Coal India | HOLD

JM FINANCIAL

Once there was a king; Downgrade to HOLD

Sudhanshu Bansal
sudhanshu.bansal@jmfl.com | Tel: (91 22) 66303128
Krishnakant Phafat
krishnakant.phafat@jmfl.com | Tel: (91 22) 66303563

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"King coal is coming back," we had said in Sep'23. Since then much water has flown under the bridge. The geopolitical landscape is tense but not disruptive, power demand is growing but less than renewable energy generation, and thermal capacity expansion for energy security is back on the table but with reduced utilisation rates. After showing remarkable performance (production and dispatch, both grew 10%+ YoY during the last 2 years vs. historical average of 3-4%), Coal India has now set an aspiration to reach 1bn tonnes (BT) of production by FY27 (which we believe will now happen by FY30). Amidst these factors, the slow and steady change in production mix towards inferior and cheap coal, gradually reducing PLF of thermal power plants, rise of captive mining, moderating/ stable e-auction prices, unlikely success in substitution of imported coal and lack of any meaningful impact from new thermal power plants is likely to limit the company's performance momentum in the next few years, resulting in EPS cut by 9-13% during FY25-27E from our earlier estimates. During FY24-30, we estimate Coal India to register revenue/ ex-OBR EBITDA/ PAT CAGR of 4%/ 1% /-1% vs. 8%/ 18%/ 25% during FY18-24. Hence, we downgrade the stock to HOLD with a revised DCF-based TP of INR 362 implying 3.7x EV/EBITDA FY27.

- **Coal quality; less discussed but high impact factor:** Coal quality is determined by its gross calorific value (GCV), basis which it is graded, and priced, from G-1 (7,000 kCal/kg) to G-17 (2,200-2,500 kCal/kg). Currently, G-1 is priced at INR 8,899 per tonne while G-17 is at INR 732 per tonne. Net realisation has been largely stable in recent years. Most of Coal India's (CIL) non-coking coal output is from low grade G11-G13, with G-11 contributing the maximum. Over the years (FY20-24), production of low grade coal has been increasing faster than others. The 226MT of incremental production over FY24 production to achieve the 1BT target will constitute 206 million tonnes (MT) of inferior and, hence, the cheapest G-11 to G-14 grade coal from subsidiaries – CCL, SECL and MCL – which will increase pressure on net realisation.
- **The writing is on the wall:** Historically, thermal power plants have been operating at a PLF of more than 70% with some of the pit-head and well-maintained plants running at more than 80%. Today, Coal India is bound by long-term supply commitments for 583.4MTPA through fuel supply agreements (FSAs) with power plants (at 85% PLF). The average PLF of the total installed coal capacity of 235GW is estimated to be 58.4% in FY27 and 58.7% in FY32 as per CEA (Central Electricity Authority). Initial signs of this are already visible with thermal generation declining sharply during peak-renewable generation months (Exhibit-17).
- **Rise of captive mining:** As on now, the total number of coal producing mines in India are 408, out of which 26 are operated by private companies most of which are thermal coal mines. During Apr-Oct'24, 96MT of coal has been produced from commercial coal blocks, and that is expected to exceed 160MT in FY25. NTPC produced 34.39MT coal, +48% YoY in FY24, and is targeting to produce 86MT in the near future. Similarly, JSW Energy recently bagged one coal block in Odisha with reserves of 1,600MT for G-11 grade non-coking coal. The government aims to produce 320MT from captive and commercial blocks by 2030. We expect commercial/ captive mining to gain traction and achieve the FY30 target, which is a direct loss of opportunity for Coal India. (Exhibit-25)

Recommendation and Price Target	
Current Reco.	HOLD
Previous Reco.	BUY
Current Price Target (12M)	362
Upside/(Downside)	-0.4%
Previous Price Target	601
Change	-39.8%

Key Data – COAL IN	
Current Market Price	INR363
Market cap (bn)	INR2,236.5/US$25.8
Free Float	27%
Shares in issue (mn)	6,162.7
Diluted share (mn)	6,162.7
3-mon avg daily val (mn)	INR3,343.7/US$38.6
52-week range	545/361
Sensex/Nifty	76,330/23,086
INR/US$	86.6

Price Performance			
%	1M	6M	12M
Absolute	-11.6	-26.9	-4.8
Relative*	-4.8	-22.9	-9.5

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	13,82,519	14,23,240	14,13,231	14,58,231	15,56,224
Sales Growth (%)	26.0	2.9	-0.7	3.2	6.7
EBITDA	4,42,402	4,79,715	4,86,727	4,81,751	4,71,507
EBITDA Margin (%)	32.0	33.7	34.4	33.0	30.3
Adjusted Net Profit	3,17,230	3,73,691	3,33,594	3,54,359	3,47,416
Diluted EPS (INR)	51.5	60.6	54.1	57.5	56.4
Diluted EPS Growth (%)	80.6	17.8	-10.7	6.2	-2.0
ROIC (%)	204.0	89.3	50.0	37.5	29.1
ROE (%)	61.0	52.1	35.7	30.5	24.9
P/E (x)	7.2	6.1	6.8	6.4	6.5
P/B (x)	3.7	2.7	2.2	1.8	1.5
EV/EBITDA (x)	4.2	4.1	3.9	3.8	3.8
Dividend Yield (%)	6.6	5.1	5.1	5.1	5.1

Source: Company data, JM Financial. Note: Valuations as of 13/Jan/2025

- E-auction prices: E-auction realisation of Coal India (c.10% of sales) closely moves in tandem with international coal prices, which surged to unprecedented levels in 2022. India primarily imports thermal coal from South Africa and Indonesia. IEA expects global coal demand to increase in 2025, but exports from Indonesia to decline. Currently, e-auction prices are trading at premium of 50% vs. historical average of 30-40%. Hence, we expect e-auction prices to moderate further or at least be stable going forward. (Exhibit-29)

- Import substitution: India imports non-coking coal for imported coal-based plants (ICBs; 43.8 MT in FY24) and blending in domestic coal-based plants (24 MT in FY24). Domestic coal has high ash and moisture content with lower heating value, making it unsuitable for ICBs. Substitution of imported coal with high-ash domestic coal requires a lot of changes in boiler design requiring large capex. We don't expect large headway in substitution of imported coal, as endeavoured by the government.

- Demand from new plants: The government has envisaged a plan to add a minimum thermal capacity of 80GW by FY32. We expect new thermal capacities to operate at the technical minimum loading of 55% for most of the months during the year due to acceleration in RE capacity additions, particularly in solar-hours.

- Financial Impact: FSA prices are expected to drop from INR 1,537/tn in FY24 to INR 1,500 by FY30 (share of low-grade coal increases from 62% to 69%), and e-auction prices are expected to drop from INR 3,059/tn in FY24 to INR 2,300/tn in FY30. Coal India is estimated to register FY24-30 revenue CAGR of 4% vs. 8% during FY18-24 due to lower FSA realisation and e-auction prices, and delay in achievement of 1BT target from FY27 to FY30. Hence, we expect EBITDA Ex-OBR Adj/PAT during FY24-30 to grow at CAGR of 1%/-1% vs. 18%/25% from FY18-24 resulting in EPS cut by 9-13% during FY25-27E from our earlier estimates (Exhibit-33).

- Where can we go wrong: Spike in power demand (>6%) on sustained basis, global disturbances, sharp growth in solar capacity and/or slowdown in China can lead to significant variation in our estimates.

Once there was a king

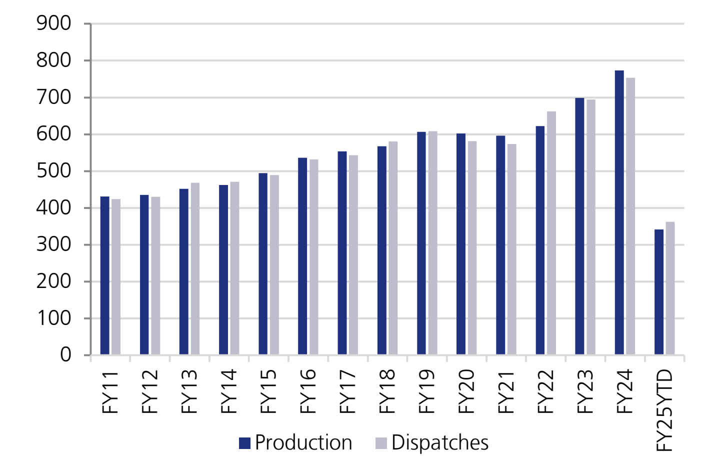
In Sep'23, we assessed the prospects for thermal coal in our note "'King coal' is coming back". Much water has flown under the bridge since then. The momentum for renewable energy continues to strengthen each month, propelled by conducive policy support and the entrepreneurial spirit of India. While the geopolitical landscape has remained tense, it has not been as disruptive as initially feared. Power demand has experienced remarkable growth after several years; however, this growth has not kept pace with the increase in renewable energy generation. Although coal production is on the rise, it is accompanied by a deteriorating quality mix. There is renewed emphasis on expanding thermal capacity, albeit with reduced utilisation rates.

Our in-depth analysis now suggests that Coal India's (CIL) earnings will experience a gradual and steady decline due to both internal and external structural changes until diversification efforts—encompassing thermal generation, coal gasification, and the expansion of renewable energy capacity—achieve significant scale. Effectively, what this brings to mind about CIL is "Once there was a king."

