22 April 2024

Coal India

Volume ramp-up, cost savings to drive growth; initiating, with a Buy

Rating: **Buy**
Target Price (12-mth): Rs.520
Share Price: Rs.435

The largest pure-play coal producer globally, Coal India offers healthy volume assurance, catering to mounting coal demand from the power sector. Its focus on increasing FSA and e-auction volumes would be catalysts for a strong performance. The company has taken many cost-saving measures, along with evacuation and infrastructure-improvement projects, expected to drive greater productivity. Hence, with its focus on volume ramp-up and cost savings, we factor in 8.5%/13% sales volume/EBITDA CAGRs over FY24-26. The company has a prudent dividend policy and ahead a ~50% payout is expected. We, thus, initiate coverage on it with a Buy and a Rs.520 TP, 5.5x FY26e EV/ EBITDA.

Volume momentum to continue. In FY24 the company reported its highest sales, of 753.5m tonnes, on record dispatches to the power sector. Prominent in the global energy landscape, it accounts for ~78% of domestic coal offtake and has an ambitious sales target of 838m tonnes for FY25. Strong demand from FSA and e-auction along with enhanced coal washeries will eventually help it cross 1bn tonnes production in the next 2-3 years.

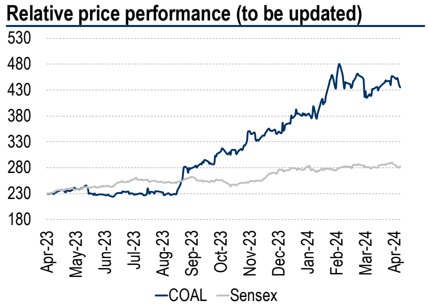
Cost control initiatives. To adhere to long-term sustainable growth prospects and improve competitiveness, it has controlled costs by closing unviable mines and reducing manpower by ~5% annually over the next 5-10 years. We forecast employee cost per tonne to decline to Rs595 in FY25 and to Rs590 in FY26 (vs the five-year Rs660 average). Since FY21, it has suspended 18 unviable underground (UG) mines and, considering lower volume yields from UG mines, it is expected to suspend more.

Outlook, Valuation. Considering its focus on ramping up volumes, various cost-control measures, investor-friendly dividend policy, strong balance sheet and robust power demand, we initiate coverage on the company, with a Buy rating and a Rs520 TP, 5.5x FY26e EV/EBITDA. **Risks:** Pressure from international bodies regarding ESG, impact from commercial mining.

Key data	COAL IN
52-week high / low	Rs488 / 223
Sensex / Nifty	73088 / 22147
3-m average volume	$77.3m
Market cap	Rs2683bn / $32138.9m
Shares outstanding	6163m

Shareholding pattern (%)	Mar '24	Dec '23	Sep '23
Promoters	63.1	63.1	63.1
- *of which, Pledged*	0.0	0.0	0.0
Free Float	36.9	36.9	36.9
- Foreign institutions	8.4	8.6	7.8
- Domestic institutions	23.2	23.1	24.1
- Public	5.3	5.2	5.0

Relative price performance (to be updated)



Source: Bloomberg

Key financials (YE Mar)	FY22	FY23	FY24e	FY25e	FY26e
Sales volume (m tonnes)	662.3	695.3	753.5	838.0	886.8
Revenue (Rs bn)	1,097	1,383	1,409	1,610	1,755
Adj. EBITDA (Rs bn)	285	406	407	475	519
Adj. EBITDA / tonne (Rs)	430	584	540	567	585
Net profit (Rs bn)	174	282	294	327	348
P/E (x)	15.4	9.5	9.1	8.2	7.7
EV / Adj. EBITDA (x)	8.3	5.6	5.6	5.0	4.6
Net debt / equity (x)	-0.8	-0.7	-0.5	-0.4	-0.4

Source: Anand Rathi Research, Company

Parthiv Jhonsa
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Production (m tonnes)	622.6	703.2	773.6	838.0	886.8
Sales (m tonnes)	662.3	695.3	753.5	838.0	886.8
Revenue	1,097	1,383	1,409	1,610	1,755
Growth (%)	21.9	26.0	1.9	14.3	9.0
Adj. EBITDA	**285**	**406**	**407**	**475**	**519**
Adj. EBITDA/tonne (Rs)	**430**	**584**	**540**	**567**	**585**
Adj. EBITDA margins (%)	25.9	29.4	28.9	29.5	29.5
Depreciation	44	47	47	51	58
Other income	39	66	72	63	60
Interest expense	5	7	8	11	13
PBT before excep. items	236	380	387	432	460
PBT after excep. items	236	380	387	432	460
Effective tax	62	99	99	109	116
PAT (before Assoc / (Mino.)	26.4	26.0	25.5	25.2	25.2
+ Associates / (Minorities)	0	0	5	4	4
Reported PAT	174	282	294	327	348
Adj. PAT	174	282	294	327	348
Adj. PAT growth (%)	36.7	62.3	4.2	11.5	6.2

Fig 2 – Balance sheet (Rs bn)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Share capital	62	62	62	62	62
Reserves	370	511	657	821	995
Net worth	431	572	719	883	1,056
Debt	33	41	56	71	81
Minority interest	7	8	8	8	8
DTL / (Assets)	(33)	(28)	(28)	(28)	(28)
Others	749	790	790	790	790
Capital employed	**1,187**	**1,383**	**1,545**	**1,724**	**1,907**
Net tangible assets	427	444	541	634	713
CWIP	127	153	172	192	212
Net exp. / Evac. assets	39	49	88	128	169
Net intangible assets	3	49	46	42	39
Investments	24	31	31	31	31
Other non-current assets	213	263	263	263	263
Current assets (excl. cash)	564	641	653	742	807
Cash (incl. bank / invest.)	365	440	440	393	385
Current liabilities	574	687	689	701	710
Capital deployed	**1,187**	**1,383**	**1,545**	**1,724**	**1,907**

Fig 3 – Cash-flow statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Adj. EBITDA	285	406	407	475	519
+ other Adj.	-	-	-	-	-
- Incr./ (decr.) in WC	174	26	(10)	(77)	(55)
- Taxes	(63)	(97)	(99)	(109)	(116)
Others	15	22	(31)	(39)	(44)
CF from oper. activity	**411**	**357**	**267**	**250**	**303**
- Capex (tang. + intang.)	(120)	(152)	(198)	(200)	(195)
Free cash-flow	291	205	69	50	108
Others	(145)	(82)	72	63	60
CF from invest. activity	**(265)**	**(234)**	**(127)**	**(137)**	**(135)**
- Div. (incl buyback, taxes)	(108)	(143)	(147)	(164)	(174)
+ Debt raised	(26)	8	15	15	10
Others	(1)	(1)	(8)	(11)	(13)
CF from finan. activity	**(134)**	**(137)**	**(140)**	**(160)**	**(177)**
Closing cash (incl. bank)	365	440	440	393	385

