

Volume led profitable growth on the anvil ...

About stock: Coal India Ltd (CIL), is the largest coal producer domestically as well as globally. It is a 'Maharatna' PSU, operating under aegis of Ministry of Coal.

- Operation spanning 83 mining areas across eight states, currently owing 322 mines including 138 underground, 171 opencast and 13 mixed mines.
- During FY23, CIL produced 703 MT coal contributing ~79% of India's coal supply and dispatched 695 MT coal with ~84% supplied to power sector.

Investment Rationale

- Coal share in India's energy basket continues to remain significant: Over ~50% of India's energy and ~70% of electricity needs are met by coal, making it the primary energy source for the country. Despite growing emphasis on renewable/non-fossil fuel-based energy, it is envisaged that there will be incremental coal based thermal capacity additions going forward to cater to the growing energy needs domestically. Thus, demand for coal is expected to reach ~1.3 to 1.5 billion tonnes by 2030; with Coal India a clear beneficiary. Moreover, we imported ~240 MT of coal as of FY23 of which ~55 MT was coking coal while the rest was non coking coal i.e. ~180 MT, which represents an immediate opportunity for Coal India. Henceforth, we don't foresee any demand concern for CIL in near future.
- Healthy volume growth in offering amid ambitious production targets: With government's ambitious plan for 24x7 power supply for all by 2025, CIL has set target of achieving a production volume of 1000 MT by FY26E. With healthy volume growth in the recent past, we have modelled in coal production at CIL to grow at a CAGR of 11% over FY23-26E to 950 MT by FY26E. Key enablers for double digit volume growth are: (i) better evacuation infrastructure in terms of First Mile Connectivity projects by expanding mechanized capacity to 915 MTPA by FY29 (ii) Engaging with Mine Developer Operators (MDO) wherein it has engaged 15 MDO's for a targeted capacity of ~170 MT and (iii) revival of Underground Mines wherein it has identified 30 discontinued mines with reserve of ~600 MT.
- Superlative financials: ~30% margins, ~40% Return ratios profile: With healthy demand prospects & lean cost structure, Coal India is well poised to record ~30% EBITDA margins with EBITDA/tonne seen sustaining above the ₹500/tonne mark over FY23-26E amid blended realisation of ~₹1800/tonne. This coupled with healthy dividend payout ratio (~50%) results in ~40% Return ratios, making strong investment case for Coal India.

Rating and Target Price

- We have a positive view on Coal India given its leading contribution to India's energy needs & robust financials (high return ratios, cash rich B/S). We assign BUY rating to Coal India with target price placed at ₹500 wherein we have valued it at 4.5x EV/EBITDA on FY26E. High dividend yield of ~7% provides healthy margin of safety to our investment thesis



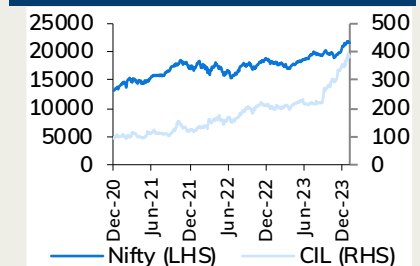
Particulars

Particulars	₹ crore
Market capitalisation	2,35,416
Total Debt (FY23)	4,331
Cash & Investment (FY23)	43,976
EV (₹ crore)	1,95,772
52 week H/L (₹)	396 / 208
Equity capital (₹ crore)	6,163
Face value (₹)	10

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	66.1	63.1	63.1	63.1
FII	7.8	9.3	7.8	8.6
DII	21.1	22.3	24.1	23.1
Other	5.0	5.3	5.0	5.2

Price Chart



Recent Event & Key risks

- Sales/PAT expected to grow at 10%/12% CAGR over FY23-26E.
- Key Risk: (i) Regulatory risk in terms of volume push towards power sector and low e-auction volumes (ii) muted global demand impacting global coal prices and consequent e-auction realisations

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Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	FY22	FY23	4 year CAGR (FY19-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Sales	92,896.1	89,373.3	82,710.3	1,00,623.4	1,27,627.5	8.3%	1,34,848.8	1,49,483.6	1,68,440.9	9.7%
EBITDA	25,005.9	21,920.8	18,629.4	24,690.5	36,817.9	10.2%	38,702.2	44,077.1	51,265.6	11.7%
EBITDA Margins (%)	26.9	24.5	22.5	24.5	28.8		28.7	29.5	30.4	
Net Profit	17,463.1	16,714.2	12,699.8	17,358.1	28,165.2	12.7%	29,308.9	33,514.7	39,426.9	11.9%
EPS (₹)	28.3	27.1	20.6	28.2	45.7		47.6	54.4	64.0	
P/E	13.5	14.1	18.5	13.6	8.4		8.0	7.0	6.0	
RoNW (%)	66.0	51.9	34.8	40.3	49.2		41.0	38.0	36.5	
RoCE (%)	63.5	41.6	30.3	37.4	45.6		39.9	38.4	38.0	

