Volume Growth & Richer Pricing Mix to Drive Profitability

Coal India is the largest coal producer in the world and accounts for ~80% of the domestic coal production in FY22. It has strategic importance in meeting India's energy requirement as ~51% (as of May'22) of the country's power generation capacity is derived from coal-based thermal power plants. CIL's coal production grew by 4% YoY in FY22 to 623 million tonnes (MT), while dispatch rose by 15% YoY to 662 MT. The said growth was driven by the robust power demand (Apr-May'22 coal production was up 29% YoY at 108.2 MT and dispatch stood up 9% YoY at 118.7MT). The company has a production and dispatch target of 700 MT for FY23 (our estimate: 690 MT). We believe the healthy volume growth outlook coupled with robust prices will drive CIL's profitability in FY23/24E. We initiate coverage on Coal India Ltd (CIL) with a BUY recommendation and a Target Price (TP) of Rs 225/share, implying an upside of 21% from the CMP. The stock is currently trading at 3.4x EV/EBITDA (consensus 1-Year forward), much below its long-term average of 6.0x.

Robust business profile with stable and healthy operating margins

The company's EBITDA margins have been healthy and stable averaging 25% over the last decade. This has been on account of abundant coal resources, conducive geological conditions, the company's improving productivity in terms of output/man-shift due to manpower reduction through the closure of underground mines, higher outsourcing, and Capex on open cast mines and evacuation expenditure. However, the margins dipped in FY18 (14%) as it undertook one-time expenses on provisions towards wage revision and higher production costs (led by grade slippage). Wage revisions are due now and the company expects them to complete by the end of FY23. Keeping this in view, we model a 10% increase in the employee cost along with a 6% hike in blended average sales prices (ASP) to factor in higher e-auction prices and an expected hike in FSA prices (option value).

Higher international coal prices lead to Higher e-auction coal prices

Higher international coal prices driven by heightened geopolitical tension and supply chain disruptions have led to lower imports and higher e-auction premiums for domestic coal. In Q4FY22, CIL's e-auction premium over FSA coal stood at 65% vs. 42% in Q3FY22 and 26% in Q4FY21. The e-auction volumes, however, stood stable at 28MT in Q4FY22 vs. 26MT in Q3FY22 and 29MT in Q4FY21 mainly due to higher demand for FSA coal by the Power sector. We believe the merger of 5 different e-auction coal windows into a single window would lead to uniform pricing for similar grades of coal. In May'22, the e-auction premium surged to 425% over notified prices. However, e-auction volume stood low at 4.38MT. With the onset of monsoon, we expect peak power demand to subside and higher e-auction volumes to NRS (non-regulated sectors such as steel and cement) as their demand will continue to remain stable.

Strong cash flows to keep the dividend yield high

CIL has a robust financial risk profile with healthy net cash and cash equivalents of Rs 25,870 Cr (as of Mar'22). Trade receivables have come down to Rs 11,368 Cr in FY22 from Rs 19,623 Cr in FY21 leading to positive free cash flow in FY22 (post working capital changes). The company has a Capex plan of Rs 17,000 Cr for FY23, primarily on evacuation infrastructure. Despite the proposed Capex and high dividend payout, liquidity will remain robust over the medium term, backed by a robust capital structure and healthy cash accrual. At CMP, the current dividend yield remains attractive at 11%.

Valuation & Recommendation

We initiate coverage on the stock with a BUY rating and value the company by assigning a 1-year forward EV/EBITDA multiple of 4.0x on FY24 EBITDA. We arrive at our Mar'23 target price of Rs 225/share, implying an upside of 21% from the CMP. At CMP, the stock is trading at 3.4x on FY24E EV/Adj EBITDA which looks attractive and offers an impressive dividend yield of 10% on FY24 Earnings.

Key Financials (Consolidated)

(Rs Cr)	FY22A	FY23E	FY24E	FY25E
Net Sales	1,09,714	1,20,481	1,26,007	1,26,900
Adj EBITDA	28,463	31,204	30,628	29,626
Net Profit	17,358	17,852	18,256	16,621
EPS (Rs)	28.2	29.0	29.6	27.0
PER (x)	5.5	6.4	6.3	6.9
P/BV (x)	2.2	2.3	2.0	1.8
EV/Adj EBITDA (x)	2.5	3.2	3.4	3.5
ROE (%)	44%	38%	34%	27%

Source: company, Axis Research

CMP as of 28th June, 2022	
CMP (Rs)	186.4
Upside /Downside (%)	21%
High/Low (Rs)	209/133
Market cap (Cr)	1,14,873
Avg. daily vol. (6m) Shrs.	16,958,488
No. of shares (Cr)	616

Shareholding (%)

	Sep-21	Dec-21	Mar-22
Promoter	66.13	66.13	66.13
FIIs	6.74	6.59	6.94
MFs / UTI	9.59	9.17	9.60
Banks / FIs	0.39	0.16	0.15
Others	17.15	17.95	17.18

Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	1,20,481	1,26,007	1,26,900
Adj EBITDA	31,204	30,628	29,626
Net Profit	17,852	18,256	16,621
EPS (Rs)	29.0	29.6	27.0
PER (x)	6.4	6.3	6.9
P/BV (x)	2.3	2.0	1.8
EV/Adj EBITDA (x)	3.2	3.4	3.5
ROE (%)	38%	34%	27%

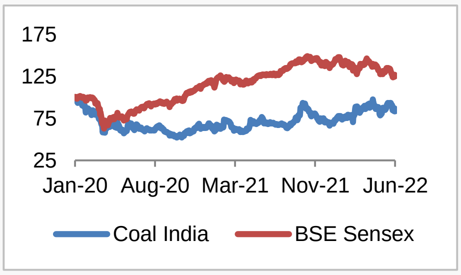
Key Drivers (%) (Growth in %)

Y/E Dec	FY23E	FY24E	FY25E
Net Sales	10	5	1
Adj EBITDA	10	(2)	(3)
Net Profit	3	2	(9)

Axis vs. Consensus

EPS estimate.	FY23E	FY24E	FY25E
Axis	29.0	29.6	27.0
Consensus	30.4	30.4	31.9
Mean Consensus TP (12M)			**209**

Relative performance



Source: Capitaline, Axis Securities

Aditya Welekar
Research Analyst
Email: aditya.welekar@axissecurities.in

Financial Story in Charts

Exhibit 1: CIL Coal dispatch growth CAGR of 8% in FY21-24E

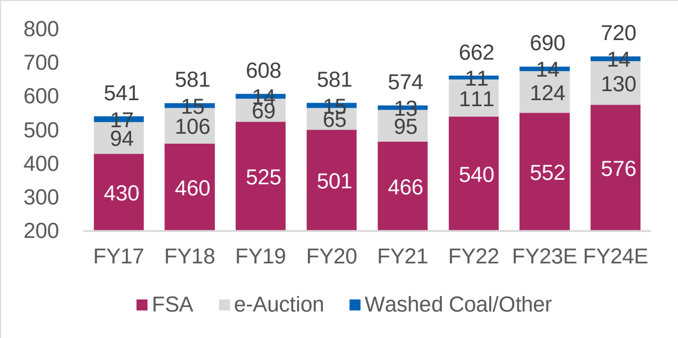
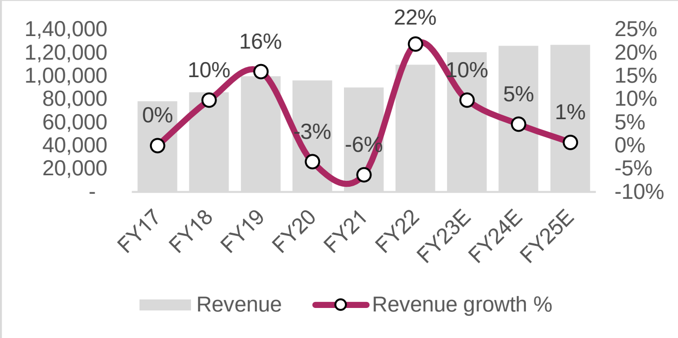


