

# Coal India Ltd. (COAL)

# Value Trap!

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July 21, 2025



# Value Trap! – Coal India Ltd. – Initiating Coverage

July 21, 2025 | CMP: INR 388 | Target Price: INR 290

Expected Share Price Return: -25.0% | Dividend Yield: 7.0% | Expected Total Return: -18.0%

Sector View: Neutral

SELL



## Company Information

BB Code	COAL:IN EQUITY
ISIN	INE522F01014
Face Value (INR)	10
52 Week High (INR)	544.7
52 Week Low (INR)	349.2
Mkt Cap (INR Bn)	2,394.2
Mkt Cap (USD Bn)	27.7
Shares Outstanding (Mn)	6,163
Free Float (%)	36.8
FY28E EPS (INR)	56

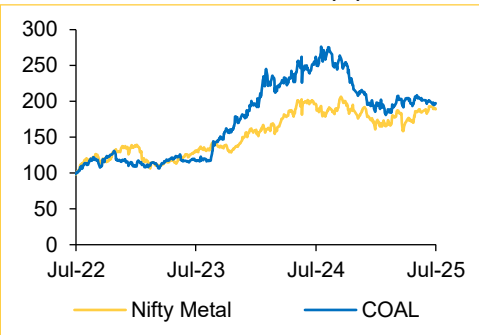
## Shareholding Pattern (%)

	June-25	Mar-24	Dec-24
Promoters	63.13	63.13	63.13
FII	8.16	7.74	8.58
DII	22.66	23.35	22.59
Public	6.05	5.78	5.70

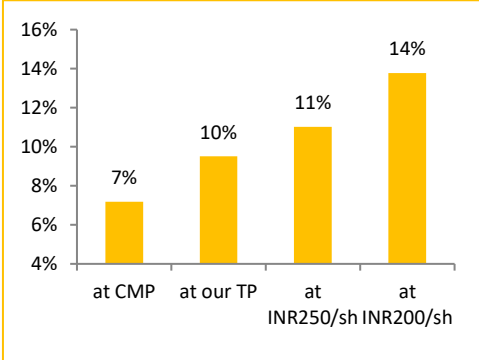
## Relative Performance (%)

YTD	3Y	2Y	1Y
NIFTY Metals	93.8	44.7	(3.7)
COAL	99.8	67.3	(24.6)

## Rebased Price Performance (%)



## Coal Dividend Yield (%)



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## “Attractiveness” based on cheap valuation multiples is an optical illusion

Coal India Ltd (COAL) trades at cheap valuation multiples of ~5x/9x/1x FY27E fwd EV/EBITDA, P/E and EV/CE respectively. These headline multiples make the stock look attractive, but we believe it is a Value Trap as these metrics conceal more than they reveal.

Below are the key pillars of our Investment Thesis that make us disillusioned on COAL:

**1) Pricing - Discounted Pricing and Unfavorable Sales Mix:** Discounted pricing and unfavorable sales mix make COAL's core business model questionable and makes us believe that its motto is not profit driven.

**2) Huge Capex, yet EBIT Momentum is Flat - Running on a Treadmill?:** COAL's situation is akin to running on a treadmill to cover distance, resulting in no commensurate progress made despite running hard. Over FY26E-29E, COAL will spend a whopping INR 800Bn (~53% of OCF on capex), yet EBIT growth will be negative over FY24-29E.

**3) Cash is Restricted:** COAL has a net cash balance of ~INR 328Bn (~14% of current market cap) as of FY25 end. However, there are long term provisions to the tune of ~INR 745Bn which need to be set off against the cash balance, in our view. Recent accounting policy changes by COAL enable for unwinding the stripping activity provision (~INR 580Bn as at FY25 end), but it would take 5-10-15+ years to unwind the same in our view.

**4) Declining GCV:** COAL's mined product's Gross Calorific Value (GCV) has been on a downward trend over the last 10 years, which straight away impacts realisations & profitability and there is no reason for us to believe that this trend would reverse.

**5) All FCF Post Capex is Paid as Dividends, hence DDM is our preferred method:** COAL is a cash cow where all free cash flows post capex are paid out as dividends. We thus believe a realistic way to value COAL is to focus on its dividend paying potential; hence we use the classic Dividend Discount Model (DDM) to value the company.

**Valuation:** We use a scenario based approach. Our **Base Case Scenario TP (DDM-based)** is INR 290/sh. Our **Upside Scenario** (10-15% probability event in our view) uses a mix of multiples and DDM for a value of INR 500/sh, while our **Downside Scenario** (10-15% probability event in our view) value is INR 225/sh (DDM-based).

At CMP COAL's dividend yield is ~7%, which is optically high, but unattractive in the absence of other value drivers and doesn't cover of equity of ~13%.

**Risk to our SELL rating:** A reversal in government policy to substantially align coal prices with a profit maximization motive is a risk to our **SELL** call.

## Key Financials

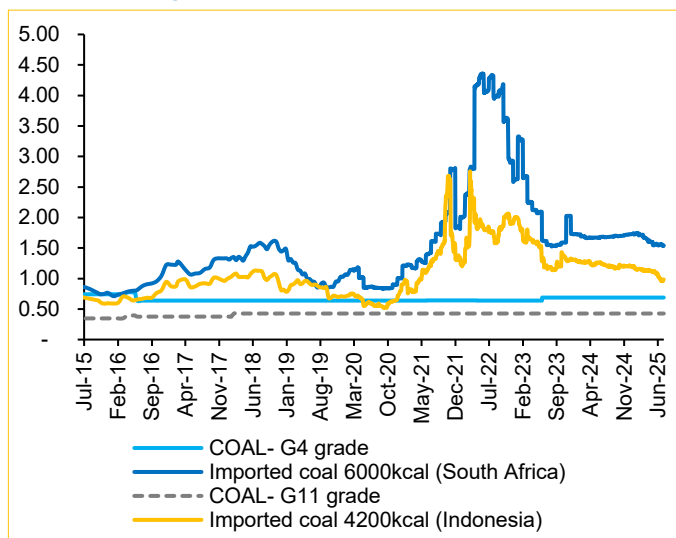
(INR Mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue	13,82,519	14,23,240	14,33,689	14,91,459	15,63,146	17,56,969
YoY (%)	26.0	2.9	0.7	4.0	4.8	12.4
EBITDA	4,06,178	4,18,333	4,29,575	4,38,272	3,96,362	5,09,173
EBITDAM %	29.4	29.4	30.0	29.4	25.4	29.0
Adj PAT	3,17,632	3,74,023	3,53,582	3,18,017	2,72,349	3,44,946
EPS	51.5	60.7	57.4	51.6	44.2	56.0
ROE %	51.5	44.7	35.3	27.7	21.9	24.6
ROCE %	31.8	30.1	25.7	21.5	17.8	21.5
PE(x)	4.2	7.2	6.8	7.5	8.8	6.9
EV/Sales (x)	0.6	1.6	1.4	1.4	1.3	1.2
EV/EBITDA (x)	2.0	4.9	4.4	4.3	4.8	3.8
Debt/Equity	(0.7)	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)

Source: COAL, Choice Institutional Equities

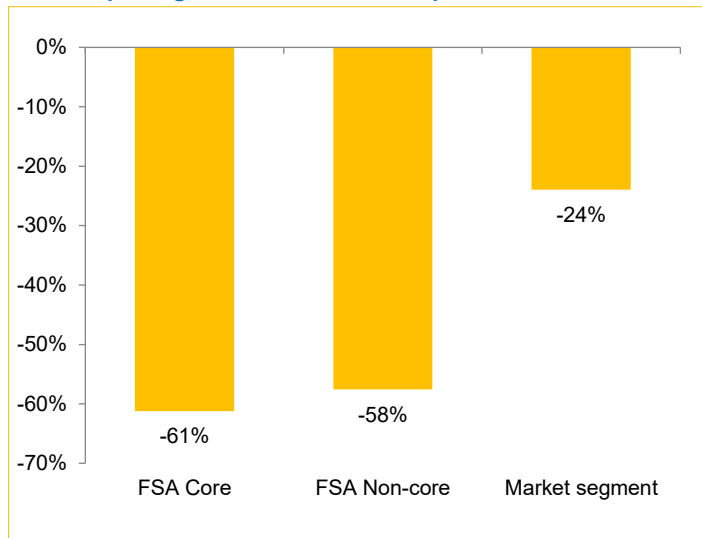
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## COAL's pricing is at a discount to imported coal (INR/Mn cal) COAL's pricing is at a discount to imported coal

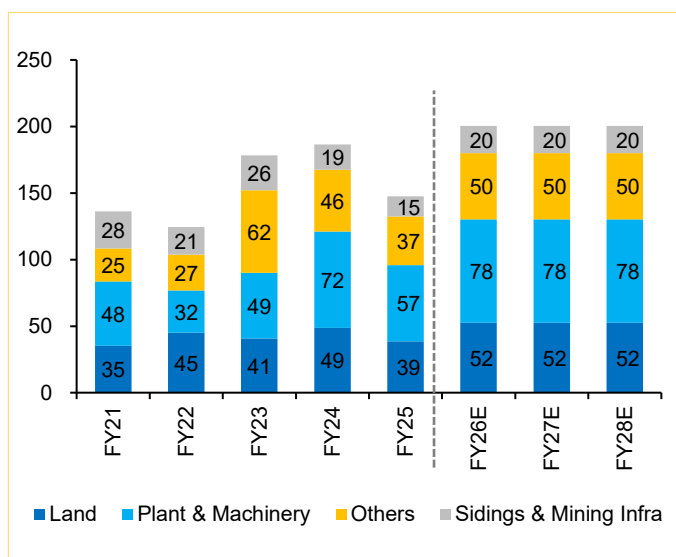


Source: COAL, Choice Institutional Equities



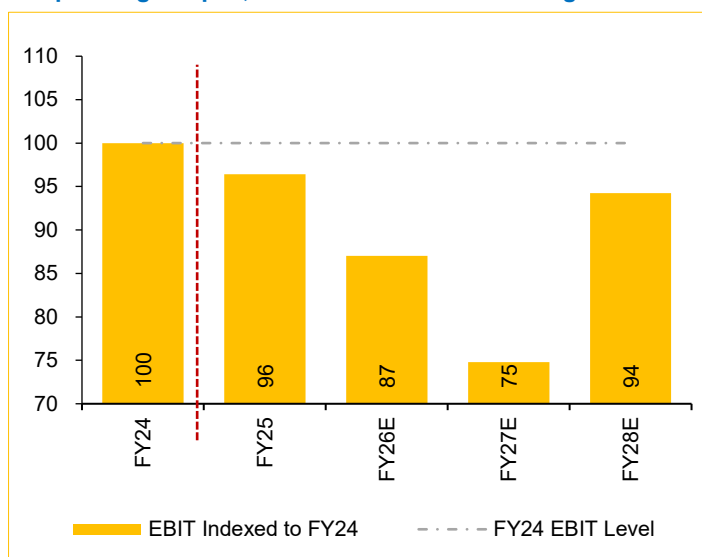
Source: COAL, Choice Institutional Equities

