

20 October 2023

India | Equity Research | Company Update

Coal India

Power/Mining

Plenty of steam left

Despite the impressive run-up (~37% in the past 3months), we believe that there is still room for a 25% upside for CIL's stock price performance. Key points: 1) Production volume likely to be aided by SECL. 2) Demand from power sector likely to stay firm. 3) Record imports by China, amidst looming winter-heating season, likely to aid e-auction prices. 4) E-auction volumes and linkage materialisation to stay elevated, aiding profitability. Taking cognizance of the recent uptick in international coal prices and robust 6MFY24 operating performance, we raise our multiple to 8x (from 7.2x) corresponding to 2 deviations above its past five-year trading range. Our revised TP works out to INR 395 (earlier INR325). We retain **BUY** on the stock. Our view is also based on a sustainable dividend yield of 9% through to FY25E.

Robust operating performance; favourable macros

CIL's 6MFY24 operating performance stayed robust. Key points: 1) YTD-Sep'24 production/offtake is up 10.5%/8.5% YoY, half of which is due to SECL's volume uptick. 2) Our channel checks indicate that e-auction volume for Sep'23 was at 6.75mnte (up 44% YoY) despite lower premium of 106% (Sep'22: 276%) over FSA prices. 3) Our discussion with non-regulated sector (NRS) players indicate an increasing linkage materialisation – 6MFY24 despatches to steel, sponge iron and cement sectors are up 69% YoY, 42% YoY and 41% YoY, respectively 4) Pit-head inventory is at a comfortable 41mt. Going wider, international coal prices are on an uptrend with Indonesian coal and South African coal price rising by 13% YoY and 37% YoY, respectively. Further, Chinese imports are hovering at record levels – so far in CY23 – up 73% YoY at 348mnte for 9MCY23 amid escalating domestic prices, pre-winter restocking and supply constraints due to mine safety inspections. Hence, we expect e-auction prices to stay firm in the near term, aiding profitability.

Consensus upgrades likely

Despite our sales volume growth assumption of 8% YoY (6MFY24: 8.5% YoY) and FY25E e-auction price estimate of INR 2,590 (currently at INR 3,000), our FY24E/FY25E EPS of 48.1/50.9 is 27%/41% ahead of consensus estimates. We believe that Street is likely to revise its estimates post-Q2FY24 results, once the robust operating and financial performance is taken cognizance of.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	10,97,135	13,82,519	14,24,637	14,82,925
EBITDA	2,46,905	3,68,179	3,78,978	3,96,159
EBITDA Margin (%)	22.5	26.6	26.6	26.7
Net Profit	1,73,870	2,81,331	2,96,175	3,13,789
EPS (Rs)	28.2	45.7	48.1	50.9
EPS % Chg YoY	114.4	61.8	5.3	5.9
P/E (x)	11.2	6.9	6.6	6.2
EV/EBITDA (x)	6.4	4.0	3.7	3.3
RoCE (%)	34.7	46.9	39.3	32.9
RoE (%)	46.0	60.8	51.0	43.5

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Market Data

Market Cap (INR)	1,940bn
Market Cap (USD)	23,308mn
Bloomberg Code	COAL IN
Reuters Code	COAL.BO
52-week Range (INR)	320 /208
Free Float (%)	37.0
ADTV-3M (mn) (USD)	39.6

Price Performance (%)	3m	6m	12m
Absolute	40.1	39.0	46.7
Relative to Sensex	42.0	27.8	34.2

ESG Disclosure	2021	2022	Change
ESG score	44.3	41.5	(2.8)
Environment	29.0	29.0	-
Social	37.7	37.7	-
Governance	66.1	57.7	(8.4)

