

Coal India | BUY



Meeting expectations; Bright prospects ahead

Coal India (CIL) reported consolidated net revenue of INR 328bn (+10% YoY, -9% QoQ), -3% JMFe. Adj EBITDA (ex-OBR) came in at INR 88bn (11% YoY, -11% JMFe) due to lower than expected volume (16 MT/20 MT actual/JMFe) & realization (INR 2,838/3,300 per MT actual/JMFe) in e-auctions. Adj PAT stood at INR 76bn (+12% YoY, -12% QoQ), -3% JMFe. India is clocking all-time high peak power/energy demand growth (12.7%/8.6% YoY growth during Apr-Oct'23) and increasing incidences of power shortages, the demand for coal continues to remain robust which is supported by growth momentum in production (YTD FY24, +11% YoY), we estimate CIL to report 781/859/936MT of production during FY24E/25E/26E. With consistent growth in production and consolidation in international coal prices, we reiterate our BUY rating on the stock with a TP of INR 360 (earlier INR 320).

- Operational highlights:** Blended realisation shrank by 3% YoY to INR 1,723/t largely on account of a 53% decline in e-auction realisation (INR 2,838/t) but partially offset by 9% YoY growth in FSA realisation (INR 1,542/t). CIL sold 155MT under FSA (vs. 142MT in 2QFY23) and 16 MT in e-auctions (vs. 10MT in 2QFY23). Progressively, CIL's production has soared to 354MTs till Sep'23 and the company looks well placed to achieve its target of 780MT production for FY24 vs. 703MT achieved in FY23.
- Power demand remains strong:** The peak/energy power demand recorded 12.7%/8.6% YoY growth during Apr-Oct'23. The all-India peak demand touched 240 GW on 1st Sep'23 breaching the previous high of 237/223 GW in Aug'23/Jun'23. Increasing total energy shortage particularly during non-solar hours (6-9 GW in Aug'23) is leading to a renewed focus on coal-fired power generation. With 26.7 GW of thermal power capacity under construction, 25 GW of projects under various stages of tendering, and another 30 GW under planning, we expect the demand for coal for power generation to consistently grow over the next decade.
- Production to sustain growth:** Coal India supplied 587 MT of coal to the power sector during FY23 and is targeting an off-take of 610 MT in FY24. We estimate CIL to report 781/859/936 MT of production against the internal targets of 780/840/1,000 MT for FY24E/25E/26E respectively. With recent initiatives such as Mine Developer and Operator (MDO) along with increasing power demand and the government's renewed focus on higher thermal capacity additions, we expect CIL's production to steadily increase and sustain the growth momentum in alignment with power demand.
- International coal prices stabilising:** The e-auction prices have softened since 2QFY23 (INR 2,838/ton in 2QFY24 from a high of INR 6,064/ton in 2QFY23) due to moderation in international coal prices. Currently, Indonesia coal prices (5,900 GAR), which have corrected sharply (USD 218/ton in Mar'22 to USD 88/ton in Aug'23) are consolidating (USD 88-90/ton) and are expected to remain range-bound. So, we believe that e-auction prices will appreciate as envisaged in ['King Coal' is coming back](#) and leading incremental improvement in margins.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	360
Upside/(Downside)	11.5%
Previous Price Target	320
Change	13%

Key Data – COAL IN

Current Market Price	INR323
Market cap (bn)	INR1,993.0/US\$23.9
Free Float	26%
Shares in issue (mn)	6,162.7
Diluted share (mn)	6,162.7
3-mon avg daily val (mn)	INR3,355.0/US\$40.3
52-week range	326/208
Sensex/Nifty	64,905/19,425
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	6.6	36.7	27.5
Relative*	8.6	30.5	19.1

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	10,97,135	13,82,519	13,51,084	14,71,768	15,90,223
Sales Growth (%)	21.9	26.0	-2.3	8.9	8.0
EBITDA	2,48,748	3,73,854	3,19,574	3,71,037	4,18,658
EBITDA Margin (%)	22.7	27.0	23.7	25.2	26.3
Adjusted Net Profit	1,75,628	2,86,925	2,30,782	2,58,488	2,83,653
Diluted EPS (INR)	28.5	46.6	37.4	41.9	46.0
Diluted EPS Growth (%)	28.0	63.4	-19.6	12.0	9.7
ROIC (%)	102.9	209.0	96.8	72.9	61.0
ROE (%)	44.1	57.2	36.7	34.2	31.1
P/E (x)	11.3	6.9	8.6	7.7	7.0
P/B (x)	4.6	3.5	2.9	2.4	2.0
EV/EBITDA (x)	6.6	4.2	4.9	4.1	3.5
Dividend Yield (%)	5.3	7.5	5.9	5.9	5.9