## COAL's Capex is Huge (INR Bn)



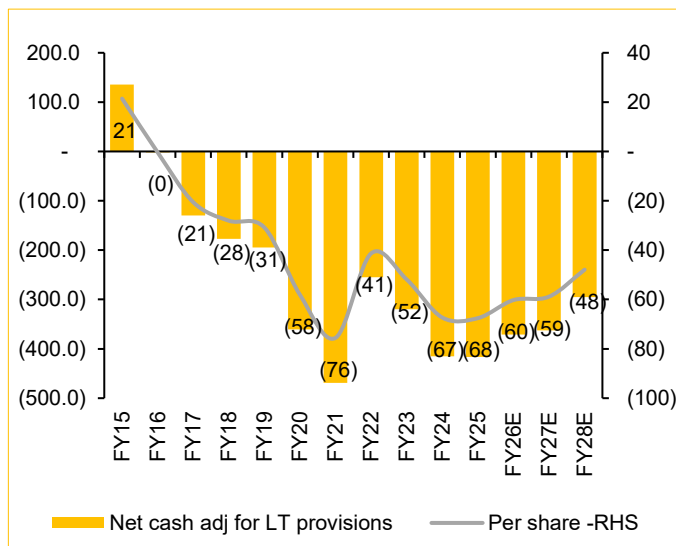
Source: COAL, Choice Institutional Equities

## Despite Huge Capex, EBIT Momentum will be Negative



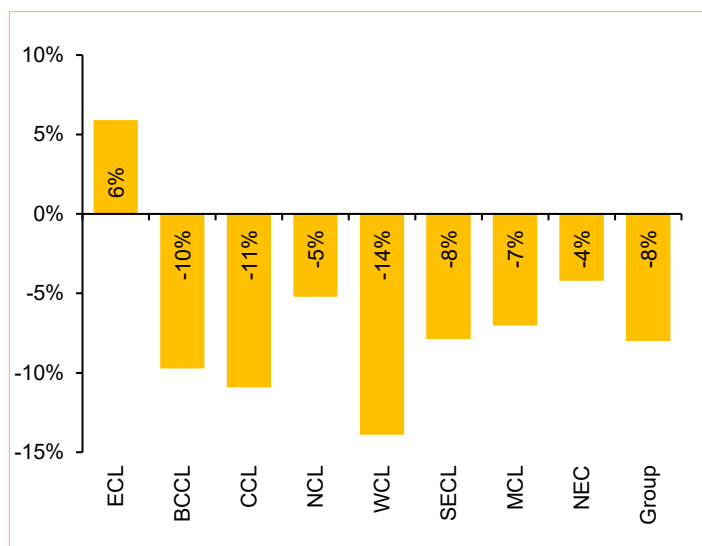
Source: COAL, Choice Institutional Equities

## Cash is Restricted (INR Bn)



Source: COAL, Choice Institutional Equities

## COAL Subsidiaries GCV Decline Over FY16-24 Is Substantial



Source: COAL, Choice Institutional Equities



## Pricing : Discounted Pricing, Unfavorable Sales Mix

*COAL is allocated mines by the government on a nomination basis, so there is an obligation to fulfil of supplying coal to the nation at an affordable price.*

**COAL's pricing is at a significant (25-60%) discount to international benchmark prices.** COAL is allocated mines by the govt. without having to commercially bid for them, hence it is busy fulfilling the govt's mandate of supplying coal to the nation. There is questionable profit motive, let alone maximization, in our view.

**Power FSA Prices don't cover CoP:** At the current power fuel supply agreement (FSA) prices, COAL doesn't even recover its cost of production (CoP). FSA power sector realization of ~INR 1,150/t compares with the cost of production of ~INR 1,320/t for FY26E, which is only set to increase as there is ongoing cost creep as per our estimates.

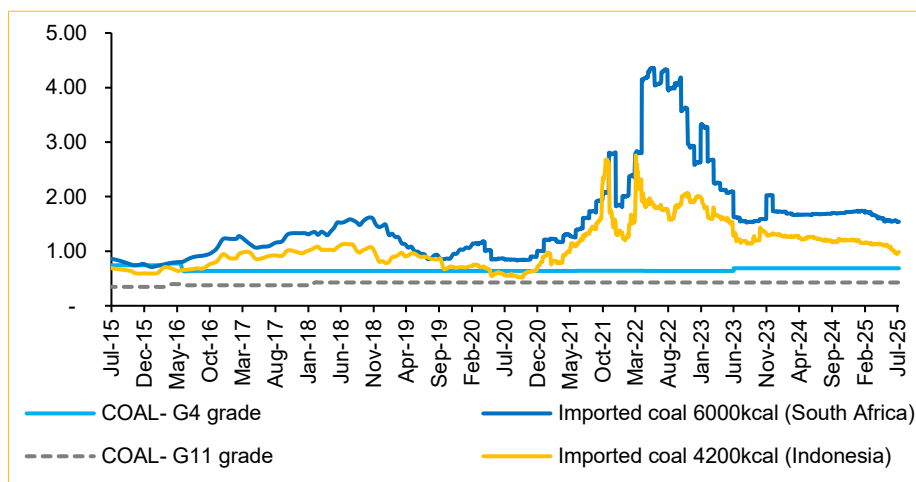
**Non-power FSA prices just high enough to cover CoP:** At the current non-power FSA prices of ~INR 1,350/t COAL just manages to recover CoP.

**E-auction segment is where the profitability lies, but volumes form a small portion:** E-auction & negotiated coal sales which form about ~10% of the volumes, is where the juice is. At the current prices (Q4FY25) of ~INR 2,600/t, COAL makes ~INR 1,250/t in this segment which could be volatile as these prices are market driven; COAL faces tough competition from better quality international coals. This segment contributes >50% of COAL's EBITDA.

**Unfavorable vol. mix:** Mix is skewed heavily towards the low margin Power FSA segment (75%), followed by market segment (10%) & Non-power FSA (15%).

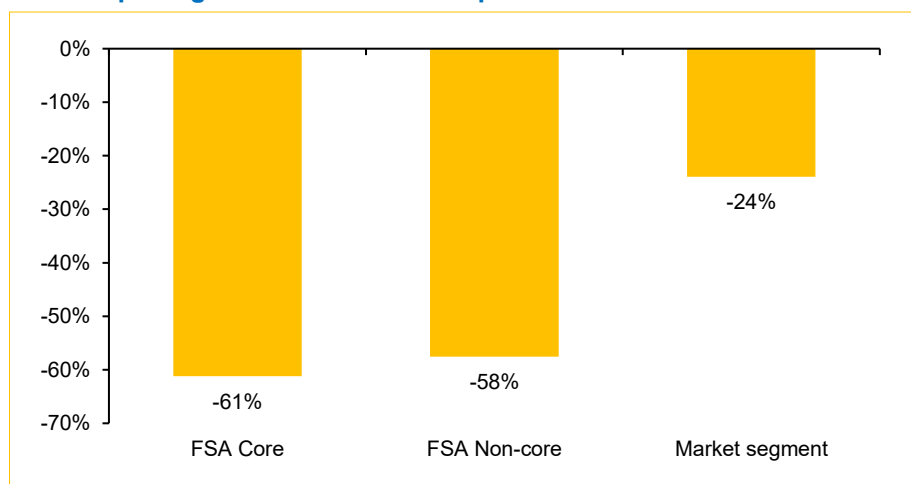
## COAL's pricing is at a discount to imported coal (INR/Mn cal)

*COAL's pricing is at a significant discount to benchmark coal prices for the majority of its volumes. It doesn't even cover CoP for 75-80% of its volumes.*

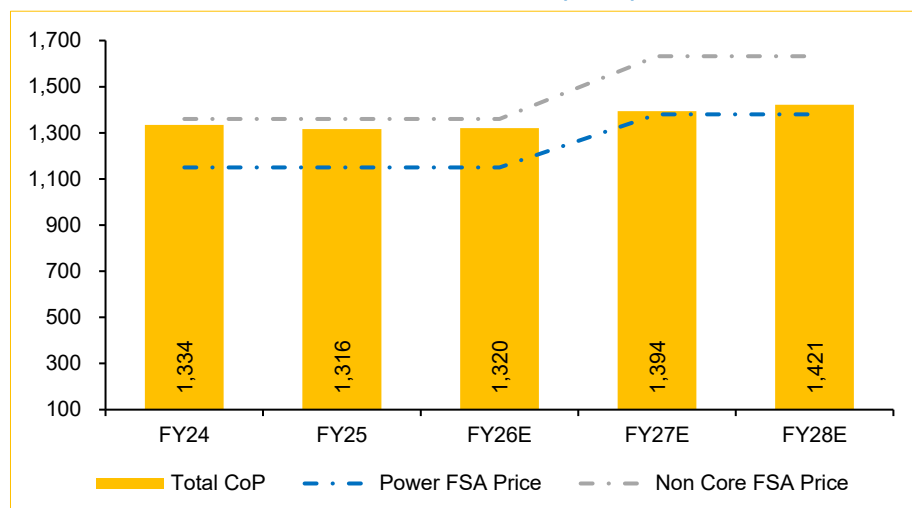


## COAL's pricing is at a discount to imported coal

*COAL's pricing in the E-auction segment is market driven and makes commercial sense, but volumes sold under this category is in the range of 8-15% of total volumes.*



Source: COAL, Choice Institutional Equities

**Pricing : Discounted Pricing, Unfavorable Sales Mix**
**COAL Core – FSA Price Doesn't cover CoP (INR/t)**

**COAL's pricing is at a discount to imported coal (INR/Mn cal)**

	COAL FSA-Core	COAL FSA-Non core	COAL E-auction	Indonesia Coal	South African Coal	Comments
Underlying GCV (kcal/kg)	4,300	4,300	4,300	4,300	4,800	Approximate
Base Price (INR/t)	975	1,165	2,614	4,412	8,858	Indonesian/South African coal @ US\$51/103 cif & US\$ of 86
Royalty Applicable (INR/t)	137	163	376	0	0	@14%
Assessable Value (INR/t)	1,112	1,328	2,990	4,412	8,858	
GST	56	66	149	221	443	@5% for coal
GST cess (INR/t)	400	400	400	400	400	
<b>Sales Price (INR/t)</b>	<b>1,567</b>	<b>1,795</b>	<b>3,539</b>	<b>5,032</b>	<b>9,701</b>	<b>Ex-mine/Port/Factory</b>
Crushing & Evacuation	100	100	100	250	250	
Approx. Road Dist (km)	500	500	300	300	300	
Freight per ton km	750	750	1,200	1,200	1,200	@ INR 1.5/4 per ton km for rail/road
Landed cost @ end user	2,417	2,645	4,739	6,232	10,901	
<b>Landed cost (INR/mn cal)</b>	<b>0.56</b>	<b>0.62</b>	<b>1.10</b>	<b>1.45</b>	<b>2.27</b>	
<b>Expensive By (Others vs. FSA Core Sectors Coal price)</b>	<b>0%</b>	<b>9%</b>	<b>96%</b>	<b>158%</b>	<b>304%</b>	

