

EBITDA Beat Driven By Lower Employee and RM Costs

Est. Vs. Actual for Q1FY25: Revenue – **MISS**; Adj EBITDA – **BEAT**; PAT – **BEAT**

Change in Estimates post Q1FY25 Result

FY25E/FY26E: Revenue: 0%/2%; Adj. EBITDA: 3%/5%; **Attrib. PAT:** 14%/14%

Recommendation Rationale

- **Robust EBITDA:** CIL's adj EBITDA (excl OBR) stood surprisingly robust beating our estimate by 11% while reported EBITDA beat our and consensus estimates by 40%+, led by 5%/15% YoY/QoQ decline in employee expenses and benign RM expenses (down 16% YoY).
- **E-auction Premium:** CIL's ASP in the quarter stood at Rs 1,675/t (down 5%/1% YoY/QoQ) 4% below our assumption which might be due to lower e-auction premium over FSA. The company has not disclosed e-auction prices, FSA prices, and e-auction volumes. Ministry of Coal data indicates e-auction premium dropping to 38% in Jun'24 (vs 54% in Jun'23 and 47% in May'24). The drop in e-auction premium will be largely offset by higher overall sales volume growth. We model a slightly lower e-auction premium at 50% (from 54% earlier) and 45% (unchanged) for FY25/26E but slightly increase our total coal offtake assumption to 820/890 MT against CILs target of 838/1,000 MT.
- **Volume guidance:** In FY24, CIL achieved coal production of 774 MT (largely in line with its target of 770 MT). FY25 target is at 838 MT, out of which, ~661 MT will be for the regulated power sector. For FY26, CIL has a coal production target of 1 BT.

Sector Outlook: Cautiously positive

Company Outlook & Guidance: CIL has implemented strategies for the development of coal evacuation infrastructure in the form of First Mile Connectivity (FMC) Projects, Rail projects, and other groundwork like EC and land acquisition to achieve its 1 BT production target by FY26. It has a capex plan of Rs 15,500 Cr for FY25 and it plans to allocate a significant portion of that towards diversification projects such as solar/thermal power, coal gasification and revival of fertilizer plants.

Current Valuation: 6.0 x EV/EBITDA on Adj. FY26E EBITDA (From 5.5x)

Current TP: Rs 575/share (Earlier TP: Rs 550/share)

Recommendation: We maintain our BUY rating on the stock.

Financial Performance: CIL reported a strong set of numbers with Adjusted EBITDA (ex OBR), beating our estimate by 11%. Revenue from operations stood at Rs 33,170 Cr (flat YoY, down 3% QoQ), missing our estimate by 3% and consensus by 8%, indicating an ASP of Rs 1,675/t, 3% below our assumption. The miss in ASP might have been due to a lower e-auction premium against our estimate of 54% over FSA prices. Adj EBITDA stood surprisingly solid at Rs 11,542 Cr (up 3%/17% YoY/QoQ), an 11% beat vs. our estimates, led by lower employee and RM costs. Reported EBITDA stood at Rs 14,339 Cr (up 36%/26% YoY/QoQ), a 40%+ beat vs. consensus and our estimate. PAT stood at Rs 10,959 Cr (up 37%/26% YoY/QoQ), beating our and consensus estimates, led by higher EBITDA and other income partially offset by higher D&A.

Outlook: We keep our sales volume offtake assumption unchanged for FY25 at 820 MT and slightly increase our sales volume assumption for FY26 at 890 MT from 880 MT (CIL target is 838/1,000 MT) for FY25/26E. CIL is working towards achieving its 1 BT production target by FY26 by addressing EC, land acquisition issues and transportation constraints.

Valuation & Recommendation: We value the stock at 6.0x (vs. 5.5x) 1-year forward EV/EBITDA multiple on FY26E Adj. EBITDA (unchanged). **Based on this, we arrive at our target price of Rs 575/share (from Rs 550/share), implying an upside of 10% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	36,465	-3%	1%	37,372	-2%
EBITDA	14,339	26%	36%	9,688	48%
EBITDA %	39.3%			25.9%	
Adj EBITDA (ex OBR)	11,542	17%	3%	10,382	11%
Adj EBITDA Margin	31.7%			27.8%	
Attrib Net Profit	10,959	26%	37%	6,881	59%
EPS (Rs/sh)	17.78	26%	37%	11.17	59%

Source: Company, Axis Securities Research

(CMP as of 31st July 2024)

