Choice Institutional Equities

SELL

Sector View: Neutral

Q2FY26 Results Update

Coal India Ltd.: Structurally Unattractive Play

Oct 30, 2025 | CMP: INR 382 | Target Price: INR 290

Expected Share Price Return: –24.0% I Dividend Yield: 7.2% I Expected Total Return: –16.9%

Change in Estimates	✗
Target Price Change	✗
Recommendation	✗

Company Info

BB Code	COAL:IN EQUITY
Face Value (INR)	10
52 W High/Low (INR)	460/349
Mkt Cap (Bn)	INR 2,358/ $27
Shares o/s (Mn)	6,163
3M Avg. Daily Volume	55,43,515

Change in Estimates

	FY26E			FY27E		
INR Bn	*New*	*Old*	*Dev. (%)*	*New*	*Old*	*Dev. (%)*
Revenue	1,491	1,491	-	1,563	1,563	-
EBITDA	438	438	-	396	396	-
EBITDAM %	29.4	29.4	-	25.4	25.4	-
EPS	51.6	51.6	-	44.2	44.2	-

Actual vs CIE Estimates

INR Bn	*Q2FY26A*	*CIE Est.*	*Dev.%*
Revenue	301.9	315.0	(4.2)
EBITDA	67.2	75.0	(10.5)
EBITDAM %	22.2	23.8	(156) bps
PAT	43.5	60.0	(27.4)

Key Financials

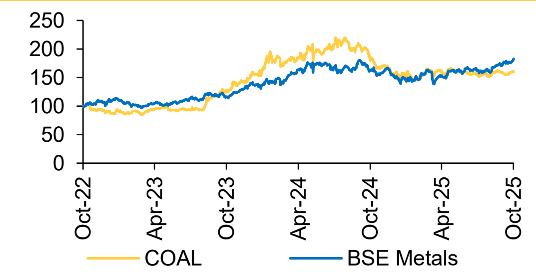
INR Bn	*FY24*	*FY25*	*FY26E*	*FY27E*	*FY28E*
Revenue	1,423	1,434	1,491	1,563	1,757
YoY (%)	2.9	0.7	4.0	4.8	12.4
EBITDA	418	430	438	396	509
EBITDAM %	29.4	30.0	29.4	25.4	29.0
Adj PAT	374	354	318	272	345
EPS (INR)	61	57	52	44	56
ROE %	44.7	35.3	27.7	21.9	24.6
ROCE %	21.5	18.4	15.7	13.2	15.7
PE(x)	7.2	6.8	7.5	8.8	6.9
EV/EBITDA	4.9	4.4	4.3	4.8	3.8

Shareholding Pattern (%)

	Sept-25	*June-25*	*Mar-24*
Promoters	63.13	63.13	63.13
FIIs	7.96	8.16	7.74
DIIs	22.80	22.66	23.35
Public	6.11	6.05	5.78

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Metals	85.0	57.5	11.9
COAL	60.1	24.6	(12.2)



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VALUE TRAP- COAL- Initiating Coverage

See Through the "Cheap" Valuations

We maintain our SELL rating on Coal India (COAL) with a TP of INR 290/sh.

"Attractiveness" based on cheap valuation multiple is an illusion

COAL trades at cheap valuation multiple of ~5x/9x/1x FY27E 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.

The key pillars of our investment thesis which make us disillusioned on COAL are: 1) Discounted pricing and unfavourable sales mix, 2) Huge capex, yet EBIT momentum will be negative - running on a treadmill kind of a situation, 3) Cash is restricted due to large long-term provisions and 4) Declining GCV across subsidiaries.

All FCF post-capex is paid as dividend; hence DDM is our preferred method: COAL is a cash cow where all free cash flow post-capex is paid out as dividend. 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)

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 so as to reach 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 does not cover cost of equity (~13%).

Risk to our SELL rating: A possible reversal in government policy, which would substantially align coal prices with a profit maximisation scheme.