Source: COAL, Choice Institutional Equities

## Huge Capex, yet EBIT Momentum Negative - Running on a Treadmill?

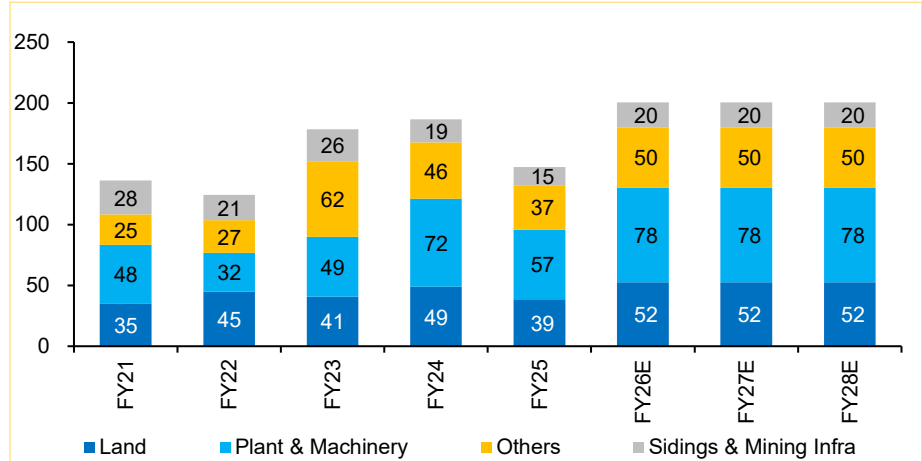
*COAL's situation is that of a person running on a tread mill i.e., despite constantly running, there is hardly any distance covered.*

- **COAL's Capex is Huge:** COAL's capex is substantial (FY25-28E average is expected to be ~53% of OCF). But the benefit due to this capex (in terms of increased profits) is not obvious, as it is either back ended, sustenance in nature or unproductive. Proposed foray into UMPP, fertilizer plants, railway lines, overseas mines acquisition, solar plants is an additional negative.
- **FY24-28E EBIT is flat to negative:** In the absence of a price hike beyond wage hike impact, COAL's EBIT momentum will be negative over FY24-28E.

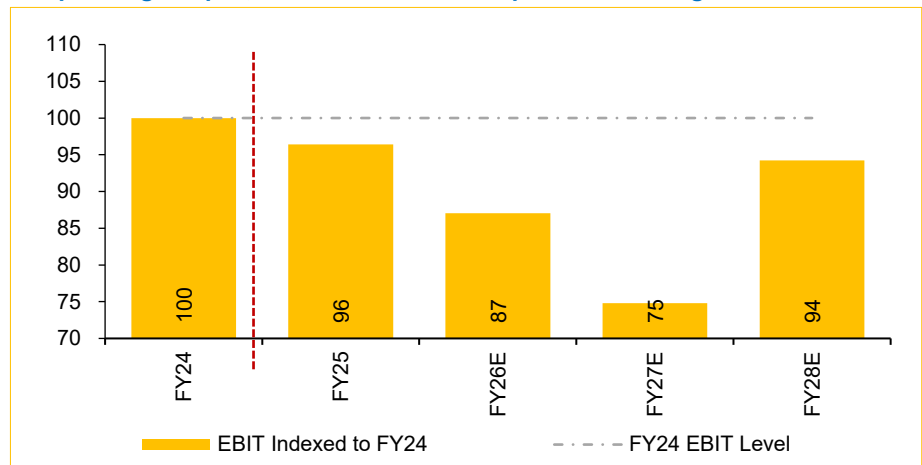
*We forecast INR 600 Bn in cumulative capex over the next 3 years, which forms ~53% of its operating cash flows over the period.*

*Yet, the EBIT momentum will be negative over the period.*

COAL's Capex is Huge (INR Bn)



Despite Huge Capex, EBIT Momentum is Expected to be Negative



*COAL's plans to foray into non core areas with large capital outlay where there is high level of execution risk and uncertainty.*

Non-core Large Capex Projects			
Serial No.	Project	Estimate of Outlay (INR Bn) - COAL's share	Completion Timeline
1	Coal-to-Ammonium Nitrate Project at Lakhanpur Area in MCL	60.2	2029
2	Coal-to-Synthetic Natural Gas Project at Sonapur Bazari in ECL	66.3	2030
3	Coal-to-Synthetic Natural Gas Project at Chandrapur in WCL	61.0	NA
4	Renewable Energy - 9.5 GW (@25% Equity from COAL)	47.5	2030
5	Thermal Power 5*800 MW in 2 phases	16.5	2030
Total		251.5	Up to 2030

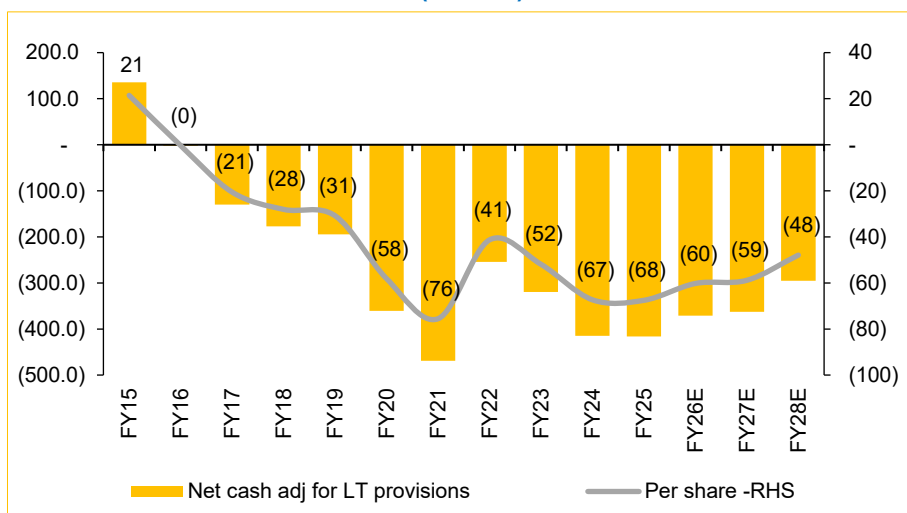
Source: COAL, Choice Institutional Equities

**Other Negatives: Cash is Restricted in our view, Declining GCV**

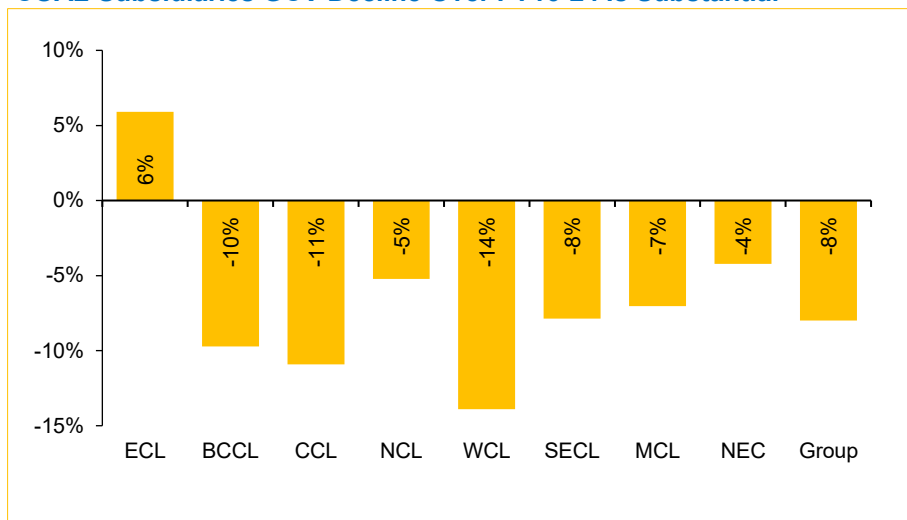
- Cash is restricted in our view:** As of FY25 end, COAL's cash balance was ~INR 420Bn, adjusted for debt it stood at INR 328Bn. This translates into INR 53/sh (~14% of CMP) of COAL. However, we believe we need to treat the long term provisions towards (1) Employee benefits, (2) Stripping activity adjustment account (~INR 580Bn) & (3) Other provisions totaling ~INR 745Bn as quasi debt. Adjusting for these provisions against cash, COAL is in reality a net debt company to the tune of ~INR 417Bn. However, the recent change to accounting policies related to stripping activity provision by COAL means that the INR 580Bn provision would be unwound. But it could take another 5-10-15-20 years in our view for that to happen, and until the provision is reversed, we would consider that as quasi debt.
- Declining GCV:** COAL's GCV has been on a downward trend over the last 10 years, which straight away impacts realisations & profitability. The decline is probably because (1) COAL's fair handling of customers with discrepancy in GCV billed vs. shipped is improving, (2) Natural decline in run of the mine coal grades. Like in the case of most natural resources, as we mine more, it either gets tougher or the quality declines.

*COAL has a huge net cash reserve (INR 328Bn) that translates to ~14% of current stock price.*

*However, there is also a substantial pile (INR 745Bn) of Long Term Provisions that need to be set off against this cash balance in our view, until the provisions are unwound.*

**Cash is Restricted in Our View (INR Bn)**


*COAL's pricing is linked to the calorific value of the mined product. There has been a gradual decline in the calorific value of coal produced by the company.*

**COAL Subsidiaries GCV Decline Over FY16-24 Is Substantial**


Source: COAL, Choice Institutional Equities



**Our Operational Assumptions are Reasonably Optimistic**
**COAL Operational Assumptions Base Case Scenario**

*Our operational assumptions are reasonably optimistic.*

*We build in a price hike in FSA prices that COAL will have to undertake to cover wage hike due from Q2FY27.*

*In our view, consensus numbers don't yet build in the wage hike impact. But it is almost certain that COAL will have to give the wage hikes effective from Q2FY27, hence we build in the same.*

*Despite optically high OCF, there is hardly any cash left at the end of the year after catering for capex, dividends and working capital.*

(INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
<b>Volume (MT)</b>	<b>754.3</b>	<b>761.5</b>	<b>797.7</b>	<b>836.9</b>	<b>878.0</b>
-FSA	670.4	666.5	704.5	739.8	776.8
-E-auction	70.2	79.1	78.3	82.2	86.3
-Washed	7.7	9.9	8.9	8.9	8.9
-Others	5.9	6.1	6.1	6.1	6.1
<b>Realisation (INR/t)</b>	<b>1,730</b>	<b>1,664</b>	<b>1,656</b>	<b>1,654</b>	<b>1,772</b>
-FSA	1,536	1,514	1,559	1,559	1,676
-E-auction	3,059	2,541	2,183	2,183	2,347
-Washed	5,466	4,375	3,720	3,720	3,720
-Others	2,773	2,702	3,000	3,000	3,000
<b>Revenue (INR Mn)</b>	<b>13,03,389</b>	<b>12,69,568</b>	<b>13,20,724</b>	<b>13,84,204</b>	<b>15,55,840</b>
-FSA	10,29,891	10,09,039	10,98,702	11,53,637	13,02,168
-E-auction	2,14,881	2,01,002	1,70,909	1,79,455	2,02,559
-Washed	42,143	43,180	32,963	32,963	32,963
-Others	16,474	16,346	18,150	18,150	18,150
<b>EBITDA pre stripping adj.</b>	<b>4,18,333</b>	<b>4,29,575</b>	<b>4,38,272</b>	<b>3,96,362</b>	<b>5,09,173</b>
<b>-Margin</b>	<b>32.1%</b>	<b>33.8%</b>	<b>33.2%</b>	<b>28.6%</b>	<b>32.7%</b>
<b>EBITDA</b>	<b>4,96,320</b>	<b>4,78,498</b>	<b>4,31,929</b>	<b>3,71,172</b>	<b>4,67,755</b>
Other Income	83,959	99,323	61,355	56,533	54,330
PBT	4,88,126	4,69,662	4,23,093	3,62,335	4,58,919
Tax	1,14,435	1,16,641	1,05,075	89,986	1,13,973
<b>PAT</b>	<b>3,73,691</b>	<b>3,53,021</b>	<b>3,18,017</b>	<b>2,72,349</b>	<b>3,44,946</b>
EPS	60.7	57.4	51.6	44.2	56.0
DPS	25.5	26.5	27.6	28.7	29.8
<b>Cash Flow (INR Mn)</b>					
<b>OCF</b>	<b>1,81,031</b>	<b>2,91,997</b>	<b>3,52,466</b>	<b>3,27,472</b>	<b>3,95,606</b>
Other Income	29,469	32,623	31,355	26,533	24,330
<b>Capex</b>	<b>-1,70,969</b>	<b>-1,33,361</b>	<b>-2,00,000</b>	<b>-2,00,000</b>	<b>-2,00,000</b>
Interest	-2,243	-2,252	-8,837	-8,837	-8,837
Dividends	-1,50,979	-1,62,385	-1,69,845	-1,76,639	-1,83,704
Debt movement	15,011	17,334	0	0	0
<b>NET CASH FLOW</b>	<b>-98,680</b>	<b>43,956</b>	<b>5,139</b>	<b>-31,471</b>	<b>27,395</b>

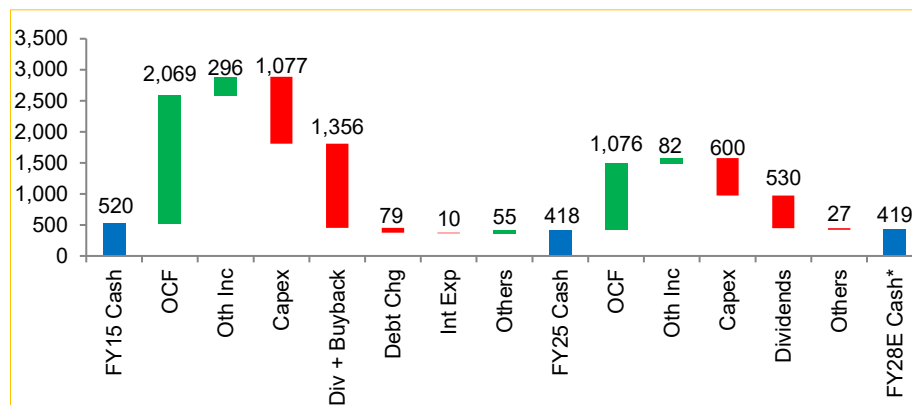
Source: COAL, Choice Institutional Equities

## All FCF After Capex is Paid Out as Dividends, hence we Adopt DDM based Valuation

Over the last 10 years, COAL has paid out all free cash flow post capex as dividends. We expect the same going forward as well, provided there is sufficient cushion on the Retained Earnings side of things.

- **COAL is being managed in a way such that all free cash flow post capex is given out as dividends.** Our cumulative cash flow analysis for FY16-25 period reveals prices have been set by COAL at such a level that the resultant P&L/cash flows are enough to meet the costs, capex & and the residual is paid out as dividends.

## FY16-25 &amp; FY26E-28E Cumulative Cash Flow Bridge (INR Bn)



We believe the classic Dividend Discount Model is the most suitable valuation framework to value COAL.

## Hence, we use the DDM based valuation approach

- **Valuation approach:** We believe a practical way to value this company is to just focus on what eventually comes into the hands of shareholders. It might sound we are taking a narrow view of things, but this is practical and reasonable. We use the dividend discount model to value COAL.
- **Context:** Our FY26/27E PAT estimates are 9/10% ahead of consensus. Despite our high profit/cash flow estimate, we have a SELL rating on the stock where our framework yields a TP of INR 290.

In our Base Case Scenario, we assign 100% weightage to our DDM based fair value.

## COAL Base Case Scenario TP Derivation

(INR Mn)	
<b>DDM Valuation</b>	
<b>Cost of Equity Calculation</b>	<b>12.6%</b>
-Market Return Assumption	12.6%
-Market Risk Premium	6.3%
-R <sub>f</sub>	6.3%
-Beta	1.0
<b>Dividend Discount Model</b>	
Sustainable Long Term Growth Rate in Dividends ----> A	3%
Cost of Equity ----> B	12.6%
FY27/28E DPS (INR/share) ----> C	29.0
<b>Equity Value (INR/share) ----&gt; C/(B-A) = D</b>	<b>290</b>
<b>Multiple Based Valuation</b>	
<b>Target price</b>	<b>FY27E/28E</b>
EBITDA pre OBR less maintenance capex	3,53,965
Multiple (x)	6.5
EV	23,00,775
Net Debt	-3,02,647
Long term Provisions	6,65,315
Market value	19,38,107
<b>Equity Value per Share (INR/sh)</b>	<b>315</b>
<b>Implied EV to IC (x)</b>	<b>1.9</b>
<b>RoCE</b>	<b>18%</b>
<b>Weightage</b>	
-DDM	100%
-Multiple Based	0%
<b>CHOICE INSTITUTIONAL EQUITIES TP (INR/share)</b>	<b>290</b>

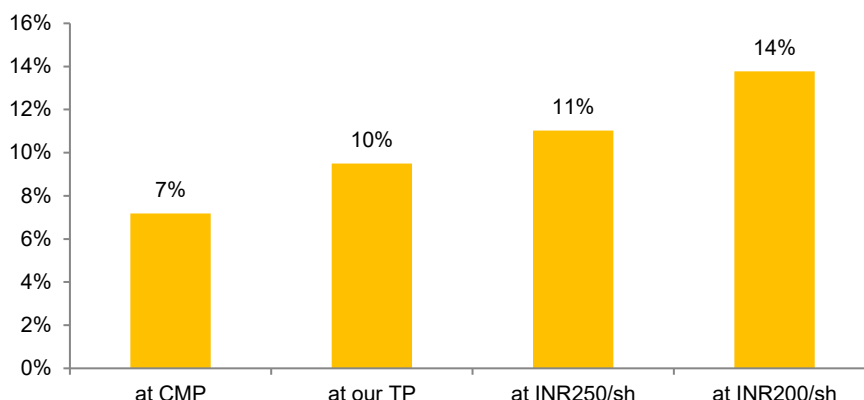
Source: COAL, Choice Institutional Equities

## COAL's Dividend Yield at Various Price Points, Sensitivity &amp; Risks

## COAL Dividend Yield at Various Stock Price Points

At COAL's current market price its FY26E dividend yield works out to be ~7%, which is unattractive.

At the CMP of COAL, the dividend yield is not attractive enough. Either the dividends have to go up materially (not possible at the current coal prices/business model/business fundamentals) or the stock has to correct. **For the COAL stock price to become fairly valued on Dividend Yield basis, the stock needs to correct much below our TP of INR 290.**



Change in Company/Government policy to align coal prices with market prices is a key risk to our SELL call.

## Risks to Our Call &amp; Sensitivity

**What needs to change, so that COAL becomes attractive again:** We need evidence that COAL is like any other company which is managed for profit, and shareholder wealth maximisation. We agree the company has to first fulfill its obligation of being able to deliver enough coal to satisfy the growing power needs of the country. But this can be done in a way that leaves rising free cash flow on the table post capex & dividends. If so, the stock will get back investor respect (read higher valuation). This is possible only with a significant (20+%) price hike for linkage coal with future hikes too, which is highly unlikely. Despite being in majority, the current political dispensation has taken mild price hikes, and that too only belatedly. Also, the company has to demonstrate more prudence when it comes to committing large investments into sectors other than coal i.e. power, solar, fertilizers, coal gasification projects and so on where the return metrics are questionable.

## Sensitivity of our TP to Dividend growth rate &amp; cost of equity assumptions

	Dividend Growth Rate					
	290	1.6%	2.1%	2.6%	3.1%	3.6%
Cost of Equity	11.6%	289.9	305.3	322.5	341.7	363.3
	12.1%	275.9	289.9	305.3	322.5	341.7
	12.6%	263.2	275.9	290	305.3	322.5
	13.1%	251.7	263.2	275.9	289.9	305.3
	13.6%	241.1	251.7	263.2	275.9	289.9

Our TP for COAL is sensitive to growth assumptions & cost of equity.

Source: COAL, Choice Institutional Equities

## Upside Scenario

## Choice Institutional Equities Upside Scenario for COAL

**Upside Scenario:** This scenario assumes profit maximization motive takes center at COAL. We think that it is a good idea to value the stock back on multiples in this scenario. However, to be conservative we use a mix of multiple and DDM approach. We have an upside case valuation of INR500/sh.

*Our Upside Scenario assumes profit motive takes center stage at COAL.*

## COAL Operational Assumptions Upside Scenario

(INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
<b>Volume (MT)</b>	<b>754.3</b>	<b>761.5</b>	<b>816.4</b>	<b>876.5</b>	<b>941.1</b>
-FSA	670.4	666.5	705.3	758.2	815.1
-E-auction	70.2	79.1	96.2	103.4	111.1
-Washed	7.7	9.9	8.9	8.9	8.9
-Others	5.9	6.1	6.1	6.1	6.1
<b>Realisation (INR/t)</b>	<b>1,730</b>	<b>1,664</b>	<b>1,685</b>	<b>1,683</b>	<b>1,844</b>
-FSA	1,536	1,514	1,559	1,559	1,715
-E-auction	3,059	2,541	2,339	2,339	2,573
-Washed	5,466	4,375	3,720	3,720	3,720
-Others	2,773	2,702	3,000	3,000	3,000
<b>Revenue</b>	<b>13,03,389</b>	<b>12,69,568</b>	<b>13,75,950</b>	<b>14,75,312</b>	<b>17,35,229</b>
-FSA	10,29,891	10,09,039	10,99,864	11,82,354	13,98,134
-E-auction	2,14,881	2,01,002	2,24,972	2,41,845	2,85,982
-Washed	42,143	43,180	32,963	32,963	32,963
-Others	16,474	16,346	18,150	18,150	18,150
<b>EBITDA pre stripping adj</b>	<b>4,18,333</b>	<b>4,29,575</b>	<b>4,88,694</b>	<b>4,66,068</b>	<b>6,52,981</b>
<b>-Margin</b>	<b>32.1%</b>	<b>33.8%</b>	<b>35.5%</b>	<b>31.6%</b>	<b>37.6%</b>
<b>EBITDA</b>	<b>4,96,320</b>	<b>4,78,498</b>	<b>4,97,352</b>	<b>4,60,190</b>	<b>6,36,204</b>
Other Income	83,959	99,323	76,355	75,845	78,971
PBT	4,88,126	4,69,662	4,88,515	4,51,353	6,27,368
Tax	1,14,435	1,16,641	1,21,323	1,12,094	1,55,807
<b>PAT</b>	<b>3,73,691</b>	<b>3,53,021</b>	<b>3,67,192</b>	<b>3,39,259</b>	<b>4,71,561</b>
EPS	60.7	57.4	59.6	55.1	76.5
DPS	25.5	26.5	28.6	30.9	33.4
<b>Cash Flow</b>					
<b>OCF</b>	<b>1,81,031</b>	<b>2,91,997</b>	<b>3,90,595</b>	<b>3,83,143</b>	<b>4,95,656</b>
Other Income	29,469	32,623	31,355	30,845	33,971
Capex	-1,70,969	-1,33,361	-1,70,000	-1,70,000	-1,70,000
Interest	-2,243	-2,252	-8,837	-8,837	-8,837
Dividends	-1,50,979	-1,62,385	-1,76,377	-1,90,488	-2,05,727
Debt movement	15,011	17,334	0	0	0
<b>NET CASHFLOW</b>	<b>-98,680</b>	<b>43,956</b>	<b>66,736</b>	<b>44,664</b>	<b>1,45,064</b>