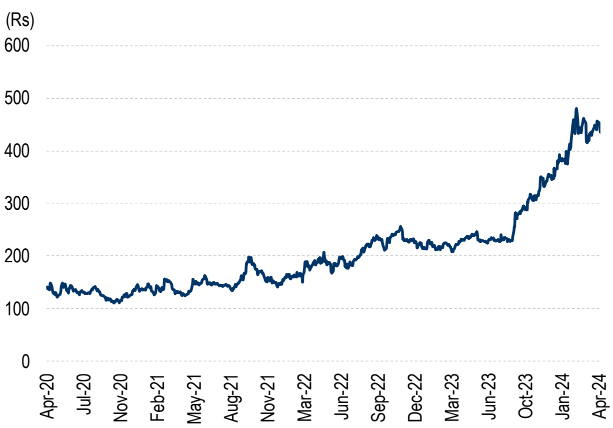
Source: Anand Rathi Research, Company

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
EPS (Rs)	28.2	45.7	47.6	53.1	56.4
BV/S (Rs)	70.0	92.9	116.7	143.2	171.4
P/E (x)	15.4	9.5	9.1	8.2	7.7
EV / Adj. EBITDA (x)	8.3	5.6	5.6	5.0	4.6
P/B (x)	6.2	4.7	3.7	3.0	2.5
RoE (%)	40.2	49.2	40.8	37.1	32.9
DPS (Rs)	17.0	24.3	23.8	26.6	28.2
Dividend payout (%)	60.4	53.1	50.0	50.0	50.0
Net debt / Equity (x)	-0.8	-0.7	-0.5	-0.4	-0.4
WC days	33	33	33	33	33
NSR / tonne (Rs)	1,519	1,835	1,727	1,784	1,842
E-auction premium	34	228	90	63	65
Adj. EBITDA / tonne (Rs)	430	584	540	567	585
Adj. EBITDA margins (%)	25.9	29.4	28.9	29.5	29.5
Net profit margins (%)	15.8	20.4	20.8	20.3	19.8

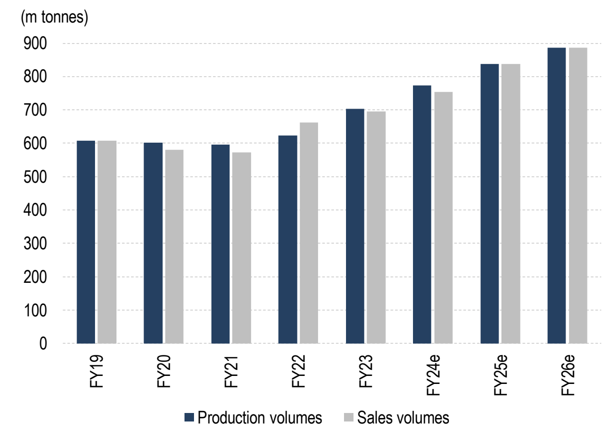
Source: Anand Rathi Research, Company

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Volume momentum to continue



Source: Anand Rathi Research, Company

Volume momentum to continue

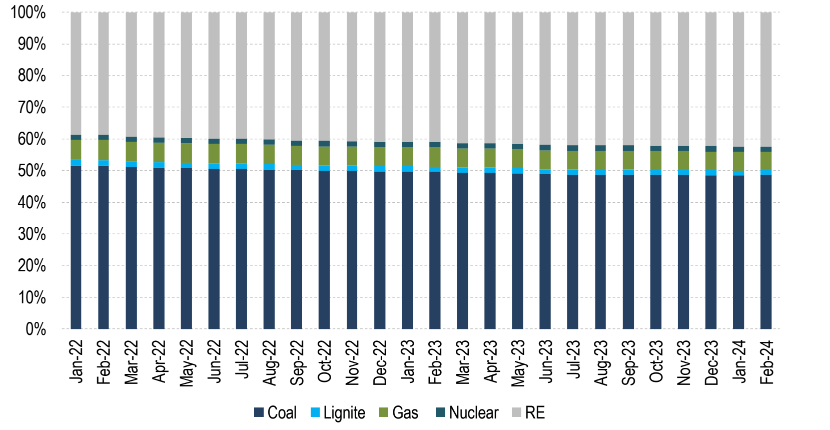
On its way to 1bn tonnes of production over 2-3 years, ensuring energy security for all

The second largest fuel used in primary energy consumption, coal is dominant in Asia-Pacific. The company is prominent on the global energy landscape and accounts for ~78% of domestic coal production and offtake. In FY24, it recorded the highest production (773.6m tonnes) and sales (753.5m tonnes), its second straight year of double-digit production growth since inception, driven by the highest quantum of dispatches to the power sector (618.5m tonnes, up 5.4% y/y). It has set an ambitious target for FY25, of 838m tonnes production and offtake.

As India inches towards a $5trn economy, reliance on power is expected to rise. Since nuclear power capacity is minuscule (1.7%) and considering the challenges faced by RE, dependence on thermal power plants would rise, ensuring 24x7 uninterrupted power.

Coal-based thermal power accounts for 48.6% of installed capacity and the company's dispatches to the power sector were ~82% (incl. to CPPs, ~89%). Non-fossil fuel, despite having a 44% share of installed capacity, generates ~20% of power; coal-based thermal power ~76%. As the company has a significant role in domestic energy, domestic power security directly depends on it.

Fig 7 – Installed capacity, fuel-wise, %



Source: CEA, Anand Rathi Research

As India enters a nation-building phase, electricity is one of the most critical pillars of development. Peak demand is projected to cross 260GW in summer 2024 and, with low generation from hydro (especially in summer) and RE, India will rely heavily on thermal power plants. As heat waves are expected to scorch the nation, coal and lignite-based power plants, which cumulatively make up ~218GW of installed capacity, will continue to be the base load during the peak of the summer, while power plants postpone annual maintenance plans to address mounting power demand.

As India approaches the 2030 Agenda for Sustainable Development, RE is expected to be 50% of installed capacity by FY30. RE, however, is faced with many challenges such as low PLFs, lack of affordable power storage, regional concentration, execution delays, higher finance costs, inconsistent power generation, etc. Thus, dependence on thermal power plants is here to stay, which would ensure long-term power security for India.

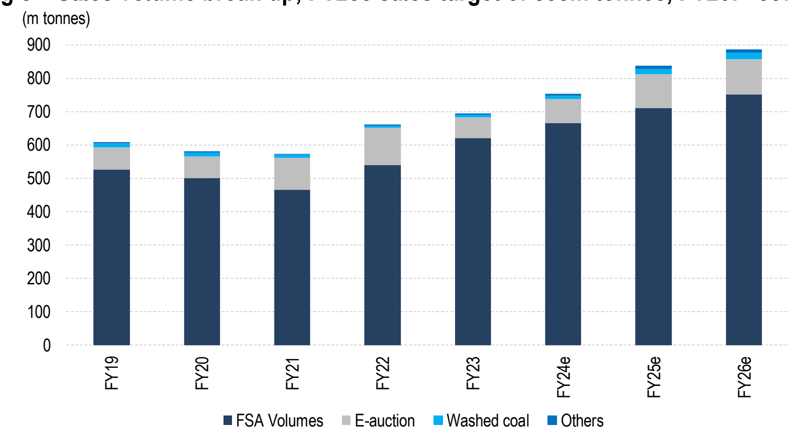
Expect 8.5% sales volume CAGR over FY24-26

As demand for power swells, the company will continue to be a dominant supplier of coal to India, ensuring power security to all. Demand for coal would pick up in line with demand for power and the company is expected to achieve 838m tonnes offtake in FY25 and ~887m in FY26. To meet the rising amounts of coal required by the power sector, the company has entered into a long-term commitment via FSAs and BLC (bridge linkage commitments).

To further reduce dependence on imported coal, the company periodically conducts auctions for the power sector (for short- and long-term linkages) under the SHAKTI policy. It had 578m tonnes of linkages with the power sector along with 30m tonnes of BLCs and 87m tonnes of FSA+BLCs with non-power industries. In FY24, it made the most dispatches to the power sector (618.5m tonnes, up 5.4% y/y, 8.5m tonnes above its committed volumes and, incl. to CPPs, ~669m tonnes).

Robust growth in other verticals (washed coal, e-auctions) would support volume growth. The company is raising its coal-washery capacity by setting up eight coking coal washeries. This would strengthen its position in domestic coking coal. Similarly, more dispatches via e-auction would boost volume growth.

