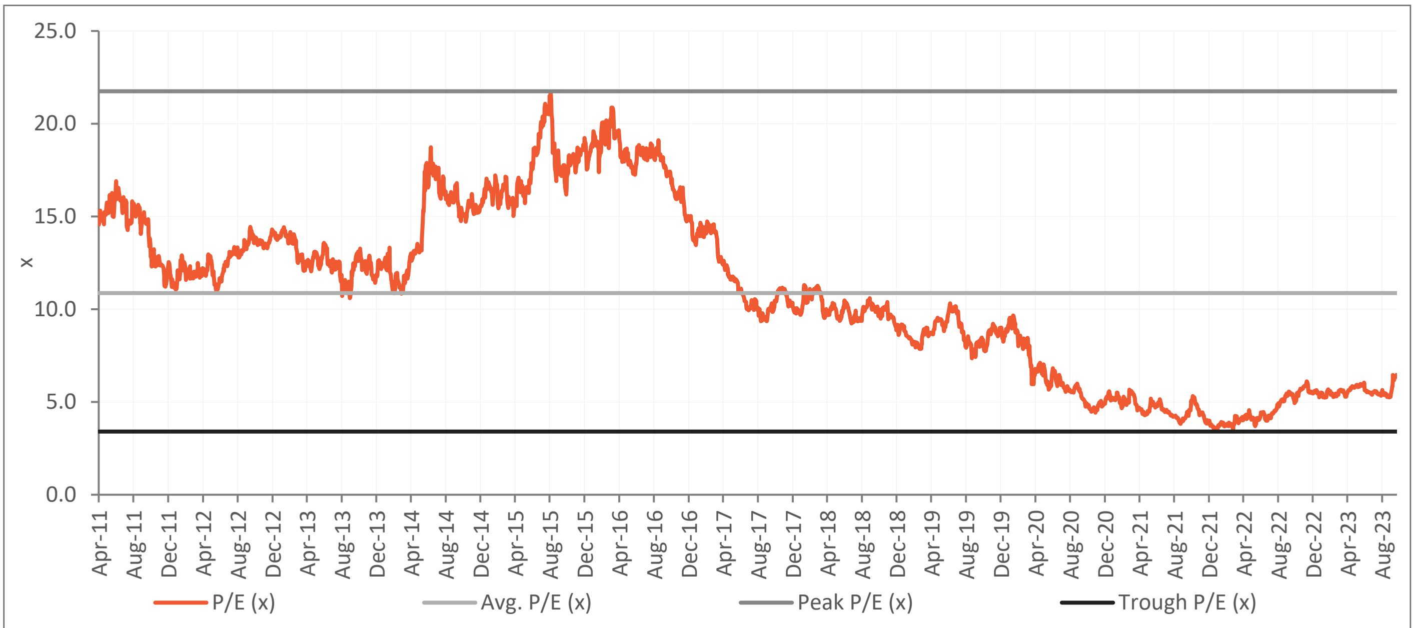
■ **Company Outlook – Expect earnings to remain resilient, led by volume growth and better coal realisation**

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).

**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 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

**Key management personnel**

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

Source: Company Website

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | Life Insurance Corp of India | 110 |
| 2 | Nippon Life India Asset Management | 3.10 |
| 3 | HDFC Asset Management Co Ltd | 2.32 |
| 4 | ICICI Prudential Asset Management | 1.72 |
| 5 | PPFAS Asset Management | 1.52 |
| 6 | Vanguard Group Inc/The | 1.47 |
| 7 | SBI Funds Management Ltd | 1.10 |
| 8 | BlackRock Inc | 0.88 |
| 9 | GQG Partners LLC | 0.80 |
| 10 | FMR LLC | 0.73 |

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

Sharekhan
by BNP PARIBAS

**DISCLAIMER**

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022 - 33054600