The recent journey

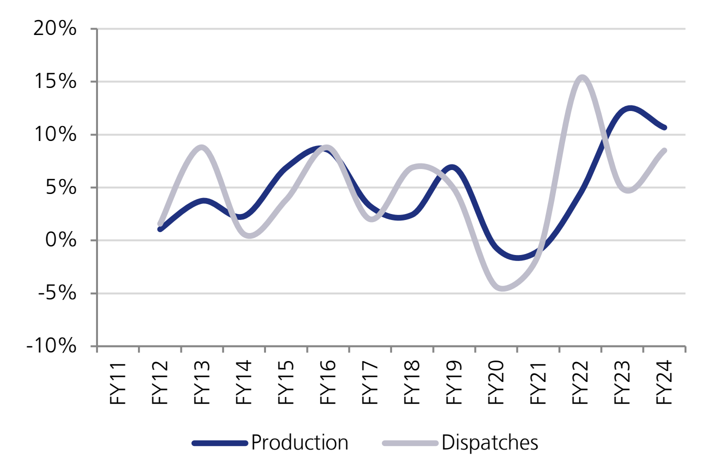
Coal India in recent years has shown remarkable performance with production and dispatch reaching 773MT and 754MT respectively. Production grew at rate of ~11% in the last 2 years vs. 2% in FY18-22 whereas dispatches grew at the rate of ~7% vs. ~4% in FY18-22.

Exhibit 1. Production & Dispatches (MT)



Source: Company

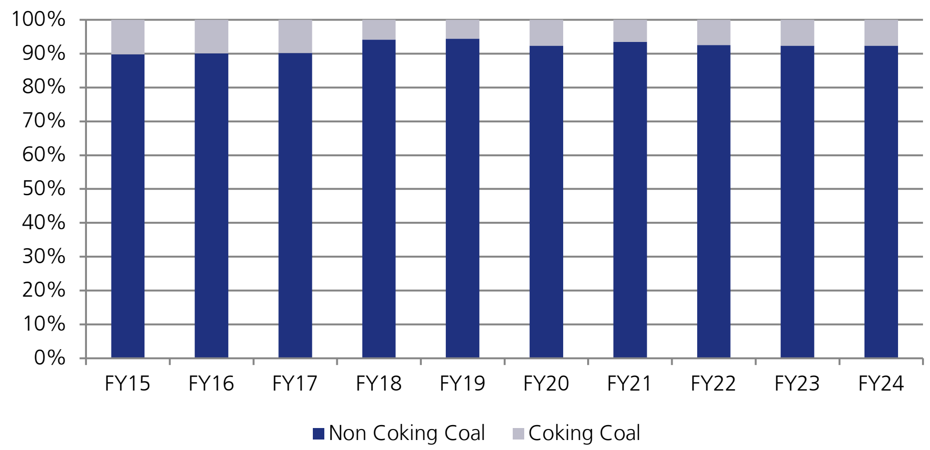
Exhibit 2. Production & Dispatches growth (%)



Source: Company

Historically, non-coking coal has always been more than 90% in its production mix.

Exhibit 3. Coking & non-coking coal dispatch, % contribution



Source: Company

It supplied 619.7MT to the power sector during FY24, exceeding the demand of 610MT set by the Ministry of Power. Beyond the regulated power sector, it supplied 134.4MT to non-regulated sector (NRS) consumers in FY24. The supply to NRS (non-regulated sector) consumers includes various industries such as cement, steel, and other manufacturing sectors, which rely heavily on coal for their production processes.

Coal India is bound by long-term supply commitments for 583.4MTPA through fuel supply agreement (FSAs) with power plants under the provisions of New Coal Distribution Policy (NCDP) and the FSAs executed under various provisions of SHAKTI, but excluding bridge linkage commitments. The operative bridge linkage commitments towards the power sector stood at 11.8MTPA as of Mar'24, where coal supply is based on best effort basis. The total FSA commitments for non-power consumers stood at 103.4MTPA as of Mar'24.

The yearly target for coal despatch in FY25 has been set at about 838MT so as to cater to the entire demand of the power sector, NRS and also to substitute the substitutable imported coal in the country. In order to tap the potential future market for coal consumption and explore alternative uses of domestic coal, CIL is trying to offer more coking coal to the steel sector and also supply coal for upcoming coal gasification projects.

CIL aims to increase its production to 1BT by FY27 from the current level of 773.647MT.

Coal quality; the less discussed but high impact attribute

Coal quality is determined by its gross calorific value (GCV). GCV is the amount of heat or energy that can be generated from burning the coal. Coal being a fossil fuel is a mixture of carbon, ash, moisture and a host of other impurities. Higher carbon content indicates higher quality or grade of coal.

Types of coal: Coal is characterised into different categories:

- Non-coking coal where grading is based on gross heat content. Non-coking coal is used in thermal power plants. It can have higher ash content but still generate sufficient heat for boilers and turbines.
- Coking coal where grading is based on ash content. Coking coal is essential for steel production, requires minimal ash content.
- Semi coking coal and weakly coking coal where grading is based on ash and moisture content.

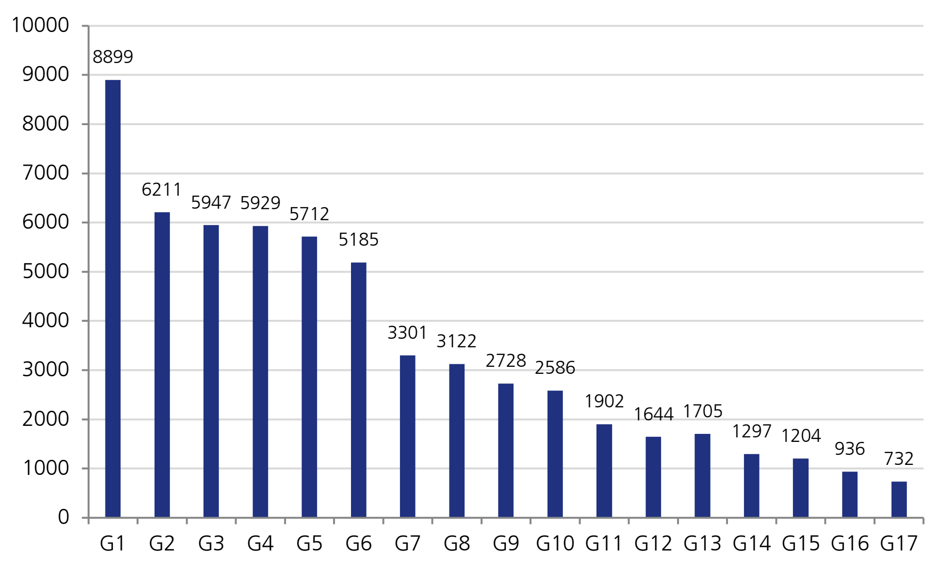
Coal grades

Non-coking coal is graded from G-1 to G-17 based on GCV. The higher the available carbon in a unit of coal, the greater is its quality or 'grade', and the costlier it is. There are 17 grades of coal, from Grade-1 (highest quality) to the lowest grade, Grade-17. Grade-1 (G-1) coal yields over 7,000 kCal/kg, while the lowest grade yield 2,200-2,500 kCal/kg.

Prices

The majority of coal in India is sold through the notified prices, which is based on GCV. Currently G-1 is priced at INR 8,899 per tonne while G-17 is at INR 732 per tonne (Ministry of Coal). For non-coking coal, CIL fixes notified prices for each grade. There is price discrimination between the regulated sector and the non-regulated sector.

Exhibit 4. Representative prices for Oct'24 (INR/tonne)



Source: Ministry of Coal, JM Financial

The net realisation (popular reference price for assessing revenue) has been largely stable in recent years, but declined unexpectedly in YTDFY25. We have deep-dived here on why this is so.

Subsidiaries producing the coal

CIL has seven subsidiaries producing coal namely:

- Eastern Coalfields Limited (ECL),
- Bharat Coking Coal Limited (BCCL),
- Central Coalfields Limited (CCL),
- Western Coalfields Limited (WCL),
- South Eastern Coalfields Limited (SECL),
- Northern Coalfields Limited (NCL) and
- Mahanadi Coalfields Limited (MCL)

Most of CIL's non-coking coal output is from low grade G11-G13, with G-11 contributing the maximum.

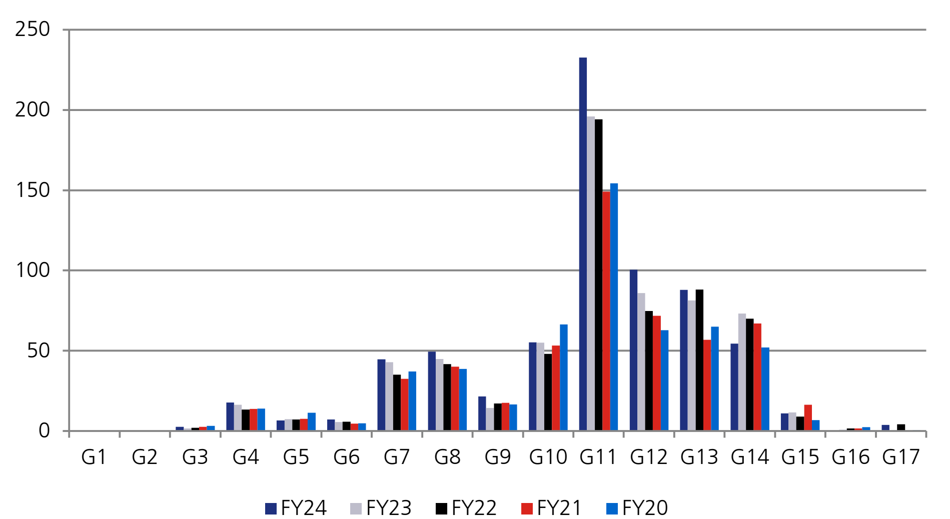
Exhibit 5. Subsidiary wise coal grades and production in FY24, MT