Exhibit 2: Revenue to grow in FY23/24E in line with higher dispatch



Source: company, Axis Securities

Exhibit 3: EBITDA growth in FY23E on the back of higher volumes

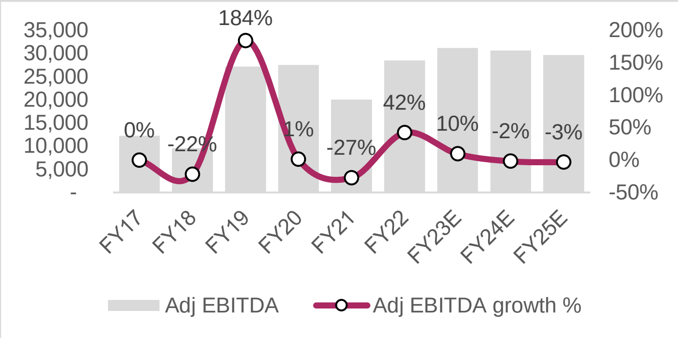
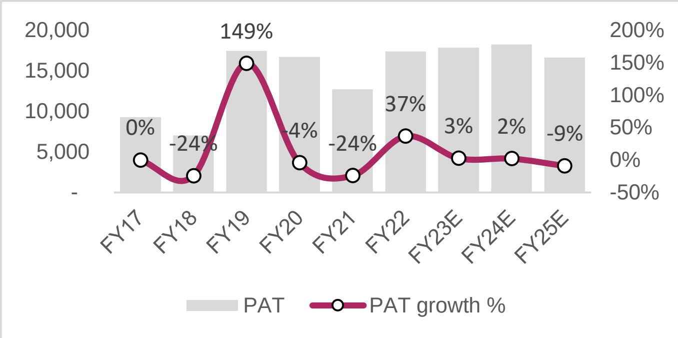


Exhibit 4: PAT to reflect strength in EBITDA



Source: company, Axis Securities

Exhibit 5: Adequate cash; FCF to remain positive despite higher Capex

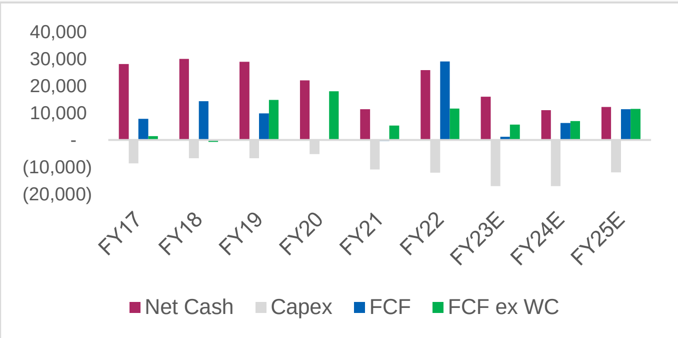
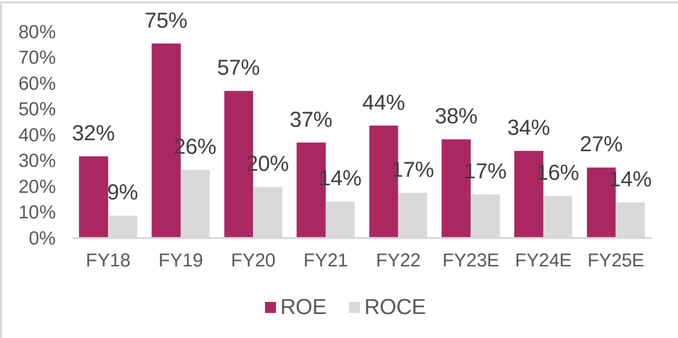


Exhibit 6: Healthy ROE & ROCE



Source: company, Axis Securities

Exhibit 7: Attractive dividend yield at ~10%

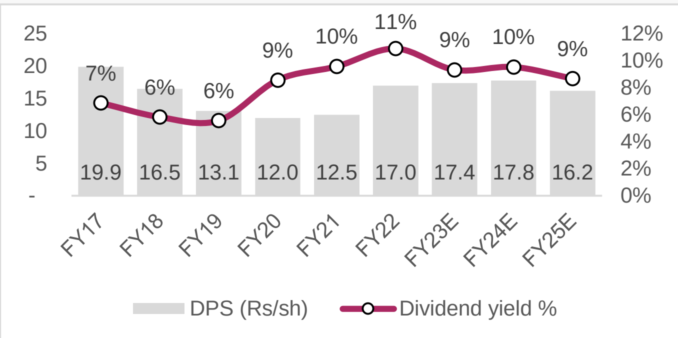
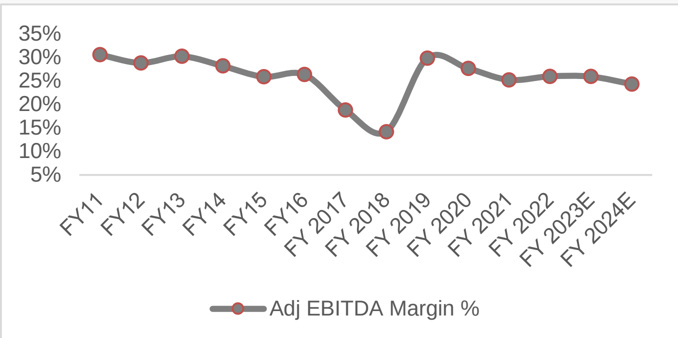


Exhibit 8: Adj. EBITDA Margins largely stable over the cycle



Source: company, Axis Securities

Company Overview

Coal India Limited (CIL) – incorporated in 1975 post the government took over private coal mines, had production of ~79MT at the time of inception. Today, CIL is the largest coal producer in the world. Its raw coal production in FY22 stood at 623MT, up 4.4% YoY. CIL was conferred the Maharatna status by the government of India (GOI) on Apr'11, which gave the company operational and financial autonomy. On Oct'10, the GOI divested a 10% stake in CIL for Rs 15,200 Cr through an IPO and got listed on the stock exchanges. After the IPO, the GOI has reduced its stake through an offer for sale, by way of placement of shares in the Central Public Sector Exchange Traded Fund, and buyback of shares through an offer for sale. As of Mar'22, the government stake stands at 66%.

CIL is the largest coal producer in the world. Its coal production share stood at 80% of the domestic coal production in FY22. It has ~55% of India's total coal resources under it. ~80% of the coal dispatch was to the Power sector in FY22 (YTD-FY23 at 86%).

- **CIL is the largest coal producer in the world** with 345 mines (as of Apr'21), of which, 151 are underground, 172 opencast, and 22 mixed. The company has total resources of 178 billion tonnes (BT) and reserves of 54 BT. (as of Apr'21, India's total coal resource estimate stood at ~352 BT)
- **CIL has eight fully owned Indian subsidiary companies:** CIL is the holding company and has 8 Indian subsidiaries viz. Eastern Coalfields ltd (ECL); Bharat Coking Coal ltd (BCCL); Central Coalfields ltd (CCL); Western Coalfields ltd (WCL); South Eastern Coalfields ltd (SECL); Northern Coalfields ltd (NCL); Mahanadi Coalfields ltd (MCL), and Central Mine Planning & Design Institute Limited (CMPDIL). In addition, CIL has a foreign subsidiary in Mozambique, namely Coal India Africana ltd (CIAL). CIL has incorporated two new subsidiaries – CIL Navikarniya Urja Limited for the development of non-conventional/clean & renewable energy and CIL Solar PV Limited for the development of solar photovoltaic modules.
- **Monopoly in Indian coal market:** CIL's coal production share stood at 80% of the domestic coal production in FY22 and commands ~55% of India's total coal resources. The GOI opened up the coal sector for commercial mining in Junn'20 and auctions have started, however, the coal production and ramp-up will take time. We expect CIL to maintain its market share and near-monopoly in the near to medium term.
- **Strategic coal supplier to Indian power sector:** With large untapped coal resources and a lack of other sustainable fuel sources to substitute coal, CIL will continue to play an important role in India's energy requirement. CIL dispatches ~80% of the coal requirement to the Power sector, underlying its importance towards energy security. Given the power demand pegged to grow at 6%/8% over FY22-30, the Indian coal demand requirement will rise to 1,250/1,500MT by FY30 from 1,013MT in FY19. This is despite expected growth in RE capacity from 123GW in FY19 to 450GW in FY30.
- **Revenue for CIL comes from the sale of coal in the domestic market,** (negligible export revenue in FY20), with 67% of revenue from the power sector. **The company sells coal through** 1) FSA – Fuel supply agreement 2) E-Auction schemes 3) Washed coal. In FY21, 80% of the revenue came from FSA (Fuel Supply Agreements), 19% from E-auction and the remaining from washed coal/others.
- **FSA is a legal agreement with customers for the supply of coal**: FSA is broadly categorized as FSA with customers in power utilities (IPPs, state power utilities and PPUs), FSA in non-power industries (including CPP) and FSAs with state nominated agencies.
- **E-Auction:** Customers who are unable to get coal through FSA due to any reason such as seasonality, the limited requirement of coal that does not warrant long-term linkage of coal or who require coal in addition to their existing FSA can opt for E-Auction. E-Auction coal is sold at a premium to FSA coal and is partially dependent on the international coal prices. Unlike FSA coal, which is unchanged for a long period of time (usually 5 years, the last FSA price was revised in 2017).
- **Lastly, the washed coal is the costliest** of all as its ash content is lowered through washeries and beneficiation.
- **Diversification:** The Company has planned to diversify into cleaner coal projects such as coal gasification, coal bed methane and higher washed coal through washeries. It has also entered into solar generation, Aluminum value chain and solar cell manufacturing.
- **Coal gasification:** The Company has identified 5 surface coal gasification projects identified at Shilpanjal Pariyojana (WB), Project Utkarsh (MH), and Dankuni (WB), Ashoka (JH), and Mahamaya SCG (CG). Two tenders have been issued in BOO mode (Build-Own-Operate) for ECL and SECL, and the company is awaiting clarification from the government on subsidy for the viability of the project.

