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India | Equity Research | Q3FY24 concall review

Coal India

Power/Mining

e-auction premium decline likely to be offset by volume growth

We attended Coal India's (CIL) Q3FY24 conference call on Feb 19, '24. Takeaways: 1) FY24 volume likely to be 780mnte; 2) e-auction premium has come off, but volume has improved; 3) Q4FY24 e-auction volume likely to be 15% of overall sales; 4) FY25 production volume likely at 838mnte owing to record stock at power plants; and 5) capex likely to pick-up progressively. Going ahead, we expect e-auction premium to trend lower; however, higher volume may mitigate the impact. As a result, we are lowering our FY25/26E EPS by a mere 3%/1%. Our revised TP works out to INR 500 (earlier: INR 505) on an unchanged 8.5x FY26E EPS. The recent impressive performance of the stock has resulted in a potential upside of just 8%, hence, we downgrade the stock to **ADD** (from **Buy**).

Volume focus intact

During the earnings call, management mentioned that while five subsidiaries have performed ahead of the target thus far in FY24, volume in SECL is likely to be lower by 10mt due to land issues in the earlier part of the year. That said, the management has retained its FY24 production target at 780mt. Going ahead, CIL's management expects production growth at 7-8% in FY25 and expects volume at 838mnte (earlier 850mnte) owing to the record stock at power plants at 32mnte. On evacuation front, the concerns have ebbed particularly on rake availability front, hence, management expressed confidence of achieving volume growth of 7-8% in FY25 as well.

e-auction: Premium decline offset by volume growth

e-auction premium has come off significantly to 36-48% in Feb'24 due to the lower grade of the material being offered. That said, e-auction premium is likely to be 80% in FY24E, according to management. Furthermore, e-auction volume as a percentage of overall volume has increased from 13% in Jan'24 to 17% in Feb'24 and may be 15% in Q4FY24. Going forward, management expects e-auction volume to stay robust at 15% of overall and can even go up to the upper limit of 20% contingent on demand. We have lower our e-auction premium estimates for FY25/26E to 44% (earlier 55%) and raised our e-auction volume estimates for FY25/26E to 104mnte/125mnte (earlier 95mnte/104mnte), respectively. As a percentage of overall sales, we expect e-auction volume at 14.5% in FY26E (earlier 12.5%).

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	13,82,519	14,23,707	14,73,759	15,73,374
EBITDA	3,68,179	3,97,569	4,07,633	4,76,149
EBITDA Margin (%)	26.6	27.9	27.7	30.3
Net Profit	2,81,331	3,07,080	3,14,834	3,67,999
EPS (Rs)	45.7	49.8	51.1	59.7
EPS % Chg YoY	61.8	9.2	2.5	16.9
P/E (x)	10.1	9.3	9.0	7.7
EV/EBITDA (x)	6.5	6.2	5.8	4.7
RoCE (%)	46.9	41.5	34.2	33.6
RoE (%)	60.8	53.5	44.7	43.3

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Market Data

Market Cap (INR)	2,841bn
Market Cap (USD)	34,242mn
Bloomberg Code	COAL IN
Reuters Code	COAL.BO
52-week Range (INR)	488 /208
Free Float (%)	37.0
ADTV-3M (mn) (USD)	74.5

Price Performance (%)	3m	6m	12m
Absolute	33.5	102.7	112.0
Relative to Sensex	23.0	90.7	92.8

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.5)	(0.2)
EBITDA	(5.3)	(0.6)
EPS	(3.0)	(0.7)

Previous Reports

13-02-2023: [Q3FY24 result review](#)

02-01-2023: [Company Update](#)

Outlook: Earnings estimates broadly intact; downgrade to ADD

We believe CIL's performance is likely to be driven by volume growth. That said, street will watch out for e-auction premium, which is down to 36-48% thus far in Q4FY24. In our view, the higher e-auction volume is likely to completely offset the adverse impact of lower premium. However, any upside might be constrained if e-auction premium continues to stay low. Taking cognisance of management's commentary, we lower our EPS by 3%/1% for FY25/26E, respectively. Our revised TP works out to INR 500 (earlier: INR 505). We downgrade the stock to **ADD** (from **Buy**).