Companies	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	G11	G12	G13	G14	G15	G16	G17	Total N-Coking	Total Coal
ECL			1.4	17.9	5.6	1.8	3.8	2.1		1.0	2.1		11.9					47.5	47.6
BCCL					0.0	0.1	0.4	0.6	0.7	0.1								2.0	41.1
CCL					0.8	0.9	1.7	5.3	6.3	5.2	28.4	15.2	1.3					65.0	86.1
NCL							36.2	33.2	7.7	23.0	25.2	7.5	3.3					136.1	136.1
WCL						0.1	0.1	1.2	5.4	20.8	30.4	5.4	5.7					69.1	69.1
SECL			1.2	0.1	1.8	3.6	4.0	6.6	3.4	4.2	143.3	1.3	5.3	5.2	7.3			187.2	187.4
MCL						0.0	0.0	0.1	0.3	5.0	7.5	76.4	59.0	50.0	7.8			206.1	206.1
CIL	0.1	0.1	2.6	18.0	8.2	6.5	46.2	49.2	23.8	59.2	237.0	105.8	86.5	55.3	15.1	0.0	0.0	713.4	773.8

Source: Ministry of Coal, JM Financial

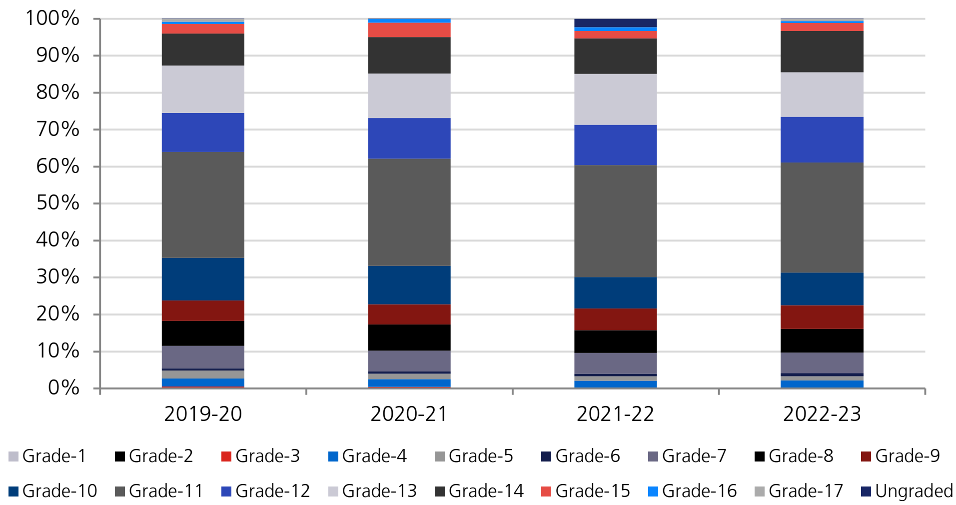
Over the years (FY20-24), production of low grade coal has been increasing faster than others. Grades, G-11-12 have grown at a 10 years CAGR of more than 10% vs. others growing at sub-5% (Exhibit-9).

Exhibit 6. Grade-wise yearly dispatch of non-coking coal, FY20-24 (MT)



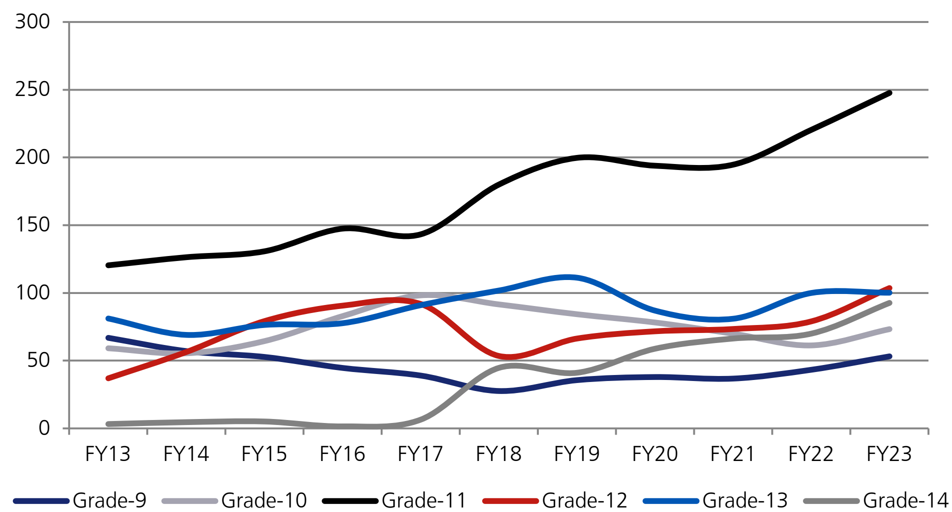
Source: Ministry of Coal, JM Financial

Exhibit 7. Grade-wise yearly dispatch composition of non-coking coal by CIL, FY20-FY23



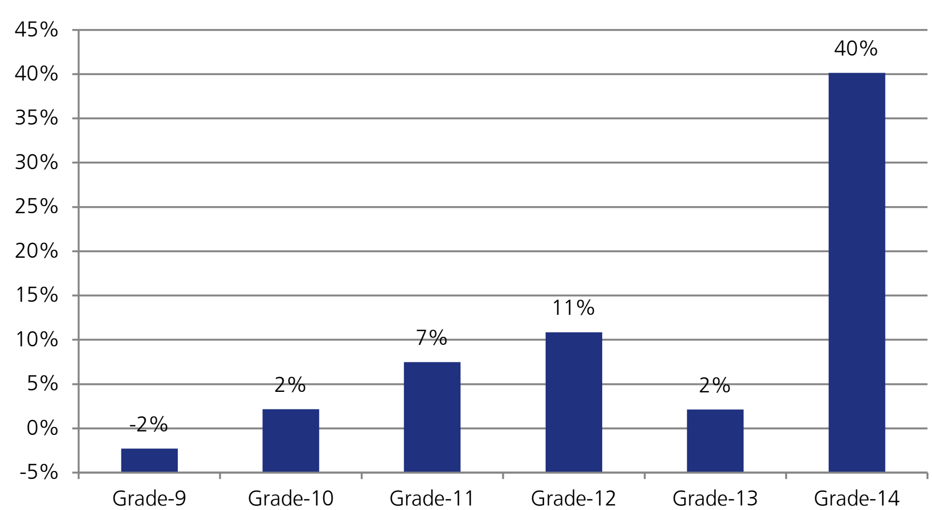
Source: Ministry of Coal, CMIE, JM Financial

Exhibit 8. Grade-wise production trend (MT)



Source: Ministry of Coal, CMIE, JM Financial

Exhibit 9. 10 years CAGR of grade-wise coal production (MT), 2013-23



Source: Ministry of Coal, CMIE, JM Financial

Coal India has set a target to produce 1BT of coal by FY27 from ~774 MT in FY24 (CAGR – 9.07%), which will further increase to 1.12BT by FY30. The increase in coal production is envisaged mainly from CCL, SECL and MCL, which primarily produce G11-G14 grades.

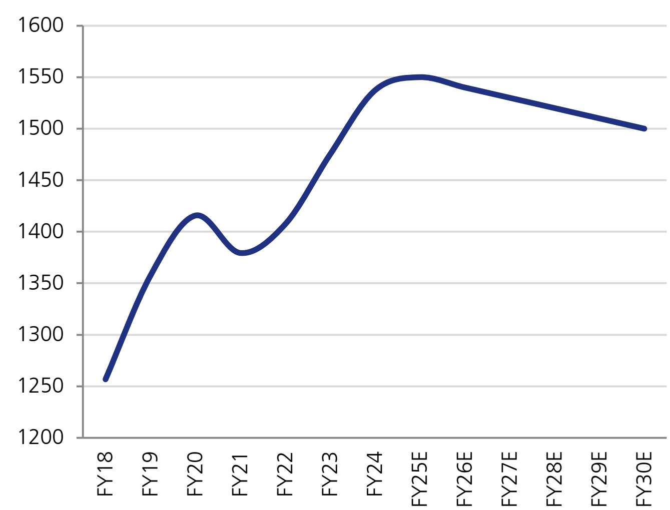
Exhibit 10. Subsidiary wise MT and % share in 1BT target (MT)

Companies	FY24	FY25 Target	FY26 Target	Major grades	Incremental (MT)
ECL	48	52	60	G4, G13	12
%	6%	6%	6%		
BCCL	41	45	50	G7-G9	9
%	5%	5%	5%		
CCL	86	106	135	G11, G12	49
%	11%	12%	14%		
NCL	136	135	135	G7-G11	-1
%	18%	16%	14%		
WCL	69	68	70	G10-G11	1
%	9%	8%	7%		
SECL	187	219	260	G11	73
%	24%	26%	26%		
MCL	206	225	290	G12-G14	84
%	27%	26%	29%		
CIL	774	850	1000		226

Source: Ministry of Coal, JM Financial

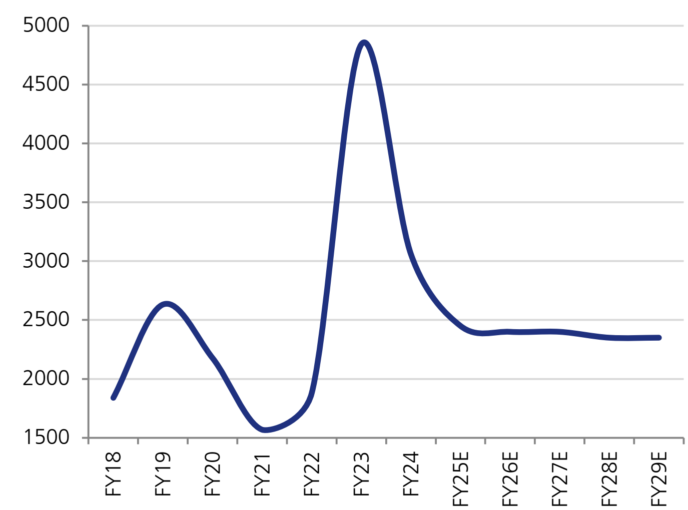
Hence, going forward, share of low-price and low-grade coal in the production mix will gradually increase (share of low-grade coal increases from 62% to 69%), putting pressure on net realisation for the company, presuming no or insignificant change in regulated prices.