- **Coal bed methane:** Tenders floated for 3 projects for CBM Development through CBMD (Coal bed Methane Developer) in Jharia CBM Block-I, Raniganj CBM Block & Sohagpur CBM Block-I. Offer received for Jharia CBM Block I Only.
- **Washeries:** The company is currently operating 13 coal washeries, (11 coking coal and 2 non-coking coal) with a total capacity of 22.9MTpa operational. To enhance the beneficiation capacity of coal, CIL is setting up further 4 new Washeries in BCCL having a total throughput capacity of 12MTpa, 6 new coking coal washeries in CCL totaling 18MT and 1 non-coking coal washery in MCL of 10MTpa capacity being setup.
- **Solar plants:** CIL targets to generate 3GW capacity by FY24. 2 subsidiaries namely CIL Navikarniya Urja Limited and CIL Solar PV Limited have been incorporated to venture into Solar Power Business. CIL bagged its maiden commercial Solar Project outside its command areas by winning 100MW Solar Power Project through Competitive Bidding with Reverse-Auction @ Rs2.20 per kWh conducted by Gujarat Urja Vikas Nigam Limited (GUVNL).
- **Aluminum project:** CIL Board has approved venturing into the Aluminum business vertical through a Brownfield Project (as a JV between MCL and NALCO) and a Greenfield Project. The company has received approvals from the Odisha government and has asked it to allot bauxite mines on a nomination basis. Capex on the project is expected to be Rs 2,6000 Cr (including powerhouse) which will be funded through debt.
- **Fertilizer plants:** The Company has two fertilizer projects viz: HURL (Hindustan Urvarak and Rasayan Limited) and TFL (Talcher Fertilizers Limited). HURL Capex is Rs 16,000 Cr (CIL's share is 33%, translating to Rs 1,300 Cr equity). TFL Capex is Rs 13,000 Cr (CIL's investment will be Rs 1,300 Cr).
- Coal India's board has given in-principle approval to divest a 25% stake in BCCL and awaits approval from the government. A stake sale and a potential listing could help unlock the value.

Exhibit 9: CIL Coal Dispatch (MT)

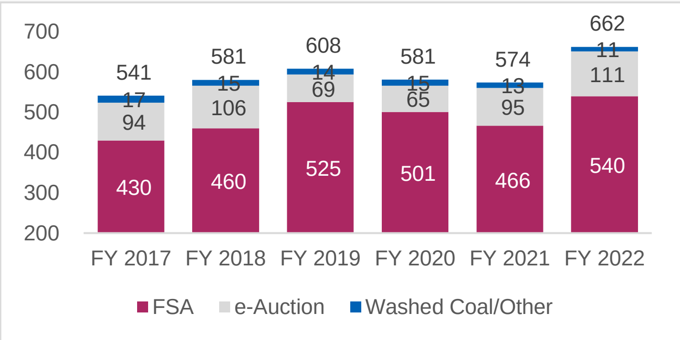
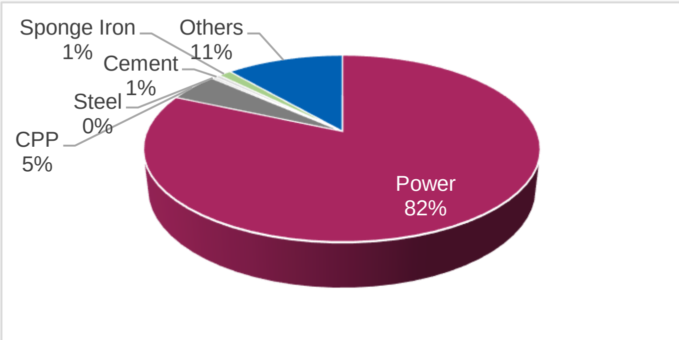


Exhibit 10: CIL FY22 Coal Dispatch by sector



Source: company

Exhibit 11: CIL Revenue Split FY21

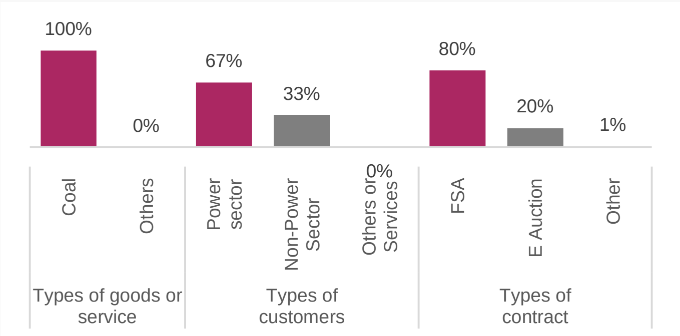
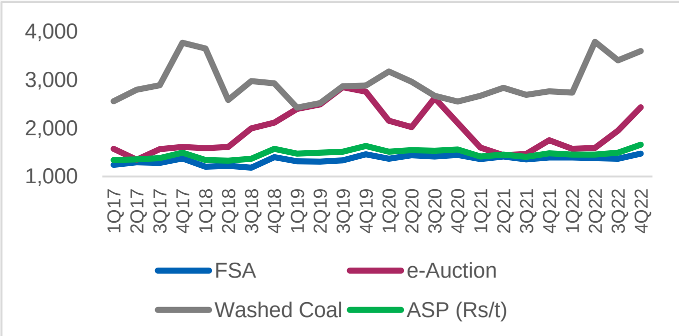


Exhibit 12: Realized prices Rs/t



Source: company

Exhibit 13: CIL Key operational parameters

Sales Volumes (mt)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
FSA	430	460	525	501	466	540	552	576	579
e-Auction	94	106	69	65	95	111	124	130	130
Washed Coal/Other	17	15	14	15	13	11	14	14	14
Total	**541**	**581**	**608**	**581**	**574**	**662**	**690**	**720**	**724**
% Chg YoY		7.3%	4.7%	-4.5%	-1.3%	15.4%	4.1%	4.4%	0.5%
ASP (Rs/t)									
FSA	1,298	1,253	1,355	1,417	1,379	1,405	1,419	1,438	1,453
e-Auction	1,523	1,828	2,623	2,226	1,563	1,886	2,250	2,125	2,100
Washed Coal	3,001	3,032	2,671	2,837	2,738	3,379	3,379	3,379	3,379
ASP (Rs/t)	**1,391**	**1,401**	**1,527**	**1,537**	**1,440**	**1,514**	**1,608**	**1,600**	**1,608**
% Chg YoY		0.8%	9.0%	0.7%	-6.4%	5.2%	6.2%	-0.5%	0.5%
Revenue	**78,221**	**85,862**	**99,547**	**96,080**	**90,026**	**1,09,714**	**1,20,481**	**1,26,007**	**1,26,900**
Revenue Growth %		9.8%	15.9%	-3.5%	-6.3%	21.9%	9.8%	4.6%	0.7%
Adj EBITDA	**12,240**	**9,566**	**27,176**	**27,492**	**20,030**	**28,463**	**31,204**	**30,628**	**29,626**
Adj EBITDA growth %		-21.8%	184.1%	1.2%	-27.1%	42.1%	9.6%	-1.8%	-3.3%

Source: company, Axis Securities

Strong e-auction premiums, but lower volumes. Volumes should pick up with the onset of monsoon

- **CIL coal production and offtake stood at an all-time high at 623MT and 662MT in FY22 from 596MT and 574MT in FY21**. The company expects production and offtake to rise further to 700MT in FY23 as it doesn't foresee an adverse Covid-19 impact in Q1FY22 and heavy rainfall in Q2FY22 in FY23. YTD FY23 production and dispatch stood at 108MT, up 29% YoY and 119MT up 9% YoY.
- **E-Auction Premium rising** – E-auction sales are the main driver of CIL's profitability and E-auction premiums have been increasing since Mar'22, in line with the rise in international coal prices. The monthly e-auction premium has been on a rising trend since Feb'22. **In May'22, the e-auction premium stood at 425% of notified prices.** However, the E-auction volumes have remained low in YTD FY23 (Apr'23-May'23) the e-auction volumes stood at 6MT vs. 21.6MT in FY22 for the same period. We expect higher realised premiums for e-auction for the upcoming quarters, in line with the higher monthly trend. With the onset of monsoon, we expect higher e-auction volumes from Jun'22 onwards as FSA demand from the power sector should soften, while the demand for NRS (non-regulated sectors) should remain stable as imported coal prices continue to remain high supporting higher e-auction volumes.
- YTD FY23 coal despatch to power stood at a higher level of 86%, led by higher power demand in summer. This is reflected in lower e-auction volumes sales in Apr-May'23.