Q2FY26: Overall Miss due to Unfavourable Volume Mix, Weak FSA/E-auction Realisation and Higher Other Expenses

Sales volume, as reported previously, was 166.0MT (-12.9% QoQ, -1.3% YoY), in which **E-auction** volume was 15.3MT (-28.3% QoQ, +1.5% YoY) vs. Choice Institutional Equities (CIE) estimate of 18MT.

FSA Realisation disappointed at INR 1,478/t (–4.6% QoQ) well below CIE est. of INR 1,550/t. **E-auction realisation** too was weaker coming in at INR 2,292/t vs. CIE estimate of INR 2,500/t.

Revenue (incl. OOI) came in at INR 301.9Bn (–15.8% QoQ, –1.6% YoY) lower than CIE/street estimate of INR 315/310Bn due to unfavourable sales mix and weak FSA/E-auction realisation.

Other expenses at 12.5% of total sales (8.0%/9.1% in Q1FY26/Q2FY25) were higher than expectation, mainly due to higher social welfare / environmental / tree plantation expenses.

EBITDA (ex-Stripping adj) came in at INR 58.5Bn (–47.5% QoQ, –18.3% YoY) which is well below CIE/street expectation in the range of INR 70–75Bn, largely due to 1) revenue miss which we highlighted above, and higher-than-expected other expenses (+25% YoY).

As a result of revenue miss and higher other expenses, PAT came in weak at INR 43.5Bn (–50.2% QoQ, –30.8% YoY) well below CIE estimate of INR 60Bn.

Dividend of INR 10.25/sh has been announced, which is largely in line with street expectation in our view.

Exhibit 1: Overall a Weak Quarter

COAL (INR Mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)
Net Sales (incl OOI)	**3,01,867**	**3,06,729**	**(1.6)**	**3,58,422**	**(15.8)**
Material Expenses	36,198	32,595	11.1	27,109	33.5
Gross Profit	2,65,669	2,74,134	(3.1)	3,31,313	(19.8)
Employee Expenses	1,07,303	1,14,843	(6.6)	1,13,227	(5.2)
Other Operating Expenses	91,205	73,121	24.7	92,872	(1.8)
EBITDA	**67,162**	**86,171**	**(22.1)**	**1,25,214**	**(46.4)**
EBITDA (ex-Stripping adj)	58,452	71,542	**(18.3)**	1,11,264	**(47.5)**
Depreciation	26,644	18,978	40.4	23,072	15.5
EBIT	**40,517**	**67,193**	**(39.7)**	**1,02,142**	**(60.3)**
Other Income	23,497	16,422	43.1	17,601	33.5
Interest Cost	2,869	2,081	37.8	2,651	8.2
PBT	**61,146**	**81,534**	**(25.0)**	**1,17,092**	**(47.8)**
Tax	18,519	18,786	(1.4)	29,750	(37.7)
Minority Int	(916)	(143)	540.8	(92)	895.0
RPAT	**43,543**	**62,891**	**(30.8)**	**87,434**	**(50.2)**
Margin Analysis	**Q2FY26**	**Q2FY25**	**YoY**	**Q1FY26**	**QoQ**
Gross Margin (%)	88.0	89.4	(136) bps	92.4	(443) bps
Employee Exp. % of Sales	35.5	37.4	(189) bps	31.6	396 bps
Other Op. Exp % of Sales	30.2	23.8	637 bps	25.9	430 bps
EBITDA Margin (%)	22.2	28.1	(584) bps	34.9	(1,269) bps
Tax Rate (%)	30.3	23.0	725 bps	25.4	488 bps
APAT Margin (%)	14.4	20.5	(608) bps	24.4	(997) bps
Per tonne (INR/t)	**Q2FY26**	**Q2FY25**	**YoY (%)**	**Q1FY26**	**QoQ (%)**
NSR (Incl OOI)	**1,819**	**1,825**	**(0.3)**	**1,881**	**(3.3)**
Costs					
-Stores and spares	218	194	12.5	142	53.3
-Contractual expenses	374	357	4.8	410	(8.8)
'-Other Expenditure	228	165	38.1	150	51.6
-Employee costs	646	683	(5.4)	594	8.8
-Stripping adj	(52)	(87)	NA	(73)	NA
Total Opex	**1,414**	**1,312**	**7.8**	**1,224**	15.6
EBITDA	**405**	**513**	**(21.1)**	**657**	(38.4)
EBITDA (ex-Stripping adj)	**352**	**426**	**(17.3)**	**584**	(39.7)
Volume (MT)	**Q2FY26**	**Q2FY25**	**YoY (%)**	**Q1FY26**	**QoQ (%)**
Sales	**166.0**	**168.1**	**(1.3)**	**190.6**	**(12.9)**
-FSA	147.5	148.2	(0.5)	165.7	(11.0)
-E-auction	15.3	15.1	1.5	21.3	(28.2)
-Washed & Others	3.2	4.8	(33.3)	3.6	(9.6)
Realisation (INR/t)	**Q2FY26**	**Q2FY25**	**YoY (%)**	**Q1FY26**	**QoQ (%)**
Blended	**1,621**	**1,622**	**(0.1)**	**1,673**	**(3.1)**
-FSA	1,478	1,462	1.1	1,550	(4.6)
-E-auction	2,292	2,472	(7.3)	2,332	(1.7)
-Washed & Others	3,294	3,883	(15.2)	3,466	(5.0)