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

Source: Bloomberg, I-sec research

Previous Reports

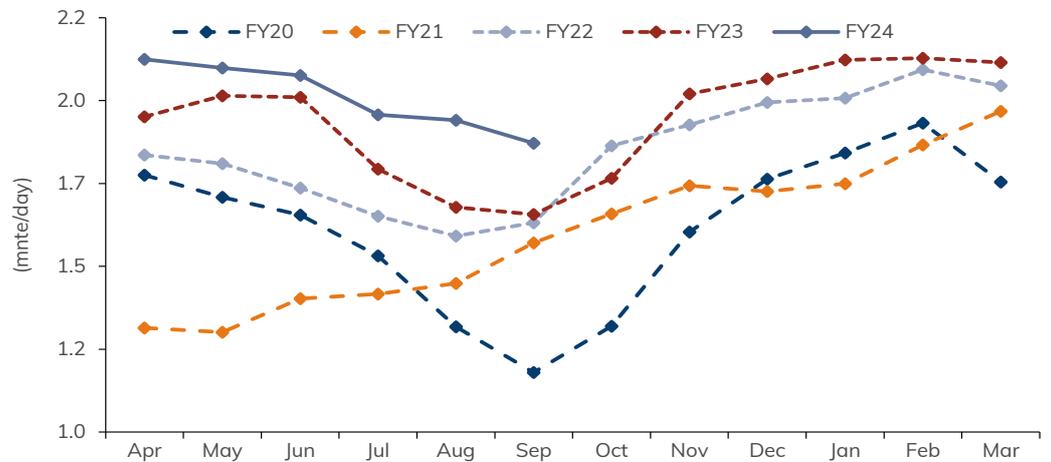
03-10-2023: [Company update](#)

04-09-2023: [Company update](#)

Outlook: Getting best of both worlds; maintain BUY

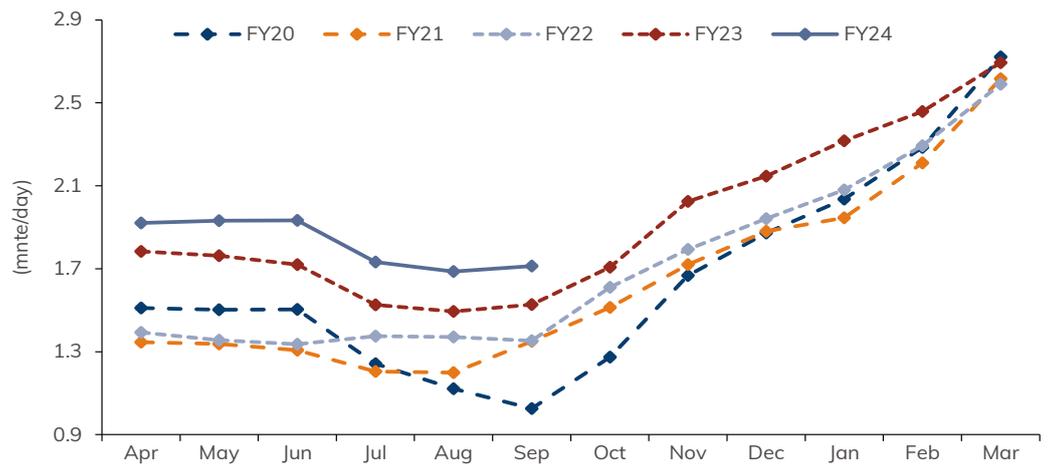
In our view, CIL is at an interesting juncture with both robust volume growth and firm price outlook. For 6MFY24, CIL has met the increased requirements of the power sector and has been able to boost despatches to more profitable NRS. Additionally, the peak wage bill is now behind, and over the next five years, wage expense is likely to fall due to natural attrition at the company. We believe that cash generation would be robust enough for maintaining a dividend yield of 9% p.a. through to FY25E despite an INR 150bn capex p.a. Taking cognizance of the favourable volume/price outlook, we raise our P/E multiple to 8x (earlier 7.2x) corresponding to 2 deviations above its past five-year trading average. We maintain **BUY** with a revised TP of INR 395 (earlier INR 325).