E-auction sales are the main driver of CIL's profitability and E-auction premiums have been increasing since Mar'22, in line with the rise in international coal prices. E-auction volumes are low YTD, but should rise with the onset of monsoon as peak power demand softens.

Exhibit 14: E-Auction volumes and premium: Premiums are high but volumes are low as power sector demand stands high

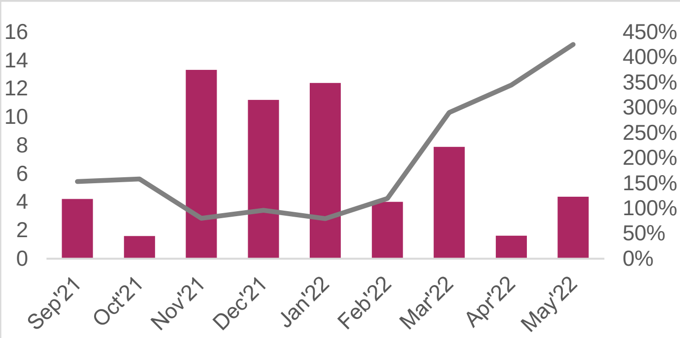
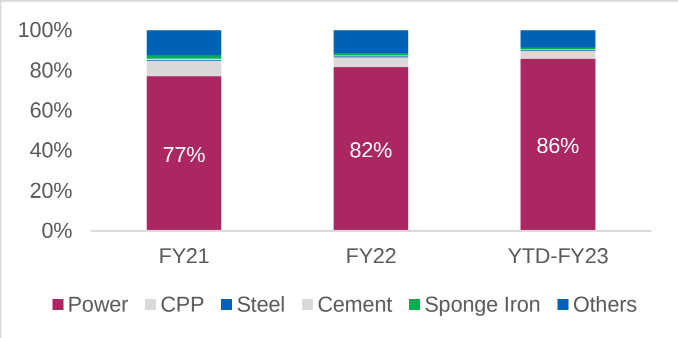


Exhibit 15: CIL Coal dispatch by sector; Power demand high



Source: company, Ministry of coal

- The GOI approved the merger of five e-auction windows on Feb'22 into a single window. This move has been attracting higher participation from NRS as it was paying a higher premium previously. The clubbing into a single window for all customers lead to uniform market-discovered price for the same grade of coal as all the consumers from regulated, and non-regulated sectors, and traders have to vie for coal under one common window.

Exhibit 16: Monthly E-Auction sales – E-auction premium rising since Feb'22

	Jun'21	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22	Mar'22	Apr'22	May'22
e Auction of Coal	2.17	2.66	2.69	2.88	0.41	4.02	4.25	2.72	1.51	7.89	1.62	4.38
Increase over notified price	38%	43%	74%	133%	97%	112%	141%	232%	270%	290%	345%	425%
Special forward e-auction for power	1.59	3.27	6.38	0	1.15	5.94	5.02	9.46	2.34	0	0	0
Increase over notified price	13%	23%	31%	0%	174%	50%	45%	36%	20%	0%	0%	0%
Excl. e-auction for non-power	0.26	0.74	7.89	0.41	0	3.16	1.95	0.22	0.17	0	0	0
Increase over notified price	39%	34%	45%	137%	0%	98%	130%	62%	154%	0%	0%	0%
Special spot auction	1.72	0	0	0.92	0	0.2	0	0	0	0	0	0
Increase over notified price	15%			223%	0%	82%	0%	0%	0%	0%	0%	0%
Special spot auction for coal importers	0.02	1.59	0.61	0	0.05	0	0	0	0	0	0	0
Increase over notified price	10%	56%	29%	0%	300%	0%	0%	0%	0%	0%	0%	0%

Source: Ministry of coal

Capex to be spent from internal accruals – focus on evacuation infrastructure

- The government's target is to increase the domestic coal production to 1.2 BT by FY24 and minimize imports of thermal coal. in May'22 Coal India offered its 20 closed/discontinued underground mines to private players on the Revenue Sharing Model to boost domestic production,.
- CIL is putting Capex for coal production expansion and corresponding evacuation infrastructure capacity. The company is funding infrastructure projects worth ~Rs 7,000 Cr on FMC projects (First-mile connectivity), Rs 6,000 Cr on railway lines and Rs 5,000 Cr on sidings. While sidings and FMC projects have a payback period of 4-5 years for CIL, railways projects have a return of 12% for the PPP company. However, it is essential for the supply of coal. Once under-construction evacuation projects complete, annual Capex will reduce substantially. With the completion of evacuation projects by FY30, CIL expects to reach production levels of 1,200 MT/annum.
- The management said that the FSA price hike is necessary for sustaining the profitability of the company as the input costs inflation has reached a critical level where a price hike becomes absolutely necessary. The higher Capex plan for coal evacuation infrastructure also demands a lifting of the FSA prices. **The management is confident of raising the FSA prices and has ruled out a scenario of no price hike and thereby raising debt to fund the Capex.** The management said with the net cash position, the company has a lot of scope to raise debt at a low interest rate in a hypothetical situation if the price hike doesn't take place.

CIL is putting Capex for coal production expansion and corresponding evacuation infrastructure capacity. FY23 Capex guidance is 17,000Cr. Company has healthy cash balance and cash flow to fund Capex internally.

Cost control measures: Closure of UG mines

- **Reducing manpower:** The company expects a reduction in manpower in the range of 14,000-15,000 per annum over the next 4-5 years.
- FMC, railway infrastructure projects with the digitisation of mines for enhancing capacity utilisation will aid in preserving the margins.
- **Enhancing output through MDO (Mine Developer cum Operators):** CIL will engage MDO for efficient operationalization of the greenfield projects. The company will outsource the incremental production from new projects in future. It has identified 15 projects (10 OC and 5 UG) with a total target capacity of 170MT/annum. As of Q3FY22, two tenders and one LoA have been issued, while the tender for 3 more mines is under evaluation and two will be awarded in near future. So far, a total of ~100MT/annum cumulative capacity has been identified for MDO.
- **Closure of unviable mines**: Underground mines have lower productivity due to higher mining costs. 147 underground mines employ 42% of the workforce but contribute merely 4.5% of total production. CIL started closing unviable mines in a phased manner. In FY21, production from 11 UG mines was suspended. Production has been suspended in 2 UG mines in FY22 till Dec'21 out of 4 mines selected in FY22.

Exhibit 17: Closure of UG mines to lead to higher productivity

Particulars	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Coal volumes								
OC (million tons)	426	459	505	523	537	576	572	570
UG (million tons)	36	35	34	31	31	30	30	26
Total	**462**	**494**	**539**	**554**	**568**	**606**	**602**	**596**
Manpower								
OC ('000s)	147	147	147	144	155	157	155	150
UG ('000s)	200	186	176	166	144	128	117	109
Total	**347**	**333**	**323**	**310**	**299**	**285**	**272**	**259**
% Chg YoY		-4%	-3%	-4%	-4%	-5%	-5%	-5%
Manpower productivity								
OC (tons/employee)	2,899	3,127	3,446	3,623	3,473	3,669	3,690	3800
UG (tons/employee)	181	188	192	190	212	237	257	238

Source: company

Exhibit 18: Output per man shift

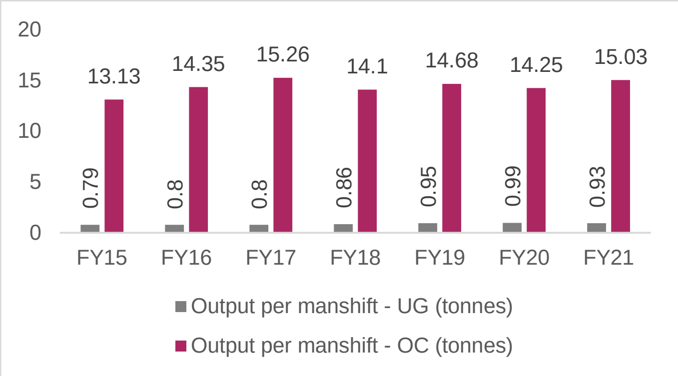


Exhibit 19: Manpower and productivity by subsidiaries

Subsidiary	Manpower Jan'22	Production 9M FY22 (mt) UG	OC	Total	Manpower Productivity (t/Emp)
ECL	53,527	7	15	21	396
SECL	45,084	9	83	92	2,036
BCCL	39,564	1	20	20	508
CCL	36,191	1	42	43	1,180
WCL	36,045	2	32	34	949
MCL	21,943	0	117	117	5,341
NCL	14,415	-	86	86	5,994
HQ+CMPDIL	3,735	-	-	-	-
NEC	816	-	-	-	-