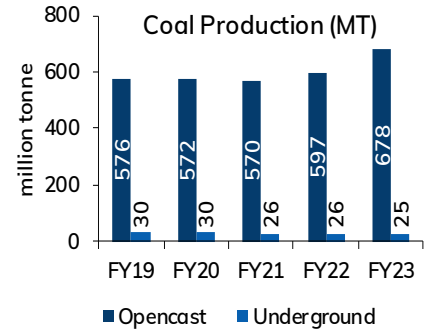
Source: Company, ICICI Direct Research

Company background

Coal India Ltd is the leading coal producing company in India. Incorporated in 1973 as Coal Mines Authority Ltd after the nationalization of the coal sector, it was reconstituted as a formal holding company with Coal India Ltd in November 1975. Headquartered in Kolkata, conferred with the “Maharatna” status in 2011 and operates under the aegis of Ministry of Coal, Government of India.

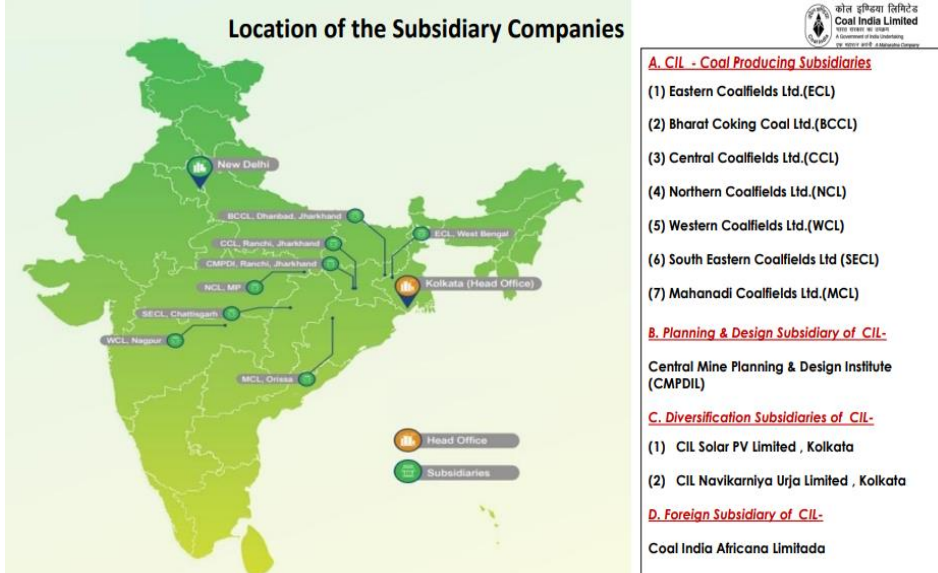
It operates 83 mining areas spread across eight states and currently owns 322 mines, including 171 open cast, 138 underground, and 13 mixed mines. It operates 13 coal washeries including 11 coking coal and 2 non coking washeries, with a total operable washing capacity of ~25 MT. It has an extensive network of transportation infrastructure to facilitate the movement of coal from mines to various destinations. Network comprises of railways (53% of dispatches), followed by road (31% of dispatches), merry go rounds (14% of dispatches), and belt-ropes (2% of dispatches). It has 11 fully owned subsidiary companies, including 7 coal producing subsidiaries, 2 subsidiaries are involved in development of non-conventional/clean & renewable energy, 1 international mining subsidiary located in Mozambique, among others.

During FY23, Coal India produced 703 MT coal contributing ~79% of India’s coal supply and dispatched 695 MT coal with ~84% supplied to power sector, making CIL the largest supplier of thermal coal to the sector and directly impacting power security of the country. The remaining ~16% is supplied to steel, cement, fertilizer, and other sectors.