Fig 8 – Sales volume break-up; FY25e sales target of 838m tonnes, FY26: ~887m



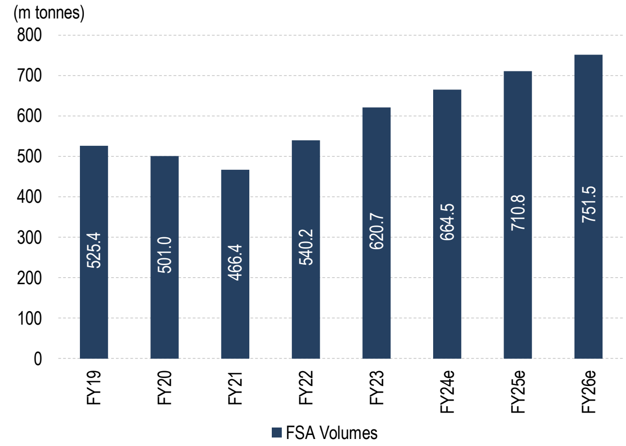
Source: Company, Anand Rathi Research

FSA to drive volume growth

Of its dispatches, ~89% is to the power sector (incl. CPPs). Per the CEA, 5.4GW of thermal power capacity was added over Apr'23-Feb'24. Further, 29.4GW of thermal power capacity additions are at various stages, expected to come on stream by Nov'28 (of which ~11.5GW is expected to be commissioned by Dec'24). Anticipated to come on stream by FY32 are a further 59GW of thermal power (over and above the 29.4GW).

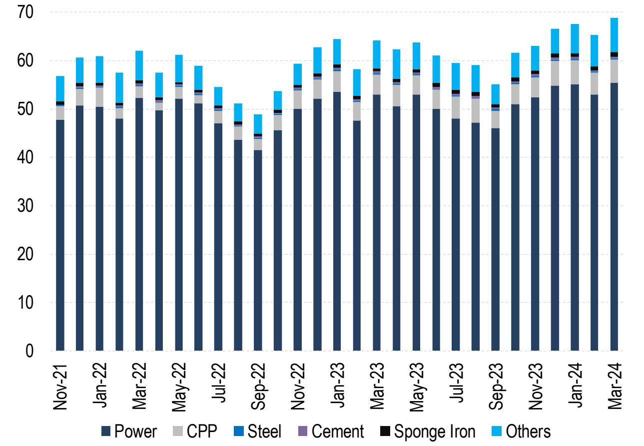
Demand for power is expected to grow in tandem with the GDP over the next few years (~7-9%) and, considering the dominance of thermal power plants, demand for coal is expected to increase in coming years. We expect FSA volumes to cross 750m tonnes by FY26.

Fig 8 – FY26 FSA volumes expected to cross 750m tonnes



Source: Company, Anand Rathi Research

Fig 9 – ~89% of volumes go to the power sector (incl. CPPs)

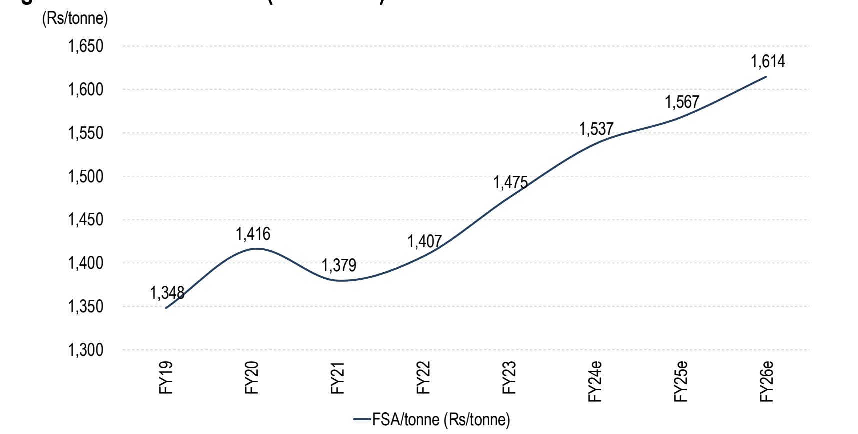


Source: Company, Anand Rathi Research

FSA realisation expected to improve

In May'23, the company hiked prices by 8% of high- and medium-grade G2-G10 non-coking coal (~25-27% of total volumes). This first major price hike since Jan'18 is expected to increase the FY24 FSA ASP by ~Rs62 a tonne. We believe that, besides the increase in FSA prices, the improved grade mix and more dispatches to the power sector (which led to a higher performance incentive) will contribute to better realisations. We expect the FSA ASP to gradually improve to Rs1,614 a tonne by FY26.

Fig 10 – FSA realisations (Rs / tonne)



Source: Company, Anand Rathi Research

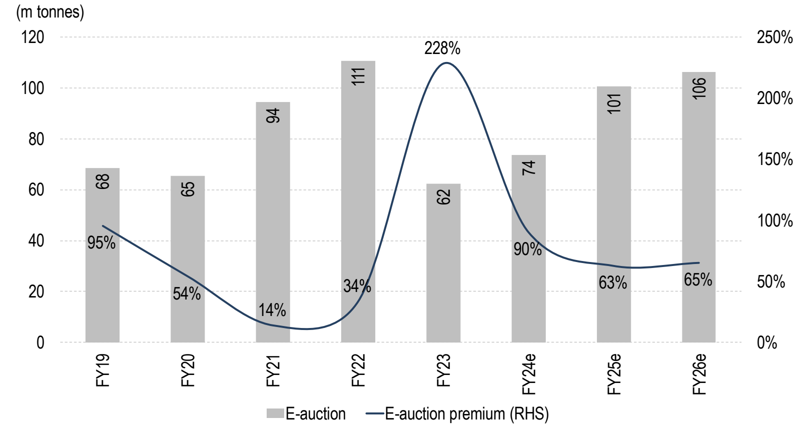
E-auction to continue elevated

In the past the company sold ~12% of its production at auction-determined prices (e-auction volumes across two metal cycles over FY10-FY23 were ~12.8%; excl FY23 ~13.1%). Over Apr'23–Feb'24, it sold ~66m tonnes at e-auctions, and expects to sell via e-auctions ~74m/101m/106m tonnes in FY24/FY25/ FY26.

E-auction volumes which were ~8.5% of 9M FY24 volumes rose to ~12% in Jan'24 and ~16% in Feb'24. As the company has started undertaking frequent and higher linkages for the non-power sector (7th tranche going on), e-auction premiums, which were a function of international price movements (~NAR 4,200 grade), have now started moving away from global coal prices.

We believe e-auction premiums would hold above 60%, in line with the past ~55-70% average (e-auction premiums across two metal cycles over FY10-FY23 were ~71%; excl. FY23 ~60%).

Fig 11 – E-auction volumes (m tonnes) and premiums (%)



Source: Company, Anand Rathi Research

Record capex

Higher capex spends to drive performance

In the last three years the company has been spending insistently on capex (FY21-FY23 cumulatively >Rs473bn; it had raised capex spending to ~105%/~112% of FY22/FY23 targets). This is the third consecutive year it has surpassed its budgeted capex target, further boosting growth. It breached its yearly capex of Rs165bn by 120% in FY24.

It has been relentlessly investing in land, increasing railway capacity, undertaking first-mile connectivity (FMC) projects, setting up washeries, etc., which would eventually help it produce 1bn tonnes over the next 2-3 years.

It spent 30.6% (Rs60.7bn) of its FY24 capex to enhance coal transportation and handling infrastructure, Rs51.35bn to land acquisition, Rs.30.78bn to procuring heavy earth-moving machines, the rest on solar projects, coal washeries, mine developments, etc.

The amount of capex is directly linked to the increase in production. The annual capex which hovered around Rs60bn-75bn (FY19-FY20) suddenly shot up, more than doubling after FY21, which led to production increasing by 177m tonnes over FY21-FY24. It took the company almost 12 years to increase production by 167m tonnes from 430m in FY10 to 596m in FY21 and only four years from there to 774m tonnes.

Added coal projects

In FY23, the company approved 24 coal mining projects of 140.3m tonnes and added capacity of 58.98m tonnes; in 9M FY24 it approved five mining projects of 60.04m tonnes and added capacity of 33.24m tonnes.