Exhibit 11. FSA prices (INR/t)



Source: Company, JM Financial

Exhibit 12. E-auction prices (INR/t)

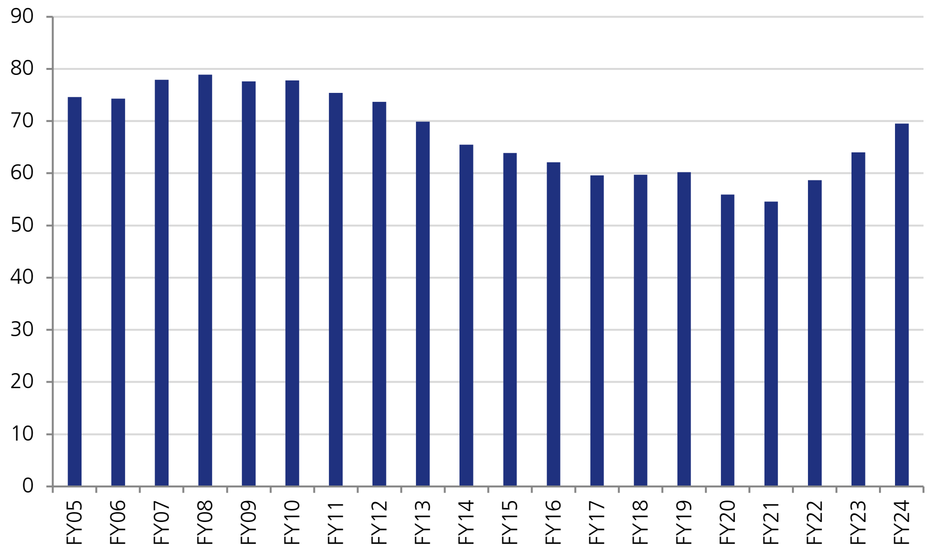


Source: Company, JM Financial

The writing is on the wall

Historically, thermal power plants have been operating at a PLF of more than 70% with some of the pit-head and well-maintained plants running at more than 80%.

Exhibit 13. Coal-fired power generation, PLF trend (%)



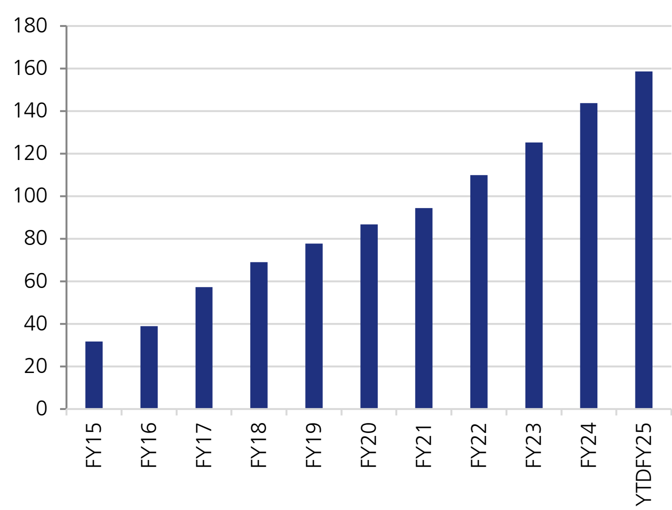
Source: CEA, CMIE, JM Financial

The Annual Contracted Quantity (ACQ) was increased to 100% of the normative requirement in 2024 in cases where the ACQ was either reduced to 90% of normative requirement (non-coastal) or where the ACQ was reduced to 70% of normative requirement (coastal power plants).

Today, Coal India is bound by long-term supply commitments for 583.4MTPA through FSAs with the power plants (at 85% PLF) under the provisions of NCDP and the FSAs executed under various provisions of SHAKTI, but excluding bridge linkage commitments. Coal plant load factors (PLFs) are expected to decrease in the long term as the share of renewables in the energy mix increases.

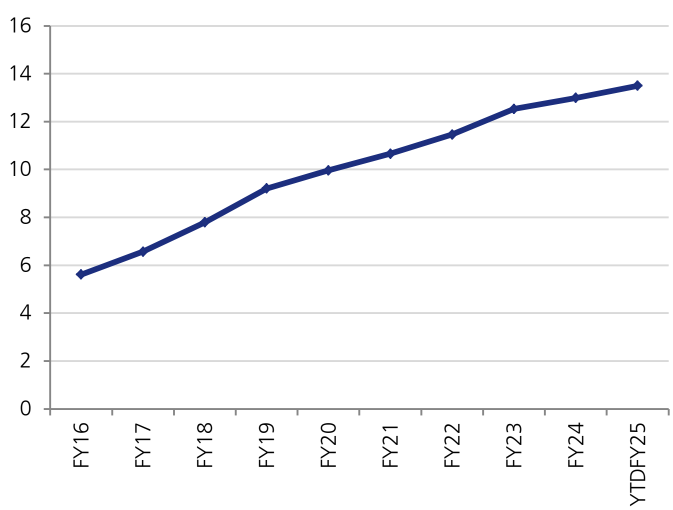
The government has set a target to achieve 500GW of non-fossil based power generation capacity by 2030. Notwithstanding the likely shortfall in the targets for 2030, energy transition is irreversible and share of RE in the supply mix will gradually increase.

Exhibit 14. Renewable installed capacity (GW)



Source: CMIE, JM Financial

Exhibit 15. RE share in gross generation, %



Source: CMIE, JM Financial

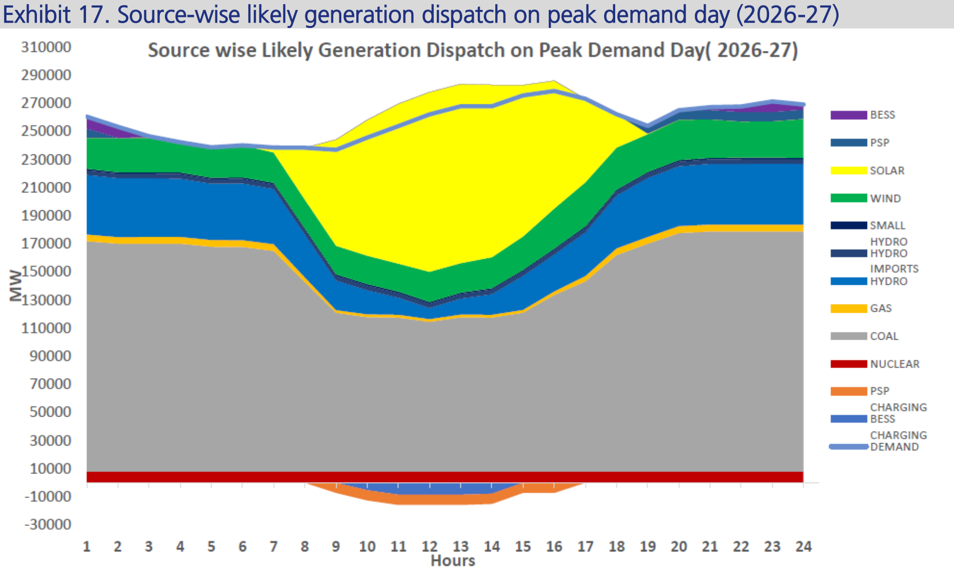
Exhibit 16. Source wise gross generation (BU)

Technology	FY22	FY27E	FY32E
Coal+Lignite	1041.5	1203.4	1334.8
Gas	36.0	34.1	33.4
NUCL	47.1	77.9	117.6
Hydro	151.6	207.7	246.2
PV	73.5	339.3	665.6
Wind Power	68.6	153.5	258.1
Other RE	28.8	9.1	10.0
Total	**1447.1**	**2025.0**	**2665.7**

Source: CMIE, NEP, JM Financial

As per the generation planning studies done by Central Electricity Authority (CEA) for the year 2026-27, the peak demand of 277GW in the country is likely to occur in the month of May. It has been observed that on this day when peak demand occurs the online coal capacity is running at 55% minimum power load (MPL) during the hours when full solar generation is available. The storage is getting charged during the period when excess solar generation is available and dispatched during non-solar hours. However, RE generation could not be fully absorbed due to shape of load curve, minimum technical loading of the coal and gas plants etc. The gross PLF of the coal-based capacity is likely to be 65.6% on the day.

Exhibit 17. Source-wise likely generation dispatch on peak demand day (2026-27)



Source: CEA, NEP, JM Financial

The average PLF of the total installed coal capacity of 235.1GW was found to be about 58.4% in FY27 and PLF of about 58.7% in FY32.

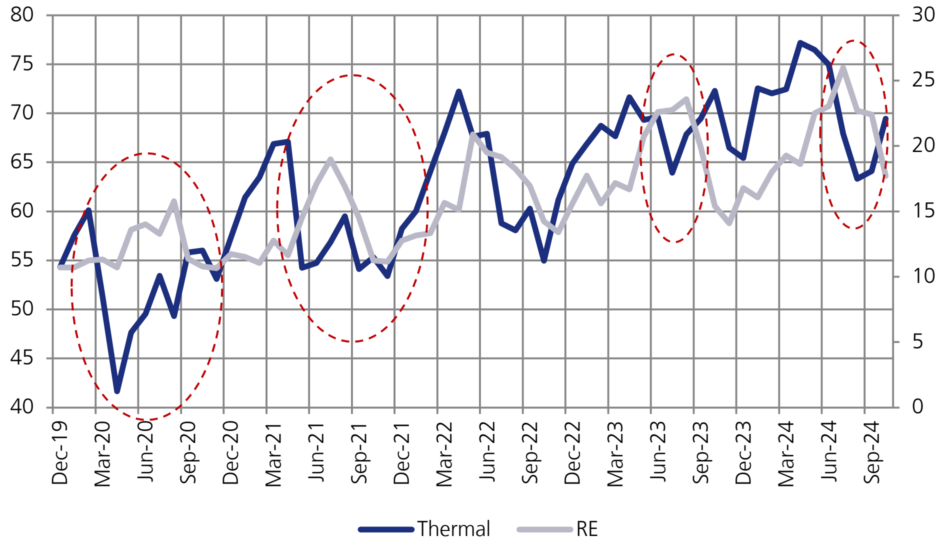
Exhibit 18. Generation & PLF of coal-fired power plants

Year	Coal + Lignite Based Generation (Gross) (BU)	PLF (%)
FY27E	1203.4	58.4
FY32E	1334.7	58.7

Source: CEA, NEP, JM Financial

Initial signs of this are already visible with thermal generation declining sharply during peak-renewable generation months.

