

## Company Update

## Metals &amp; Mining

Target price Rs255

## Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	66.1	66.1	66.1
Institutional investors	29.2	28.8	28.9
MFs and others	9.8	8.8	8.7
Insurance Cos.	12.3	12.1	12.4
FII	7.1	7.9	7.8
Others	4.7	5.1	4.9

Source: BSE

## ESG disclosure score

Year	2021	2022	Chg
ESG score	43.2	40.3	(2.9)
Environment	25.6	23.9	(1.7)
Social	37.7	39.3	1.6
Governance	66.1	57.7	(8.4)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

## INDIA

## Coal India

**ADD**  
**Maintain**  
**Rs240**

## A formidable play yet to get its due

We hosted Coal India's (CIL) management for a roadshow in Mumbai (on 17<sup>th</sup> May'23). Key points: 1) volume growth is likely to be the key growth driver; 2) e-auction volumes are likely to surpass 100mnte in FY24 (FY23: 62mnte) though realisation may come off; 3) the major provisions pertaining to staff cost have been taken in FY23 itself; 4) washed coal volumes are likely to increase by 25% YoY in FY24; 5) company is targeting an OBR ratio of 2.5 m<sup>3</sup>/te (FY23: 2.1m<sup>3</sup>/te); 6) capex intensity is expected to remain high at Rs150bn-170bn p.a.

In our view, CIL stands at a vantage point with higher volumes partially offsetting the decline in e-auction premium and higher wage costs. Our FY24E EPS of 33.6 (down 21% YoY) is based on the assumptions of no FSA price hike, fully blown wage cost at Rs473bn, sales volumes at 745mnte and e-auction premium of 81% over FSA. We value CIL at 7.2x FY25E EPS (core) resulting in a target price of Rs255/share. Our implied P/E multiple works out to 6.8x FY25E EPS.

- ▶ **Firm volume trajectory.** Management mentioned that the country's coal production is likely to surpass 1bnte in the current fiscal. Of the incremental production of 80mnte in FY24, almost 75% (60mnte) is likely to be from CIL. As a result, management expressed confidence that the production target of 760mnte (up 8.5% YoY) is achievable. The incremental volumes are expected to be achieved through: 1) additional demand of 100mnte from the power sector; and 2) e-auction volumes of 100mnte vs a mere 62mnte in FY23. In Apr'23, production and offtake growth was at 8.7% YoY and 8.6% YoY respectively. Our channel checks indicate that production / sales for the first 10 days of May'23 were up 6.7% / 3.4% respectively over the high base of prior year. For FY24E, we have estimated sales volume at 745mnte (up 6.7% YoY, slightly lower than CIL's target of 760mnte). Turnaround in SECL's performance is likely to be an important driver of volume growth in FY24E.
- ▶ **E-auction revenues likely to remain stable.** CIL management expects e-auction volumes for FY24 to rise to 100mnte (FY23: 62mnte). This is likely to offset the decline in e-auction realisations. Current, e-auction premium is 150% higher than the notified prices (FY23: 228% on an average). The allotted quantity in Apr'23 was 7.86mnte vs a mere 1.62mnte in Apr'22 and achieved premium was 137% vs 385% a year back. For FY24, we have estimated e-auction volumes of 77mnte at a premium of 81%. Besides, the management expects linkage premium for non-power sector (sponge iron and cement) to witness an uptick in FY24.
- ▶ **Capex:** FY24E/FY25E capex is likely to be Rs150bn-170bn p.a. split as: Rs35bn for land acquisition, Rs25bn for rehabilitation, Rs30bn for coal-handling plants, Rs15bn for railway infrastructure, Rs35bn for modernisation of equipment and Rs7bn-8bn towards the existing commitments in fertiliser plants through JVs. The total investment made in fertiliser plants is Rs25bn-30bn and expected return is 12% (secured). Note, the debt taken for these projects is not borne by CIL's balance sheet.