Source: Company data, JM Financial. Note: Valuations as of 10/Nov/2023

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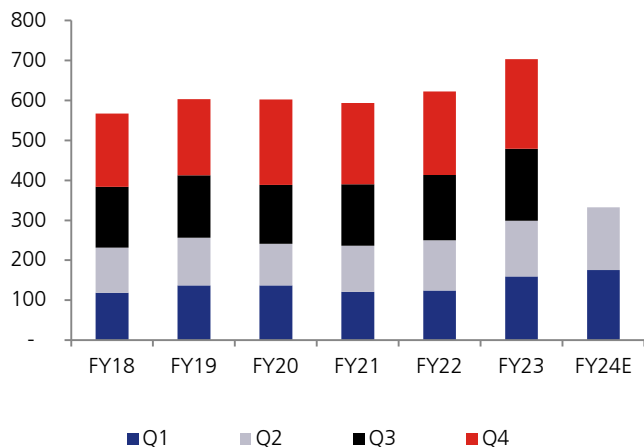
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. 2QFY24 results summary

Particulars	2QFY24	2QFY23	% YoY	1QFY24	% QoQ	JMFe	% Var
MT produced	157	139	13.1%	175	-10.3%	157	0.0%
MT Sold	174	155	12.4%	187	-7.1%	174	0.1%
Net Sales	3,27,764	2,98,381	9.8%	3,59,832	-8.9%	3,37,591	-2.9%
Sales/MT	1,887	1,931		1,925		1,945	
Total Op. Exp.	2,46,394	2,25,504	9.3%	2,54,694	-3.3%	2,46,439	0.0%
EBITDA	81,370	72,877	11.7%	1,05,139	-22.6%	91,152	-10.7%
EBITDA (ex OBR)	88,936	80,244	10.8%	1,11,596	-20.3%	99,902	-11.0%
EBITDA/MT	468	472		562		525	
EBITDA (%)	24.8	24.4	40bps	29.2	-439bps	27.0	-217bps
Depreciation	11,782	10,771		11,384		12,256	
EBIT	69,588	62,106	12.0%	93,755	-25.8%	78,896	-11.8%
Other Income	19,839	17,612	12.6%	15,378	29.0%	16,092	23.3%
Interest	1,825	1,352		1,779		1,817	
PBT	88,500	76,875	15.1%	1,07,123	-17.4%	93,171	-5.0%
Total Tax Expense	20,365	16,435	23.9%	27,709	-26.5%	24,100	-15.5%
Effective Tax Rate	25.9%	21.4%		25.9%		25.9%	
Reported Profit	68,135	60,440	12.7%	79,414	-14.2%	69,070	-1.4%
Adj PAT (ex OBR)	75,701	67,807	11.6%	85,871	-11.8%	77,820	-2.7%

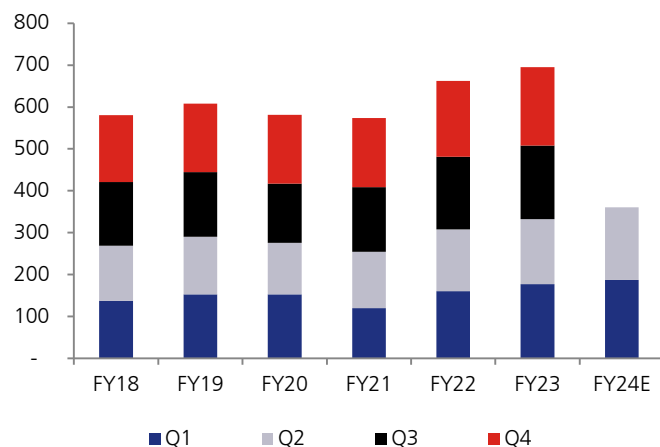
Source: Company, JM Financial

Exhibit 2. Coal production (MT)