Source: COAL, Choice Institutional Equities

Our Operational Assumptions are Reasonably Optimistic

We build in a price hike in FSA which COAL will have to undertake to cover wage increase expected from Q2FY27E

In our view, consensus numbers do not yet build in the wage hike impact. But, it is almost certain that COAL will have to hike wages, effective Q2FY27E

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

COAL Operational Assumptions Base Case Scenario

(INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
Volume (MT)	**754.3**	**761.5**	**797.7**	**836.9**	**878.0**
-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
Realisation (INR/t)	**1,730**	**1,664**	**1,656**	**1,654**	**1,772**
-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
Revenue (INR Mn)	**13,03,389**	**12,69,568**	**13,20,724**	**13,84,204**	**15,55,840**
-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
EBITDA (pre-Stripping adj)	**4,18,333**	**4,29,575**	**4,38,272**	**3,96,362**	**5,09,173**
-Margin	***32.1%***	***33.8%***	***33.2%***	***28.6%***	***32.7%***
EBITDA	**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
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
PAT	**3,73,691**	**3,53,021**	**3,18,017**	**2,72,349**	**3,44,946**
EPS	60.7	57.4	51.6	44.2	56.0
DPS	25.5	26.5	27.6	28.7	29.8
Cash Flow (INR Mn)					
OCF	**1,81,031**	**2,91,997**	**3,52,466**	**3,27,472**	**3,95,606**
Other Income	29,469	32,623	31,355	26,533	24,330
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
Dividend	-1,50,979	-1,62,385	-1,69,845	-1,76,639	-1,83,704
Debt movement	15,011	17,334	0	0	0
Net Cash Flow	**-98,680**	**43,956**	**5,139**	**-31,471**	**27,395**

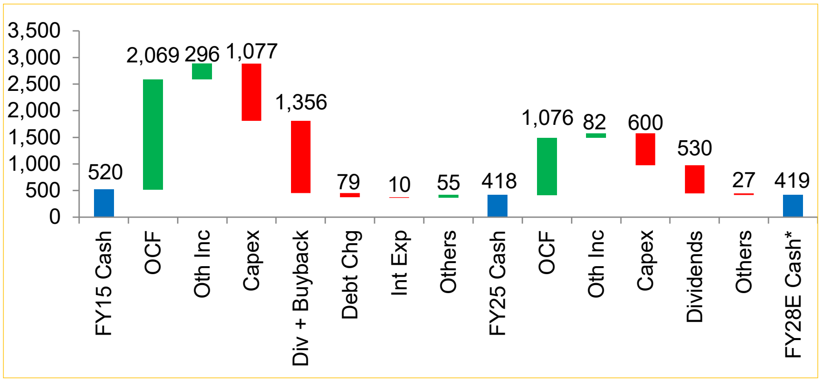
Source: COAL, Choice Institutional Equities

FCF after Capex is Paid Out as Dividend; hence we Adopt DDM-based Valuation

Over the last 10 years, COAL paid out its free cash flow post-capex as dividend. We expect the same, going forward, provided there is sufficient cushion on the retained earnings.