Market Cap	Rs1479bn/US\$17.9mn
Reuters/Bloomberg	COAL.BO/ COAL IN
Shares Outstanding (mn)	6,162.7
52-week Range (Rs)	263 /174
Free Float (%)	33.9
FII (%)	7.8
Daily Volume (US\$'000)	17,984
Absolute Return 3m (%)	10.2
Absolute Return 12m (%)	29.1
Sensex Return 3m (%)	1.0
Sensex Return 12m (%)	14.9

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	10,97,135	13,77,822	13,25,631	13,79,437
EBITDA(Rs mn)	2,46,905	3,63,481	2,81,713	2,98,880
Net Income (Rs mn)	1,73,784	2,63,060	2,07,324	2,21,757
EPS (Rs)	28.2	42.7	33.6	36.0
P/E (x)	8.3	5.5	7.0	6.5
CEPS (Rs)	6.6	4.7	5.5	5.1
EV/E (x)	4.5	2.9	3.5	3.0
Dividend Yield	7.3	10.3	9.0	9.0
RoCE (%)	53.7	68.0	44.5	42.2
RoE (%)	43.0	51.7	33.5	31.5

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## Other points

- CIL management mentioned that provisioning for wage hikes has largely been taken in FY23. Hence, wage bill is likely to stabilise at Rs450bn-460bn.
- CIL is targeting an OBR ratio of 2.5 m<sup>3</sup>/te (FY23: 2.1m<sup>3</sup>/te). This is likely to prepare mining faces for enhanced levels of production.
- Washed coal volumes are expected to rise 25% YoY in FY24. In FY23, it was 7-8mnte. Management mentioned that plans are afoot to set up one beneficiation plant per annum.
- *FSA price hike:* Management did not give any guidance, but expressed confidence that a 5% increase in FSA price (Rs70-80/te) would be sufficient to offset the increase in wage cost.

**Outlook – A stable play:** Taking cues from the discussion with the management, we believe CIL has effectively emerged from the shadows of past inability to ramp up volumes and low e-auction premiums. On one hand, production ramp-up at major (and more profitable/productive) mines is expected to bring about operating leverage benefits. On the other hand, higher e-auction volumes are likely to ensure EBITDA margin sustains at 20-21%. Besides, any FSA price hikes (customary post-wage negotiations) are likely to further boost earnings. We maintain our **ADD** rating on the stock and value it at 7.2x FY25E EPS (core), implying 6.8x FY25E EPS. Our target price works out to Rs255. That said, investments in unrelated sectors is a key capital allocation risk, in our view.

**Table 1: Key metrics**

(mnte)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Production	539	554	567	607	602	596	623	703	739	775
Sales	534	543	581	609	582	574	662	695	746	800
FSA	448	430	460	531	501	466	540	621	656	694
E-auction	66	94	106	64	65	94	111	62	77	92
FSA price (Rs/te)	1,235	1,301	1,257	1,343	1,416	1,379	1,407	1,475	1,490	1,490
E-auction price (Rs/te)	1,858	1,536	1,839	2,828	2,177	1,569	1,879	4,841	2,694	2,216
E-auction premium (%)	50	18	46	111	54	14	34	228	81	49
EBITDA/te (Rs)	247	229	160	411	371	244	373	523	378	374
Manpower cost (Rs.mn)	3,01,268	3,35,229	4,26,218	3,87,729	3,94,042	3,85,924	4,07,008	4,94,092	4,72,849	4,68,120
Dividend/share (Rs)	27.4	19.9	16.5	13.1	12.0	16.0	17.0	24.0	21.0	21.0
Production cost (Ex-Manpower and Royalty) (Rs.)	645	586	588	590	583	628	712	740	773	790