Exhibit 19. Thermal PLF (LHS) (%) and RE generation (RHS) (BU)



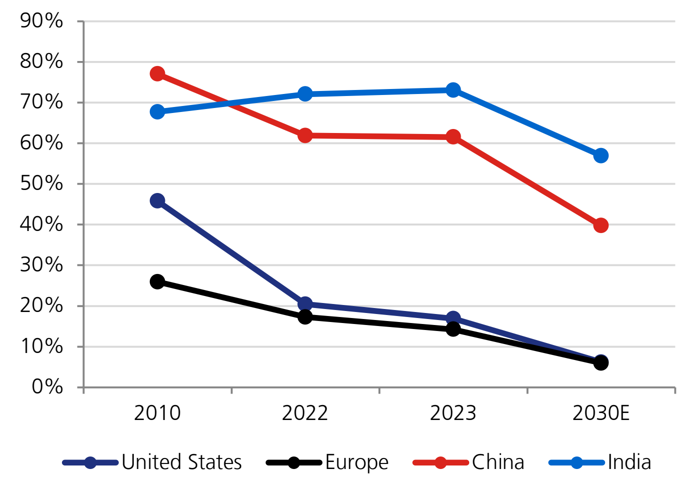
Source: CEA, CMIE, JM Financial

We had discussions with many industry players. It is generally believed that demand for coal for power generation will peak in 2035 while being stagnant during 2030-35. Hence, we believe that requirement of coal for existing thermal power plants will gradually moderate in future.

Global experience

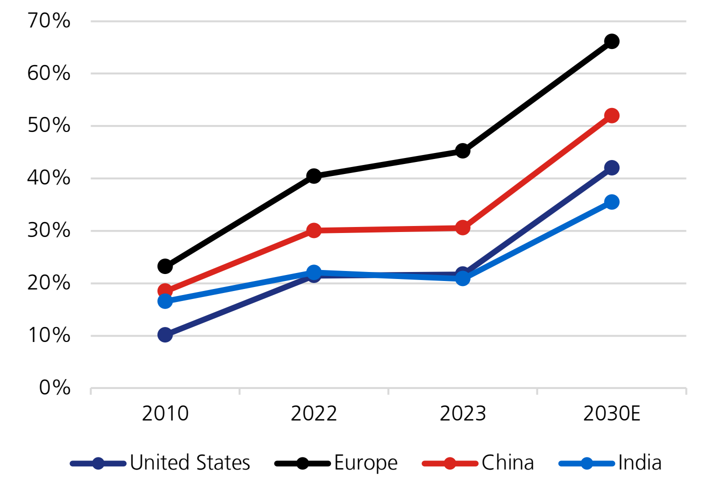
Globally, China has maximum coal-fired generation capacity followed by India and USA.

Exhibit 20. % Share of Coal generation



Source: CEA, IEA, JM Financial

Exhibit 21. % Share of RE generation



Source: CEA, IEA, JM Financial

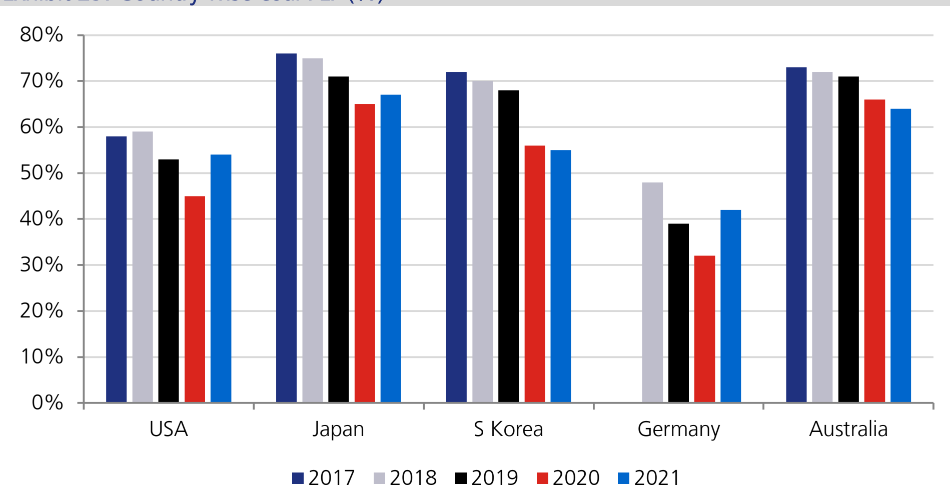
Exhibit 22. Country wise PLF of coal-fired stations

PLF	2017	2018	2019	2020	2021
USA	58%	59%	53%	45%	54%
Japan	76%	75%	71%	65%	67%
S Korea	72%	7	68%	56%	55%
Germany		48%	39%	32%	42%
Australia	73%	72%	71%	66%	64%

Source: CEA, IEA, JM Financial

It is observed that the average PLF of coal-fired power stations in these nations ranges from 42% to 67.3%. The primary reason for the relatively low PLF of coal-fired stations in these countries is their reduced reliance on coal for meeting energy generation needs. Furthermore, it is evident that the PLF of coal-fired stations is on a declining trajectory, whereas the PLF of alternative energy sources, such as natural gas and solar power, is demonstrating a consistent increase in these countries.

Exhibit 23. Country wise coal PLF (%)



Source: CEA, IEA, JM Financial

Rise of captive mining

Coal production in India is grouped under three categories: public sector (Coal India, Singareni Collieries, SCCL and NLC India), captive consumers, and commercial mining.

In 1993, India's government initiated the partial liberalisation of the coal mining sector by allowing private companies to participate. This enabled the development of captive blocks. Further, in 2015, the government paved the way for commercial coal sales. As of now, the total number of coal producing mines in India is 408, out of which 26 are operated by private companies.

Exhibit 24. Coal despatched by public and pvt sector (MT)

Year	Public	Private	Total
2019-20	600.6	25.5	626.2
2020-21	557.7	23.5	581.2
2021-22	685.1	24.9	710.1
2022-23	755.9	29.5	785.4
2023-24	825.6	33.7	859.3

Source: Ministry of Coal, JM Financial

To date, the government has conducted 10 rounds of auctions for commercial coal mining. Under commercial auctions, a total of 107 coal mines have been auctioned with a peak rated capacity (PRC) of 256.20MTPA. Out of the 107 successfully auctioned coal mines, Coal Mine/Block Development & Production Agreements (CMDPA / CBDPA) have been signed for 101 coal mines, and Vesting Orders have been issued for 96 coal mines (50 under CMSP Act and 46 under MMDR Act). Additionally, CMDPAs have been terminated for eight coal mines. Most of these are thermal coal mines, meeting the demand from captive or on-grid coal-fired power plants.

For example, NTPC has been allocated six coal blocks by the Ministry of Coal: Pakri-Barwadih, Chatti-Bariatu & Chatti-Bariatu (South), Kerandari, Dulanga, Talaipalli, and Badam. Additionally, the Banhardih coal block has been allocated to Patratu Vidyut Utapadan Nigam Ltd. (PVUNL), a JV of NTPC. The estimated extractable reserves of these blocks are around 2.80bn tn, with a combined mining capacity of 86MTPA, positioning NTPC to become one of the largest captive coal mining companies in India. In FY24, NTPC achieved its highest-ever coal production of 34.39 MT, 48% YoY.

Similarly, JSW Energy has bagged one coal block 'Bartap' in Odisha during the 10th round of commercial coal mine auction, possibly for the expansion of 2x350MW Ind-Barath thermal power plant located at Jharsuguda district of Odisha. It has geological reserves of 1,600MT for G-11 grade non-coking coal.

Exhibit 25. Commercial coal blocks and production

Year	No. of operational Coal blocks	Coal Production (MT)
2015-16	11	29.50
2016-17	12	32.53
2017-18	19	36.88
2018-19	27	49.91
2019-20	32	58.88
2020-21	39	63.14
2021-22	46	85.32
2022-23	51	116.08
2023-24	57	147.12
2024-25 (till October 2024)	61	95.90

Source: Ministry of Coal, JM Financial

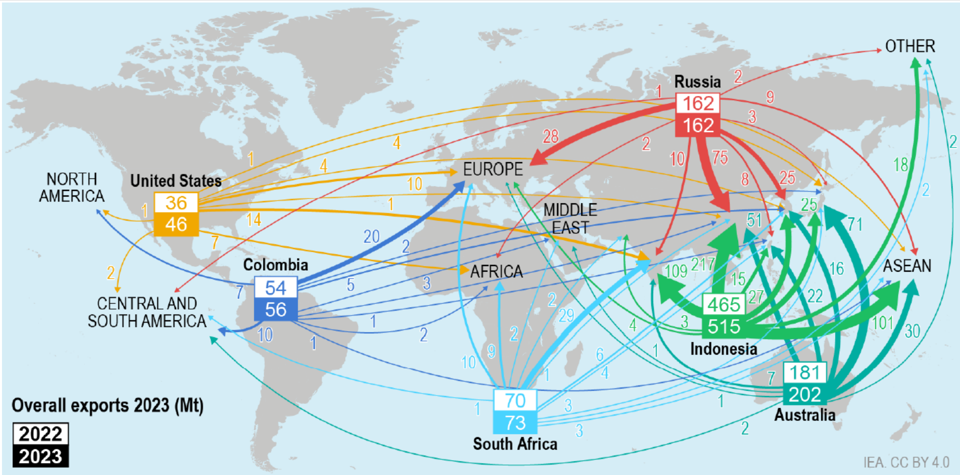
The government aims to produce 320MT from captive and commercial blocks by 2030.