In FY23, it secured environmental clearance for 40 proposals with further capacity of 87.3m tonnes. Another 14 proposals were secured in 9M FY24 with added capacity of ~9.9m tonnes.

For efficient operationalisation of the greenfield projects, it company has engaged with the MDO for 30 projects in two phases of 274m tpa. The involvement of private miners in the coal sector is expected to improve efficiency and productivity.

Enhancing the railway infrastructure

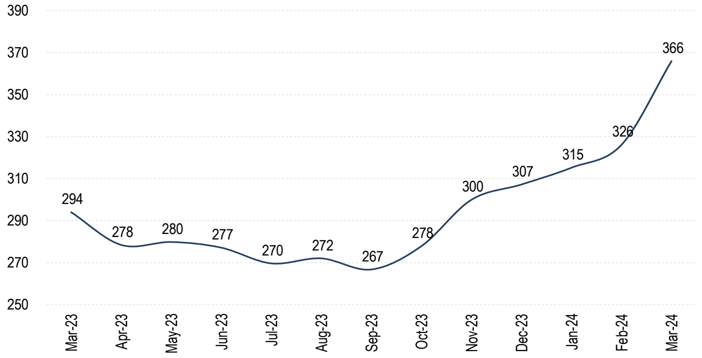
The company has sharpened its focus on capacity building and developing an action plan to strengthen and increase railway connectivity. This ensures seamless evacuation of coal mined. The infrastructure is being built on a 'deposit basis' and forming SPVs with state governments and railway PSUs.

Under the recently launched Coal Logistics Policy by the Ministry of Coal, the company has planned to address the issue of logistics by constructing railway infrastructure, FMC projects and increasing railway connectivity. This planned infrastructure will help it strategically shift towards the railways, which is in line with its long-term production projections. This will ensure timely available coal amidst rising demand.

The company has consistently increased dispatches via rakes, which rose from 294 rakes/day in Mar'23 to 366 in Mar'24. In Dec'19, it commissioned a 65m-tonne 44.37km Tori-Shivpur new broad gauge (BG) double line; in Apr'18, the 35m-tonne 52.41km Jharsuguda-Barpali-Sardega new BG line; in May'21, the Lingaraj silo with the Deulbeda siding at the Talcher

Coalfields; in Nov'22, the 15m-tonne 14.22km Angul-Balram rail link. Besides it has partly commissioned Chhattisgarh East Rail's East Rail Corridor. It is also undertaking many projects, now being constructed and enhancing already-established connectivity.

Fig 12 – Average rake movement per day



Source: Ministry of Coal, Anand Rathi Research

Fig 13 – Railway connectivity for coal evacuation

Line	Km	Capacity	Completion	Progress
Tori-Shivpur new BG double line	44.37	65m tonnes	Dec'19	Third line to take capacity to 100m tonnes
Jharsuguda-Barpali-Sardega new BG line	52.41	35m tonnes	Apr'18	Doubling lines from Barpali to Sardega to increase capacity to 65m tonnes
Lingaraj silo			May'21	
MCRL - Angul-Balram	14.22	15m tonnes	Nov'22	
CERL - East Rail Corridor	99.95	65m tonnes	May / Jun'23	24.75km pending (tentative completion Dec'24)
CERL Phase- II				Land acquisition and forest clearance in advanced stage
CEWRL – East-West Rail Corridor		65m tonnes		60% work completed, tentative completion Dec'24
Shivpur-Kathautia rail connectivity		25m tonnes		42% work completed, tentative completion Jun'25

Source: Company, Anand Rathi Research

FMC projects

The company via its flagship FMC projects has identified various projects to mechanize coal transport and loading systems and reduce dependence on road transport. FMC projects involve installing conveyor belts to transport coal from pitheads to loading stations, where an RLS loads coal onto rakes. The company has already implemented nine projects and identified a further 66 under FMC at Rs277.5bn outlay. Once completed, these projects would increase mechanized evacuation from 151m tonnes to 988.5m by FY30.

Implementing FMCs would improve coal quality and reduce loading/ unloading costs in tandem with higher projected sales volumes.

Fig 14 – FMC projects

Phase	Projects	Capacity, m tonnes	Capex, Rs bn	Status	Target completion
I	35	414.5	107.5	Nine projects (127m tonnes)	FY25
II	9	57	25	Work started on five projects (21.5m tonnes); tenders for two projects being finalised (13m tonnes)	FY26
III	17	292	115	Three projects being finalised	FY29
IV	14	74	30	Tendering for one project in process	FY30

Source: Company, Anand Rathi Research

Cost-saving initiatives

Closing unviable mines, reducing manpower to yield better results

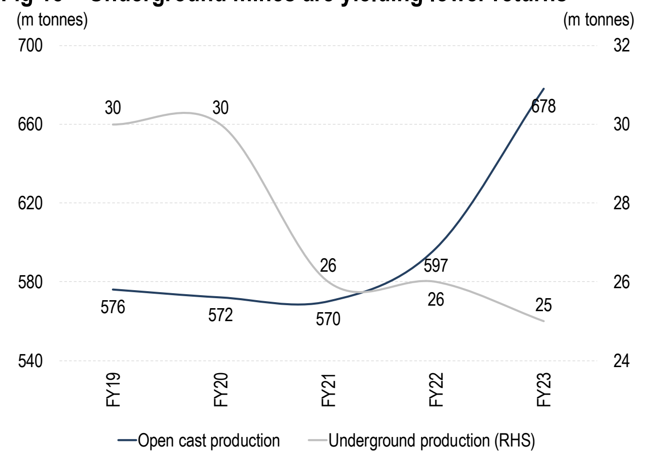
From a long-term growth prospect, viable and efficient mines are crucial for the company's financial stability and operational efficiency. Closing unviable UG mines with poorer coal quality not only reduces financial losses but also raises employee productivity and contributes to environmental sustainability.

The company has ~138 UG mines, employing 37.6% of its workforce but accounting for a meagre 3.6% of production, yielding only 1.05 tonnes per manshift (as against 22.04 tonnes per manshift for opencast mines). It has taken steps to shut these unviable mines, suspending 18 since FY21.

In recent years, it has shifted focus towards surface miners in opencast mines, which yield consistent coal output, while carefully monitoring quality. Surface miners are utilised to enhance the production of 100mm coal.

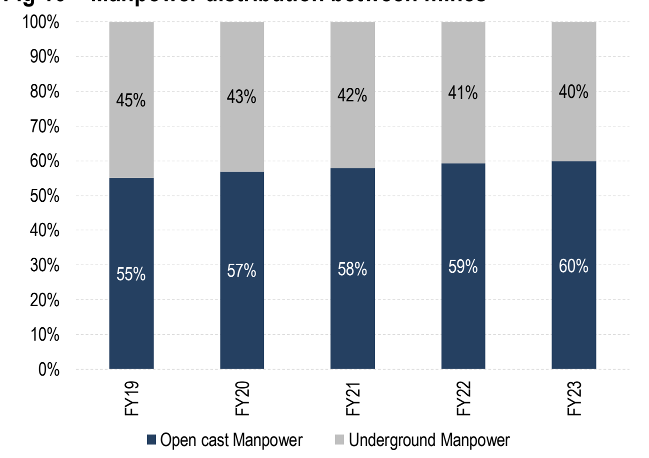
In 9M FY24, it produced 513m tonnes via open-cast mines (~96.5% of production) and the contribution from surface miners (298m tonnes) rose to 58.1%, against 55.7% in FY23, 52.4% in FY22 and 49.1% in FY21.