Source: COAL, Choice Institutional Equities

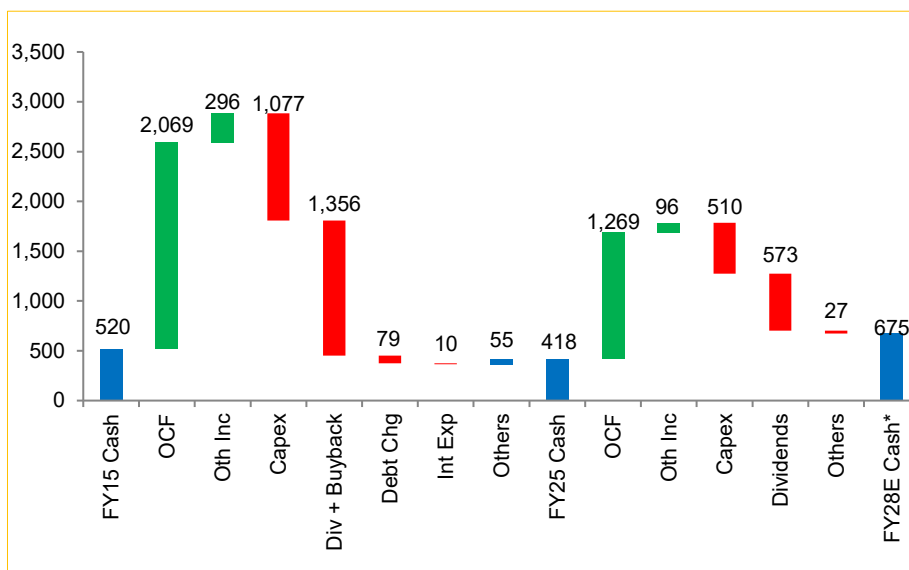
*This scenario assumes a significant uptick to prices across segments.*

*Despite increased pay outs for dividends, there is a significant pile up of cash under this scenario.*

## Upside Scenario Contd...

Under our Upside scenario assumptions, there is substantial pile up of cash.

Cash Flow Bridge Upside Scenario (INR Bn)



COAL Upside Scenario Fair Value Derivation

(INR Mn)	
<b>DDM Valuation</b>	
<b>Cost of Equity Calculation</b>	<b>12.3%</b>
-Market Return Assumption	12.3%
-Market Risk Premium	6.0%
-R <sub>f</sub>	6.3%
-Beta	1.0
<b>Dividend Discount Model enhanced to incorporate buybacks</b>	
Sustainable Long Term Growth Rate in Dividends ----> A	6.0%
Cost of Equity ----> B	12.3%
FY27E/28E DPS (INR/share) ----> C	31.7
<b>Equity Value (INR/share) ----&gt; C/(B-A) = D</b>	<b>502</b>
<b>Multiple Based Valuation</b>	
<b>Target price</b>	<b>FY28E</b>
EBITDA less maintenance capex	6,52,981
Multiple (x)	5.0
EV	32,64,904
Net Debt	-4,40,379
Long term Provisions	6,65,315
Market value	30,39,967
<b>Equity Value per Share (INR/sh)</b>	<b>494</b>
<b>Implied EV to IC (x)</b>	<b>2.7</b>
<b>RoCE</b>	<b>21.3%</b>
<b>Weightage</b>	
-DDM	25%
-Multiple Based	75%
<b>CHOICE INSTITUTIONAL EQUITIES FAIR VALUE (INR/share)</b>	<b>500</b>

Our Upside Scenario Valuation framework is a blend of DDM & EV/EBITDA methodologies.

Source: COAL, Choice Institutional Equities



## Downside Scenario

## Choice Institutional Equities Downside Scenario for COAL

**Downside Scenario:** This scenario assumes COAL continues to be managed with social motive at the core. Management is not proactive about optimizing volume and revenue mix and volume growth also takes a back seat. We have a downside case valuation of INR 225/sh.

*Our Downside Scenario assumes social motive takes center stage at COAL.*

## COAL Operational Assumptions Downside Scenario

*Under this scenario, we assume even the market linked E-auction volumes are sold at low prices.*

*Despite decreased pay outs for dividends, there is no pile up of cash under this scenario.*

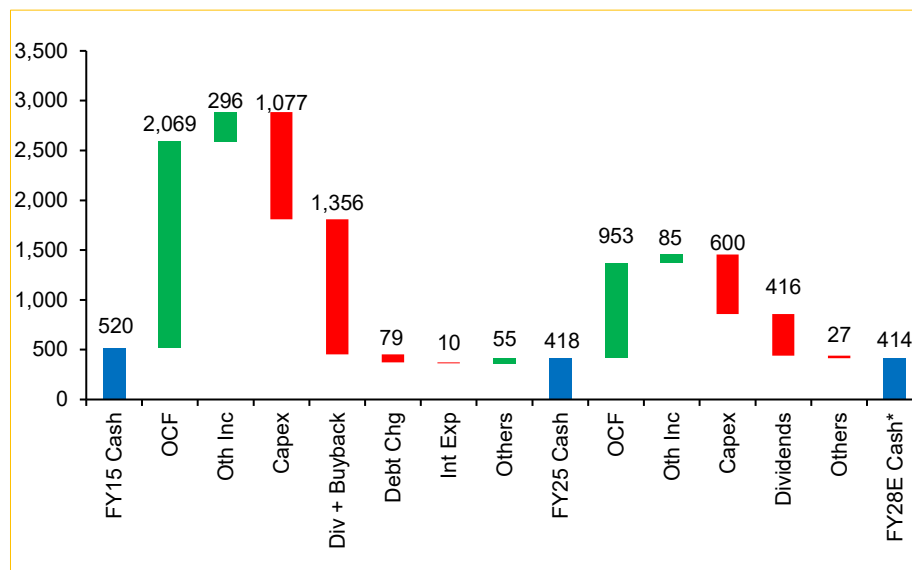
(INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
<b>Volume (MT)</b>	<b>754.3</b>	<b>761.5</b>	<b>782.8</b>	<b>805.9</b>	<b>829.6</b>
-FSA	670.4	666.5	691.1	711.9	733.2
-E-auction	70.2	79.1	76.8	79.1	81.5
-Washed	7.7	9.9	8.9	8.9	8.9
-Others	5.9	6.1	6.1	6.1	6.1
<b>Realisation (INR/t)</b>	<b>1,730</b>	<b>1,664</b>	<b>1,641</b>	<b>1,640</b>	<b>1,718</b>
-FSA	1,536	1,514	1,559	1,559	1,637
-E-auction	3,059	2,541	2,027	2,027	2,129
-Washed	5,466	4,375	3,720	3,720	3,720
-Others	2,773	2,702	3,000	3,000	3,000
<b>Revenue</b>	<b>13,03,389</b>	<b>12,69,568</b>	<b>12,84,566</b>	<b>13,21,569</b>	<b>14,25,111</b>
-FSA	10,29,891	10,09,039	10,77,774	11,10,107	12,00,581
-E-auction	2,14,881	2,01,002	1,55,678	1,60,349	1,73,417
-Washed	42,143	43,180	32,963	32,963	32,963
-Others	16,474	16,346	18,150	18,150	18,150
<b>EBITDA pre stripping adj.</b>	<b>4,18,333</b>	<b>4,29,575</b>	<b>4,06,993</b>	<b>3,46,323</b>	<b>3,95,169</b>
<b>-Margin</b>	<b>32.1%</b>	<b>33.8%</b>	<b>31.7%</b>	<b>26.2%</b>	<b>27.7%</b>
<b>EBITDA</b>	<b>4,96,320</b>	<b>4,78,498</b>	<b>4,00,651</b>	<b>3,22,452</b>	<b>3,55,515</b>
Other Income	83,959	99,323	61,355	57,851	56,094
PBT	4,88,126	4,69,662	3,91,814	3,13,615	3,46,679
Tax	1,14,435	1,16,641	97,307	77,887	86,098
<b>PAT</b>	<b>3,73,691</b>	<b>3,53,021</b>	<b>2,94,507</b>	<b>2,35,729</b>	<b>2,60,581</b>
EPS	60.7	57.4	47.8	38.3	42.3
DPS	25.5	26.5	21.9	22.5	23.2
<b>Cash Flow</b>					
<b>OCF</b>	<b>1,81,031</b>	<b>2,91,997</b>	<b>3,36,187</b>	<b>2,94,657</b>	<b>3,22,551</b>
Other Income	29,469	32,623	31,355	27,851	26,094
Capex	-1,70,969	-1,33,361	-2,00,000	-2,00,000	-2,00,000
Interest	-2,243	-2,252	-8,837	-8,837	-8,837
Dividends	-1,50,979	-1,62,385	-1,34,733	-1,38,775	-1,42,938
Debt Changes	15,011	17,334	0	0	0
<b>NET CASHFLOW</b>	<b>-98,680</b>	<b>43,956</b>	<b>23,973</b>	<b>-25,103</b>	<b>-3,130</b>

Source: COAL, Choice Institutional Equities

## Downside Scenario Contd...

## Cash Flow Bridge Downside Scenario (INR Bn)

Under our Downside scenario assumptions there is no pile up of cash despite lower dividend pay out.



## COAL Downside Scenario Fair Value Derivation

(INR Mn)	
<b>DDM Valuation</b>	
<b>Cost of Equity Calculation</b>	<b>12.6%</b>
-Market Return Assumption	12.6%
-Market Risk Premium	6.3%
-R <sub>f</sub>	6.3%
-Beta	1.0
<b>Dividend Discount Model</b>	
Sustainable Long Term Growth Rate in Dividends ----> A	2%
Cost of Equity ----> B	12.6%
FY27/28E DPS (INR/share) ----> C	22.7
<b>Equity Value (INR/share) ----&gt; C/(B-A) = D</b>	<b>225</b>
<b>Multiple Based Valuation</b>	
<b>Target price</b>	<b>FY27E/28E</b>
EBITDA less maintenance capex	2,52,605
Multiple (x)	7.5
EV	18,94,539
Net Debt	-3,27,848
Long term Provisions	6,65,315
Market value	15,57,072
<b>Equity Value per Share (INR/sh)</b>	<b>254</b>
<b>Implied EV to IC (x)</b>	<b>1.5</b>
<b>RoCE</b>	<b>15%</b>
<b>Weightage</b>	
-DDM	100%
-Multiple Based	0%
<b>CHOICE INSTITUTIONAL EQUITIES FAIR VALUE (INR/share)</b>	<b>225</b>

Our Downside Scenario Valuation framework is a pure play DDM.