Source: company

Wage hike by end of FY23 – we build a 10% increase

- A wage hike is imminent since Jun'21 and the company has concluded three rounds of negotiation with stakeholders. Coal India undertook a wage hike on 10th Oct 2017 after it signed the National Coal Wage Agreement-X for five years, from 1st July 2016 to 30th June 2021.
- However, negotiations may conclude only by the FY23 end as it generally takes over a year to complete the process. CIL has been providing Rs 100 Cr per month since Jul'21 (Rs 600 Cr in 9MFY22) on this front (to be increased going forward). Additionally, the Rs 800 Cr provision in 9MFY22 was due to post-retirement medical benefits of employees.
- Employee expenses have increased by 4% CAGR over FY17-22. However, the employee costs per tonne of coal sold have stood almost flat at Rs 615/tonne in FY22 as compared to Rs 619/tonne in FY17. An increase in coal sales volume along with the decline in employee headcount has led to constant employee cost per tonne even as the absolute employee costs rises YoY. The company's focus to close the UG mines with lower productivity will also help in lowering the employee cost per tonne.
- CIL currently employs 251K personnel and expects a net employee reduction in the range of 14,000-15,000 employees per annum over the next 4-5 years.
- **We build a 10% increase in employee expenses in FY23**, translating into employee cost per tonne to Rs 646/tonne in FY23, up 5% YoY. However, it's still lower than the FY21 level, as higher sales volumes and higher ASP caps the costs per tonne.
- **The management said an FSA price hike urgently needed**: The company is in talks with all stakeholders to undertake a price hike in response to the significantly increased input costs along with diesel prices. The management has not given any guidance on the FSA price hike due to difficulties in predicting its quantum and timing.

Wage hike is imminent for CIL since Jun'21. We build a 10% increase in employee expenses in FY23 to factor in the wage hike. Company is confidant of FSA price hike to offset the impact of wage hike. FSA price hike is also pending for CIL.

Exhibit 20: Employee benefit expense

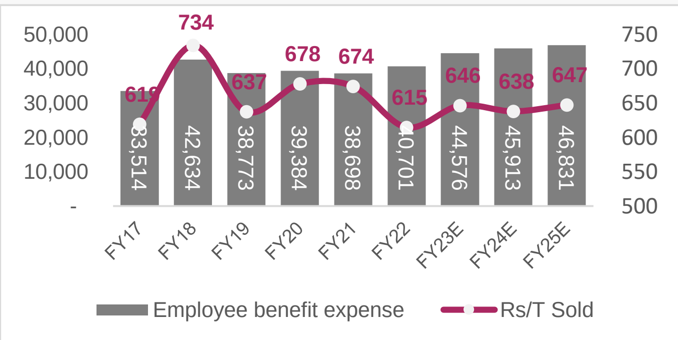
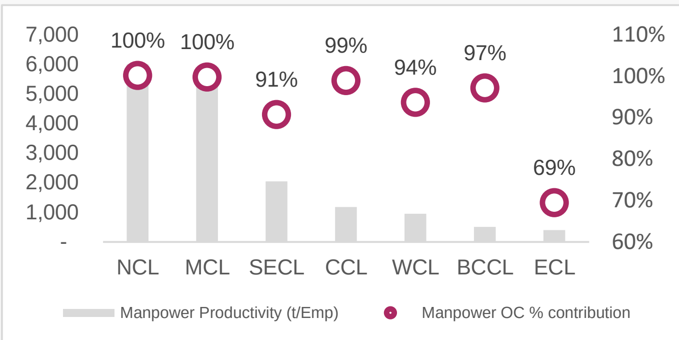


Exhibit 21: Higher manpower utilization in OC mines



Source: company, Axis Securities

Exhibit 22: Employee benefit expense

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Coal Sales volume (mt)	541	581	608	581	574	662	690	720	724
Employee count ('000)	310	299	285	272	259	251	237	223	209
Productivity (t/Emp)	1,746	1,942	2,134	2,136	2,215	2,639	2,910	3,228	3,463
Employee cost (Rs Cr)	33,514	42,634	38,773	39,384	38,698	40,701	44,576	45,913	46,831
YoY %		27%	-9%	2%	-2%	5%	10%	3%	2%
Employee cost/t (Rs/t)	619	734	637	678	674	615	646	638	647
YoY %		19%	-13%	6%	0%	-9%	5%	-1%	1%
Blended ASP (Rs/t)	1,391	1,401	1,527	1,537	1,440	1,514	1,608	1,600	1,608
		1%	9%	1%	-6%	5%	6%	0%	0%

Source: company, Axis Securities

EBITDA growth on the back of volume growth and higher realizations

- CIL's Adjusted EBITDA (Excl. overburden) rose to Rs 12,466 Cr in Q4FY22, up 69% QoQ and 56% YoY led by higher coal despatch in the quarter as high power demand led to higher FSA sales volume. The average sales prices also improved in Q4FY22 due to higher e-Auction premiums and higher realised FSA prices. E-auction premium in Q4FY22 stood at 65% vs. 26% in Q4FY21 and 42% in Q3FY22.
- With a higher sales volume target for FY23/FY24E, higher international prices and continued power demand, we expect the company to report an EBITDA CAGR of 2% over FY22-24E.

Exhibit 23: EBITDA CAGR of 2% over FY22-24E

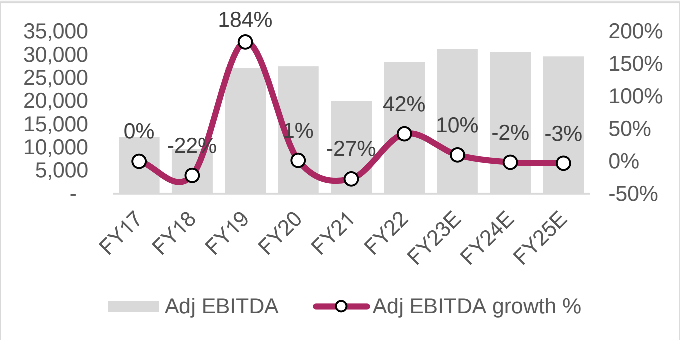
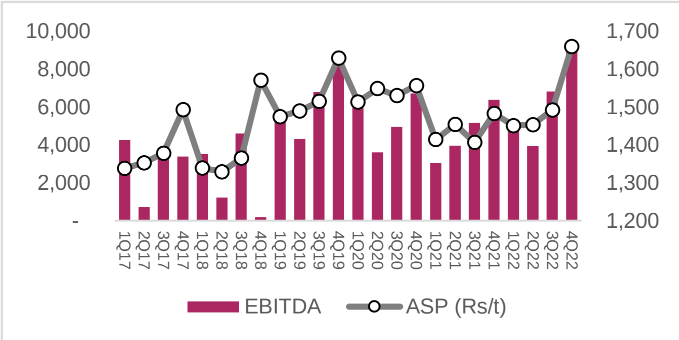


Exhibit 24: Q4FY22 EBITDA up 56% YoY led by higher ASP



Source: company, Axis Securities

Strong free cash flows to drive the Capex and dividend yields

- CIL has a good dividend track record and has consistently declared dividends for the last 5 years. For FY22, the company has declared a dividend of Rs 17/share, 170% of the share FV. At the current share price of Rs 186.4, this results in a healthy dividend yield of ~11%.
- CIL has maintained positive free cash flow (post WC changes) in FY22. In FY20/21, the FCF stood negative due to an increase in receivables mainly from the power companies.
- In FY22, the trade receivables have come down to Rs 11,368 Cr from Rs 19,623 Cr in FY21 which along with higher operating cash flows led to higher FCF post WC changes.
- As of FY22, the company has robust cash and cash equivalent balance of Rs 29,179 Cr and net cash of Rs 25,870 Cr.