Fig 15 – Underground mines are yielding lower returns



Source: Company, Anand Rathi Research

Fig 16 – Manpower distribution between mines

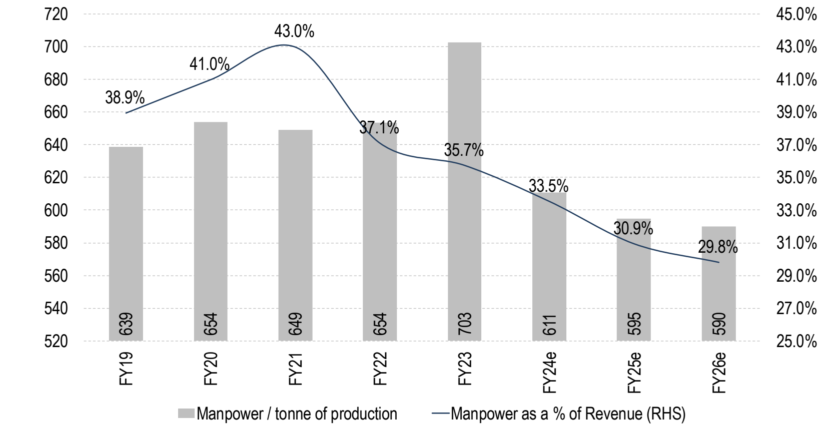


Source: Company, Anand Rathi Research

The company has taken prudent steps to reduce manpower (one of its largest expenses, 33-35% of revenue) by 5% yearly over the next 5-10 years. Since FY19, it has reduced manpower ~19% (~54,421 employees) and is likely to reduce it further to 205,000 by FY26 from 231,058 now. Last year it concluded a National Coal Wage Agreement XI for salaries and wages to non-executives; with the next non-executives wage hikes scheduled for FY26 and for executives in FY27, employee cost would decline in the next couple of years.

Employee cost for FY24 is expected to be ~33.5% of revenue and ~29.8% by FY26. Employee cost per tonne of production is expected to shrink from Rs611 in FY24 to Rs595 in FY25 and Rs590 in FY26. Increasing volumes, stable e-auction premiums, improved logistics, closing unviable mines and reducing employee costs will help expand the company's adj. EBITDA margins (FY26 expected: 29.5%), surpassing the previous five-year average.

Fig 17 – Employee cost to shrink



Source: Company, Anand Rathi Research

Fig 18 – Subsidiary-wise employee expense, productivity

Subsidiary	Manpower *	Production (m tonnes)	FY24 productivity (manpower / tonne)
ECL	49,317	47.6	965
BCCL	34,582	41.1	1,188
CCL	34,230	85.9	2,509
NCL	13,641	136.1	9,977
WCL	33,422	69.0	2,065
SECL	40,195	187.3	4,660
MCL	21,652	206.1	9,519
NEC	595	0.2	353
Others (incl. HQ)	3,424		
Total	**231,058**	**773.6**	**3,348**

Source: Company, Anand Rathi Research ** in Jan'24*

Subsidiaries such as NCL and MCL, which have the least exposure to UG mines, enjoy the lowest manpower and the highest productivity.

One of the lowest in productivity is ECL, whose UG mines comprise ~22% of its production.

With the company's strong focus on reducing employee costs and higher production volumes, productivity has improved from 2,126 tonnes per person in FY19 to 3,348 tonnes in FY24.

Domestic power sector at a glance

Nearly 89% of Coal India's production is sold to the power sector (incl. CPP). In Feb'24, India had 434.19GW installed capacity (fossil power plants 56%, non-fossil 44%). Coal-based thermal power plants' installed capacity is 48.6%, followed by RE (incl. hydro) at 42.3%, with the rest coming from nuclear, lignite, gas and diesel.

Despite non-fossil fuels contributing 44% of installed capacity, they generate ~20% of electricity, while coal-based thermal power plants contribute ~76%. Since FY22, thermal power generation has grown rapidly, 7.96% in FY22, 8.21% in FY23 and 9.96% over Apr'23–Feb'24. Where growth in RE generation has been volatile over the years, thermal power generation has grown steadily.

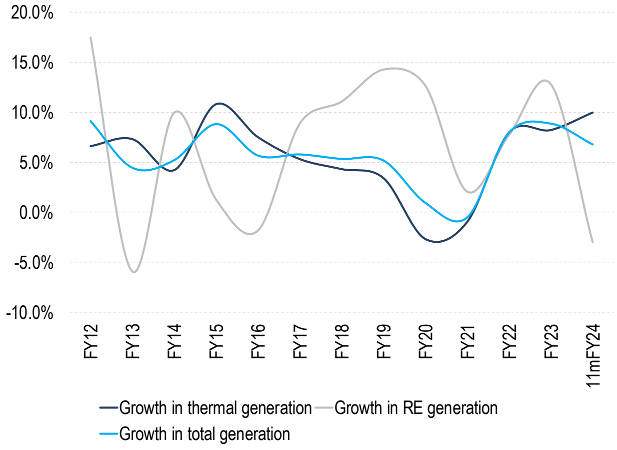
Peak power demand touched a high 243.2GW in FY24 and is expected to surpass 260GW in summer 2024. With low generation from hydro and RE, India will continue to rely heavily on coal-based power plants. To meet swelling power demand amid this summer's heat, the government has mandated coal-based power plants to operate at full capacity and has extended the 6% blending of imported coal now till Sep'24.

Power required in India from Apr'23 till Feb'24 was 1,487BU with 99.7% availability. The '24x7 - Power-for-All' joint initiative by the GoI and state governments, which aims at providing continuous round-the-clock power to all households, industry, commercial businesses, agriculture, etc., is now fructifying, the power deficit shrinking from 10.1% in FY10 to 0.3% in Feb'24, and the peak deficit from 12.7% to 1.4%.

According to the CEA, 5.4GW of thermal power capacity was added over Apr'23-Feb'24. Further, 29.4GW of thermal power capacity additions are at various stages, expected to come on stream by Nov'28 (of which ~11.5GW is expected to be commissioned by Dec'24). Anticipated to come on stream by FY32 are an additional 59GW thermal power capacities (over and above 29.4GW).

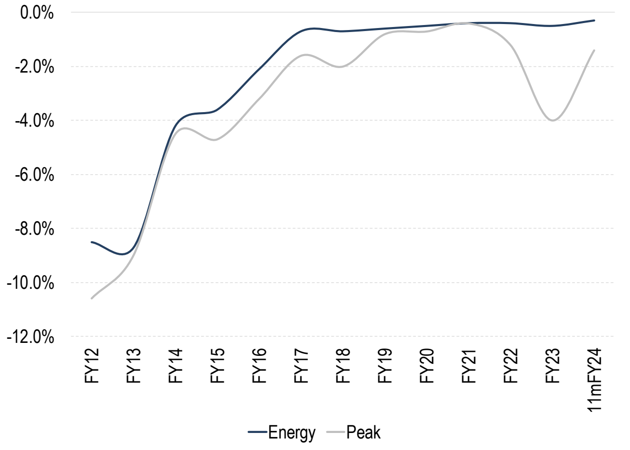
Similarly, the share of RE is expected to reach 50% of installed capacity by FY30, though it is faced with many challenges (low PLF, lack of affordable power storage, regional concentration, execution delays, higher finance costs, inconsistent power generation, etc.). Thus, dependence on thermal power plants would ensure long-term power security to India.