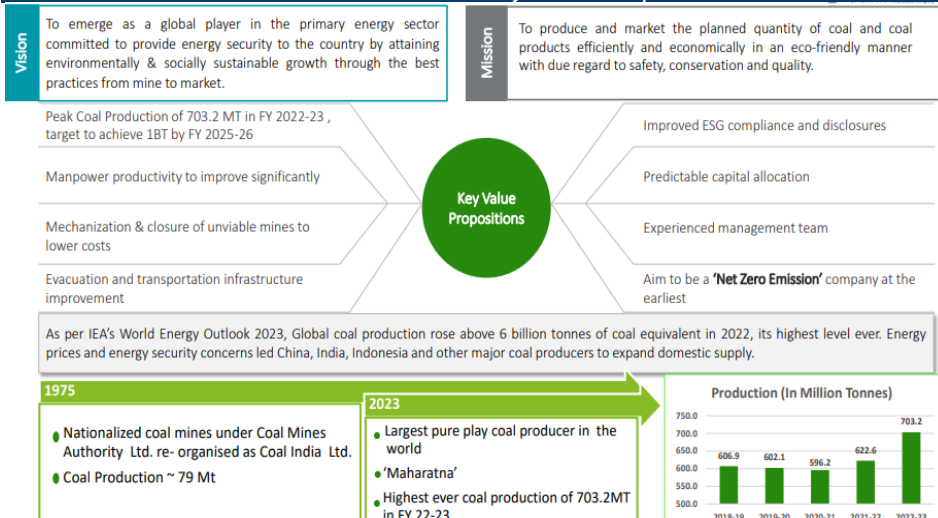
Source: Company, ICICI Direct Research

Exhibit 1: Coal India- Location of the Subsidiary Companies



Source: Company, ICICI Direct Research

Exhibit 2: Coal India- Vision & Mission and Key Value Proposition



Source: Company, ICICI Direct Research

Investment Rationale

Coal prominence to sustain; import substitution near term opportunity

With geological resource availability exceeding 361 billion tonnes, coal continues to be the most abundant fossil fuel available in the country. Around 50% of India's energy and ~70% of electricity requirements are fulfilled by coal. Despite the emphasis on renewable/non fossil fuel based clean energy, the share of coal in the domestic energy basket remains significant with coal demand expected to reach to ~1.3-1.5 billion tonnes by 2030. As of FY23, out of the installed Electricity generation capacity of 416 GW domestically, coal based thermal capacity is pegged at 205 GW. Given the volatile PLF's as well as high gestation period in case of renewables, various studies have pointed to incremental addition of coal based thermal capacity domestically which augurs well for Coal India, thereby providing ready market for its incremental coal produce. It is envisaged that conservatively India would add ~30 GW of coal based thermal capacity going forward which could mean additional coal demand of ~100-120 MT. Moreover, India imported ~240 MT of coal in FY23 of which ~55 MT was coking coal for which we have less substitute available domestically while for the rest i.e. non coking coal of ~180 MT, this represents an immediate opportunity for Coal India. Thus, coal is expected to sustain its dominance in domestic energy needs & we don't foresee any demand concern for Coal India in near future.

Apart from higher dependence on electricity generation, coal is also a vital source for steel, aluminium, fertilizer and cement production for energy requirements.

Exhibit 3: Coal Supply and Imports trend - India

Coal Supply (India)	FY19	FY20	FY21	FY22	FY23
Coal India	608	581	574	662	695
SCCL	68	62	49	66	67
Others/Captive	57	63	69	92	116
Total	733	707	691	819	878

Coal Imports (India)	FY19	FY20	FY21	FY22	FY23
Non Coking Coal	184	197	164	152	182
Coking Coal	52	52	51	57	56
Total Coal Import	235	249	215	209	238

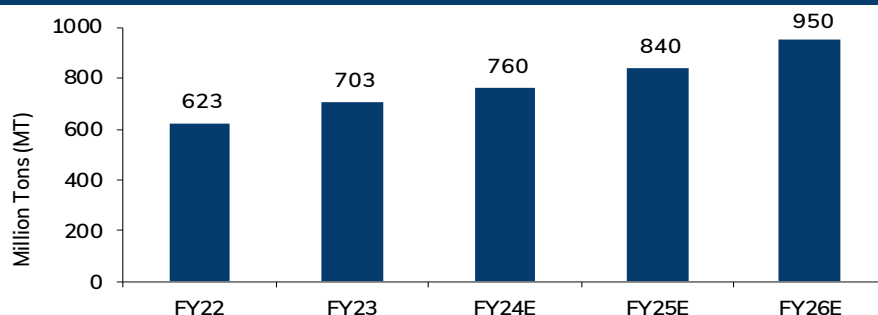
Source: Ministry of Coal, ICICI Direct Research

Healthy volume growth on the anvil amid ambitious production targets

Coal India has envisaged coal supply target of 780 MT and 850 MT in FY24 and FY25, respectively. With government plans of 24x7 power supply to all homes in the country by 2025, Coal India has set an ambitious target of 1000 MT of coal production by FY26. To achieve the projected production, CIL is strengthening its coal evacuation capacity by initiating First Mile Connectivity projects, involving installation of mechanised conveyor systems to move coal from pitheads to loading points, eliminating the need for road movement of coal. 61 FMC projects have been identified with an estimated investment of ₹ 24,750 crores, enabling the company to expand its mechanized capacity from 151 MT to 915 MT by FY29E.

Coal India has also engaged 15 MDOs (Mine Developer Operators), of which 11 are opencast and 4 underground mines, with a combined target capacity of 173 MT. Out of the 15 projects, LOA has been issued for 12 projects with a total capacity of 131 MT. Mining activities have commenced in 3 Projects accounting for 54 MT, and agreements have been signed for 9 projects with a combined capacity of 77 MT. Apart from MDO, CIL is also engaged in reviving Underground Mines by identifying 30 discontinued mines which have an estimated mineral reserve of ~600 MT.