Exhibit 25: Dividend yield impressive at 11% (at CMP)

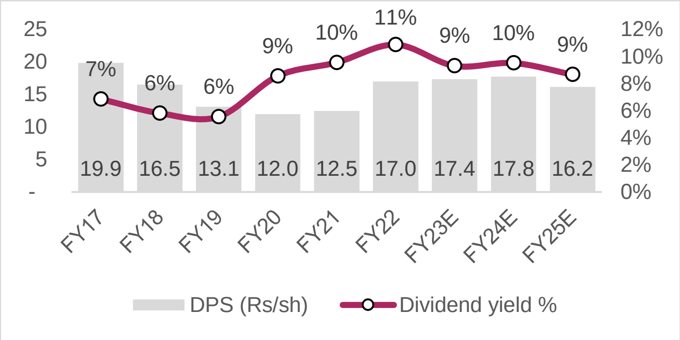
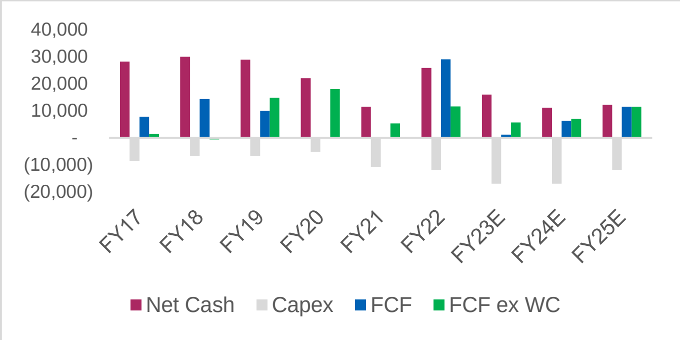


Exhibit 26: Strong FCF post Capex and WC change



Source: company, Axis Securities

Outlook & Valuation

- Coal India's 12MF consensus EV/EBITDA long-term average over the last 10 years is 6.0x, the stock is currently trading at 3.4x near -1 STD Deviation of the long term average.
- Valuations of the global coal companies are also trading at a discount to their long-term averages.
- Hihger international coal prices and volume growth in Coal India augurs well for the improvement in the profitability for CIL.
- CIL's focus on closing the non-profitable manpower intensive high cost underground coal mines and expanding the large open cast mines will drive the cost trajectory down.
- The stock is trading at 3.4x on our FY24E EV/Adjusted EBITDA. At the CMP, the stock offers an attractive dividend yield of 11% based on the reported FY22 DPS.
- We value the company using target multiple of 4.0x on our FY24E EV/Adjusted EBITDA and arrive at our target price of Rs 225/sh, which offers 21% upside against the CMP of Rs 186. We initiate the coverage with a **BUY** rating.

Exhibit 27: CIL 12MF consensus EV-EBITDA multiple

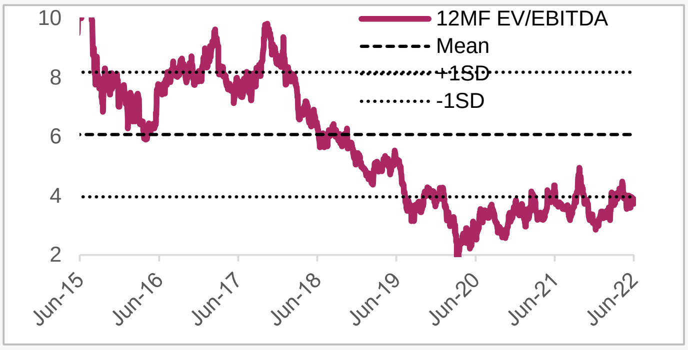
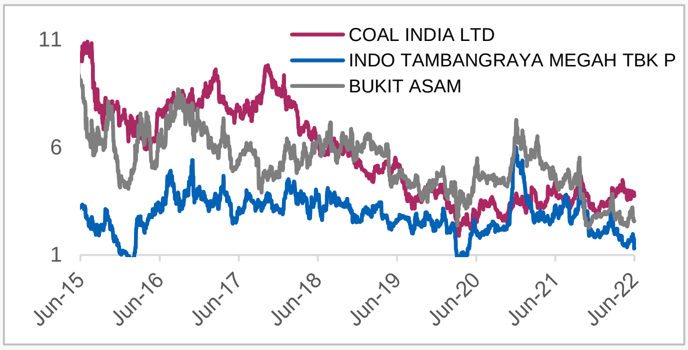


Exhibit 28: 12MF consensus EV-EBITDA coal companies



Source: Bloomberg

Exhibit 29: CIL Valuation

		FY24E
Adjusted EBITDA	Rs Cr	30,628
Target EV/EBITDA	x	4.0
EV	Rs Cr	1,22,512
Net Debt/ (Net Cash) FY23E	Rs Cr	(16,022)
Equity Value	Rs Cr	1,38,534
No of shares outstanding	Cr	616
Target Price	Rs/sh	225
CMP	Rs/sh	186
% Upside	%	21%

Source: company, Axis Securities

Exhibit 30: Peer Comparison

Company	Price	Price	Mkt Cap	Mkt Cap	EV	PE (x)				EV EBITDA (x)				FCF Yield (%)			
	US$	Local	US$'Mn	Local Mn	US$'Mn	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	20
COAL INDIA LTD	2.46	192.2	15,182	11,84,476	10,931	7.16	4.97	6.29	6.06	4.54	4.06	3.70	3.38	20%	12%	10%	0.:
BUKIT ASAM TBK P	0.26	3880	3,034	4,47,00,158	2,030	5.49	3.76	4.97	5.73	3.47	2.36	2.74	3.05	23%	21%	19%	16
INDO TAMBANGRAYA	2.23	32875	2,521	3,71,46,284	1,671	4.05	2.73	3.80	4.17	2.32	1.21	1.47	1.31	24%	37%	33%	27
BUMI RESOURCES	0.00	56	490	72,16,130	2,931	1.66	NA	NA	NA	NA	NA	NA	NA	-45%	NA	NA	N
ADARO ENERGY IND	0.22	3260	7,078	10,42,74,236	7,319	7.56	4.43	6.71	7.38	3.47	1.97	2.34	2.36	18%	39%	31%	30
HARUM ENERGY	0.14	2020	1,854	2,73,06,562	1,951	25.00	5.71	6.53	5.71	13.67	4.56	5.06	3.83	6%	19%	22%	28
BANPU PUB CO LTD	0.38	13.4	2,592	90,666	7,789	3.53	3.39	5.40	6.38	6.25	2.84	2.90	2.59	16%	29%	41%	37

Source: Bloomberg, Priced as of 25th Apr'22.

Management Profile

CIL's Board of Directors comprises three executive directors including CMD, two government nominee directors, six independent directors, three permanent invitees and one chief vigilance officer.

Key Management Personnel	Experience
Mr Pramod Agrawal *CMD, CIL and Director (Finance) - Addl. Charge. B-Tech (IIT B), M-Tech (IIT D), IAS MP Cadre 1991 Batch*	Mr Pramod Agrawal, an IAS Officer of MP Cadre 1991 batch, took over as Chairman, Coal India Limited (CIL), on 1st Feb'20. Before CIL, he was Principal Secretary, Department of Technical Education, Skill Development & Employment and Department of Labor, Government of Madhya Pradesh. He has 28 years of administrative experience in varied fields of Public Administration. He also served as Joint Secretary, Department of Disinvestment, Ministry of Finance (GOI).
Mr B. Veera Reddy *Director (Technical) and Director (Marketing) -Addl. Charge. B-Tech, M-tech Mining (Osmania University)*	Mr B. Veera Reddy has assumed the charge of Director (Technical), CIL w.e.f 1st Feb'22. Before this, he was Director (Technical) Operations of Eastern Coalfields Limited. He joined SCCL in the year 1987 and has more than 32 years of experience in coal mining, planning, procurement and operations. He worked in different capacities in the Mechanized Underground and Opencast mines and in the Corporate Project Planning department of SCCL.
Mr Vinay Ranjan *Director (Personnel & Industrial Relations)*	Mr Vinay Ranjan took over the charge as Director (P&IR), CIL from July'21. He has long years of experience in the entire gamut of HR, which includes large-scale Lateral/campus hiring, Talent Management, Performance Management, Employer Branding, Compensation Management and Bench-marking, Change Management, Cultural Building, Employee Engagement, Employee Relations, HRIS, Employee Productivity and Learning & Development. He has also successfully extended HR support to overseas business entities.