Source: Company data, I-Sec research

## Valuations and key risks

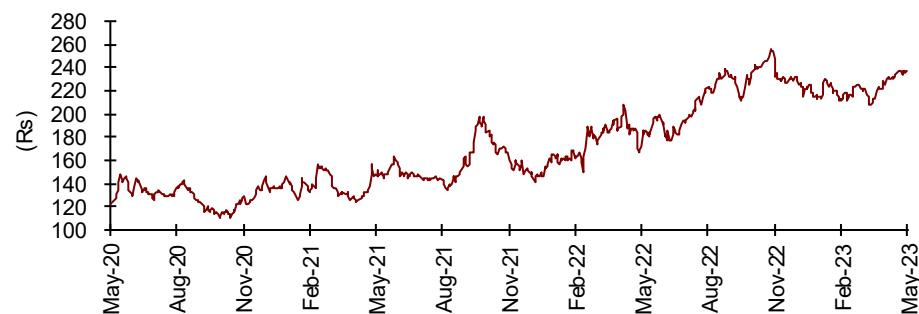
Our target price for CIL is Rs255 based on 7.2x FY25E EPS (core), implying 6.8x FY25E EPS. Maintain **ADD**. The key drivers for the stock are FSA volumes and e-auction premium. We believe a slew of recent measures on augmenting evacuation infrastructure and higher e-auction premium than the past as positives for the stock. Key risk stems from diversification into unrelated fields.

### Key risks to business model

- Sharp decline in e-auction premiums
- Faster than expected ramp-up of private mine blocks
- Slower than expected volume ramp-up
- Grade issues at mines

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### Price chart



Source: Bloomberg

## Financial summary

**Table 2: Profit & Loss statement**

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
<b>Operating Income</b>	<b>10,97,135</b>	<b>13,77,822</b>	<b>13,25,631</b>	<b>13,79,437</b>
Operating Expenses	8,50,230	10,14,340	10,43,918	10,80,557
<b>EBITDA</b>	<b>2,46,905</b>	<b>3,63,481</b>	<b>2,81,713</b>	<b>2,98,880</b>
% margins	22.5%	26.4%	21.3%	21.7%
D&A expense	44,287	46,753	52,568	59,441
Gross Interest	5,415	6,447	6,447	6,447
Other Income	39,045	55,080	65,252	75,003
<b>Recurring PBT</b>	<b>2,36,249</b>	<b>3,65,361</b>	<b>2,87,950</b>	<b>3,07,995</b>
Add: Extraordinary	-	-	-	-
Less: Taxes	62,379	1,02,301	80,626	86,239
<b>Reported Net Income</b>	<b>1,73,784</b>	<b>2,63,060</b>	<b>2,07,324</b>	<b>2,21,757</b>
<b>Recurring Net Income</b>	<b>1,73,784</b>	<b>2,63,060</b>	<b>2,07,324</b>	<b>2,21,757</b>

Source: Company data, I-Sec research

**Table 3: Balance sheet**

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
<b>Assets</b>				
Total Current Assets	9,28,430	10,80,827	11,34,398	12,16,770
Of which cash&cash eqv.	3,64,589	4,45,159	5,14,131	5,88,516
Total Current Liabilities	5,73,505	6,86,665	6,88,473	6,94,809
<b>Net Current Assets</b>	<b>(9,664)</b>	<b>(50,996)</b>	<b>(68,206)</b>	<b>(66,556)</b>
<b>Investments</b>	<b>26,104</b>	<b>54,448</b>	<b>54,448</b>	<b>54,448</b>
<b>Net Fixed Assets</b>	<b>4,65,713</b>	<b>4,93,728</b>	<b>5,49,160</b>	<b>5,97,720</b>
CWIP	1,27,137	1,52,626	1,64,626	1,76,626
Other Non-current assets	1,056	25,881	25,881	25,881
<b>Total Assets</b>	<b>12,28,929</b>	<b>14,25,402</b>	<b>15,44,597</b>	<b>16,81,192</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>33,540</b>	<b>41,744</b>	<b>41,744</b>	<b>41,744</b>
Deferred Tax Liability	8,110	13,307	13,307	13,307
Other long term liabilities	7,49,110	7,90,195	8,31,484	8,75,739
Minority Interest	6,738	7,707	7,707	7,707
Equity Share Capital	61,627	61,627	61,627	61,627
Reserves & Surplus	3,69,803	5,10,822	5,88,728	6,81,068
<b>Net Worth</b>	<b>4,31,430</b>	<b>5,72,449</b>	<b>6,50,355</b>	<b>7,42,695</b>
<b>Total Liabilities</b>	<b>12,28,929</b>	<b>14,25,402</b>	<b>15,44,597</b>	<b>16,81,192</b>