Exhibit 1: Sales volume has remained robust thus far in FY24



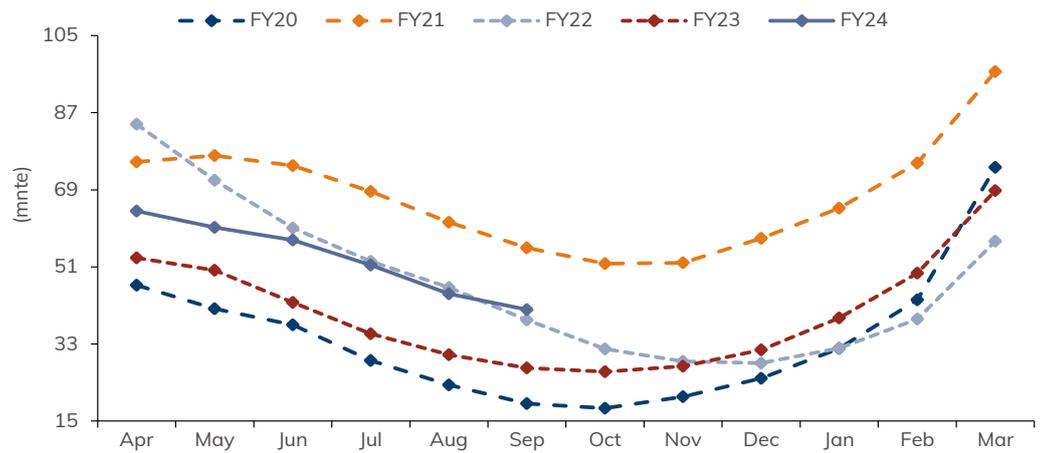
Source: I-Sec research, Company data

Exhibit 2: Record production volume in FY24 thus far



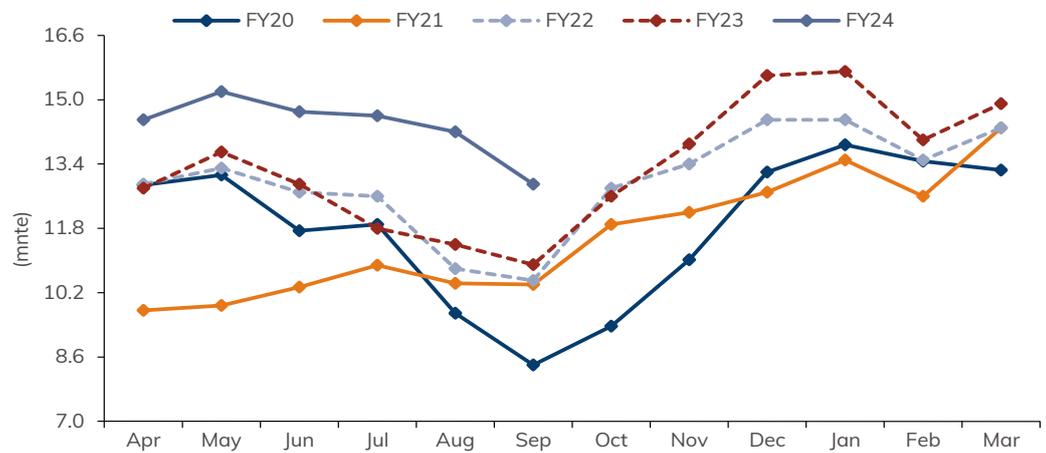
Source: I-Sec research, Company data

Exhibit 3: Inventory level at pit-head is comfortable



Source: Company data, I-Sec research

Exhibit 4: SECL's revival has played a critical role in volume growth



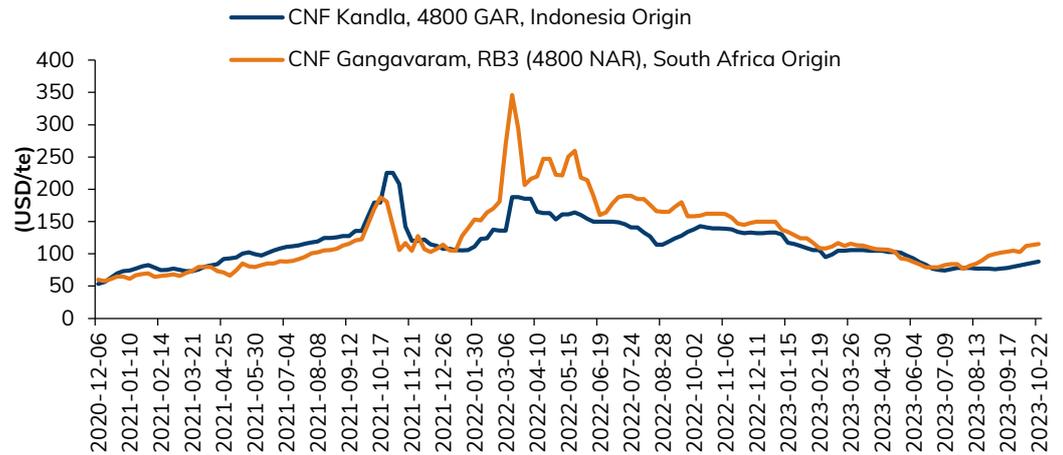
Source: I-Sec research, Company data

Exhibit 5: China's coal imports at a record level in CY23



Source: I-Sec research, Company data

Exhibit 6: International coal prices are showing signs of price uptick



Source: Company data, I-Sec research

Exhibit 7: Despatch to NRS has improved in FY24

(mnste)	Sep-23	Sep-22	% chg (YoY)	6MFY24	6MFY23	% chg (YoY)
Power	46.0	41.4	11.0	295.4	284.5	3.8
CPP	3.7	2.9	27.6	25.4	15.3	66.0
Steel	0.3	0.2	61.1	1.6	1.0	68.8
Cement	0.3	0.2	57.1	2.2	1.6	40.6
Sponge Iron	0.7	0.5	39.6	4.8	3.4	41.5
Others	4.1	3.7	9.8	31.3	26.3	18.9
Total	55.1	48.9	12.6	360.7	332.0	8.6

Source: I-Sec research, Company data, Bloomberg

Exhibit 8: CIL- Key numbers

Key numbers (mnste)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Production	567	607	602	596	623	703	760	820
Sales	581	609	582	574	662	695	751	811
FSA	460	531	501	466	540	621	660	702
E-auction	106	64	65	94	111	62	78	95