Exhibit 1: Earnings Revision

(INR mn)	FY25E			FY26E		
	New	Old	%chg	New	Old	%chg
Sales	14,73,759	14,96,354	(1.5)	15,73,374	15,75,979	(0.2)
EBITDA	4,07,633	4,30,314	(5.3)	4,76,149	4,78,845	(0.6)
PAT	3,14,834	3,24,454	(3.0)	3,67,999	3,70,479	(0.7)

Source: I-Sec research

Key risks

- Higher-than-expected decline in e-auction price/volume.
- Lower-than-expected volume uptick.
- Subdued demand from power sector.

Q3FY24 concall: Takeaways

- In 9MFY24, the company recorded its highest ever coal production and overburden removal of 531.9mnte and 1,404.85 mn.cu.mt, respectively. The growth in coal production and overburden removal has been ~11% and ~22% YoY, respectively.
- Capex: Incurred INR 57bn – overall set to achieve INR 165bn for FY24. For FY25, capex is targeted at INR 175bn.
- CIL has bagged 300MW of solar project for Gujrat Industrial Corporation through the auction held on Jan 25, '24.
- The Board has also approved a second interim dividend of INR 5.25 per share, total dividend of INR 20.5 per share for FY24 thus far.
- Volume guidance for FY24 stands at 780mnte. While five companies are already ahead of the target, SCCL, due to some land shortage initially, is lagging behind (~9mnte).
- Volume guidance for FY25 stands at 838mnte (revised from 850mnte due to huge stocks at power plant). Coal stock has grown over 38mnte. The guidance is set to be reviewed again in Apr'24.
- e-auction volume as a proportion of overall sales: In Jan'24, it was ~13% and till Feb 15, '24, it has been ~17%. Management mentioned while the share of e-auction volume has been increasing, it is still contingent on demand. For Q4FY24, it is likely to be 15%.
- e-auction premium: For Jan/Feb'24, e-auction premium was 36-48%. For FY24, it is likely to be ~80%; however, it might vary subject to demand.
- Dividend policy: Based on the requirement and capex.
- Indian coal is predominantly of higher ash content (~42%), in comparison to international coal (~10%), hence, any comparison is irrelevant.

- CIL will participate in the auction of mines for exploration, which is to be conducted by the Ministry of Mines in three blocks (rare earth elements) in different states on Feb 26, '24.
- Strike: There was just one day strike by four unions due to national level issues and not just concerning Coal India; it had only marginal impact.
- Diversification projects will be funded through a basket of internal accruals and debt, while coal-based projects are likely to be funded through internal accruals.
- CIL has some washeries under construction – Madhuband washery has been completed recently and is producing 5Kte per day. Two more washeries are under construction at BCCL. A significant increase in coking coal share will come after the commissioning of these washeries. By FY28, there will be growth from ~1.5mnte of washed coal to ~6mnte.
- Employee cost: Attrition is likely to lead to progressively lower cost. While FY24 cost is likely to be lower by INR 20bn YoY, management expects employee cost to be lower than FY24 in coming years.

Exhibit 2: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	63.1	63.1	63.1
Institutional investors	31.6	31.6	31.6
MFs and others	9.7	11.1	10.4
FIs/Banks	0.0	0.3	0.3
Insurance	12.3	12.5	12.1
FIIIs	9.6	7.8	8.8
Others	5.3	5.3	5.3

Source: Bloomberg

Exhibit 3: Price chart

Source: Bloomberg

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	13,82,519	14,23,707	14,73,759	15,73,374
Operating Expenses	10,14,340	10,26,139	10,66,127	10,97,226
EBITDA	3,68,179	3,97,569	4,07,633	4,76,149
EBITDA Margin (%)	26.6	27.9	27.7	30.3
Depreciation & Amortization	46,753	50,375	56,525	62,136
EBIT	3,21,426	3,47,194	3,51,107	4,14,012
Interest expenditure	-	-	-	-
Other Non-operating Income	65,507	75,399	81,105	89,171
Recurring PBT	3,80,090	4,14,877	4,25,353	4,97,182
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	98,759	1,07,798	1,10,520	1,29,183
PAT	2,81,331	3,07,080	3,14,834	3,67,999
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,81,331	3,07,080	3,14,834	3,67,999
Net Income (Adjusted)	-	-	-	-