Exhibit 4: Coal Production Trend at Coal India



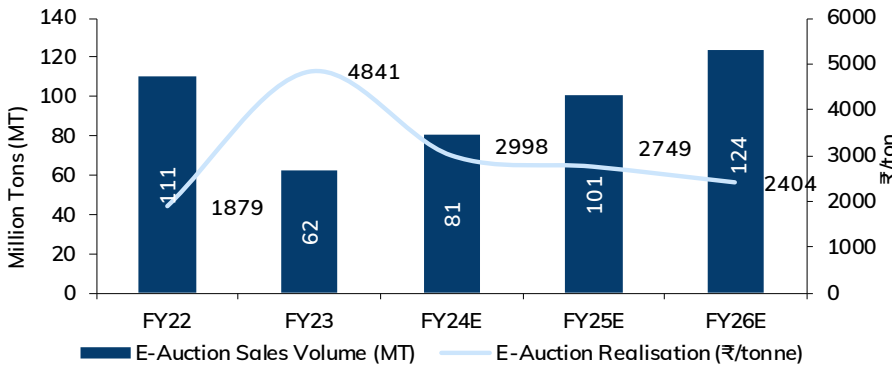
Source: Ministry of Coal, ICICI Direct Research

We expect production volumes at CIL to grow at a CAGR of 11% over FY23-26E to 950 MT by FY26E

Rise in E-auction volumes to augment EBITDA/tonne & profitability

E-Auction is the most profitable segment at CIL with volume and price variations in this space having a direct bearing on its overall profitability. Although E-Auction sales volume was lower by 44% YoY at 62 MT in FY23, an increase in realization (₹ 1879/tonne in FY22 to ₹ 4841/tonne in FY23) resulted in E-Auction revenues growing 24% YoY to ₹ 30,172 crores in FY23. Consequent EBITA/tonne rose from ₹373/tonne in FY22 to ₹529/tonne in FY23. CIL’s commentary suggests company’s aims for ~15% volume contribution from E-Auction space going forward (we built in ~13% share by FY26), which should support profitability at CIL going forward

Exhibit 5: Coal India – E-Auction sales volume and Realisations



Source: Ministry of Coal, ICICI Direct Research

E-Auction sales volume is seen growing at a CAGR of 26% over FY23-26E to 124 MT in FY26. This is expected to support overall profitability at CIL with EBITDA/tonne sustaining above the ₹500/tonne mark going forward (₹525/tonne in FY25E, ₹540/tonne in FY26E vs. ~₹500/tonne in FY24E). E-auction premiums are built on a decline however with healthy volume growth there is overall growth in e-auction sales value over FY24-26E

Steadily stepping up play in the green energy space

With the emphasizes on reducing emissions from power generation, government is promoting coal gasification, liquefaction, and hydrogen production as alternate uses of coal. With the help of advance technologies, coal can be transformed into gaseous or liquid forms, which can be utilized as feedstock for various chemical and industrial process. The government has also launched National coal gasification mission with the aim of achieving 100 MT of coal gasification by 2030. As a leader in coal production CIL is also committed to clean energy domain and is approaching this space through JV’s & MoU’s in new technology space, setting up of captive solar projects (Aiming ~3 GW) & augmenting washeries infrastructure among others.

Exhibit 6: Clean Energy play at Coal India

Moving towards Clean Coal

Coal Gasification

- Three MoUs have been executed on 12.10.2022 between CIL & IOCL, CIL & BHEL, and CIL & GAIL for SCG based Coal to Chemical business.
- 3 Surface Coal Gasification (SCG) projects identified in ECL (WB), MCL (OD) and WCL (MH).
- Pre-feasibility studies done for Coal to Synthetic Natural Gas in collaboration with M/s GAIL at ECL and Coal to Ammonium Nitrate in collaboration with M/s BHEL at MCL.
- CIL Board approved PFRs for above two projects, accorded go-ahead for taking-up pre-project and tendering activities.
- WCL – BOO tender has been invited on 06.03.2023 and scheduled bid submission end date is 30.11.23.
- Overall, INR 32,728 crore (±25%) investment through LSTK/BOO model in ECL, MCL & WCL.
- JVAs with BHEL and GAIL under finalization.

Coal Bed Methane

- Tenders floated for 3 projects for CBM Development through CBMD (Coalbed Methane Developer) in: Jharia CBM Block-I (CAPEX: INR 1879 Cr) Raniganj CBM Block (CAPEX: INR 595 Cr) & Sohagpur CBM Block-I (CAPEX: INR 202.72 Cr). Offer received for Jharia CBM Block-I only. [Capex as per Pre-Feasibility Reports]
- Revenue sharing contract signed with successful bidder for Jharia CBM Block-I. The Block is in Exploration Phase.
- Global bid document for Raniganj CBM Block published thrice and twice for Sohagpur CBM Block-I, however no bid was received.