Source: company

Key Risk & Mitigation

- **Low power demand:** Weakness in power demand could lead to a lower off-take of coal affecting the company's profitability.
- **Fall in international coal prices:** A fall in international coal prices could impact the e-auction premiums and can also reduce the volume off-take if import prices become more attractive than domestic prices.
- **Input cost inflation and wage hike:** Wage hike is due for CIL, higher wage hike and input cost inflation (Diesel prices) could put pressure on margins. If the FSA price hike is not carried out in tandem with the wage hike then profitability will get impacted. Management is confident of taking the price hike to mitigate the impact of input cost inflation.
- **Weather events and other external factors:** The occurrence of natural disasters including floods, fire, and power outages and the consequences, damages and disruptions resulting from them may adversely affect the business and operations.
- **Delay in infrastructure and evacuation projects:** The company is investing large Capex in Rail infrastructure and evacuation facilities. Delay in the construction of these facilities, Capex overshoot and the external threats from a security perspective to such infrastructure set-up can adversely affect the return on Capex for the company and its future expansion plans.
- **Regulatory and environmental compliance risk:**. Exploration and mining activities depend on the grant, renewal or continuance in force of various exploration and mining activities related to approvals, licenses and permits and must comply with various statutory and regulatory requirements in connection with business and operations. Bringing mines into operation and maintaining such mines requires obtaining approval of a mining plan, which stipulates extraction limits, as well as applicable forest and environmental approvals in respect of the mine. Any violation and non-compliance or unfavourable regulatory changes could impact the mining operations of the company.

Low power demand could impact the sales volume for the company. Higher costs (wage hike) and inability to take FSA price hike and fall in international coal prices is a risk to our rating and target price.

Coal-based power is here to stay

As per IEA's India Energy Outlook 2021, even though coal's share in India's total primary energy demand will steadily decline in percentage terms from 44% in 2019 to 34% in 2040, demand for coal will still grow by 31% over the same period in absolute terms, from 413mtoe in 2019 to 541mtoe in 2040

Thermal Coal remains the backbone of power generation in India: Thermal coal continues to remain the major driver of power generation. ~51% of the capacity of power generation in India is coal-based thermal power plants as of May'22. As per CEA, In May'22 ~75% of the electricity generation is from thermal power (which is majority thermal coal-based) followed by 13% from renewable power, and the remaining from Nuclear and Hydro.

As per IEA's India Energy Outlook 2021, even though coal's share in India's total primary energy demand will steadily decline in percentage terms from 44% in 2019 to 34% in 2040, **demand for coal will still grow by 31% over the same period in absolute terms, from 413MToe in 2019 to 541MToe in 2040.**

Total coal production and dispatch target is set at 911MT for FY23 vs. 818MT/777MT (dispatch/production) in FY22, out of which the target for CIL is 700MT for FY23E vs. 662MT/623MT (dispatch/production) in FY22.

India imported almost a quarter of its total coal production in FY22. India remains a net coal importer despite India having large coal resources. India's total coal imports have increased to 200MT in FY22 a CAGR of 10% over FY11-22, as the Indian domestic coal production increased by just 3% CAGR over FY11-22 to 777MT in FY22.

The government aims to build a 40MT coal stock at power plants ahead of the monsoon. As of 21st Jun'22, the coal stock at power plants was at 25.822MT against the lows seen in Apr'22. CIL issued tenders on 9 and 10th June to import coal. CIL will import 2.416MT of 5000GAR (Gross as received) thermal grade coal for Q2FY23 for state gencos and IPPs and 6MT coal of the same grade for securing coal availability.

International coal prices continue to remain high – The ongoing Russia Ukraine crisis has impacted the supply chains and led to an increase in international coal prices. The rise was reflected in a higher e-auction premium over FSA in May'22. On June 28, the spot price of Australian Thermal coal stood higher than that of coking coal, which is unusual as coking coal has a higher calorific value. This highlights the demand for thermal coal due to the ongoing Russia Ukraine crisis. The prices have reached at current elevated levels due to strong demand from Europe as it stops importing Russian coal and power led demand from India and Japan (the second and third largest coal importers).

Exhibit 31: Thermal Coal Newcastle exceeds coking coal prices

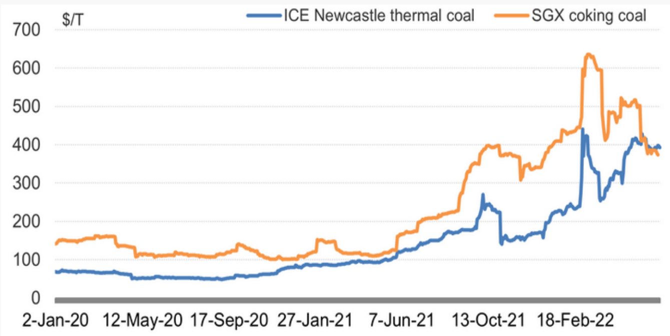
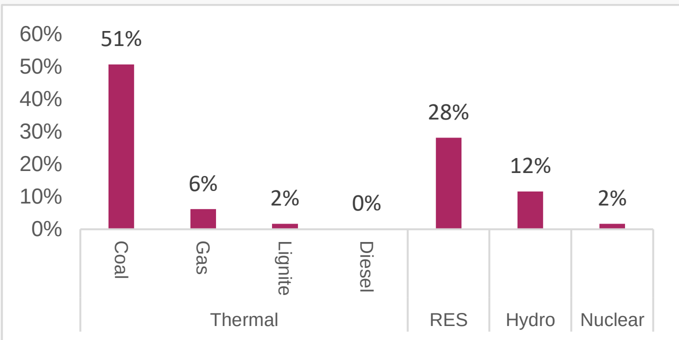


Exhibit 32: All India Installed Capacity (MW) as of May'22



Source: Reuters, CEA

Exhibit 33: Company-wise Production and Dispatch of Raw Coal and Import/export data

company Wise Production of Raw Coal	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	YTDFY23
CIL	431	436	452	462	494	539	554	567	607	602	596	623	700	108
SCCL	51	52	53	50	53	60	61	62	64	64	51	65	70	11
Others/Captive	50	52	51	53	62	40	42	46	57	65	69	90	141	18
Total	**533**	**540**	**556**	**566**	**609**	**639**	**658**	**675**	**729**	**731**	**716**	**777**	**911**	**138**
YoY Growth %		**1.4%**	**3.0%**	**1.7%**	**7.7%**	**4.9%**	**2.9%**	**2.7%**	**7.9%**	**0.3%**	**-2.0%**	**8.5%**	**17.2%**	
Open Cast	478	488	504	516	564	593	614	634	686	690	685			
Under Ground	55	52	52	50	48	46	44	42	43	40	31			
Total	**533**	**540**	**556**	**566**	**612**	**639**	**658**	**675**	**729**	**731**	**716**			

company Wise Dispatch of Raw Coal	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	YTDFY23
CIL	424	433	465	471	489	534	543	580	608	581	574	662	700	119
SCCL	50	51	52	48	53	59	61	65	68	62	49	66	70	12
Others/Captive	50	51	51	53	62	40	42	45	57	63	69	91	141	19
Total	**523**	**535**	**567**	**572**	**604**	**632**	**646**	**690**	**733**	**707**	**691**	**818**	**911**	**149**
YoY Growth %		**2.3%**	**5.9%**	**0.9%**	**5.5%**	**4.7%**	**2.1%**	**6.8%**	**6.2%**	**-3.6%**	**-2.2%**	**18.4%**	**11.4%**	
Coking Coal	49	52	56	58	56	59	59	45	43	51	44			
Non Coking Coal	475	484	511	514	547	573	587	645	689	656	647			
Total	**523**	**535**	**567**	**572**	**604**	**632**	**646**	**690**	**733**	**707**	**691**			

Import of Coal (MT)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	YTDFY23
Coking Coal	19	32	36	37	44	45	42	47	52	52	51	52		
Non Coking Coal	49	71	110	130	168	159	149	161	184	197	164	149		
Total imports	**69**	**103**	**146**	**167**	**212**	**204**	**191**	**208**	**235**	**249**	**215**	**201**		
YoY Growth %		**49.2%**	**41.8%**	**14.5%**	**27.1%**	**-3.8%**	**-6.3%**	**9.0%**	**13.0%**	**5.6%**	**-13.4%**	**-6.8%**		
Import as % of domestic production	**13%**	**19%**	**26%**	**29%**	**35%**	**32%**	**29%**	**31%**	**32%**	**34%**	**30%**	**26%**		

Export of Coal (MT)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	YTDFY23
Coking Coal	0.10	0.06	0.01	0.04	0.06	0.03	0.07	0.06	0.00	0.00			
Non-Coking Coal	1.92	2.39	2.18	1.20	1.51	1.75	1.44	1.25	1.03	0.80			
Total Exports	**2.01**	**2.44**	**2.19**	**1.24**	**1.58**	**1.77**	**1.50**	**1.31**	**1.03**	**0.80**			

Source: company data, Ministry of coal

Financials (Consolidated)