Fig 19 – Growth in power generation (%)



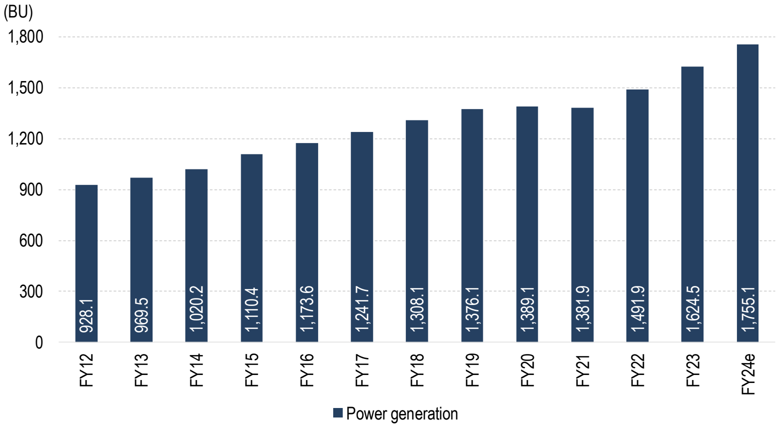
Source: Ministry of Power, Anand Rathi Research

Fig 20 – Power supply position (power and peak power deficit)



Source: Ministry of Power, CEA, Anand Rathi Research

Fig 21 – All-India power generation (BU)



Source: Ministry of Power, Ministry of Coal, CEA, Anand Rathi Research

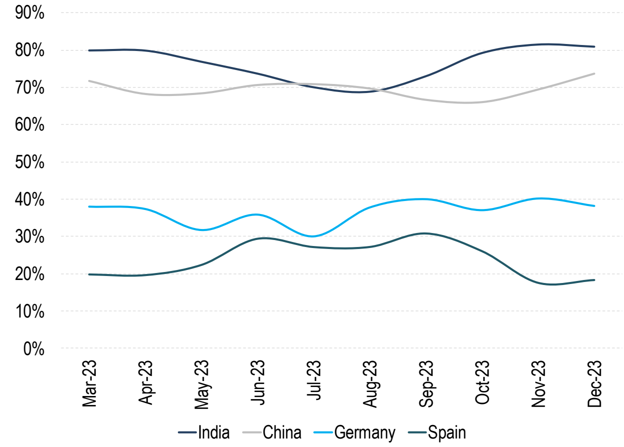
Global overview

As with consumption of other natural resources, China leads, and is the largest electricity-generating country, with fossil fuel used in ~74% of electricity generated. Iceland, however, has the highest per capita consumption of electricity (53.9MW-hrs per person – data of 2022). In Europe and America per capita consumption is higher than in Asia. Most European countries have a greater share of RE whereas fossil fuel, especially coal-based power generation is prominent in countries such as India and China. The USA with ~4-6% of the global population consumes as much as 16% of the world's energy.

Space heating consumes ~31% of electricity, the highest in the non-commercial use segment.

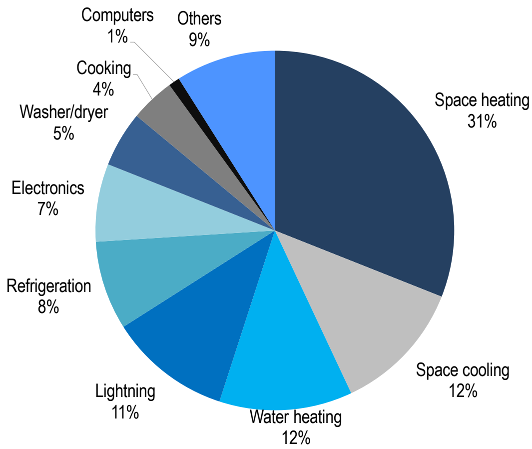
As India enters the nation building phase and inches towards a $5trn economy, per capita consumption of energy is expected to grow in tandem with GDP and is expected to increase from ~1.255mWh. As India's per capita electricity consumption increases from its level now to those of Brazil (~2.6mWh), South Africa (~4mWh), China (~5.2mWh), Italy (~5.2mWh), etc., huge opportunities arise for the power sector in India. With coal dominant in the energy sector, the company will continue to gain from the ever increasing demand for power.

Fig 22 – Share of fossil fuel in total generation (%)



Source: Company, Ministry of Power, Bloomberg, Anand Rathi Research

Fig 23 – Share of non-commercial use of power (%)



Source: Industry, Anand Rathi Research

Domestic coal sector at a glance

After China, India is the second largest coal consuming country with a geological R&R of over 361bn tonnes. It requires ~1,235m-1,240m tonnes of thermal and coking coal, of which the share of thermal coal is 89-90%.

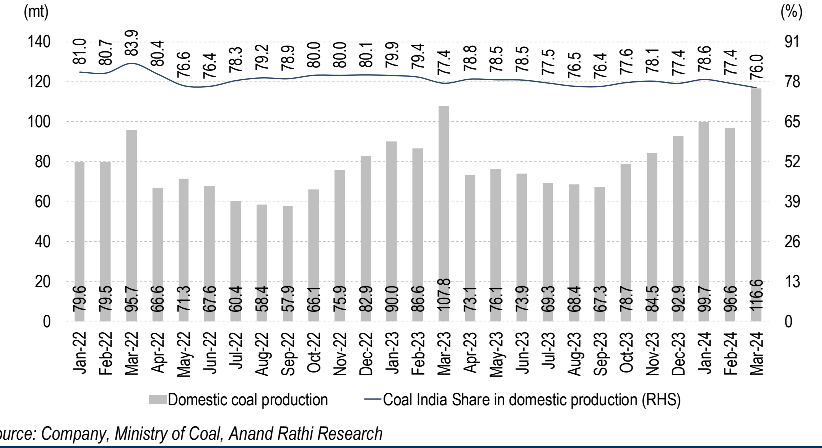
Predominantly a thermal coal-producing country, India requires ~1,115m tonnes of thermal coal. The power sector (incl. CPP) accounts for ~88-89% of the total required. In FY24, India produced ~930m tonnes of thermal coal; the rest was imported. Similarly, India produced ~66m tonnes of coking coal in FY24 and imported 57.9m tonnes.

After cancelling 204 coal mines in 2014, significant reforms were introduced, bringing transparency to coal auctions. The Ministry of Coal adopted a two-stage auction mechanism, ensuring transparency and curbing cartels, helping unlock vast opportunities in the coal sector. Since FY20 over 90 coal blocks were auctioned via numerous rounds. Though this has been a tremendous success, of the mines auctioned post-2020, nine have received all permissions while five have commenced production.

Even if other coal blocks come on stream and fast-track operations, they would first replace imported coal (expected to shrink by 30-35m tonnes in the next two years). Hence, the company would not be faced with significant competition on these mines being commercialised in the near- to mid-term.

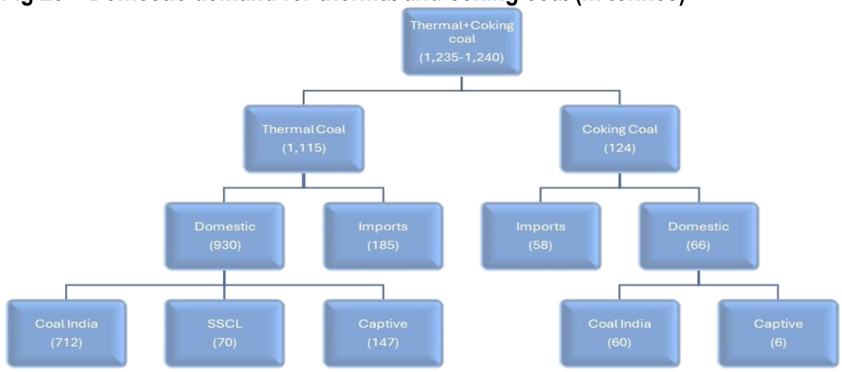
Thermal coal consumption is expected to rise to ~1,135m-1,150m tonnes in FY25. With more mines coming on stream, however, the share of imports is expected to be ~160m-165m tonnes.