FSA price (INR/te)	1,257	1,343	1,416	1,379	1,407	1,475	1,544	1,544
E-auction price (INR/te)	1,839	2,828	2,177	1,569	1,879	4,841	3,189	2,590
E-auction premium (%)	46	111	54	14	34	228	106	68
EBITDA/te (INR)	160	411	371	244	373	529	505	488
Manpower cost (INRmn)	4,26,218	3,87,729	3,94,042	3,85,924	4,07,008	4,94,092	4,73,404	4,68,670
Dividend/share (INR)	16.5	13.1	12.0	16.0	17.0	24.0	25.0	28.0

Source: I-Sec research, Company data

Exhibit 9: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	66.1	63.1	63.1
Institutional investors	28.9	31.6	31.6
MFs and others	8.7	9.7	11.1
FIs/Banks	0.0	0.0	0.3
Insurance	12.4	12.3	12.5
FII	7.8	9.6	7.8
Others	4.9	5.3	5.3

Source: Bloomberg

Exhibit 10: Price chart



Source: Bloomberg

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	10,97,135	13,82,519	14,24,637	14,82,925
Operating Expenses	8,50,230	10,14,340	10,45,659	10,86,767
EBITDA	2,46,905	3,68,179	3,78,978	3,96,159
EBITDA Margin (%)	22.5	26.6	26.6	26.7
Depreciation & Amortization	44,287	46,753	50,375	56,525
EBIT	2,02,618	3,21,426	3,28,603	3,39,633
Interest expenditure	5,415	6,843	6,843	6,843
Other Non-operating Income	39,045	65,507	78,385	91,151
Recurring PBT	2,36,249	3,80,090	4,00,145	4,23,942
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	62,379	98,759	1,03,970	1,10,153
PAT	1,73,870	2,81,331	2,96,175	3,13,789
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	1,73,870	2,81,331	2,96,175	3,13,789
Net Income (Adjusted)	-	-	-	-