Hence, given the overall capabilities of the companies with these blocks, we expect commercial/ captive mining to gain traction and achieve the targets.

E-auction prices

Coal is a globally traded commodity. International trade in coal rose by 10% in 2023, reaching a total of 1,510MT. Growth was recorded in the trade of both thermal coal (up 100MT) and met coal (up 42MT). Trade accounted for about 17% of global coal demand and more than three-quarters of traded coal was thermal coal.

Exhibit 26. Main trade flows in the thermal coal market, 2023 (MT)



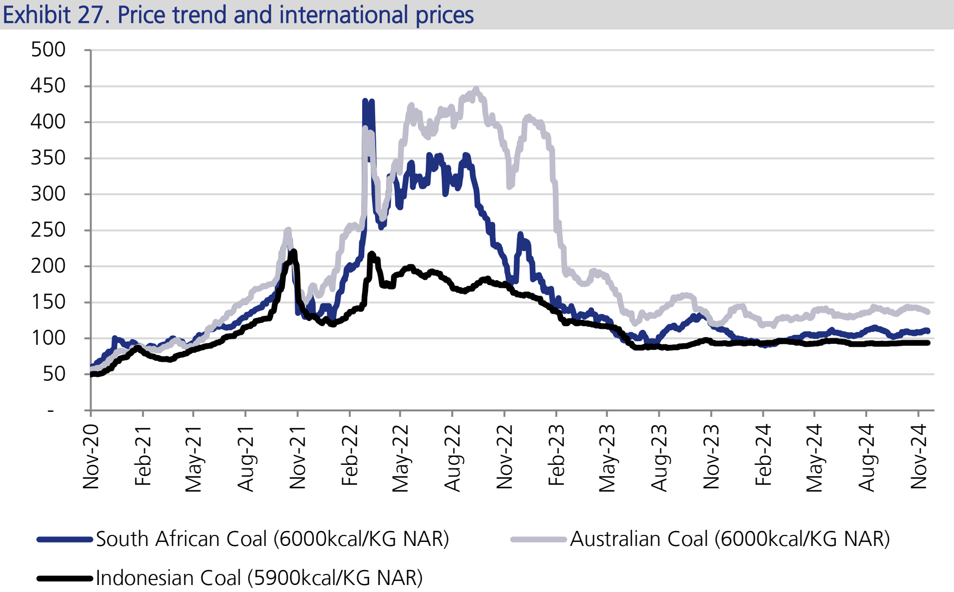
Source: IEA, JM Financial

Hence, e-auction realisation for Coal India closely moves in tandem with international coal prices (Coal India sells around 10% of its production through e-auction).

Thermal coal prices surged to unprecedented levels in 2022, driven by tight supply-demand dynamics, soaring natural gas prices, and escalating geopolitical risks.

IEA expects coal demand to increase in 2025, especially in developing economies such as China and India. Given that China accounts for over 56% of global coal consumption, any uptick in Chinese demand, coupled with continued growth in other developing nations and a potential rebound in demand in the US, suggests that global coal consumption could set new record highs in 2025. This could occur even as demand in Europe and other developed economies declines.

Exhibit 27. Price trend and international prices



Source: CMIE, Industry, JM Financial

Meanwhile, Indonesia, a key exporter of thermal coal, is projected to see its exports decline to 518MT in 2025 and further to 515MT in 2026 as estimated by S&P. This decline is attributed to rising domestic consumption driven by the country's goal of achieving energy self-sufficiency and expanding its energy-intensive metal processing industries. As a result, more of Indonesia's thermal coal production is expected to be directed toward the domestic market. This is at a time when IEA estimates that Indonesian production could decrease by 75MT to a total of 731MT by 2027.

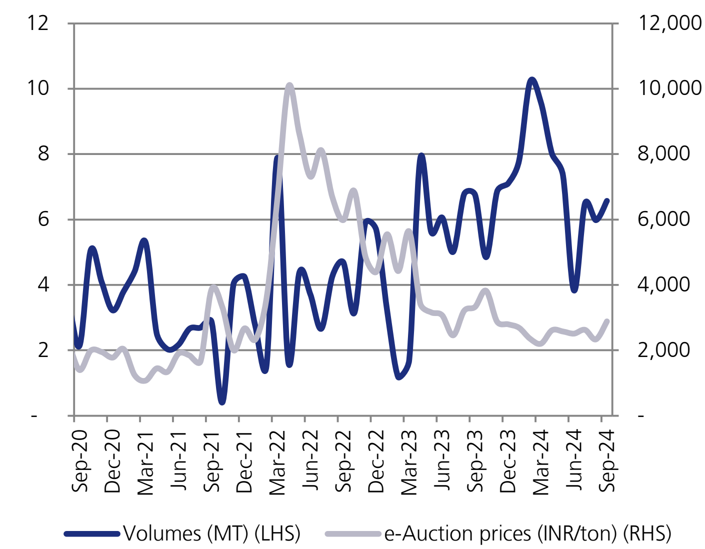
India primarily imports thermal coal from South Africa and Indonesia.

Exhibit 28. Country-wise import of coal, coke & other coal products to India during FY24

Country	Coking	Non-coking	Total
Indonesia	2.1	113.61	115.71
S. Africa	0	28.72	28.72
Australia	29.99	14.46	44.45
Russia	5.5	17.62	23.12
Others	21.22	31.31	52.53
Total	**58.81**	**205.72**	**264.53**

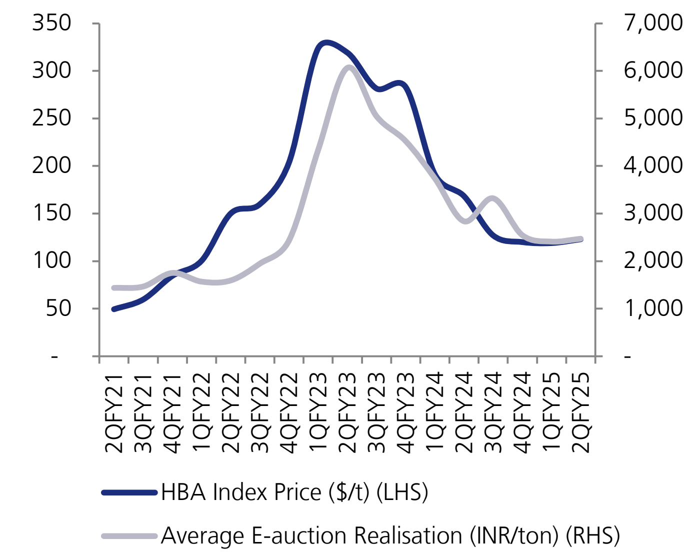
Source: Ministry of Coal, JM Financial

Exhibit 29. E-auction prices



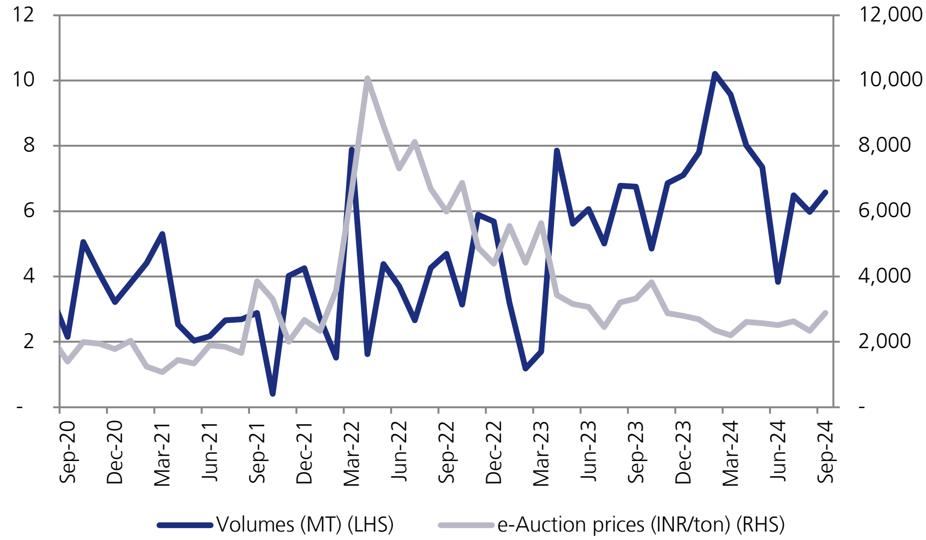
Source: Industry, Bloomberg, Company, JM Financial

Exhibit 30. HBA index price & e-auction realisation



Source: Industry, Bloomberg, Company, JM Financial

Exhibit 31. E-auction prices



Source: Ministry of Coal, JM Financial

In addition to above, currently e-auction prices are trading at a premium of 50% vs. the historical average of 30-40%.

Hence, we expect e-auction prices to moderate further or at least be stable, going forward.

Import substitution; what if blending is discontinued?

India imports non-coking coal for ICB and blending.

Domestic coal quality isn't the best as it has high ash and moisture content with lower heating value. Several power plants using imported coal are nowhere near the end of their lifecycle.