Source: COAL, Choice Institutional Equities

## Financials &amp; Ratios

## Income statement (Consolidated in INR Mn)

Particular	FY24	FY25	FY26E	FY27E	FY28E
Revenue	14,23,240	14,33,689	14,91,459	15,63,146	17,56,969
Gross Profit	13,22,654	13,44,253	13,75,442	14,37,861	16,21,659
EBITDA	4,18,333	4,29,575	4,38,272	3,96,362	5,09,173
Depreciation	67,354	91,455	1,07,698	1,21,723	1,35,748
EBIT	4,96,320	4,78,498	4,31,929	3,71,172	4,67,755
Other Income	83,959	99,323	61,355	56,533	54,330
Interest Expense	8,194	8,837	8,837	8,837	8,837
PBT	4,88,126	4,69,662	4,23,093	3,62,335	4,58,919
Reported PAT	3,73,691	3,53,021	3,18,017	2,72,349	3,44,946
EPS	61	57	52	44	56

Ratio Analysis	FY24	FY25	FY26E	FY27E	FY28E
<b>Growth Ratios (%)</b>					
Revenues	2.9	0.7	4.0	4.8	12.4
EBITDA	3.0	2.7	2.0	(9.6)	28.5
PAT	17.8	(5.5)	(9.9)	(14.4)	26.7
<b>Margins (%)</b>					
Gross Profit Margin	92.9	93.8	92.2	92.0	92.3
EBITDA Margin	29.4	30.0	29.4	25.4	29.0
Tax Rate	23.4	24.8	24.8	24.8	24.8
PAT Margin	26.3	24.6	21.3	17.4	19.6
<b>Profitability (%)</b>					
Return On Equity (ROE)	44.7	35.3	27.7	21.9	24.6
Return On Invested Capital (ROIC)	27.7	23.4	19.8	16.2	19.3
Return On Capital Employed (ROCE)	21.5	18.4	15.7	13.2	15.7
<b>Leverage Ratio (x)</b>					
Debt to Equity	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)
Net debt to EBITDA	(1.2)	(1.6)	(1.2)	(0.7)	(0.8)
Interest Coverage	61.3	59.9	56.5	51.3	63.8
<b>Cash Flow Metrics (x)</b>					
OCF/EBITDA (x)	0.4	0.7	0.8	0.8	0.8
OCF/IC (%)	0.1	0.2	0.2	0.2	0.2
<b>Working Capital (x)</b>					
Inventory Days	26	33	33	32	31
Receivable Days	37	37	40	40	40
Creditor Days	24	27	27	27	29
Working Capital Days	39	43	46	45	42
<b>Valuation Metrics (x)</b>					
EV/EBITDA	4.9	4.4	4.3	4.8	3.8
EV/IC	1.7	1.3	1.3	1.2	1.1
PE	7.2	6.8	7.5	8.8	6.9
P/BV	3.2	2.4	2.1	1.9	1.7

## Balance sheet (Consolidated in INR Mn)

Particular	FY24	FY25	FY26E	FY27E	FY28E
Net Worth	8,35,819	9,99,507	11,47,679	12,43,390	14,04,632
Borrowings	62,890	89,084	89,084	89,084	89,084
Deferred Tax	18,222	18,319	18,319	18,319	18,319
Other Liabilities & Provisions	13,75,935	13,93,018	13,53,018	13,13,018	12,73,018
<b>Total Net Worth &amp; Liabilities</b>	<b>22,92,866</b>	<b>24,99,927</b>	<b>26,08,100</b>	<b>26,63,810</b>	<b>27,85,052</b>
Net Block	6,79,004	7,66,399	8,23,701	8,66,978	8,96,231
Capital WIP	1,89,603	2,23,849	2,38,849	2,53,849	2,68,849
Goodwill & Intangible Assets	77,678	62,252	62,252	62,252	62,252
Investments	71,104	75,913	95,918	1,15,918	1,35,918
Cash & Cash Equivalents	3,02,352	3,42,153	3,47,288	3,15,818	3,43,213
Loans & Other Assets	8,22,652	8,78,004	8,78,004	8,78,004	8,78,004
Net Working Capital	1,50,473	1,51,358	1,62,088	1,70,992	2,00,587
<b>Total Assets</b>	<b>22,92,866</b>	<b>24,99,927</b>	<b>26,08,100</b>	<b>26,63,810</b>	<b>27,85,052</b>

Cash Flows (INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
Cash Flows From Operations	1,81,031	2,91,997	3,52,466	3,27,472	3,95,606
Cash Flows From Investing	(44,858)	(1,00,764)	(1,68,645)	(1,73,467)	(1,75,670)
Cash Flows From Financing	(1,38,993)	(1,33,085)	(1,78,681)	(1,85,475)	(1,92,541)

DuPont Analysis	FY24	FY25	FY26E	FY27E	FY28E
Tax Burden	76.6%	75.2%	75.2%	75.2%	75.2%
Interest Burden	98.3%	98.2%	98.0%	97.6%	98.1%
EBIT Margin	38.1%	37.7%	32.7%	26.8%	30.1%
Asset Turnover	0.5	0.5	0.5	0.5	0.5
Equity Multiplier	2.8	2.6	2.4	2.2	2.1
<b>ROE</b>	<b>44.7%</b>	<b>35.4%</b>	<b>27.7%</b>	<b>21.9%</b>	<b>24.6%</b>

Source: COAL, Choice Institutional Equities

## APPENDIX – Company Description

## Company Description

Coal India Limited (CIL) is a "Maharatna" enterprise operating under the Ministry of Coal, Government of India. It holds the distinction of being the largest coal producer globally. Established in 1975, CIL plays a strategic and pivotal role in meeting India's growing energy requirements, as coal remains the dominant fuel source in India's energy mix for the medium term, offering reliability, stability, and affordability. CIL also holds approximately 48% of India's total proven coal reserves. CIL operates across eight Indian states in 84 mining areas, managing a total of 313 working mines, which include 131 underground, 168 opencast, and 14 mixed mines. Coal India holds the title of the largest coal producer worldwide. It plays a strategic role in meeting India's growing energy requirements, as coal remains a vital and dominant energy source, accounting for 55% of India's energy needs.

## CIL plays a crucial role in India's energy sector by supplying coal to various industries:

**Power Generation:** A significant proportion of coal demand is for power generation in the thermal power sector. In FY 2023-24, CIL supplied 619.7 MnT of coal to the power sector.

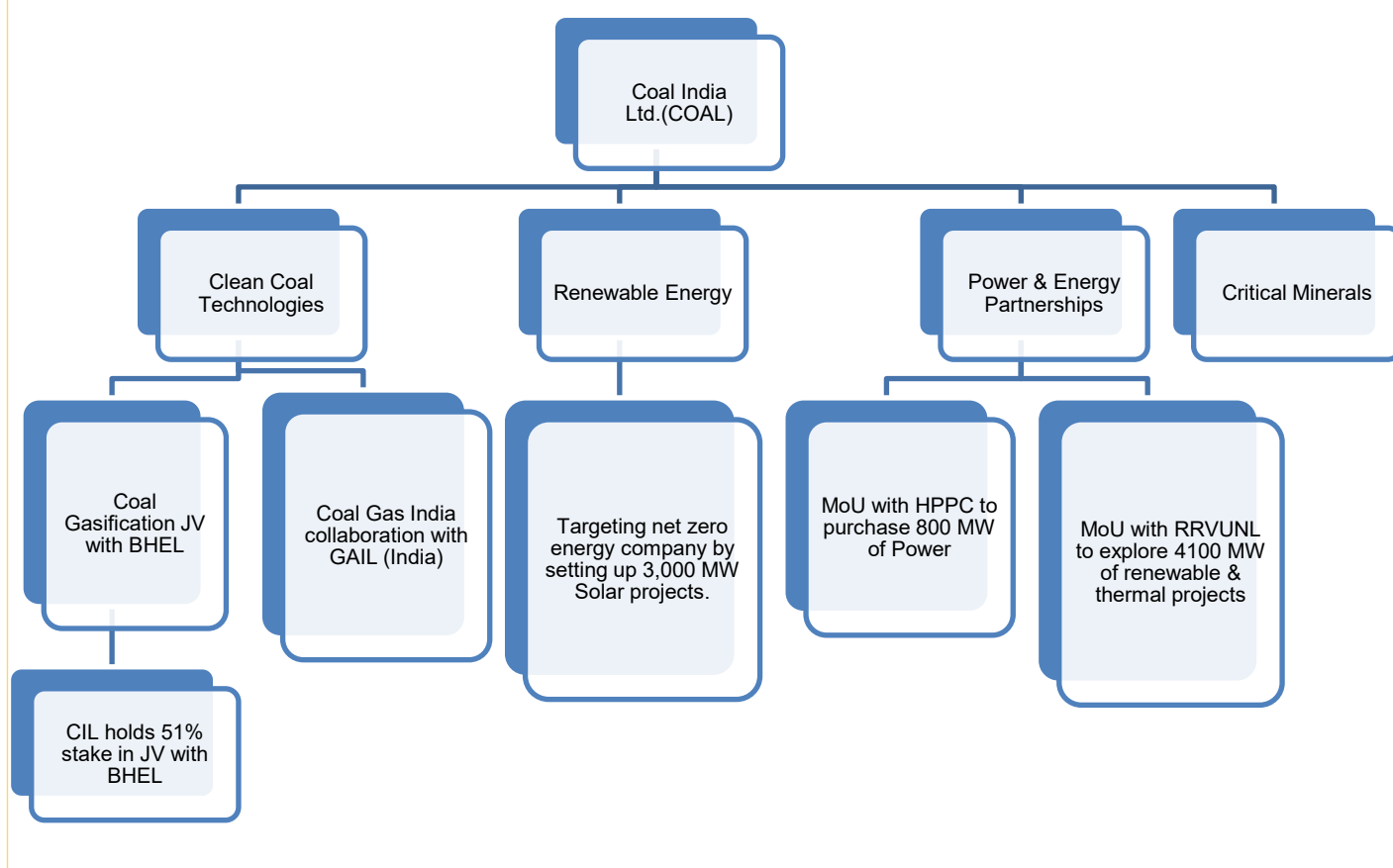
**Non-Regulated Sectors (NRS):** The balance demand comes from non-regulated sectors, including steel, cement, and captive power plants. CIL supplied a record 134.4 MnT to NRS consumers in FY 2023-24.