- **COAL is being managed in such a way that all free cash flow post-capex is given out as dividend.** FY16–25 cumulative cash flow analysis: Prices were set in a manner that the resultant P&L/cash flows are enough to meet cost and capex. The remainder is eventually paid out as dividend.

FY16–25 & FY26E–28E Cumulative Cash Flow Bridge (INR Bn)



We believe the classic Dividend Discount Model is the most suitable method to value COAL

Hence, we use the DDM-based valuation approach

- **Valuation approach:** We believe a practical way to value this company is to focus on what eventually comes into the hands of the shareholders. It might sound as if we are taking a narrow view of things, but this is practical and reasonable.
- **Context:** Our FY26/27E PAT estimate is 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.

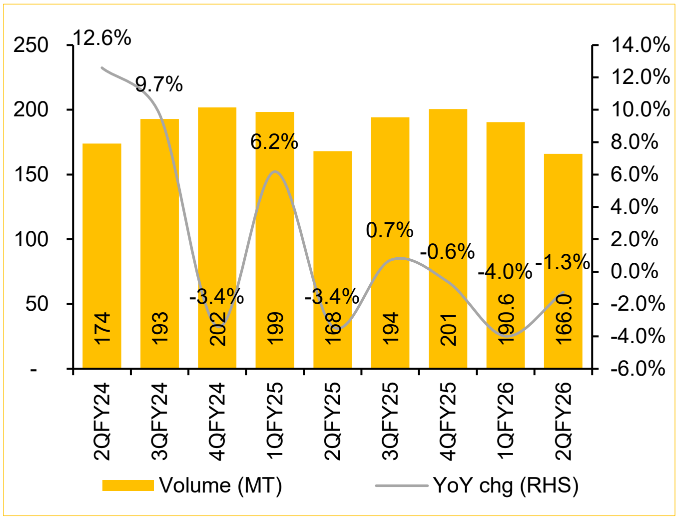
In our Base Case Scenario, we assign 100% weightage to our DDM-based fair value

COAL Base Case Scenario TP Derivation

(INR Mn)	
DDM Valuation	
Cost of Equity Calculation	**12.6%**
-Market Return Assumption	12.6%
-Market Risk Premium	6.3%
-R_f	6.3%
-Beta	1.0
Dividend Discount Model	
Sustainable Long-term Growth Rate in Dividend ---> A	3%
Cost of Equity ----> B	12.6%
FY27/28E DPS (INR/share) ----> C	29.0
Equity Value (INR/share) ----> C/(B-A) = D	**290**
Multiple-based Valuation	
Target price	**FY27E/28E**
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
Equity Value per Share (INR/sh)	**315**
Implied EV to IC (x)	**1.9**
RoCE	**18%**
Weightage	
-DDM	100%
-Multiple Based	0%
Choice Institutional Equities TP (INR/share)	***290***

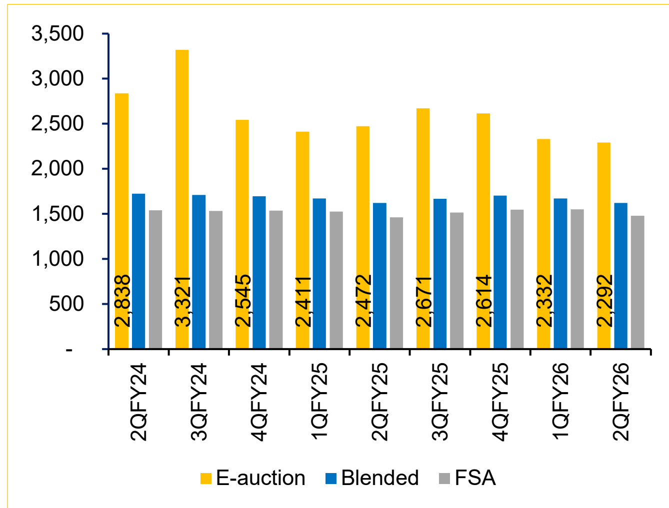
Source: COAL, Choice Institutional Equities