Fig 24 – Domestic production, Coal India's share



Source: Company, Ministry of Coal, Anand Rathi Research

Fig 25 – Domestic demand for thermal and coking coal (m tonnes)

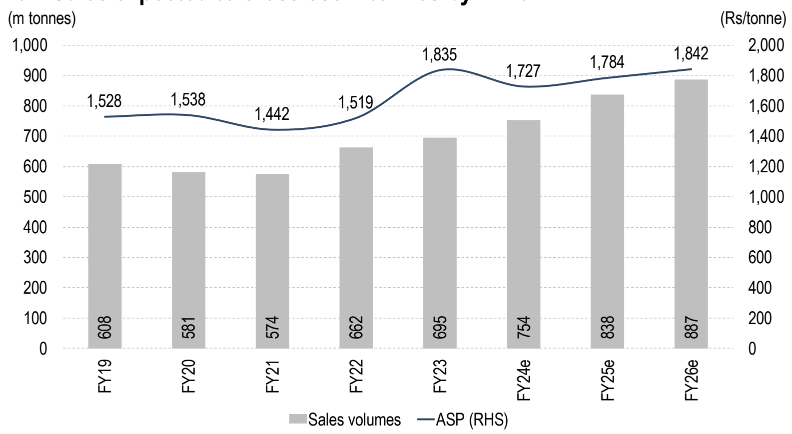


Source: Industry, Anand Rathi Research

Financial analysis

We estimate an 8.5% volume CAGR over FY24-26; ASP is envisaged to regain the Rs1,800 mark by FY26

Fig 26 – Sales expected to cross 885m tonnes by FY26

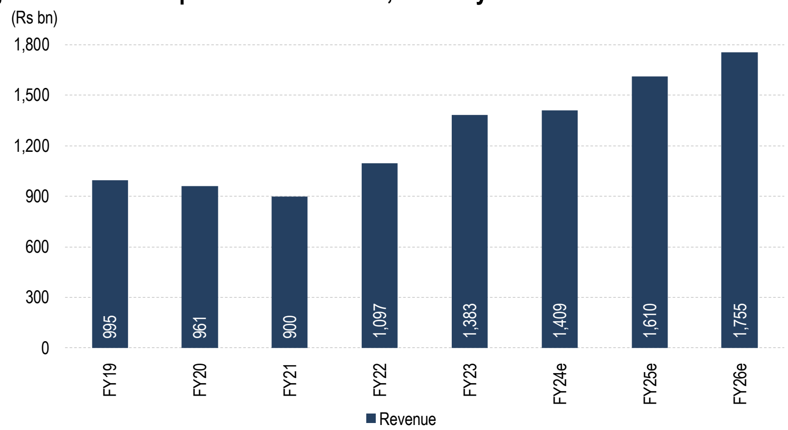


Source: Company, Anand Rathi Research

We estimate an 11.5% revenue CAGR over FY24-26

In line with the pick-up in volumes and better ASP, revenue is expected to rise from an estimated Rs1,409bn in FY24 to Rs1,755bn in FY26. The increase in sales is a function of 8.5% volume CAGR and 3% realisation growth. All the company's business verticals are expected to grow, driven by the focus on increasing coal output, cost reductions, setting up washeries and increasing the share of FSA and e-auction volumes.

Fig 27 – Revenue expected to cross Rs1,755bn by FY26

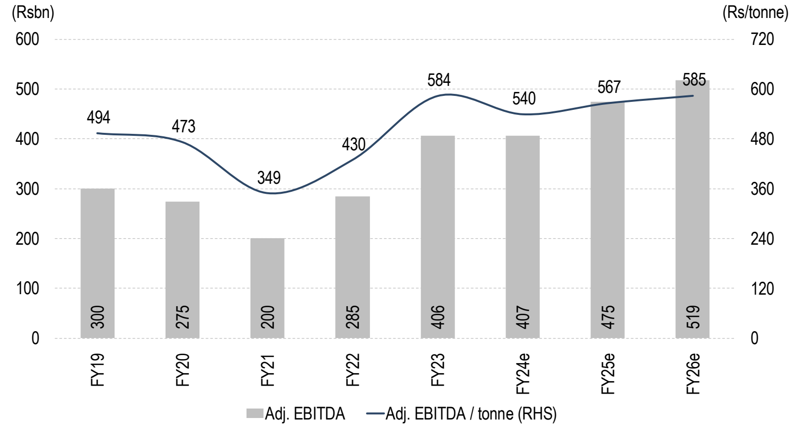


Source: Company, Anand Rathi Research

We estimate a 13% EBITDA CAGR over FY24-26

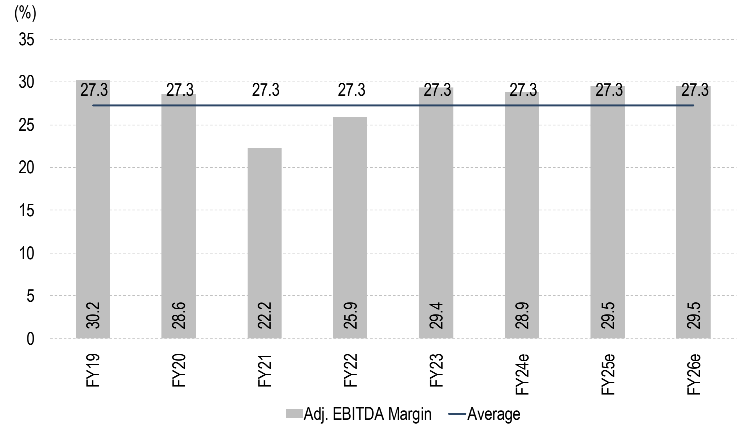
More volumes (production and sales), stable e-auction premiums, improved logistics, unviable mines closed and reduced employee costs would help improve adj. EBITDA margins, expected at 29.5% in FY26 and surpassing the previous five-year average.

Fig 28 – Adj. EBITDA / tonne to reach FY23 levels



Source: Company, Anand Rathi Research

Fig 29 – Adj. EBITDA margin to surpass previous five-year average

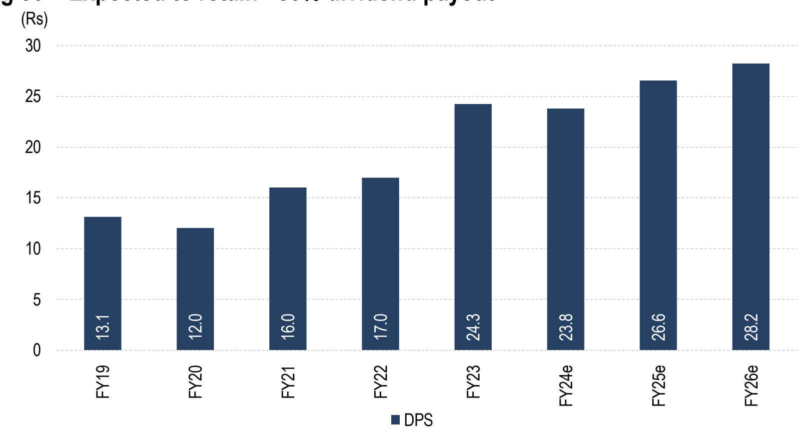


Source: Company, Anand Rathi Research

Prudent dividend policy

In the past, the company has maintained a prudent and investor-friendly dividend policy, payout over FY19-FY23 averaging Rs16.5/sh. For FY24, it has already declared Rs20.5 interim dividend and is expected to pay out ~50% as dividend.