**Emerging Segments:** New segments such as power demand from electric vehicles and demand for coal from the chemicals sector (e.g., for synthetic fuel production like petrochemicals, gasification, and methanol) are expected to contribute to future demand.

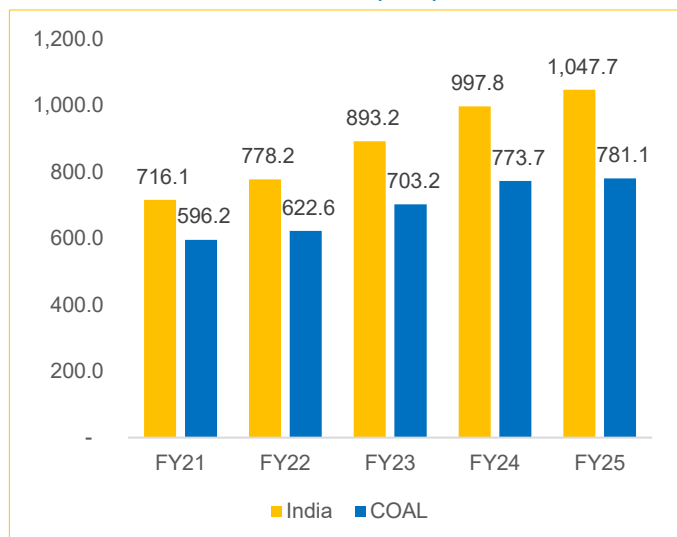
**Supply Mechanisms:** CIL utilizes various mechanisms like Fuel Supply Agreements (FSAs) and e-auction to cater to diverse customer needs. Recent government policies, like the new Shakti scheme, allow central and state gencos to receive coal on a nomination basis or through tariff-based bidding from private players, along with short-term and long-term windows.

In FY24, Coal India Limited (CIL) produced a total of 773.6 MnT of coal, which included 60.4 MnT of coking coal and 713.2 MnT of non-coking coal.

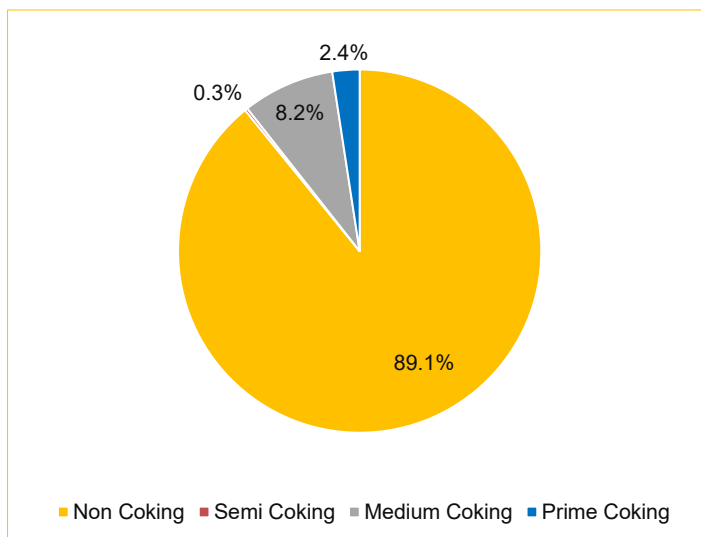
## Strategic Growth and Diversification Initiatives of COAL



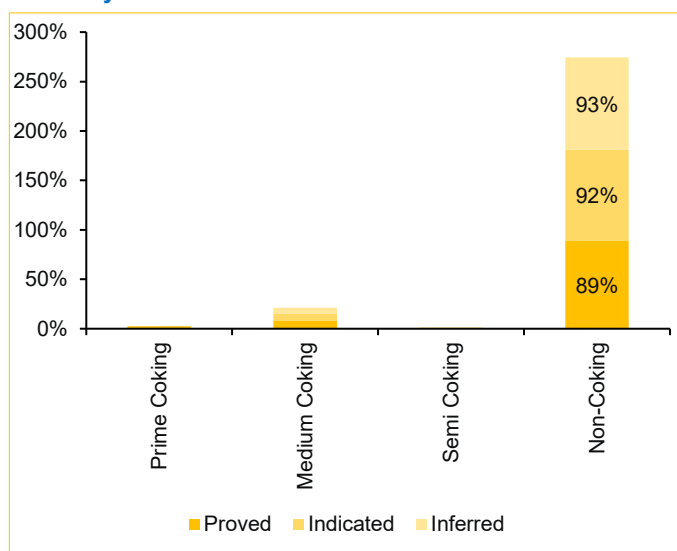
Source: COAL, Choice Institutional Equities

**APPENDIX – Company & Industry in Charts**
**Coal Production India Vs COAL (MnT)**


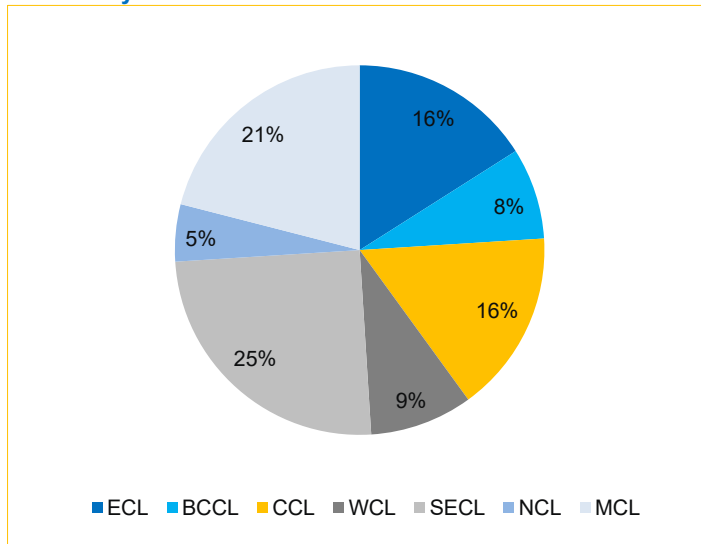
Source: COAL, Choice Institutional Equities

**Distribution of Proved Resource of COAL**


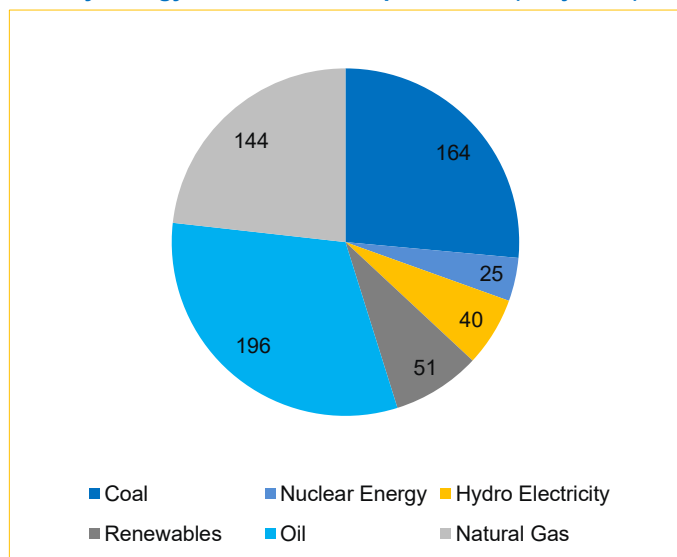
Source: COAL, Choice Institutional Equities

**Inventory of Coal Resources in India**


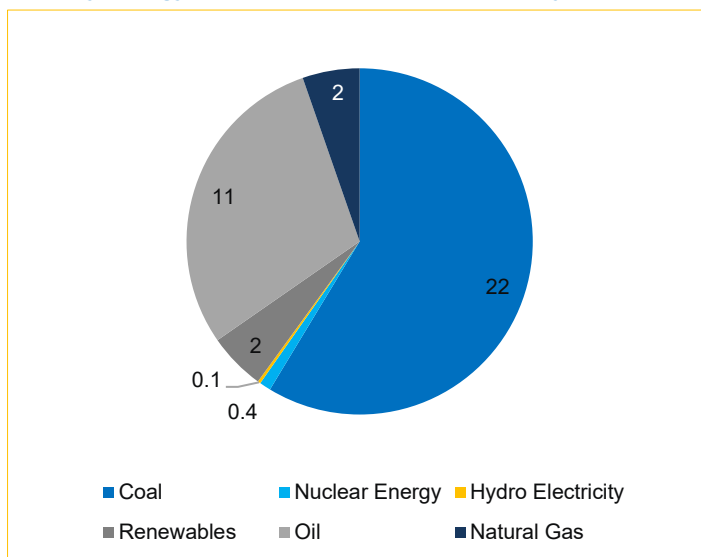
Source: COAL, Choice Institutional Equities

**Subsidiary wise distribution of Coal Resources of COAL**


Source: COAL, Choice Institutional Equities

**Primary Energy – World Consumption FY23 (Exajoules)**


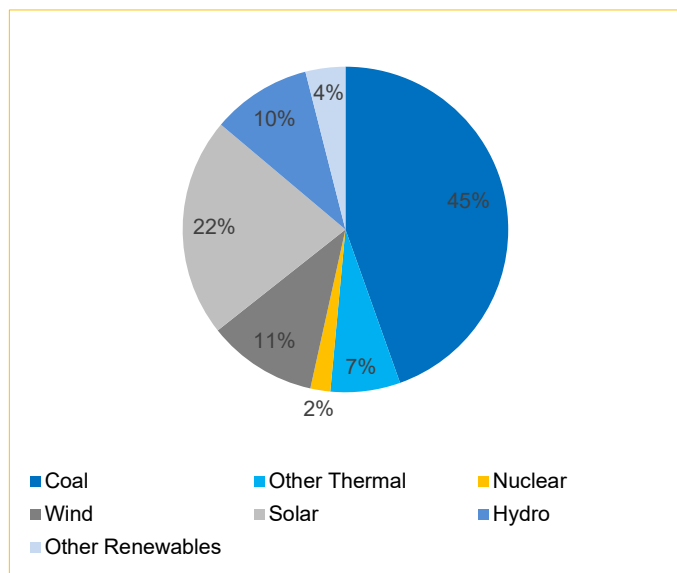
Source: COAL, Choice Institutional Equities