Q2 sales volume down 1.3% YoY



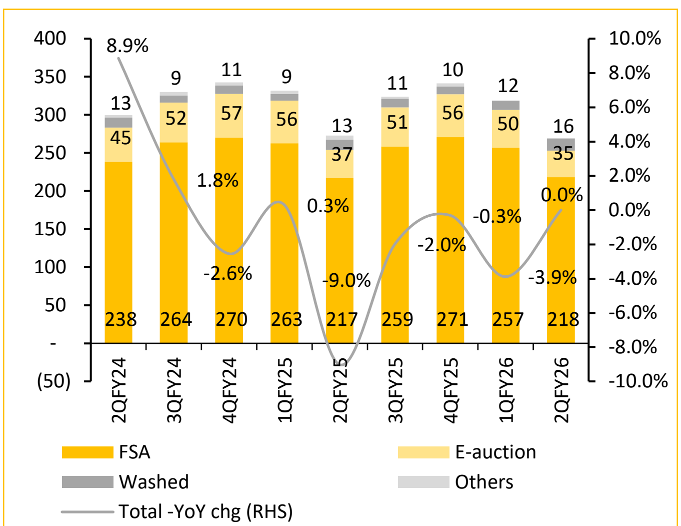
Source: COAL, Choice Institutional Equities

Q2 FSA realisation disappointed (INR)



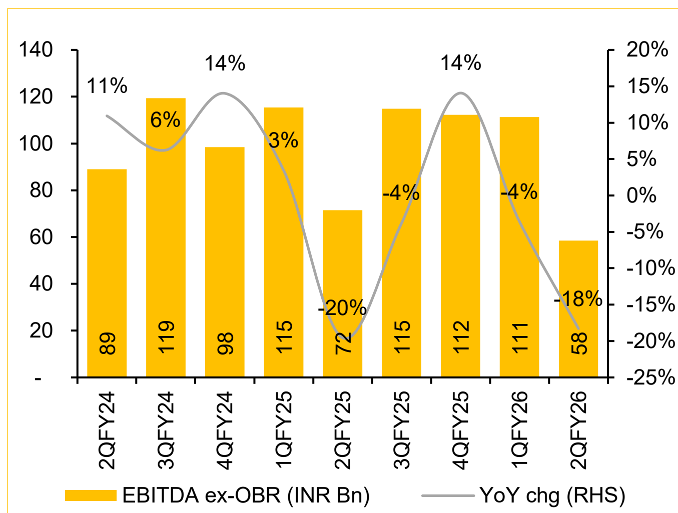
Source: COAL, Choice Institutional Equities

Q2 seg revenue split: FSA drags YoY (INR Bn)



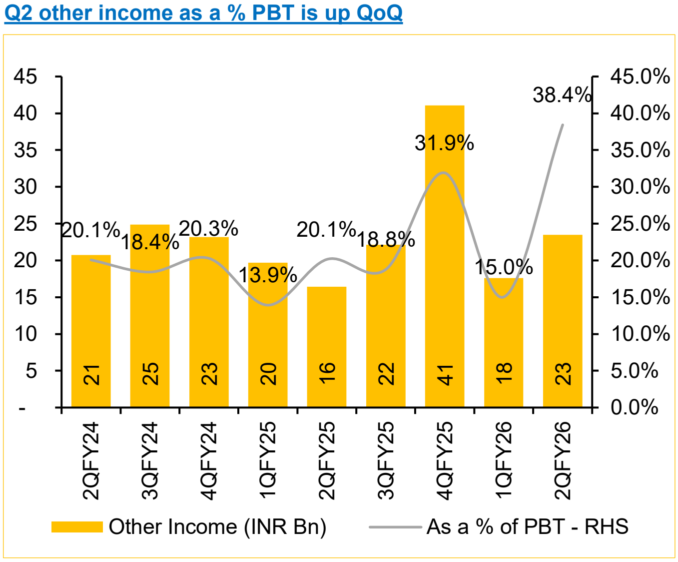
Source: COAL, Choice Institutional Equities