Washeries

- 13 coal washeries, (11 coking coal and 2 non-coking coal) with total capacity of 24.9 mtpa operational
- Construction of Madhuband washery (5 mtpa) complete. PGT started on 10.10.2023 and is continuing. Expected commissioning by Nov 2023
- 4 new coking coal washeries in BCCL totaling 12 mtpa, 5 new coking coal washeries in CCL totaling 14.5 mtpa and 1 non-coking coal washery in MCL of 10 mtpa capacity being set up.

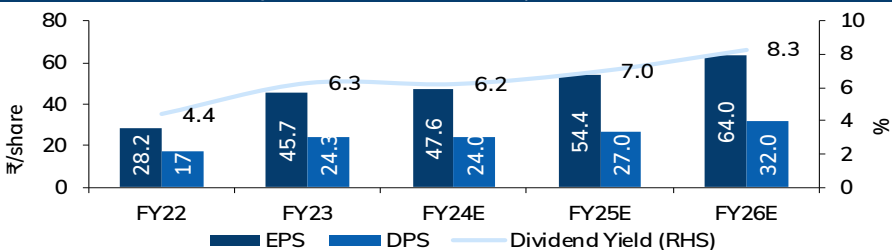
	H1 FY 23-24	H1 FY 22-23	Growth (%)
BCCL	6.59	7.21	-8.6%
CCL	4.11	2.54	61.8%
CIL	10.7	9.75	9.7%

Source: Company, ICICI Direct Research

Offers Attractive Dividend yield – a good margin of safety

By virtue of healthy cash generation and calibrated capex spend, dividend payout at Coal India has been healthy in the past at ~50% and is expected to remain so going forward as well. With increasing profitability, CIL is offering an attractive dividend yield of ~7% which indeed offers a good margin of safety for investment.

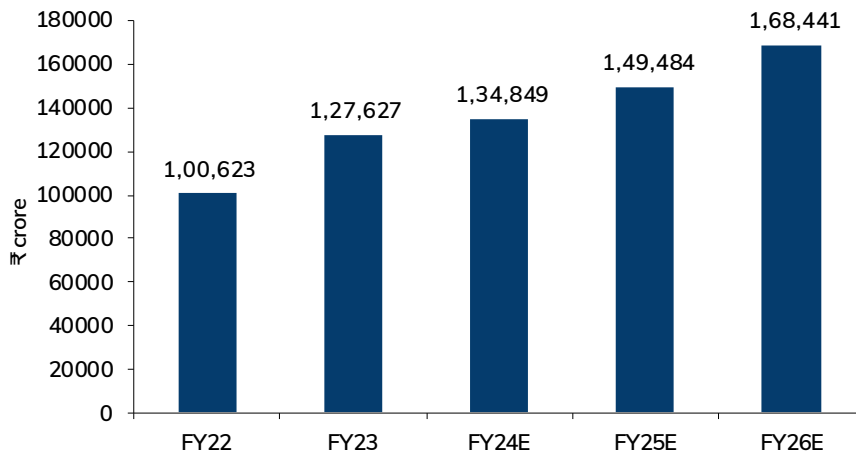
Exhibit 7: CIL – Dividend per share and dividend yield trend



Source: Ministry of Coal, ICICI Direct Research

Key Financial charts

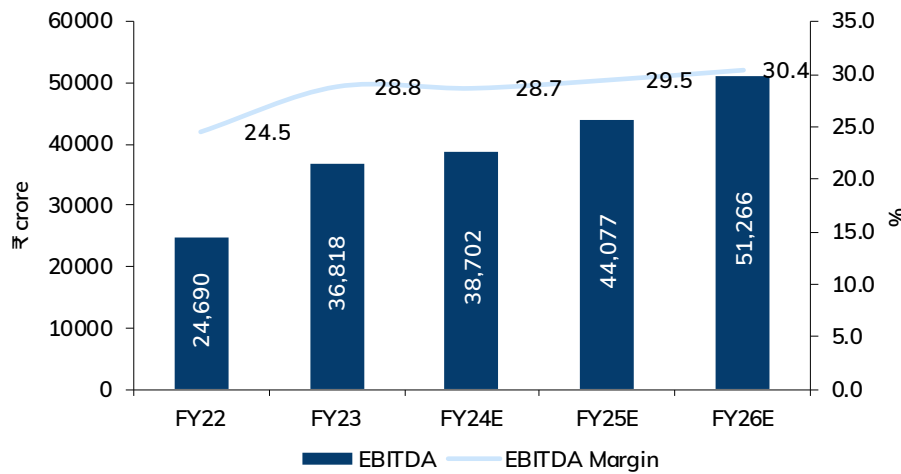
Exhibit 8: Trend in topline



Source: Company, ICICI Direct Research

Topline is expected to grow at 10% CAGR at Coal India over FY23-26E to ₹ 1.7 lakh crore as of FY26E. Volume growth in the aforesaid period is pegged at ~11%