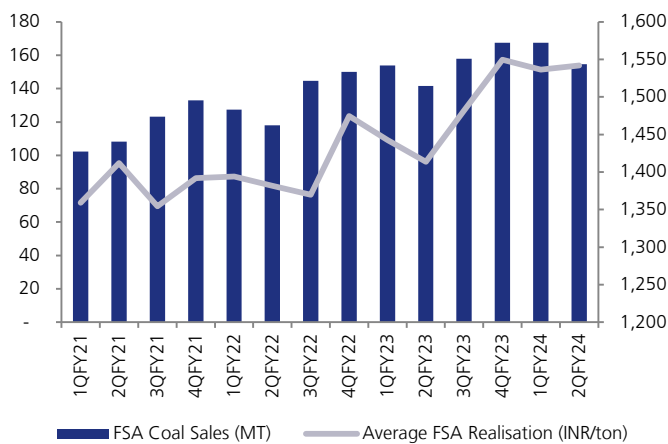
Source: Company, JM Financial

Exhibit 3. Coal dispatch (MT)



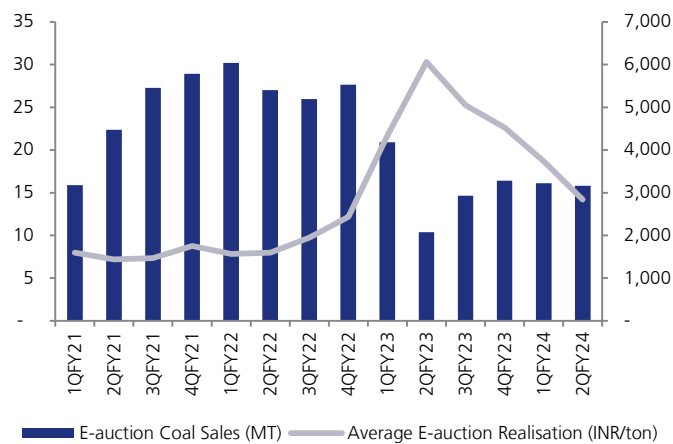
Source: Company, JM Financial

Exhibit 4. FSA sales & realisation trend



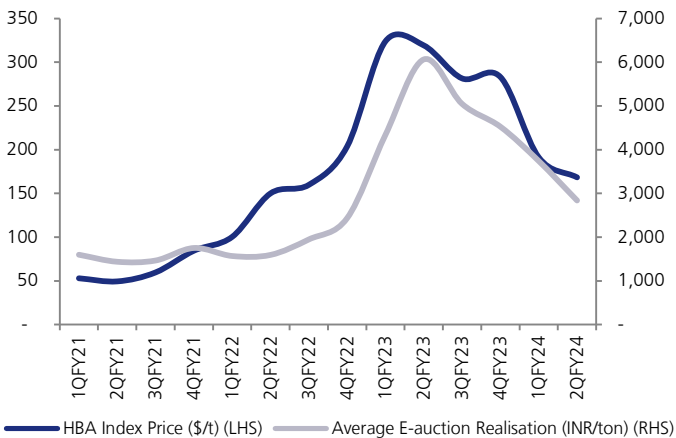
Source: Company, JM Financial

Exhibit 5. E-auction sales & realisation trend



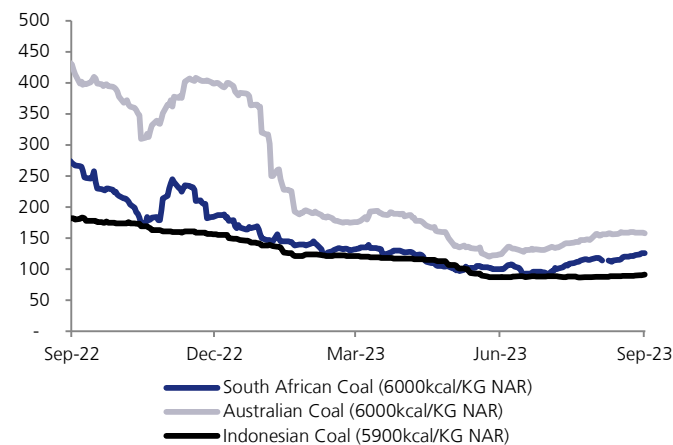
Source: Company, JM Financial

Exhibit 6. HBA index price & e-auction realisation



Source: Bloomberg, Company, JM Financial

Exhibit 7. International Coal Prices (USD/t)



Source: Elekre, JM Financial

Valuation

Exhibit 8. DCF Valuation

Particulars	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY40
FCFE	209,087	131,588	153,764	190,689	2,09,758	2,28,636	2,46,927	264,212	206,286
Disc Factor		1.00	0.89	0.80	0.71	0.63	0.56	0.50	0.14
PV of FCFE		131,588	135,774	148,679	144,412	138,993	132,549	125,234	28,175