Q2 EBITDA down 18% YoY



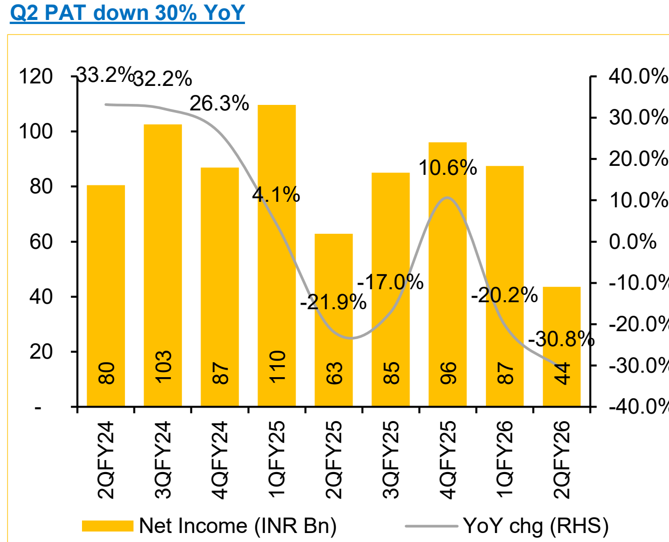
Source: COAL, Choice Institutional Equities