Source: Company data, I-Sec research

**Table 4: Cashflow statement**

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
<b>Operating Cashflow</b>	<b>4,10,875</b>	<b>3,56,862</b>	<b>3,18,390</b>	<b>3,23,803</b>
Working Capital Changes	(1,62,926)	(41,333)	(17,209)	1,650
Capital Commitments	(1,19,956)	(1,41,027)	(1,20,000)	(1,20,000)
<b>Free Cashflow</b>	<b>2,90,919</b>	<b>2,15,835</b>	<b>1,98,390</b>	<b>2,03,803</b>
<b>Investing Cashflow</b>	<b>(2,64,810)</b>	<b>(2,34,230)</b>	<b>(1,20,000)</b>	<b>(1,20,000)</b>
Chg. In Share Capital	-	-	-	-
Inc/(Dec) in Borrowings	(25,732)	8,052	-	-
Dividend paid	(1,07,834)	(1,43,281)	(1,29,417)	(1,29,417)
Interest paid	-	-	-	-
<b>Financing Cashflow</b>	<b>(1,34,412)</b>	<b>(1,36,611)</b>	<b>(1,29,417)</b>	<b>(1,29,417)</b>
Chg. in Cash & Bank balances	11,652	(13,979)	68,972	74,385

Source: Company data, I-Sec research

**Table 5: Key ratios**

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	28.2	42.7	33.6	36.0
Diluted Recurring EPS	28.2	42.7	33.6	36.0
Recurring Cash EPS	35.4	50.3	42.2	45.6
Dividend per share (DPS)	17.0	24.0	21.0	21.0
Book Value per share (BV)	70.0	92.9	105.5	120.5
<b>Growth Ratios (%)</b>				
Operating Income	21.9%	25.6%	(3.8%)	4.1%
EBITDA	76.7%	47.2%	(22.5%)	6.1%
Recurring Net Income	114.5%	51.4%	(21.2%)	7.0%
<b>Valuation Ratios (x)</b>				
P/E	8.3	5.5	7.0	6.5
P/CEPS	6.6	4.7	5.5	5.1
P/BV	3.3	2.5	2.2	1.9
EV / Sales	1.0	0.8	0.7	0.7
EV / EBITDA	4.5	2.9	3.5	3.0
EV / FCF	3.8	4.8	4.9	4.4
<b>Operating Ratios (%)</b>				
Gross Margin	22.5	26.4	21.3	21.7
Other Income / PBT	16.5	15.1	22.7	24.4
Effective tax rate (%)	26.4	28.0	28.0	28.0
Asset Turnover (x)	0.9	1.0	0.9	0.9
Cash Conversion (days)	49.3	14.2	19.0	7.3
Debtor (days)	51.6	32.4	35.0	33.3
Inventory (days)	173.9	144.5	137.4	123.7
Creditor (days)	176.1	162.6	153.4	149.8
Net D/E Ratio (x)	(0.8)	(69.5)	(71.8)	(72.9)
<b>Profitability Ratios (%)</b>				
Rec Net Income Margins	15.8	19.1	15.6	16.1
RoCE	53.7	68.0	44.5	42.2
RoNW	43.0	51.7	33.5	31.5
Dividend Yield	7.3	10.3	9.0	9.0
EBITDA Margins	22.5	26.4	21.3	21.7

Source: Company data, I-Sec research

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