Particulars	INR mn	Assumptions	
PV of Cash Flows (FY23-40)	1,609,419	Terminal Growth Rate %	0%
PV of Terminal Cash Flow	212,638	WACC %	13%
Net Cash	399,219		
Total Value of Equity	2,221,276		
No of Shares	6,163		
Value per Share	360		

Source: Company, JM Financial

Valuation Bands

Exhibit 9. P/B



Source: Company, JM Financial

Exhibit 10. EV/EBITDA



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	10,97,135	13,82,519	13,51,084	14,71,768	15,90,223	
Sales Growth	21.9%	26.0%	-2.3%	8.9%	8.0%	
Other Operating Income	0	0	0	0	0	
Total Revenue	10,97,135	13,82,519	13,51,084	14,71,768	15,90,223	
Cost of Goods Sold/Op. Exp	3,71,204	4,32,068	4,80,529	5,38,666	6,04,852	
Personnel Cost	4,07,008	4,94,092	4,64,058	4,67,100	4,63,759	
Other Expenses	70,174	82,505	86,923	94,966	1,02,953	
EBITDA	2,48,748	3,73,854	3,19,574	3,71,037	4,18,658	
EBITDA Margin	22.7%	27.0%	23.7%	25.2%	26.3%	
EBITDA Growth	26.6%	50.3%	-14.5%	16.1%	12.8%	
Depn. & Amort.	44,287	46,753	54,471	66,032	77,592	
EBIT	2,04,462	3,27,101	2,65,103	3,05,005	3,41,066	
Other Income	39,045	65,507	53,639	51,922	50,612	
Finance Cost	5,415	6,843	6,922	7,672	8,422	
PBT before Excep. & Forex	2,38,092	3,85,765	3,11,820	3,49,254	3,83,256	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	2,38,092	3,85,765	3,11,820	3,49,254	3,83,256	
Taxes	62,379	98,759	81,038	90,766	99,603	
Extraordinary Inc./Loss(-)	-1,843	-5,675	0	0	0	
Assoc. Profit/Min. Int.(-)	-86	-81	0	0	0	
Reported Net Profit	1,73,784	2,81,249	2,30,782	2,58,488	2,83,653	
Adjusted Net Profit	1,75,628	2,86,925	2,30,782	2,58,488	2,83,653	
Net Margin	16.0%	20.8%	17.1%	17.6%	17.8%	
Diluted Share Cap. (mn)	6,162.7	6,162.7	6,162.7	6,162.7	6,162.7	
Diluted EPS (INR)	28.5	46.6	37.4	41.9	46.0	
Diluted EPS Growth	28.0%	63.4%	-19.6%	12.0%	9.7%	
Total Dividend + Tax	1,04,766	1,49,446	1,17,092	1,17,092	1,17,092	
Dividend Per Share (INR)	17.0	24.3	19.0	19.0	19.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	4,31,430	5,72,449	6,86,139	8,27,535	9,94,097	
Share Capital	61,627	61,627	61,627	61,627	61,627	
Reserves & Surplus	3,69,803	5,10,822	6,24,512	7,65,908	9,32,469	
Preference Share Capital	0	0	0	0	0	
Minority Interest	6,738	7,707	7,707	7,707	7,707	
Total Loans	33,018	41,063	46,147	51,147	56,147	
Def. Tax Liab. / Assets (-)	-33,271	-28,463	-28,463	-28,463	-28,463	
Total - Equity & Liab.	4,37,915	5,92,755	7,11,530	8,57,926	10,29,487	
Net Fixed Assets	5,95,741	6,95,829	8,06,358	9,05,326	9,92,733	
Gross Fixed Assets	6,39,623	6,94,959	8,59,959	10,24,959	11,89,959	
Intangible Assets	2,890	49,475	49,475	49,475	49,475	
Less: Depn. & Amort.	2,12,645	2,50,480	3,04,951	3,70,983	4,48,576	
Capital WIP	1,65,873	2,01,875	2,01,875	2,01,875	2,01,875	
Investments	97,064	71,394	71,394	71,394	71,394	
Current Assets	10,68,248	13,03,073	13,29,473	13,86,159	14,79,400	
Inventories	70,757	81,547	79,693	86,811	93,798	
Sundry Debtors	1,13,677	1,30,605	1,44,362	1,57,257	1,69,914	
Cash & Bank Balances	2,91,795	3,99,219	4,13,715	4,50,387	5,23,984	
Loans & Advances	3,536	3,930	3,930	3,930	3,930	
Other Current Assets	5,88,484	6,87,773	6,87,773	6,87,773	6,87,773	
Current Liab. & Prov.	13,23,137	14,77,542	14,95,694	15,04,952	15,14,039	
Current Liabilities	1,76,110	1,88,089	2,06,242	2,15,500	2,24,587	
Provisions & Others	11,47,027	12,89,452	12,89,452	12,89,452	12,89,452	
Net Current Assets	-2,54,889	-1,74,468	-1,66,221	-1,18,794	-34,640	
Total - Assets	4,37,915	5,92,755	7,11,530	8,57,926	10,29,487	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	2,38,092	3,80,008	3,11,820	3,49,254	3,83,256	
Depn. & Amort.	63,073	46,753	54,471	66,032	77,592	
Net Interest Exp. / Inc. (-)	0	-25,063	6,922	7,672	8,422	
Inc (-) / Dec in WCap.	1,74,479	26,087	6,250	-10,755	-10,557	
Others	-1,929	26,575	-53,639	-51,922	-50,612	
Taxes Paid	-62,840	-97,497	-81,038	-90,766	-99,603	
Operating Cash Flow	4,10,875	3,56,862	2,44,786	2,69,515	3,08,499	
Capex	-2,75,984	-1,53,136	-1,65,000	-1,65,000	-1,65,000	
Free Cash Flow	1,34,891	2,03,727	79,786	1,04,515	1,43,499	
Inc (-) / Dec in Investments	0	0	0	0	0	
Others	11,174	-81,094	53,639	51,922	50,612	
Investing Cash Flow	-2,64,810	-2,34,230	-1,11,361	-1,13,078	-1,14,388	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-1,07,834	-1,43,281	-1,17,092	-1,17,092	-1,17,092	
Inc / Dec (-) in Loans	-25,732	8,052	5,085	5,000	5,000	
Others	1,53,303	1,20,021	-6,922	-7,672	-8,422	
Financing Cash Flow	19,738	-15,208	-1,18,929	-1,19,764	-1,20,514	
Inc / Dec (-) in Cash	1,65,802	1,07,424	14,496	36,672	73,597	
Opening Cash Balance	1,25,992	2,91,794	3,99,219	4,13,715	4,50,387	
Closing Cash Balance	2,91,794	3,99,219	4,13,715	4,50,387	5,23,984	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	16.0%	20.8%	17.1%	17.6%	17.8%	
Asset Turnover (x)	0.6	0.7	0.6	0.6	0.6	
Leverage Factor (x)	4.3	3.9	3.5	3.1	2.7	
RoE	44.1%	57.2%	36.7%	34.2%	31.1%	