Q2 other income as a % PBT is up QoQ



Source: COAL, Choice Institutional Equities

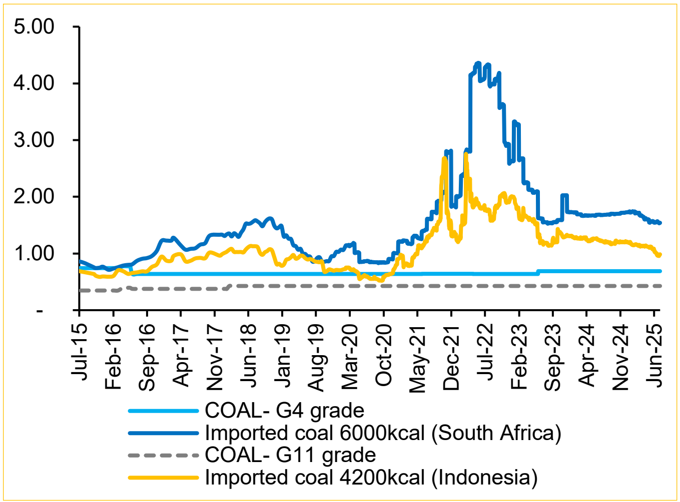
Q2 PAT down 30% YoY



Source: COAL, Choice Institutional Equities

Investment Thesis in Charts

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



Source: COAL, Choice Institutional Equities

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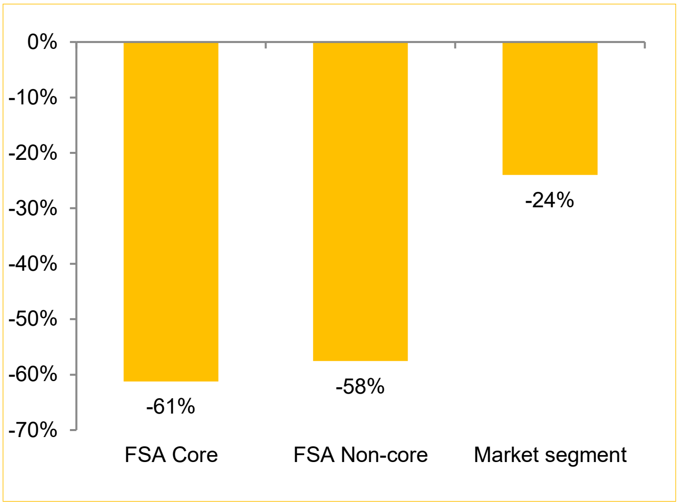
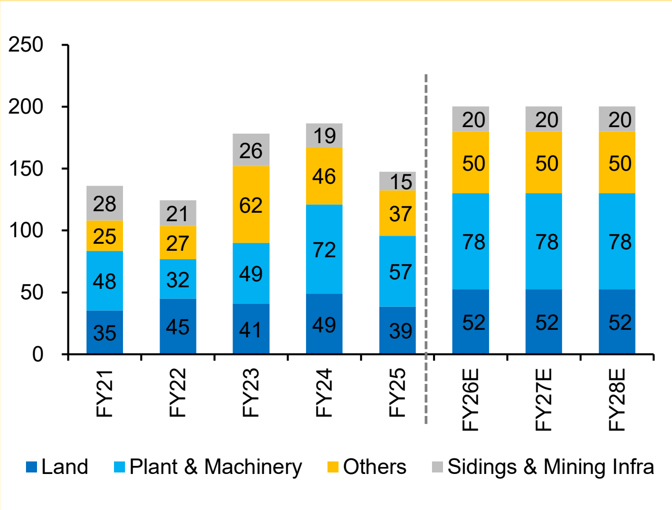


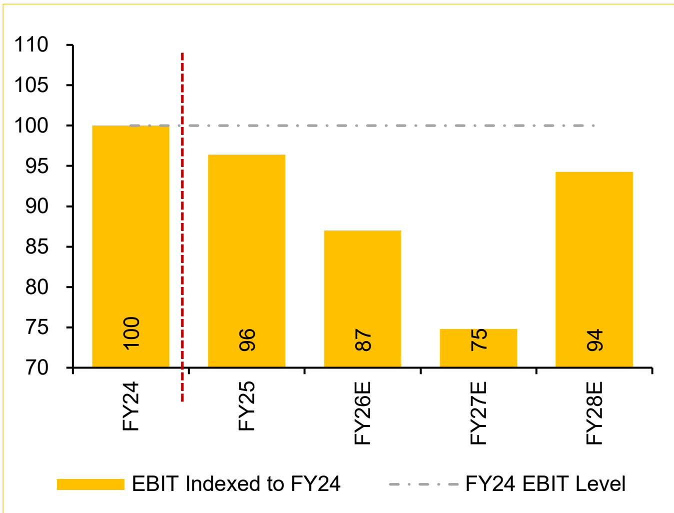
Source: COAL, Choice Institutional Equities

COAL's capex is huge (INR Bn)



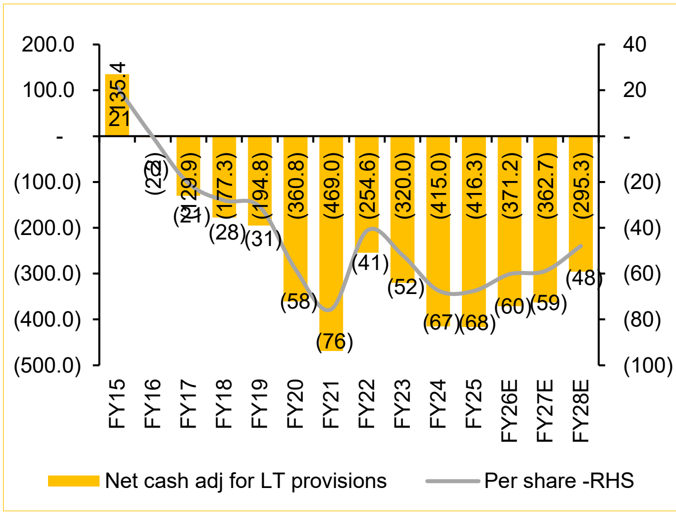
Source: COAL, Choice Institutional Equities