Exhibit 32. Coal consumption in power generation, domestic and imported

Year	Domestic Coal Based Plants		Imported Coal Based Plants 9MT)
	Domestic Coal (MT)	Imported Coal for Blending (MT)	
2021-22	670.7	8.1	18.5
2022-23	723.4	33.1	20.2
2023-24	781.7	24.2	43.8
2024-25 (Apr-June)	213.5	5.8	13.8

Source: Ministry of Coal, JM Financial

We had discussions with some utilities with ICB. Substitution of imported coal with high-ash domestic coal requires a lot of changes in boiler design, requiring large capex, which is not cost-effective. Hence, we don't expect large headway in substitution of imported coal as endeavoured by the government.

Demand from new plants

The government has envisaged a plan to add a minimum thermal capacity of 80GW by FY32. Against this target, 29.2GW of thermal capacity is already under construction while about 51.5GW is at various stages of planning and development.

The current installed capacity for RE power is about 203GW, and the government has committed to augment non-fossil fuel-based installed electricity generation capacity to over 500GW by 2030. Additionally, 7GW of nuclear, 14GW of hydroelectric projects and 6GW of pumped storage projects (PSP) are under construction and are targeted to be completed by FY32. However, we believe that just 50% of the planned capacity may be commissioned by FY32, particularly for hydro and nuclear.

Nevertheless, we expected further acceleration in RE capacity additions, particularly in solar-hours, in the coming years, leading to excess generation during the day.

As a result, we expect new thermal capacities to operate at a technical minimum loading of 55% for most of the months during the year and demand for non-coking coal to grow by 3-4% by FY30.

Risk

Upside: Spike in power demand (>6%) on sustained basis and/or global disturbances may lead to increase in e-auction prices, benefitting Coal India as seen in FY22.

Downside: Sharp growth in solar capacity addition due to module capacity and/or slowdown in China will lead to excess coal supplies; domestic as well as international, leading to curtailment of domestic coal production.

Estimated impact on key performance parameters

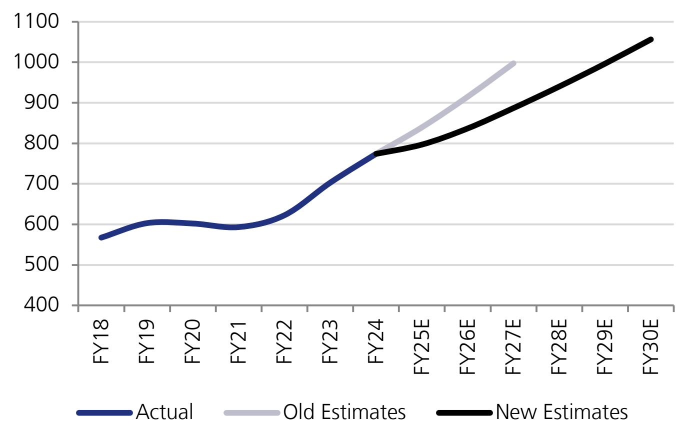
We expect Coal India to register FY24-30 revenue CAGR of 4% vs. 8% during FY18-24 due to lower FSA realisation and e-auction prices, and delay in achievement of 1BT target from FY27 to FY30. FSA prices are expected to drop from INR 1,537/tn in FY24 to INR 1,500 by FY30, and e-auction prices are expected to drop from INR 3,059/tn in FY24 to INR 2,300/tn in FY30. Driven by decline in top line, we expect EBITDA Ex-OBR Adj/PAT during FY24-30 to grow at CAGR of 1%/-1% vs. 18%/25% from FY18-24.

Exhibit 33. Coal India- EPS revision table

Year end Mar31 (INR mn)	FY25E	FY26E	FY27E
Revenues			
Old	1,471,589	1,578,343	1,735,391
New	1,413,231	1,458,231	1,556,224
Chg	-3.97%	-7.61%	-10.32%
EBITDA			
Old	478,639	528,857	541,927
New	486,727	481,751	471,507
Chg	1.69%	-8.91%	-12.99%
EBITDA Margins			
Old	32.53%	33.51%	31.23%
New	34.44%	33.04%	30.30%
bps	192bps	-47bps	-93bps
PAT			
Old	365,028	389,689	400,231
New	333,594	354,359	347,416
Chg	-8.61%	-9.07%	-13.20%
FD EPS			
Old	59.2	63.2	64.9
New	54.1	57.5	56.4
Chg	-8.61%	-9.07%	-13.20%

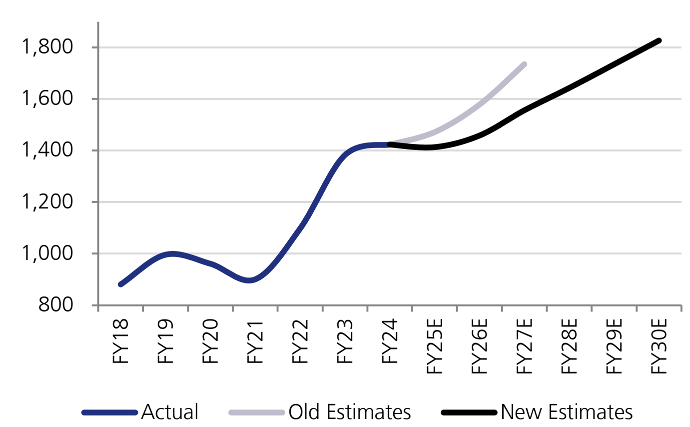
Source: JM Financial

Exhibit 34. Production (MT)



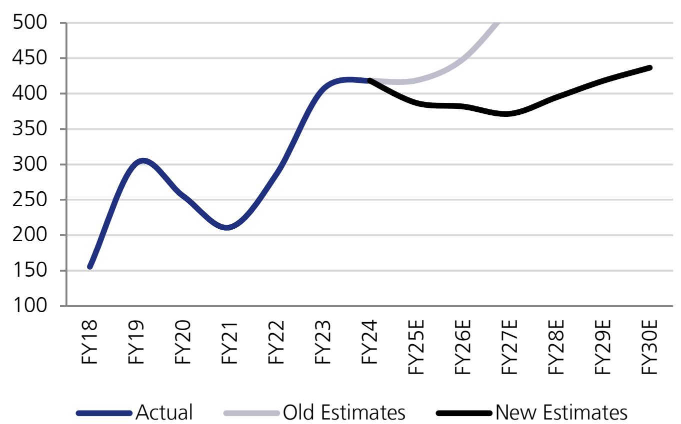
Source: Company, JM Financial

Exhibit 35. Revenue (INR bn)



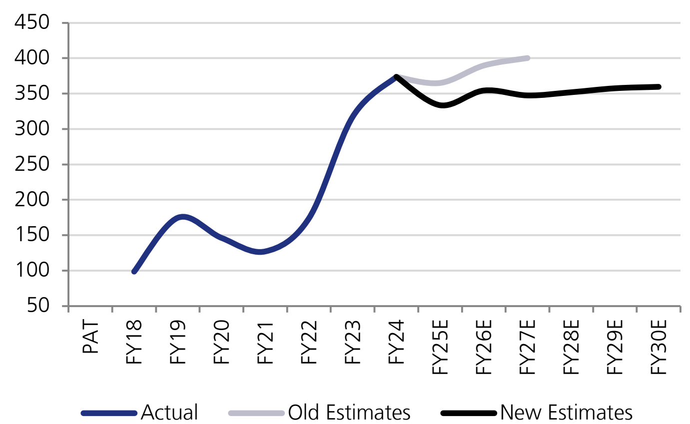
Source: Company, JM Financial

Exhibit 36. EBITDA (ex-OBR Adj.) (INR bn)



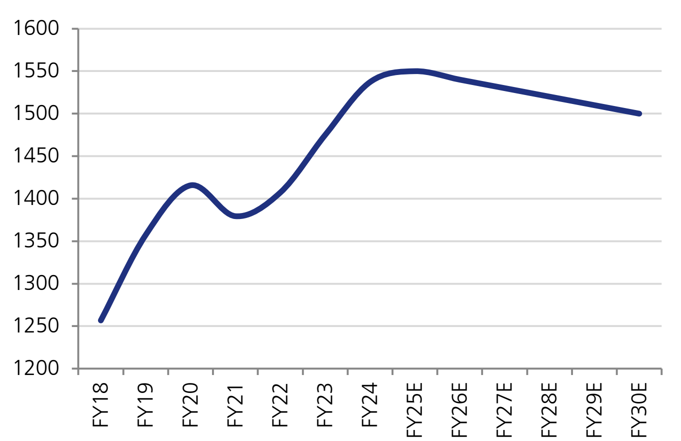
Source: Company, JM Financial

Exhibit 37. PAT (INR bn)



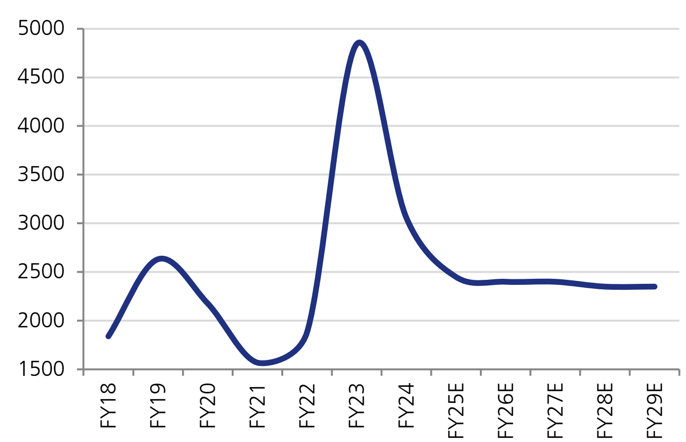
Source: Company, JM Financial

Exhibit 38. FSA prices (INR/tn)