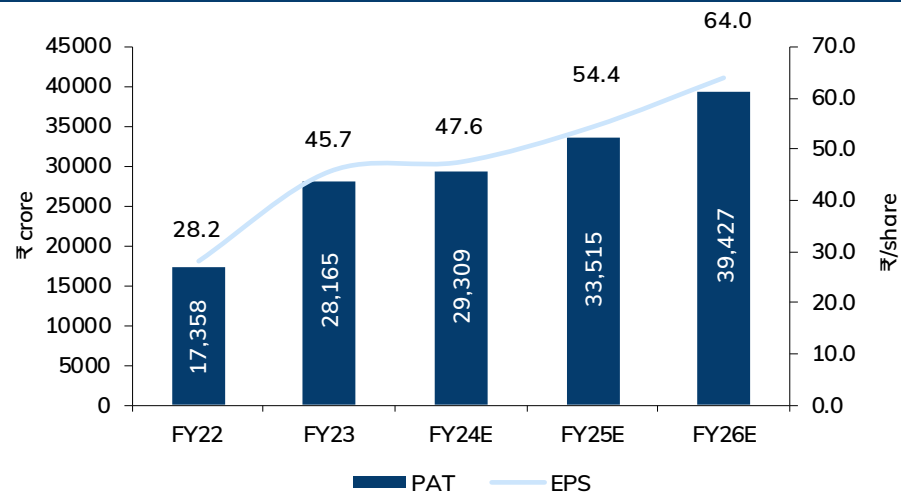
Exhibit 9: Trend in EBITDA & margins



Source: Company, ICICI Direct Research

At Coal India EBITDA is expected to grow at 11.7% CAGR over FY23-26E to ₹ 51,266 crore in FY26E with margins reaching ~30% mark in that timeframe. Coal India is expected to benefit from rise in E-auction sales volume as well as intent of decline in employee count going forward

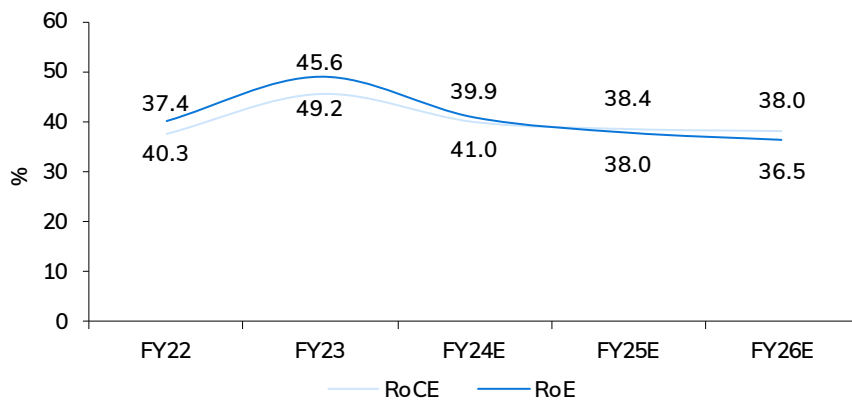
Exhibit 10: Trend in bottom-line & EPS



Source: Company, ICICI Direct Research

PAT is expected to grow at a CAGR of 11.9% over FY23-26E at Coal India to ₹ 39,427 crore in FY26E with corresponding EPS seen at ₹64 in FY26E

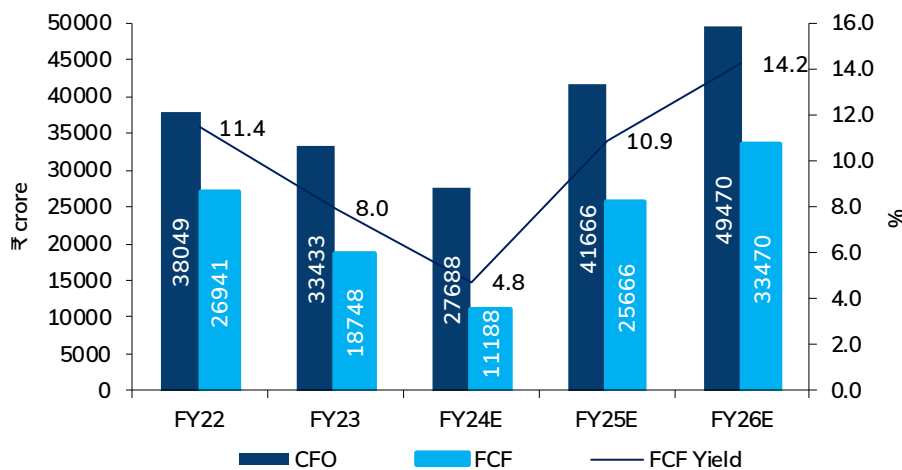
Exhibit 11: Trend in return ratio



Coal India has on a consistent basis realised healthy return ratios and is expected to report RoE/RoCE of ~40%