Despite huge capex, EBIT momentum will be negative



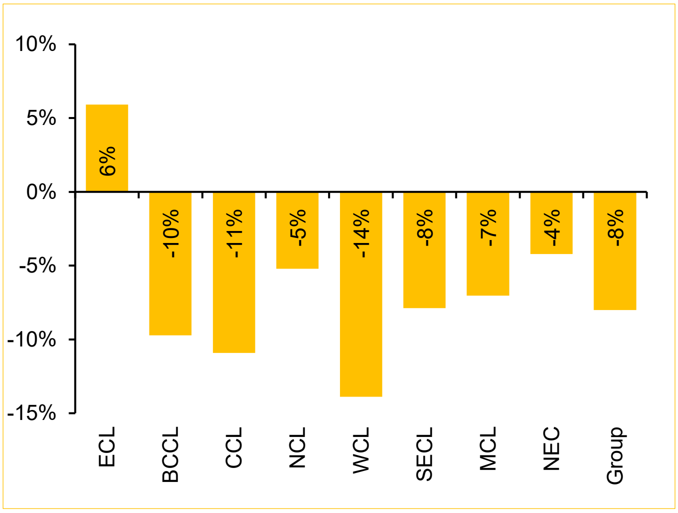
Source: COAL, Choice Institutional Equities

Cash is restricted (INR Bn)



Source: COAL, Choice Institutional Equities

COAL subsidiaries GCV decline over FY16–24 was substantial



Source: COAL, Choice Institutional Equities

Financials & 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 (INR)	60.7	57.4	51.6	44.2	56.0

Ratio Analysis	FY24	FY25	FY26E	FY27E	FY28E
Growth Ratios (%)					
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
Margins (%)					
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
Profitability (%)					
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
Leverage Ratio (x)					
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
Cash Flow Metrics (x)					
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
Working Capital (x)					
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
Valuation Metrics (x)					
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

Source: COAL, Choice Institutional Equities

Balance Sheet (Consolidated in INR Mn)

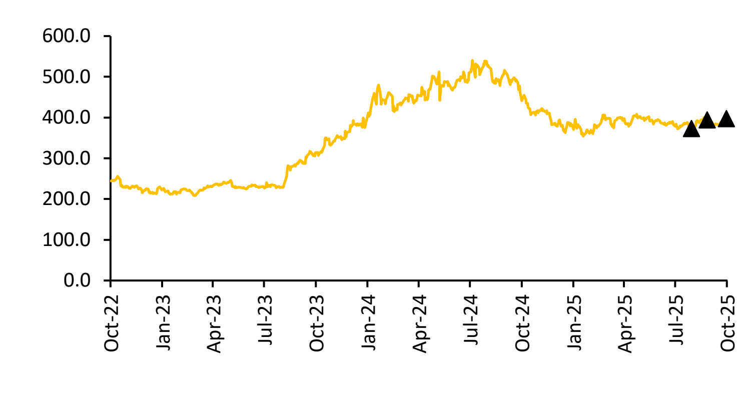
Particular	FY24	FY25	FY26E	FY27E	FY28E
Net Worth	8,35,819	9,99,507	11,47,679	12,43,390	14,04,632
Borrowings	62,890	89,084	89,084	89,084	89,084
Deferred Tax	18,222	18,319	18,319	18,319	18,319
Other Liabilities & Provisions	13,75,935	13,93,018	13,53,018	13,13,018	12,73,018
Total Net Worth & Liabilities	**22,92,866**	**24,99,927**	**26,08,100**	**26,63,810**	**27,85,052**
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
Total Assets	**22,92,866**	**24,99,927**	**26,08,100**	**26,63,810**	**27,85,052**

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
ROE	**44.7%**	**35.3%**	**27.7%**	**21.9%**	**24.6%**

Source: COAL, Choice Institutional Equities

Historical share price chart: Coal India Limited



Date	Rating	Target Price
July 21, 2025	SELL	290
Aug 01, 2025	SELL	290
Oct 29, 2025	SELL	290

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Large Cap*	
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 statis 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 20,000Cr Market Cap**
***Mid & Small Cap: Less Than INR 20,000Cr Market Cap**

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