Profit & Loss (Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Total Income From Operations	**1,09,714**	**1,20,481**	**1,26,007**	**1,26,900**
Consumption of Raw Materials	9,442	10,244	11,018	11,418
Increase / Decrease in Stocks	2,412	4,000	6,000	5,500
Contractual expense	18,867	20,240	21,763	22,546
Stripping activity adjustment	3,761	5,481	3,633	3,769
Power	2,638	2,714	2,801	2,787
Repairs	1,503	1,518	1,600	1,594
Employees Cost	40,701	44,576	45,913	46,831
Other Expenses	5,699	5,984	6,283	6,597
Total Expenditure	**85,023**	**94,758**	**99,012**	**1,01,043**
EBITDA	**24,691**	**25,723**	**26,995**	**25,857**
Adj EBIDA (Exl Overburden)	**28,463**	**31,204**	**30,628**	**29,626**
Depreciation and Amortization	4,429	4,531	5,421	6,611
EBIT	**20,262**	**21,191**	**21,573**	**19,246**
Other Income	3,905	3,926	4,105	4,160
Share Of P/L Of Associates (Net of Tax)	(9)	-	-	-
Less: Interest & Fin Chg.	541	298	298	298
Less: Exceptional Items	-	-	-	-
Profit before tax	**23,616**	**24,819**	**25,380**	**23,108**
Provision for Tax	6,238	6,967	7,124	6,487
Minority Interest	(20)	-	-	-
Attr Reported PAT	**17,358**	**17,852**	**18,256**	**16,621**
EPS (Rs/sh)	**28.2**	**29.0**	**29.6**	**27.0**
DPS (Rs/sh)	**17.0**	**17.4**	**17.8**	**16.2**

Source: company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Net Block	42,698	50,880	62,459	72,847
CWIP	12,714	17,000	17,000	12,000
Intangible assets	289	289	289	289
Investments	9,706	9,706	9,706	9,706
Inventories	7,076	7,770	8,126	8,184
Trade Receivables	11,368	14,854	15,535	15,645
Cash / Bank balance	29,179	19,331	14,396	15,549
Misc. Assets	67,214	67,214	67,214	67,214
Total assets	**1,80,243**	**1,87,044**	**1,94,725**	**2,01,435**
Equity capital	6,163	6,163	6,163	6,163
Reserves	36,980	44,121	51,424	58,072
Borrowings	3,310	3,310	3,310	3,310
Def tax Liabilities	811	811	811	811
Other Liabilities	52,349	52,349	52,349	52,349
Provisions	72,039	72,039	72,039	72,039
Trade Payables	8,592	8,252	8,631	8,692
Capital employed	**1,80,243**	**1,87,045**	**1,94,725**	**2,01,435**

Source: company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Profit before tax	23,616	24,819	25,380	23,108
Depreciation	4,429	4,531	5,421	6,611
Interest Expenses	541	298	298	298
Non-operating / EO item	1,337	-	-	-
Change in W/C	17,448	(4,520)	(659)	(107)
income Tax (Paid)/Refund	(6,284)	(6,967)	(7,124)	(6,487)
Operating Cash Flow	**41,088**	**18,161**	**23,316**	**23,424**
Capital Expenditure	(12,023)	(17,000)	(17,000)	(12,000)
Free cash Flow	**29,064**	**1,161**	**6,316**	**11,424**
Other Investments	(14,458)	-	-	-
Investing Cash Flow	**(26,481)**	**(17,000)**	**(17,000)**	**(12,000)**
Proceeds / (Repayment) of Borrowings	(2,573)	-	-	-
Finance cost paid	(85)	(298)	(298)	(298)
Dividend paid	(10,783)	(10,711)	(10,953)	(9,973)
Other Financing activities	-	-	-	-
Financing Cash Flow	**(13,441)**	**(11,009)**	**(11,251)**	**(10,271)**
Change in Cash	**1,165**	**(9,848)**	**(4,936)**	**1,153**
Opening Cash	5,112	29,179	19,331	14,396
Closing Cash	**6,278**	**19,331**	**14,396**	**15,549**

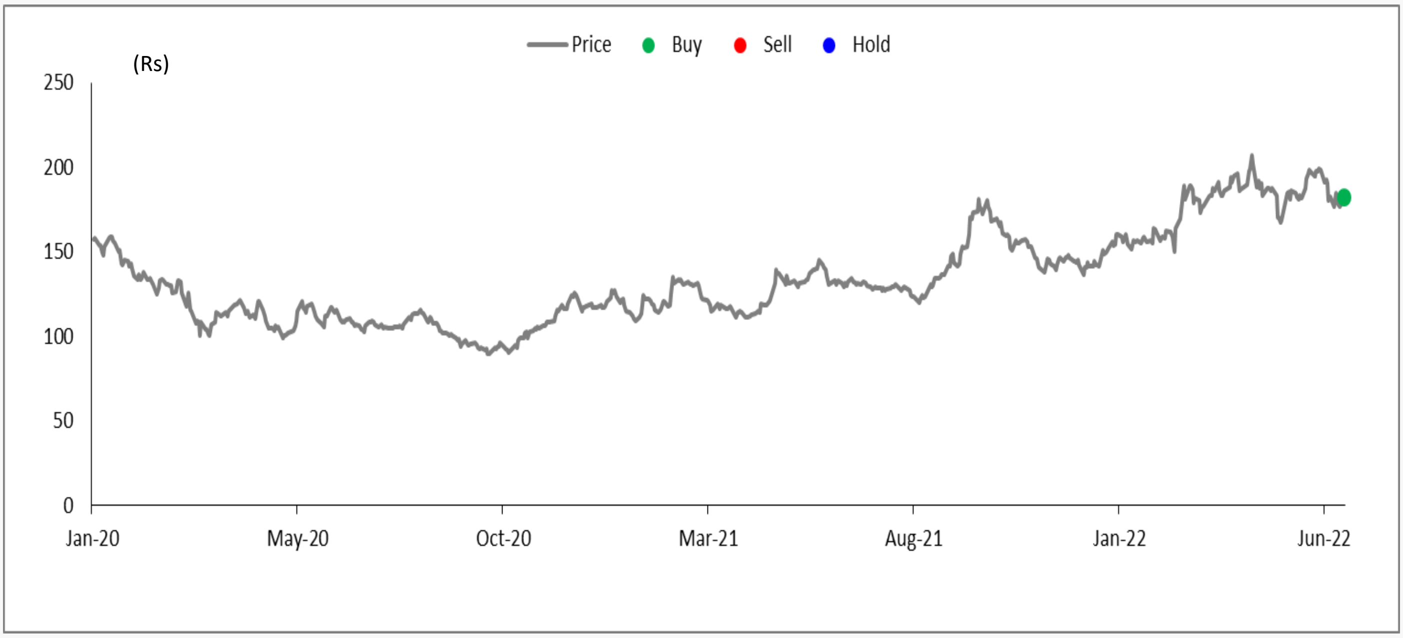
Source: company, Axis Securities

Ratio Analysis (x) / (%)

Y/E March	FY22A	FY23E	FY24E	FY25E
Operational Ratios				
Sales growth (% YoY)	22%	10%	5%	1%
EBITDA growth (% YoY)	42%	10%	-2%	-3%
Op. profit growth (% YoY)	36%	5%	2%	-11%
Net Profit growth (% YoY)	37%	3%	2%	-9%
EBITDA Margin %	26%	26%	24%	23%
Net profit Margin %	16%	15%	14%	13%
Tax Rate %	26%	28%	28%	28%
Efficiency Ratios				
Total Asset turnover (x)	0.6	0.7	0.7	0.6
Sales/Gross block (x)	1.8	1.7	1.5	1.2
Sales/Net block(x)	2.7	2.6	2.2	1.9
Working capital/Sales (x)	0.06	0.09	0.09	0.09
Valuation Ratios				
PER (x)	5.5	6.4	6.3	6.9
P/BV (x)	2.2	2.3	2.0	1.8
EV/Adj Ebitda (x)	2.5	3.2	3.4	3.5
EV/Sales (x)	0.6	0.8	0.8	0.8
Dividend Yield (%)	11%	9%	10%	9%
Return Ratios				
ROE	43.6%	38.2%	33.8%	27.3%
ROCE	17.5%	16.9%	16.2%	13.8%
ROIC	86.3%	44.5%	33.4%	26.6%

Source: company, Axis Securities

Coal India Price Chart and Recommendation History



Date	Reco	TP	Research
28-Jun-22	BUY	225	Initiating Coverage

Source: Axis Securities

About the analyst

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Sector: Metals & Mining

Analyst Bio: Aditya Welekar is PGDBM in Finance with 10 years of experience in Equity Market/Research.

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