Source: Company, ICICI Direct Research

Exhibit 12: CFO, FCF trend along with FCF yield



Cash flow generation (CFO, FCF) has always been very healthy at Coal India. Going forward, FY24-26 avg. FCF yield is seen at ~10%

Source: Company, ICICI Direct Research

Exhibit 13: Key Operational Matrix

Particulars	Units	FY22	FY23	FY24E	FY25E	FY26E
Total Production	MT	623	703	760	840	950
Total FSA Sales Volume	MT	540	621	674	721	806
% of total sales vol	%	82%	89%	88%	86%	85%
Realisation	₹/tonne	1,407	1,475	1,540	1,571	1,603
Total E-Auction Sales Volume	MT	111	62	81	101	124
% of total sales vol	%	17%	9%	11%	12%	13%
Realisation	₹/tonne	1,879	4,841	2,998	2,749	2,404
Total Raw Coal Sales Volume	MT	651	683	755	822	929
% of total sales vol	%	98%	98%	98%	98%	98%
Realisation	₹/tonne	1,488	1,789	1,697	1,716	1,709
Total Washed Coal Sales Volumes	MT	7	7	9	13	14
% of total sales vol	%	1%	1%	1%	2%	2%
Realisation	₹/tonne	3,346	5,012	5,473	5,467	5,467
Total Sales Volume	MT	663	695	770	840	950
EBITDA/tonne	₹/tonne	373	529	503	525	540

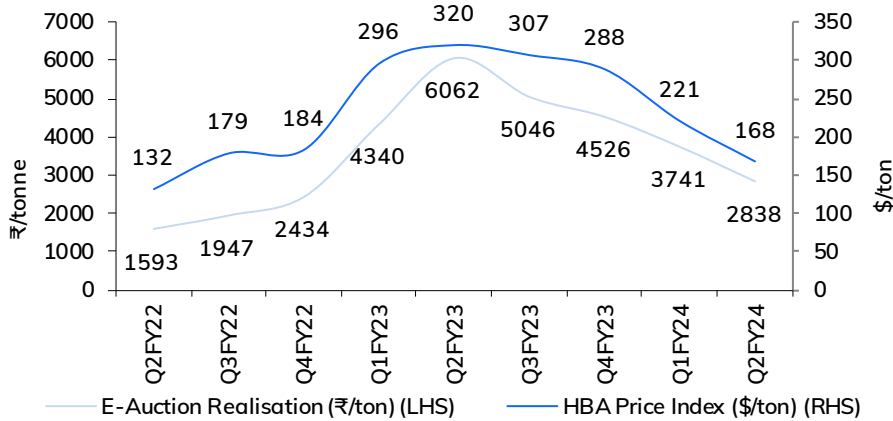
Source: Company, ICICI Direct Research

Risk and Concerns

Decline in international prices could negatively impact E-Auction Premiums

E-auction prices at Coal India find correlation with international coal prices apart from domestic demand supply mechanism. In FY23, CIL achieved a higher realization from E-Auction due to the high international coal prices. However, a sharp decline of the same resulted in E-Auction premiums (pricing premium to FSA) declining to ~80% in Q2FY24 from ~144% in Q1FY24. Any further decline in international prices is likely to have a negative impact on the E-Auction premiums, posing a downside risk to our forward earnings estimates.

Exhibit 14: E-auction prices at Coal India vs. International Coal prices



Source: Company, ICICI Direct Research

Increasing share of renewables to impact coal demand over the long term

An increased focus on renewable energy, aligned with the government's goal of achieving 500 GW of non-fossil fuel capacity by 2030, is expected to reduce the future demand for thermal coal. Though this not the near to medium term risk, however over the long term, as the largest producer, CIL faces potential risks during this transition towards clean energy. It is expected that coal demand will peak ~2040

Constraint in evacuation infrastructure to impact offtake volumes

In the past, coal offtake at Coal India has been limited by shortage of rakes for coal transportation. However, CIL is enhancing evacuation infrastructure by building rail infrastructure, adding a coal evacuation capacity by ~415 MT (~170 MT capacity added while the rest is to be completed by Dec'26). It is also developing new FMC rail connectivity and railway sidings with an investment of ~₹ 7,000 crores. Any delays in commissioning of these projects will impact the coal offtake at Coal India and is a risk to our forward sales volume assumptions.