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	10,34,887	10,04,624	10,87,011	12,29,771
of which cash & cash eqv.	3,99,219	3,46,664	4,28,885	5,60,097
Total Current Liabilities & Provisions	6,86,665	6,56,644	6,61,131	6,64,728
Net Current Assets	3,48,222	3,47,980	4,25,880	5,65,043
Investments	1,00,388	1,00,388	1,00,388	1,00,388
Net Fixed Assets	4,93,728	5,78,354	6,56,828	7,29,692
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,52,626	1,67,626	1,82,626	1,97,626
Total Intangible Assets	25,881	25,881	25,881	25,881
Other assets	3,00,834	3,00,834	3,00,834	3,00,834
Deferred Tax assests	-	-	-	-
Total Assets	14,25,402	15,24,785	16,96,160	19,23,186
Liabilities				
Borrowings	41,744	60,744	60,744	60,744
Deferred Tax Liability	13,307	13,307	13,307	13,307
provisions	7,90,195	7,48,381	7,89,804	8,33,712
other Liabilities	-	-	-	-
Equity Share Capital	61,627	61,627	61,627	61,627
Reserves & Surplus	5,10,822	6,33,019	7,62,971	9,46,089
Total Net Worth	5,72,449	6,94,647	8,24,598	10,07,716
Minority Interest	7,707	7,707	7,707	7,707
Total Liabilities	14,25,402	15,24,785	16,96,160	19,23,186

Source Company data, I-Sec research

Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	3,81,523	3,59,832	3,27,764	3,61,540
% growth (YOY)	16.6	2.5	9.8	2.8
EBITDA	68,981	1,05,139	81,370	1,13,731
Margin %	18.1	29.2	24.8	31.5
Other Income	22,100	15,378	19,839	22,033
Extraordinaries	-	-	-	-
Adjusted Net Profit	55,276	79,414	68,135	90,937

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	4,92,736	3,05,142	3,75,679	4,22,186
Working Capital Changes	(31,604)	(52,312)	4,320	(7,950)
Capital Commitments	(1,41,027)	(1,50,000)	(1,50,000)	(1,50,000)
Free Cashflow	3,51,709	1,55,142	2,25,679	2,72,186
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	(1,41,027)	(1,50,000)	(1,50,000)	(1,50,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	8,052	19,000	-	-
Dividend paid	(1,43,281)	(1,84,882)	(1,84,882)	(1,84,882)
Others	-	-	-	-
Cash flow from Financing Activities	(1,35,229)	(1,65,882)	(1,84,882)	(1,84,882)
Chg. in Cash & Bank balance	2,16,480	(10,740)	40,798	87,304
Closing cash & balance	5,08,274	3,88,479	3,87,462	5,16,189

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	45.7	49.8	51.1	59.7
Adjusted EPS (Diluted)	45.7	49.8	51.1	59.7
Cash EPS	53.2	58.0	60.3	69.8
Dividend per share (DPS)	24.0	30.0	30.0	30.0
Book Value per share (BV)	92.9	112.7	133.8	163.5
Dividend Payout (%)	52.6	60.2	58.7	50.2
Growth (%)				
Net Sales	26.0	3.0	3.5	6.8
EBITDA	49.1	8.0	2.5	16.8
EPS (INR)	61.8	9.2	2.5	16.9
Valuation Ratios (x)				
P/E	10.1	9.3	9.0	7.7
P/CEPS	8.7	7.9	7.7	6.6
P/BV	5.0	4.1	3.4	2.8
EV / EBITDA	6.5	6.2	5.8	4.7
P / Sales	2.1	2.0	1.9	1.8
Dividend Yield (%)	5.2	6.5	6.5	6.5
Operating Ratios				
Gross Profit Margins (%)	90.3	92.4	92.1	92.1
EBITDA Margins (%)	26.6	27.9	27.7	30.3
Effective Tax Rate (%)	26.0	26.0	26.0	26.0
Net Profit Margins (%)	20.3	21.6	21.4	23.4
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.8)	(0.6)	(0.6)	(0.6)
Net Debt / EBITDA (x)	(1.2)	(1.0)	(1.1)	(1.3)
Profitability Ratios				
RoCE (%)	46.9	41.5	34.2	33.6
RoE (%)	60.8	53.5	44.7	43.3
RoIC (%)	178.9	148.4	97.2	83.9
Fixed Asset Turnover (x)	3.0	2.8	2.6	2.4
Inventory Turnover Days	26	22	21	21
Receivables Days	42	44	39	39
Payables Days	28	16	15	16

Source Company data, I-Sec research

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