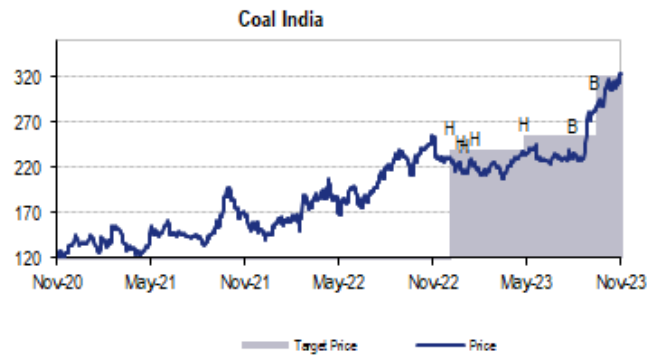
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	70.0	92.9	111.3	134.3	161.3	
ROIC	102.9%	209.0%	96.8%	72.9%	61.0%	
ROE	44.1%	57.2%	36.7%	34.2%	31.1%	
Net Debt/Equity (x)	-0.8	-0.8	-0.6	-0.6	-0.5	
P/E (x)	11.3	6.9	8.6	7.7	7.0	
P/B (x)	4.6	3.5	2.9	2.4	2.0	
EV/EBITDA (x)	6.6	4.2	4.9	4.1	3.5	
EV/Sales (x)	1.5	1.1	1.2	1.0	0.9	
Debtor days	38	34	39	39	39	
Inventory days	24	22	22	22	22	
Creditor days	37	31	37	37	38	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
14-Dec-22	Hold	240	
4-Jan-23	Hold	240	0.0
11-Jan-23	Hold	240	0.1
1-Feb-23	Hold	240	-0.2
7-May-23	Hold	255	6.4
9-Aug-23	Buy	255	0.0
22-Sep-23	Buy	320	25.6

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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