**Primary Energy – India Consumption FY23 (Exajoules)**


Source: COAL, Choice Institutional Equities

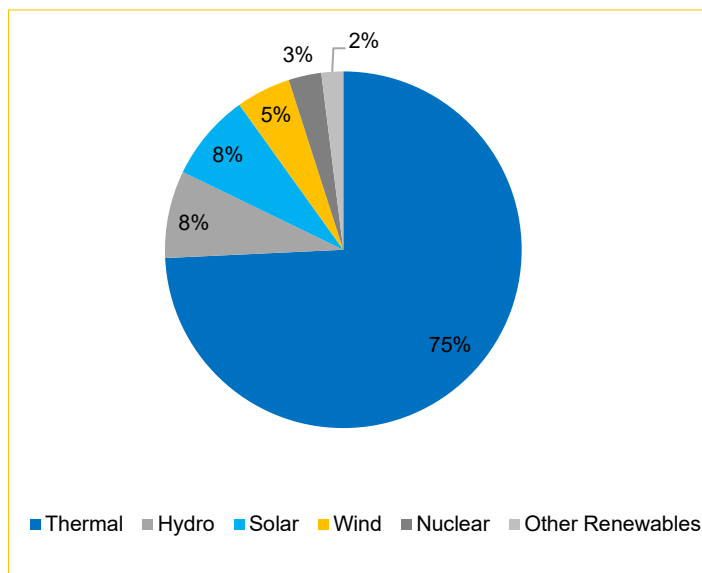


## Installed Power Capacity FY24 – Coal Based Dominates



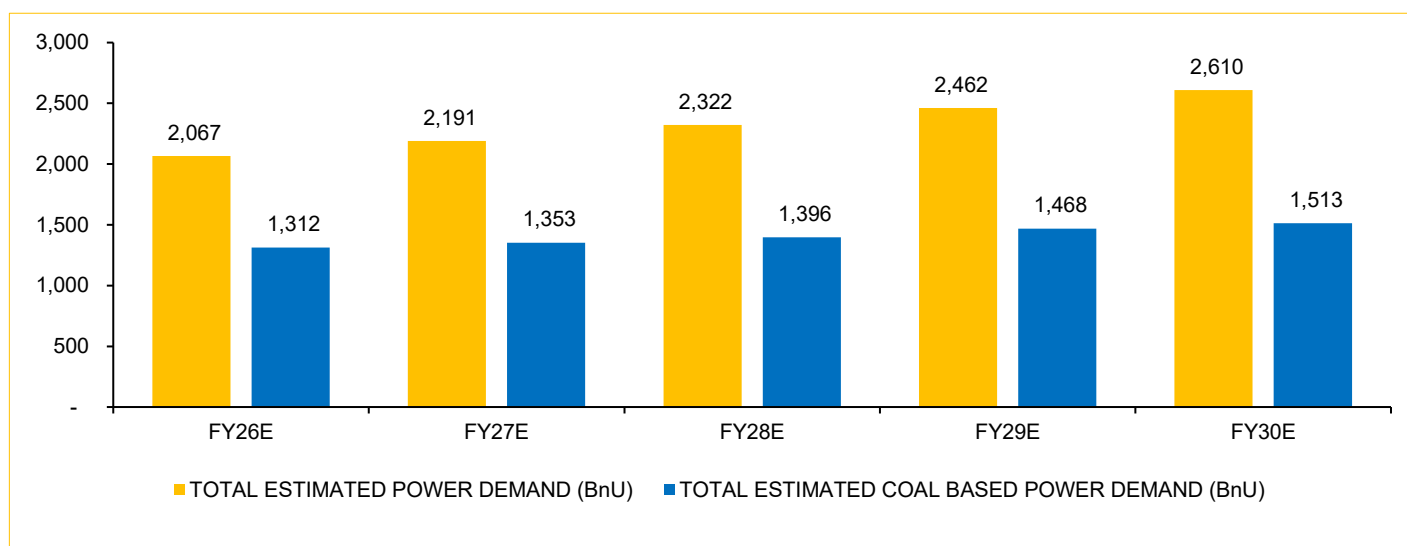
Source: COAL, Choice Institutional Equities

## Energy Generation FY24 – Coal Share Higher than Capacity



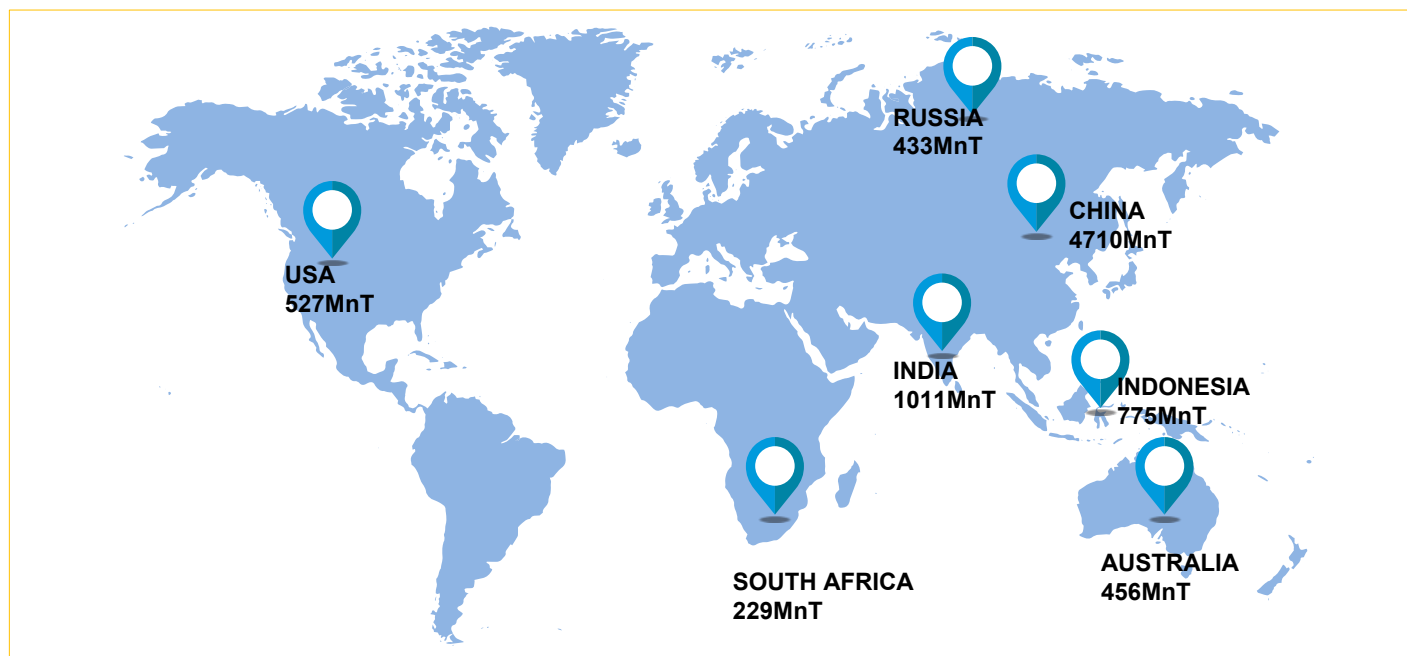
Source: COAL, Choice Institutional Equities

## Total Estimated Power Demand vs. Estimated Coal-Based Power Demand – Coal share gradually declines








Source: COAL, Choice Institutional Equities

## Major Coal Producing Countries in the World – China and India Continue to Dominate



**Leadership at COAL**

Name	Designation	Qualification	Experience
 Shri PM Prasad	Chairman & MD	Bachelor Degree in Mining Engineering, Law (LL.B.) and M.Tech. from the Indian School of Mines (IIT-ISM), Dhanbad	Mining industry veteran with 39 years of experience in operations and management across Coal India subsidiaries and NTPC. Former CMD of Central Coalfields Limited (2020–2023) and Bharat Coking Coal Limited (2019–2020)
 Shri Nagaraju Maddirala	Part-time Director (Govt. Nominee)	IAS officer and Postgraduate Degree from the University of Hyderabad	Additional Secretary, Ministry of Coal; Part-time Director (Government Nominee) and Former Advisor to the Executive Director at the World Bank, Washington DC (2008–2012). Held key roles in Ministry of Finance (2004–2008), and in State Government across Health, Finance, Tribal Welfare, and Industries & Commerce departments
 Smt. Nirupama Kotru	Joint Secretary & Financial Advisor, MOC	Bachelor's Degree in Economics (Hons.) from St. Stephen's College, Delhi University; M.A. in Politics & International Relations from Jawaharlal Nehru University, Delhi; and M.A. in Public Policy & Sustainable Development from TERI University, Delhi	IRS (Income Tax) officer of the 1992 batch with over 30 years of experience in taxation, governance, and public policy, Joint Secretary & Financial Advisor, Ministry of Coal, Director on the Board of Coal India Limited and Held key roles in Income Tax Department across Mumbai, Chennai, Delhi, and Pune.
 Shri Vinay Ranjan	Director (Personnel & Industrial Relations)	Executive Education in Leadership from INSEAD, France	People-focused HR leader with extensive experience across the full spectrum of Human Resource Management. Serving as Director (Personnel & Industrial Relations), CIL since July 28, 2021. Expert in talent acquisition, performance management, employee engagement, L&D, and HRIS and Led full-cycle SAP HR implementation at TCS and contributed at Tata Teleservices.
 D r. B. Veera Reddy	Director (Technical - Assumed)	Bachelor's Degree in Mining Engineering and M.Tech. in Mine Planning from Kothagudem School of Mines, Osmania University; First Class Manager's Competency Certificate from DGMS; Ph.D. from IIT-ISM, Dhanbad	Mining industry professional with over 33 years of experience in coal mining, planning, procurement, and operations; Director (Technical), CIL since February 1, 2022; Former Director (Technical) – Operations, Eastern Coalfields Limited (2020–2022); previously served as General Manager, Adriyala Longwall Project Area, SCCL, and held senior roles in mechanized underground and opencast mines, and Corporate Project Planning at SCCL
 Shri Debasish Nanda	Director – Business Development	Bachelor's Degree in Mechanical Engineering from UCE Burla, Sambalpur University; Postgraduate Degree in Production Engineering from REC Rourkela; and Master's in International Business from Indian Institute of Foreign Trade (IIFT), New Delhi	Energy sector veteran with over 35 years of experience in marketing, business development, and natural gas operations; Director (Business Development), CIL since July 11, 2022; Former Executive Director (Gas), Indian Oil Corporation – led the Natural Gas business with a turnover of over INR200Bn; possesses deep expertise in international business, including overseas expansion, POL exports, and subsidiary formation; currently leads CIL's diversification into thermal power, coal-to-chemicals, critical minerals, and renewable energy
 Shri Mukesh Choudhary	Director (Marketing)	Bachelor's Degree in Mechanical Engineering (Honours) from Engineering College, Kota; Master of Financial Analysis (MFA); and MBA	Senior government official with deep expertise in coal logistics, supply chain, and marketing; Director (Marketing), CIL since December 23, 2022; Former Deputy Director General, Department of Defence Production, Ministry of Defence; Indian Ordnance Factory Services (IOFS) officer of the 1996 batch; served over six years as Director (Coal Production and Dispatch), Ministry of Coal – overseeing coal supply, transport logistics, and marketing policy.
 Shri Mukesh Agrawal	Director (Finance)	Bachelor's Degree in Science from University of Allahabad; Member of the Institute of Cost Accountants of India	Finance professional with over 30 years of post-qualification experience across private and public sector organizations including ITI Limited, IRCON International, and NLC Ind Ltd; Director (Finance), CIL since February 8, 2024; former Executive Director at NLC India and CFO at NUPPL (subsidiary of NLC India); sectoral expertise spans telecommunications, construction, rubber, spinning, power, lignite, and coal; demonstrated leadership across accounts, treasury, taxation, costing, budgeting, fund management

Source: COAL, Choice Institutional Equities

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BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months

**Mid & Small Cap\***

BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months

**Other Ratings**

NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change

**Sector View**

POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in status over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

\*Large Cap: More Than INR 20,000 Cr Market Cap

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