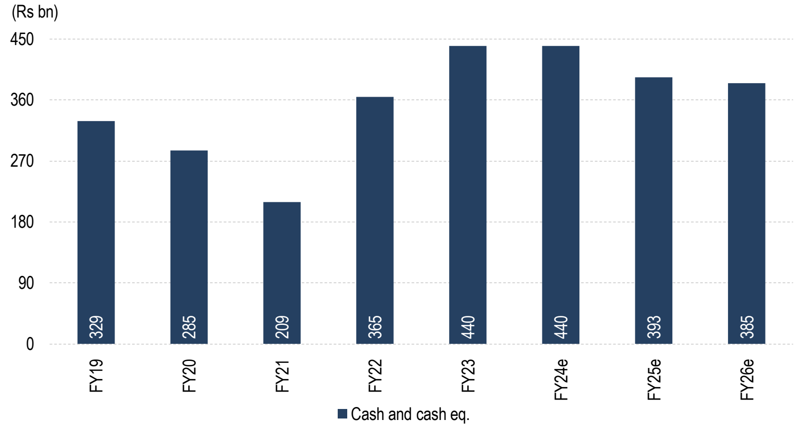
Fig 30 – Expected to retain ~50% dividend payout



Source: Company, Anand Rathi Research

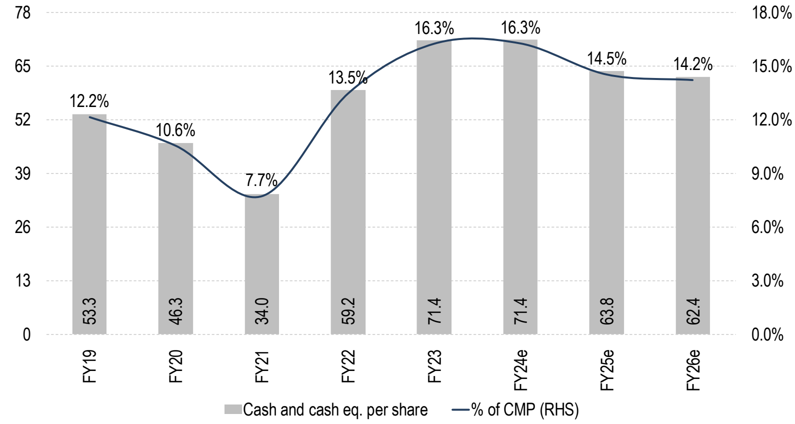
Continues to be cash-rich

Fig 31 – Huge cash and cash equivalents (Rs bn) to continue



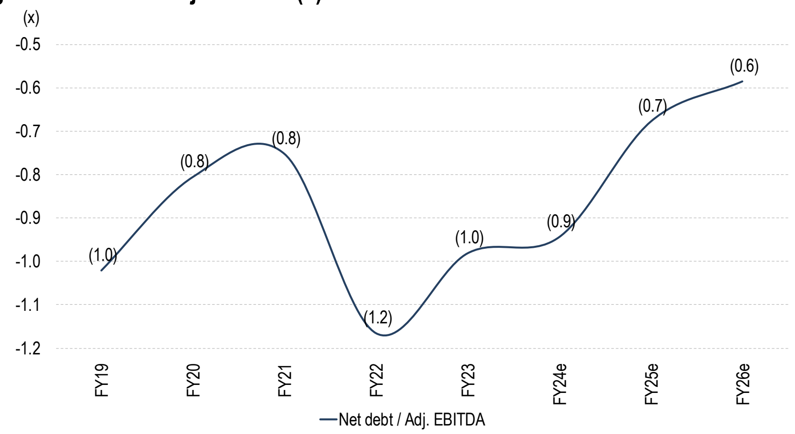
Source: Company, Anand Rathi Research

Fig 32 – Cash and cash equivalents to CMP



Source: Company, Anand Rathi Research

Fig 33 – Net debt / adj. EBITDA (x)



Source: Company, Anand Rathi Research

Sensitivity analysis

We have worked out sensitivity to change in volumes (excl. e-auctions) and change in e-auction premiums based on our FY26e.

Fig 34 – Change in FY26e adj. EBITDA to change in volume and auction premiums

Rs bn		E-auction premium movement (%)				
		-5	-2.5	0	2.5	5
Change in volumes (m tonnes)	-50	463	467	471	475	480
	-25	486	491	495	499	503
	0	510	514	519	523	527
	25	534	538	542	547	551
	50	557	562	566	570	575

Source: Anand Rathi Research

Fig 35 – Change in FY26e adj. EBITDA (%) to change in volume and auction premiums

% change		E-auction premium movement (%)				
		-5	-2.5	0	2.5	5
Change in volumes (m tonnes)	-50	(10.8)	(10.0)	(9.1)	(8.3)	(7.5)
	-25	(6.2)	(5.4)	(4.6)	(3.7)	(2.9)
	0	(1.7)	(0.8)	-	0.8	1.7
	25	2.9	3.7	4.6	5.4	6.2
	50	7.5	8.3	9.1	10.0	10.8

Source: Anand Rathi Research

Fig 36 – Change in TP to change in volume and auction premiums

TP change, Rs		E-auction premium movement (%)				
		-5	-2.5	0	2.5	5
Change in volumes (m tonnes)	-50	470	470	480	480	480
	-25	490	490	500	500	500
	0	510	510	520	520	520
	25	530	530	540	540	540
	50	550	550	560	560	560

Source: Anand Rathi Research ** TP rounded off to nearest 10's*

Valuations

Considering all these positive triggers, we have built in an 11.5% revenue CAGR over FY24-26, driven by the volume ramp-up from FSA and e-auctions, and better realisations. Further, in line with various cost-saving measures and RM linkages, we expect a 13% EBITDA CAGR, running ahead of revenue growth. We estimate EBITDA/tonne of Rs585 (similar to that of FY23).

On greater volumes, stable e-auction premiums, improved logistics, closed unviable mines, fewer employees and growth in power demand, we value the company at 5.5x FY26e EV/EBITDA, below the long-term average. Our TP works out to Rs.520.

Fig 38 – TP of Rs 520

YE Mar	UoM	FY26e
Adj. EBITDA	Rs bn	519
Target EV / EBITDA	x	5.5
Target EV	**Rs bn**	**2,878**
Net debt	Rs bn	-304
Equity value	**Rs bn**	**3,182**
No. of shares o/s	bn	6
Target price	**Rs / sh**	**520**

Source: Anand Rathi Research

Risks

- Pressure from international bodies on environment (part of ESG)
- Impact from commercial mining

About the company

Established in 1975, Coal India is the largest pure-play coal producer globally and a Maharatna, with seven subsidiaries and a Central Mine Planning & Design Institute.

Fig 37 – Subsidiaries

Source: Company

Most of its operations are in high, medium and moderate grade non-coking coal with GCV of 4,000-5,800 k.cal/kg. ~46% of its production is of medium grade non-coking coal, the G11 grade alone comprising ~29%.

India's largest coal producer, the company accounts for ~78% of domestic coal production and offtake. In FY24 it registered its highest volumes, marking the second consecutive year of double-digit growth since inception. MCL (~206m tonnes production) become the first Indian entity to cross 200m tonnes of production and four subsidiaries (CCL, NCL, WCL, MCL) crossed 100% of their annual production targets.

As part of its long-term growth strategy, the company is moving to other verticals (chemicals, fertilisers) under its 'coal-to-chemicals' diversification. It is setting up natural gas-based fertiliser plants of HURL at Gorakhpur, Sindri and Barauni in JVs with respectively NTPC, IOC and FCI/HFC. Of the three facilities, the Gorakhpur unit has commenced production. It is also setting up a coal-based fertiliser plant of TFL at Talcher, in a JV with GAIL, RCF and FCIL.

Expected to commence operations by FY25, TFL is set to be a landmark project which would lay the foundation for coal-gasification in India. A work order of Rs115bn has been awarded to set up a coal-gasification plant and an ammonia-urea plant on a lump-sum turnkey basis. Besides, the company has identified three surface coal-gasification projects at ECL, SECL and MCL.

Further, it plans to diversify into thermal power by setting up various plants (~2,260MW cumulative). An EPC tender has been floated for a 1x660MW thermal plant at Amarkantak (bid date in Apr'24).

The company is also enhancing its current coal-washery capacity (14 washeries of 29.9m-tonne capacity), by setting up eight new coking coal washeries (cumulative capacity: 21.5m tonnes). The 10m-tonne Ib Valley non-coking coal washery has already been constructed and further benefits are expected from FY25.

As a step to addressing ESG, the company is diversifying and setting up solar projects of 3GW (with an additional 2GW) by FY26. Work has been awarded to execute 379MW SPV solar projects across subsidiaries. As the company is a producer and not a user of coal, it expects to be 'net zero' by reducing emissions through mechanised evacuation, reducing energy and water, clean-coal technologies, RE, etc.

Appendix

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