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	8,55,635	10,34,887	11,12,532	12,13,010
of which cash & cash eqv.	2,91,795	3,99,219	4,77,838	5,69,675
Total Current Liabilities & Provisions	5,73,505	6,86,665	6,78,776	6,84,945
Net Current Assets	2,82,131	3,48,222	4,33,756	5,28,065
Investments	98,898	1,00,388	1,00,388	1,00,388
Net Fixed Assets	4,65,713	4,93,728	5,78,354	6,56,828
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,27,137	1,52,626	1,67,626	1,82,626
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	-	-	-	-
Total Assets	12,28,929	14,25,402	16,10,561	17,98,345
Liabilities				
Borrowings	33,540	41,744	41,744	41,744
Deferred Tax Liability	8,110	13,307	13,307	13,307
provisions	7,49,110	7,90,195	8,33,247	8,79,798
other Liabilities	-	-	-	-
Equity Share Capital	61,627	61,627	61,627	61,627
Reserves & Surplus	3,69,803	5,10,822	6,52,929	7,94,161
Total Net Worth	4,31,430	5,72,449	7,14,556	8,55,788
Minority Interest	6,738	7,707	7,707	7,707
Total Liabilities	12,28,929	14,25,402	16,10,561	17,98,345

Source Company data, I-Sec research

Exhibit 13: 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
Extraordinary	-	-	-	-
Adjusted Net Profit	60,440	77,191	55,276	79,414

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	4,45,126	4,92,736	3,39,635	3,67,843
Working Capital Changes	1,01,751	(31,604)	(6,914)	(2,472)
Capital Commitments	(1,19,956)	(1,41,027)	(1,50,000)	(1,50,000)
Free Cashflow	3,25,171	3,51,709	1,89,635	2,17,843
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	(1,19,956)	(1,41,027)	(1,50,000)	(1,50,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(25,732)	8,052	-	-
Dividend paid	(1,07,834)	(1,43,281)	(1,54,068)	(1,72,556)
Others	-	-	-	-
Cash flow from Financing Activities	(1,33,566)	(1,35,229)	(1,54,068)	(1,72,556)
Chg. in Cash & Bank balance	1,91,605	2,16,480	35,567	45,286
Closing cash & balance	3,64,708	5,08,274	4,34,786	5,23,124

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	28.2	45.7	48.1	50.9
Adjusted EPS (Diluted)	28.2	45.7	48.1	50.9
Cash EPS	35.4	53.2	56.2	60.1
Dividend per share (DPS)	17.0	24.0	25.0	28.0
Book Value per share (BV)	70.0	92.9	115.9	138.9
Dividend Payout (%)	60.3	52.6	52.0	55.0
Growth (%)				
Net Sales	21.9	26.0	3.0	4.1
EBITDA	76.7	49.1	2.9	4.5
EPS (INR)	114.4	61.8	5.3	5.9
Valuation Ratios (x)				
P/E	11.2	6.9	6.6	6.2
P/CEPS	8.9	5.9	5.6	5.2
P/BV	4.5	3.4	2.7	2.3
EV / EBITDA	6.4	4.0	3.7	3.3
P / Sales	1.8	1.4	1.4	1.3
Dividend Yield (%)	5.4	7.6	7.9	8.9
Operating Ratios				
Gross Profit Margins (%)	89.2	90.3	90.7	90.4
EBITDA Margins (%)	22.5	26.6	26.6	26.7
Effective Tax Rate (%)	26.4	26.0	26.0	26.0
Net Profit Margins (%)	15.8	20.3	20.8	21.2
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.8)	(0.8)	(0.7)	(0.7)
Net Debt / EBITDA (x)	(1.4)	(1.2)	(1.4)	(1.6)
Profitability Ratios				
RoCE (%)	34.7	46.9	39.3	32.9
RoE (%)	46.0	60.8	51.0	43.5
RoIC (%)	123.5	178.9	187.5	138.8
Fixed Asset Turnover (x)	2.6	3.0	2.8	2.6
Inventory Turnover Days	26	26	22	21
Receivables Days	42	42	37	35
Payables Days	32	28	22	21

Source Company data, I-Sec research

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