Source: Company, JM Financial

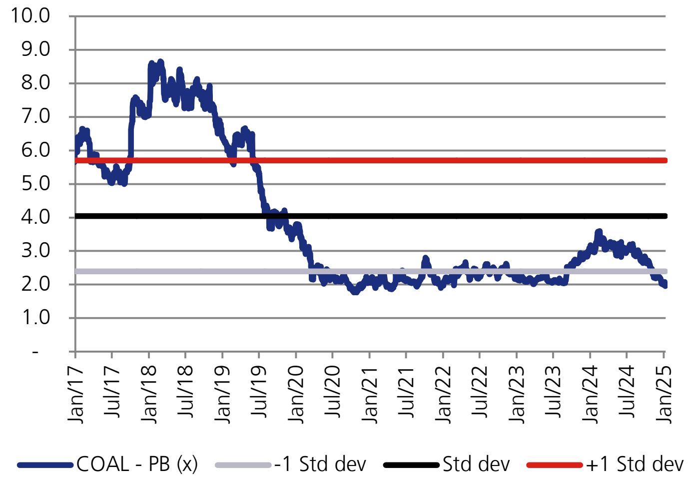
Exhibit 39. E-auction prices (INR/tn)



Source: Company, JM Financial

Valuation Charts

Exhibit 40. P/B



Source: JM Financial

Exhibit 41. EV/EBITDA

Source: JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	13,82,519	14,23,240	14,13,231	14,58,231	15,56,224
Sales Growth	26.0%	2.9%	-0.7%	3.2%	6.7%
Other Operating Income	0	0	0	0	0
Total Revenue	**13,82,519**	**14,23,240**	**14,13,231**	**14,58,231**	**15,56,224**
Cost of Goods Sold/Op. Exp	3,30,246	3,15,182	3,61,071	3,96,847	4,45,310
Personnel Cost	4,94,102	4,87,826	4,73,383	4,76,324	5,27,665
Other Expenses	1,15,770	1,40,517	92,050	1,03,310	1,11,742
EBITDA	**4,42,402**	**4,79,715**	**4,86,727**	**4,81,751**	**4,71,507**
EBITDA Margin	32.0%	33.7%	34.4%	33.0%	30.3%
EBITDA Growth	77.9%	8.4%	1.5%	-1.0%	-2.1%
Depn. & Amort.	68,329	67,354	84,626	96,130	1,07,597
EBIT	3,74,072	4,12,361	4,02,102	3,85,620	3,63,911
Other Income	65,598	79,691	50,000	1,00,000	1,20,000
Finance Cost	6,843	8,194	11,256	15,341	20,213
PBT before Excep. & Forex	4,32,827	4,83,858	4,40,845	4,70,279	4,63,698
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	4,32,827	4,83,858	4,40,845	4,70,279	4,63,698
Taxes	1,15,516	1,14,435	1,11,520	1,20,188	1,20,550
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-81	4,268	4,268	4,268	4,268
Reported Net Profit	3,17,230	3,73,691	3,33,594	3,54,359	3,47,416
Adjusted Net Profit	**3,17,230**	**3,73,691**	**3,33,594**	**3,54,359**	**3,47,416**
Net Margin	22.9%	26.3%	23.6%	24.3%	22.3%
Diluted Share Cap. (mn)	6,162.7	6,162.7	6,162.7	6,162.7	6,162.7
Diluted EPS (INR)	**51.5**	**60.6**	**54.1**	**57.5**	**56.4**
Diluted EPS Growth	80.6%	17.8%	-10.7%	6.2%	-2.0%
Total Dividend + Tax	1,49,446	1,17,092	1,17,092	1,17,092	1,17,092
Dividend Per Share (INR)	24.3	19.0	19.0	19.0	19.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Shareholders' Fund	6,08,429	8,27,298	10,43,800	12,81,067	15,11,390
Share Capital	61,627	61,627	61,627	61,627	61,627
Reserves & Surplus	5,46,802	7,65,671	9,82,172	12,19,439	14,49,763
Preference Share Capital	0	0	0	0	0
Minority Interest	7,707	8,521	8,521	8,521	8,521
Total Loans	41,063	56,172	86,041	1,15,449	1,49,952
Def. Tax Liab. / Assets (-)	-11,706	-13,903	-13,903	-13,903	-13,903
Total - Equity & Liab.	**6,45,493**	**8,78,088**	**11,24,459**	**13,91,134**	**16,55,961**
Net Fixed Assets	8,21,694	9,46,285	10,16,682	10,75,781	11,23,581
Gross Fixed Assets	5,70,345	6,79,004	11,60,681	13,15,681	14,70,681
Intangible Assets	49,475	69,399	69,399	69,399	69,399
Less: Depn. & Amort.	0	0	4,11,280	5,07,181	6,14,381
Capital WIP	2,01,875	1,97,882	1,97,882	1,97,882	1,97,882
Investments	71,394	71,104	71,104	71,104	71,104
Current Assets	13,03,073	13,27,209	14,25,756	15,36,784	16,61,327
Inventories	81,547	1,01,772	1,01,057	1,04,274	1,11,282
Sundry Debtors	1,30,605	1,32,558	1,51,003	1,55,811	1,66,281
Cash & Bank Balances	3,99,217	3,02,352	3,83,169	4,86,171	5,93,236
Loans & Advances	3,930	3,803	3,803	3,803	3,803
Other Current Assets	6,87,775	7,86,725	7,86,725	7,86,725	7,86,725
Current Liab. & Prov.	15,50,668	14,66,510	13,89,082	12,92,535	12,00,052
Current Liabilities	1,87,701	2,02,026	2,26,582	2,30,034	2,37,551
Provisions & Others	13,62,967	12,64,484	11,62,500	10,62,500	9,62,500
Net Current Assets	-2,47,595	-1,39,301	36,673	2,44,249	4,61,275
Total – Assets	**6,45,493**	**8,78,088**	**11,24,459**	**13,91,134**	**16,55,961**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profit before Tax	4,32,746	4,88,126	4,45,114	4,74,547	4,67,966
Depn. & Amort.	68,329	67,354	84,626	96,130	1,07,597
Net Interest Exp. / Inc. (-)	-25,063	-30,624	11,256	15,341	20,213
Inc (-) / Dec in WCap.	26,522	-1,61,835	6,826	-4,574	-9,960
Others	-47,694	-64,724	-1,50,000	-2,00,000	-2,20,000
Taxes Paid	-97,497	-1,17,267	-1,11,520	-1,20,188	-1,20,550
Operating Cash Flow	**3,57,342**	**1,81,030**	**2,86,302**	**2,61,256**	**2,45,265**
Capex	-1,41,072	-1,63,085	-1,55,023	-1,55,229	-1,55,397
Free Cash Flow	2,16,270	17,945	1,31,280	1,06,027	89,867
Inc (-) / Dec in Investments	0	0	0	0	0
Others	-93,583	1,18,227	50,000	1,00,000	1,20,000
Investing Cash Flow	**-2,34,655**	**-44,858**	**-1,05,023**	**-55,229**	**-35,397**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-1,43,281	-1,50,979	-1,17,092	-1,17,092	-1,17,092
Inc / Dec (-) in Loans	8,045	15,011	29,869	29,408	34,503
Others	-1,808	1,620	-11,256	-15,341	-20,213
Financing Cash Flow	**-1,37,044**	**-1,34,347**	**-98,479**	**-1,03,026**	**-1,02,802**
Inc / Dec (-) in Cash	**-14,356**	**1,825**	**82,800**	**1,03,002**	**1,07,066**
Opening Cash Balance	2,91,794	3,99,222	3,00,368	3,83,169	4,86,171
Closing Cash Balance	3,99,222	3,00,368	3,83,169	4,86,171	5,93,236

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin	22.9%	26.3%	23.6%	24.3%	22.3%
Asset Turnover (x)	0.7	0.6	0.6	0.6	0.6
Leverage Factor (x)	3.9	3.2	2.6	2.3	2.0
RoE	61.0%	52.1%	35.7%	30.5%	24.9%

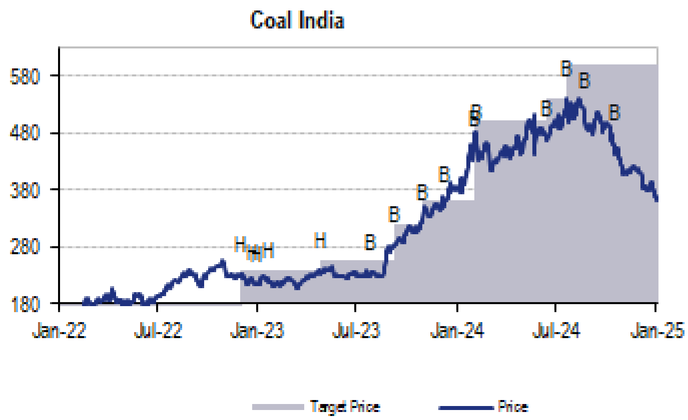
Key Ratios					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	98.7	134.2	169.4	207.9	245.2
ROIC	204.0%	89.3%	50.0%	37.5%	29.1%
ROE	61.0%	52.1%	35.7%	30.5%	24.9%
Net Debt/Equity (x)	-0.7	-0.4	-0.4	-0.3	-0.3
P/E (x)	7.2	6.1	6.8	6.4	6.5
P/B (x)	3.7	2.7	2.2	1.8	1.5
EV/EBITDA (x)	4.2	4.1	3.9	3.8	3.8
EV/Sales (x)	1.3	1.4	1.4	1.3	1.1
Debtor days	34	34	39	39	39
Inventory days	22	26	26	26	26
Creditor days	33	32	43	42	40

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
10-Nov-23	Buy	360	12.5
21-Dec-23	Buy	360	0.0
13-Feb-24	Buy	500	38.8
19-Feb-24	Buy	500	-0.1
25-Jun-24	Buy	540	7.9
1-Aug-24	Buy	601	11.3
3-Sep-24	Buy	601	0.0
27-Oct-24	Buy	601	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd. and National Stock Exchange of India Ltd.
SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610
Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.
Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com
Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com
Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Definition of ratings	
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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All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and

No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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