Financial Summary

Exhibit 15: Profit and loss statement				
	₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E
Net Sales	1,27,627	1,34,849	1,49,484	1,68,441
Other Operating Income	10,624	12,171	13,454	15,160
Total Operating Income	1,38,252	1,47,020	1,62,937	1,83,601
Growth (%)	26.0	6.3	10.8	12.7
Raw Material Expenses	13,349	16,850	17,640	19,000
Employee Expenses	49,409	50,881	54,600	61,750
Other Operating Expense	38,676	40,587	46,620	51,585
Total Operating Expenditure	1,01,434	1,08,317	1,18,860	1,32,335
EBITDA	36,818	38,702	44,077	51,266
Growth (%)	-15.5	5.1	13.9	16.3
Depreciation	4,675	4,996	5,285	5,589
Interest	684	613	500	425
Other Income	6,551	5,886	6,269	7,186
PBT	38,009	38,979	44,562	52,438
Profit from JV & MI	-32.1	-125.4	-131.7	-138.2
Total Tax	9,876	9,796	11,179	13,150
PAT	28,165	29,309	33,515	39,427
Growth (%)	-22.3	4.1	14.3	17.6
EPS (₹)	45.7	47.6	54.4	64.0

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E
Profit after Tax	28,165	29,309	33,515	39,427
Add: Depreciation	4,675	4,996	5,285	5,589
(Inc)/dec in Current Assets	-7,742	-4,854	-6,667	-8,607
Inc/(dec) in CL and Provisions	14,201	3,510	15,303	19,823
Others, Sub-Other Income	-5,866	-5,273	-5,769	-6,761
CF from operating activities	33,433	27,688	41,666	49,470
(Inc)/dec in Investments	2,567	1,954	-10,100	-13,100
(Inc)/dec in Fixed Assets	-14,684	-16,500	-16,000	-16,000
Others, Add- Other income	3,357	6,116	6,500	7,418
CF from investing activities	-8,760	-8,430	-19,600	-21,682
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	818	-500	-500	-500
Dividend & interest outgo	-15,013	-15,404	-17,139	-20,145
Inc/(dec) in Share Cap	0	0	0	0
Others	265	0	0	0
CF from financing activities	-13,930	-15,904	-17,639	-20,645
Net Cash flow	10,742	3,355	4,427	7,143
Opening Cash	29,179	39,922	43,277	47,703
Closing Cash	39,922	43,277	47,703	54,846

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet				
	₹ crore			
(Year-end March)	FY23	FY24E	FY25E	FY26E
Liabilities				
Equity Capital	6,163	6,163	6,163	6,163
Reserve and Surplus	51,082	65,601	82,476	1,02,182
Total Shareholders funds	57,245	71,763	88,639	1,08,345
Total Debt	4,331	3,831	3,331	2,831
Deferred Tax Liability	1,331	1,331	1,331	1,331
Minority Interest / Others	10,805	11,035	11,266	11,499
Total Liabilities	73,712	87,961	1,04,567	1,24,005
Assets				
Gross Block	77,321	96,443	1,14,943	1,33,443
Less: Acc Depreciation	25,360	30,355	35,640	41,229
Net Block	51,961	66,087	79,303	92,214
Capital WIP	17,622	15,000	12,500	10,000
Total Fixed Assets	69,583	81,087	91,803	1,02,214
Investments	7,139	5,185	15,285	28,385
Inventory	8,155	9,236	10,239	11,537
Debtors	13,060	14,778	16,382	18,459
Loans and Advances	393	415	460	519
Other Current Assets	42,872	44,904	48,920	54,093
Cash	39,922	43,277	47,703	54,846
Total Current Assets	1,04,402	1,12,610	1,23,704	1,39,454
Current Liabilities	8,549	9,236	10,239	11,537
Provisions	83,791	84,060	93,182	1,05,000
Current Liabilities & Prov	1,37,495	1,41,005	1,56,308	1,76,131
Net Current Assets	-33,094	-28,395	-32,604	-36,677
Others Assets	30,083	30,083	30,083	30,083
Application of Funds	73,712	87,961	1,04,567	1,24,005

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Per share data (₹)				
EPS	45.7	47.6	54.4	64.0
Cash EPS	53.3	55.7	63.0	73.0
BV	92.9	116.4	143.8	175.8
DPS	24.3	24.0	27.0	32.0
Cash Per Share	64.8	70.2	77.4	89.0
Operating Ratios (%)				
EBITDA Margin	26.6	26.3	27.1	27.9
PAT Margin	20.4	19.9	20.6	21.5
Inventory days	23.3	25.0	25.0	25.0
Debtor days	37.4	40.0	40.0	40.0
Creditor days	24.4	25.0	25.0	25.0
Return Ratios (%)				
RoE	49.2	41.0	38.0	36.5
RoCE	45.6	39.9	38.4	38.0
RoIC	360.9	138.8	134.9	150.5
Valuation Ratios (x)				
P/E	8.4	8.0	7.0	6.0
EV / EBITDA	5.3	5.0	4.1	3.1
EV / Net Sales	1.5	1.4	1.2	0.9
Market Cap / Sales	1.8	1.7	1.6	1.4
Price to Book Value	4.1	3.3	2.7	2.2
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.1	0.1
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	0.6	0.6	0.6	0.6
Quick Ratio	0.5	0.5	0.5	0.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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