CMP (Rs)	522
Upside /Downside (%)	10%
High/Low (Rs)	527/226
Market cap (Cr)	3,21,787
Avg. daily vol. (6m) Shrs.	1,35,26,756
No. of shares (Cr)	616

Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter	63.13	63.13	63.13
FII	8.59	8.41	8.39
MF/UTI	10.36	10.79	10.74
Fin Institutions	0.11	0.06	0.06
Others	17.81	17.61	17.68

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,42,324	1,54,192	1,69,067
Adj EBITDA	41,833	46,941	54,487
Net Profit	37,402	35,529	40,626
EPS (Rs.)	60.7	57.7	65.9
PER (x)	8.6	9.1	7.9
P/BV (x)	3.9	3.3	2.8
EV/Adj EBITDA (x)	7.1	6.3	5.3
ROE (%)	53%	40%	39%

Change in Estimates (%)

Y/E Mar	FY24	FY25E	FY26E
Sales	0%	0%	2%
Adj EBITDA	0%	3%	5%
Attrib PAT	0%	14%	14%

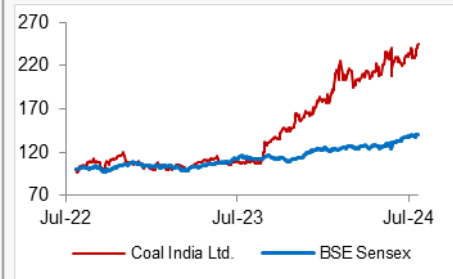
ESG disclosure Score**

Environmental Disclosure	29.0
Social Disclosure Score	37.7
Governance Disclosure	57.7
Total ESG Disclosure Score	41.5
Sector Average	50.60

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures. The Sector average is for NSE500 companies

Relative performance



Source: ACE Equity, Axis Securities

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Key Highlights from the FY24 Annual Report

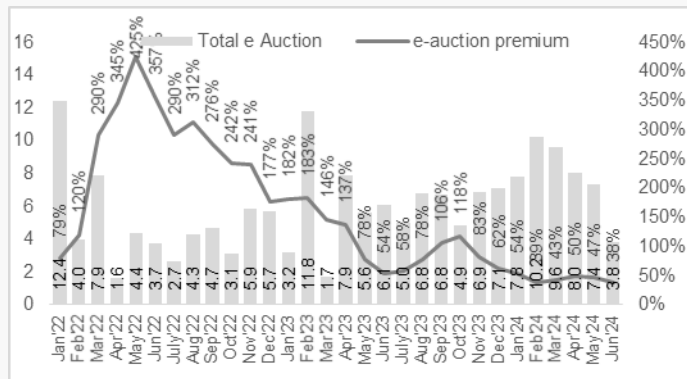
Strategies for Coal Evacuation:

1. **First Mile Connectivity (FMC) Projects:** CIL has implemented strategies for the development of coal evacuation infrastructure in the form of First Mile Connectivity (FMC) Projects. Under these flagship projects, CIL has identified 75 projects with a combined capacity of 837.5 MTPA. These projects are expected to augment mechanized evacuation from 151 MTPA to 988.5 MTPA by FY 29-30. The projects would require a total capital expenditure of Rs 24,750 Cr under 4 phases.
2. **Rail Projects:** There are 7 Railway projects identified by CIL for coal evacuation. 3 Are directly funded by CIL and 4 funded through JVs or SPVs

Diversification Projects:

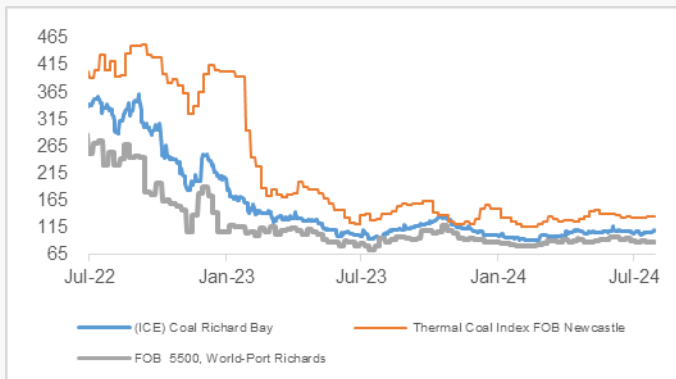
1. **Chemicals and fertilizers sector:**
 - a. **Hindustan Urvarak & Rasayan Ltd (a Joint Venture of CIL, IOCL, NTPC, FCIL and HFCL):** The JV was established for setting up of natural gas-based urea projects at Gorakhpur, Sindri and Barauni. The Gorakhpur project commenced operations in 2022 and Sindri & Barauni projects in 2023. The three plants are producing 4,000 TPD and the JV has recorded a profit of Rs 1,325 Cr in FY24
 - b. **Talcher Fertilizers Ltd (a Joint Venture of CIL, GAIL, RCF and FCIL):** The JV was established to construct a Surface Coal Gasification based integrated urea complex with a capacity of 1.27 MTPA at Talcher, utilizing coal sourced from the nearby Talcher coalfields. As of March 2024, The project had attained an overall construction progress of 58% and is expected to commence operations in 2025.
2. **Forward Integration into Thermal Power Generation:**
 - a. **Mahanadi Basin Power Ltd (MBPL):** MBPL is an SPV of MCL and it will set up a 2x800 MW (Phase-I) Thermal Power Station in Odisha. It has synergy and syncs well with CIL's thermal power generation diversification goal. MOU has been signed with Assam Power Development Company Limited (APDCL) and Haryana Power Purchase Centre (HPPC).
 - b. **SECL-MPPGCL JV:** The Company envisages partnering with MPPGCL to form a separate JV for setting up the proposed 1x660 MW expansion project at the existing premises of Amarkantak Thermal Power Station (ATPS), Madhya Pradesh.
3. **Forward Integration into Coal to Chemical Projects:**
 - a. **MCL & ECL projects:** In April 2023, the board approved the pre-feasibility reports for setting up projects with BHEL and GAIL. Approval has been received for the Coal-to-Ammonium Nitrate Project at the MCL command area through a CIL-BHEL JV and the Coal-to-Synthetic Natural Gas Project at the ECL command area through a CIL-GAIL JV. The CIL-BHEL JV has been incorporated under the name Bharat Coal Gasification and Chemicals Ltd. (BCGCL).
 - b. **WCL Project:** The Project is being explored to set up of Surface Coal gasification-based Ammonium Nitrate Plant at the pit head of Juna Kunada Opencast Mine of Majri Area. It has been decided to set up the project under the LSTK mode of implementation with Synthetic Natural Gas (SNG) as the final end-product
4. **Venturing into critical Minerals Value Chain:** CIL intends to take up activities in various sectors of the critical mineral value chain:
 - a. Critical Mineral Mining (by collaboration/ standalone)
 - b. Midstream/Downstream Processing (by collaboration/standalone)
 - c. Setting up end product manufacturing facility (by collaboration/standalone)
5. **Diversification into Lithium, Nickel, Cobalt and Graphite Sectors:** With the shift towards EVs and energy storage, there is a massive surge in demand for lithium-ion batteries, which heavily depend on essential raw materials such as lithium, nickel, cobalt, and graphite. Since CIL has extensive mining know-how, operational presence and financial capabilities, it is in the position to seize the opportunities in this sector. CIL is the preferred bidder for Madhya Pradesh's Khattali Chotti graphite block.

Exhibit 1: E-Auction Volumes and Premium: Premiums (%) come down but volumes (MT) have improved



Source: Company, LSEG Workspaces, Ministry of Coal

Exhibit 2: Thermal Coal Prices Range-bound after Correction



Key Risks to Our Estimates and TP

- The key risk to our BUY rating is the decline in E-Auction volumes vs. our expectations.
- Lower-than-expected e-auction premiums.
- Lower coal offtake than our assumptions for FY25/26E.
- Higher employee and other expenses than our estimates.

Change in Estimates

	New			Old			% Change		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Sales	1,42,324	1,54,192	1,69,067	1,42,324	1,54,819	1,66,535	N.A.	0%	2%
Adj EBITDA	41,833	46,941	54,487	41,833	45,666	52,025	N.A.	3%	5%
Attrib PAT	37,402	35,529	40,626	37,402	31,298	35,498	N.A.	14%	14%
Coal offtake	754	821	891	754	820	880	N.A.	0%	1%
ASP (Rs/t)	1,731	1,714	1,734	1,731	1,735	1,736	N.A.	-1%	0%

Source: Company, Axis Securities Research

Results Review Q1FY25

Consolidated	Q1FY24 Actual	Q4FY24 Actual	Q1FY25 Axis Sec Est	Q1FY25 Consensus	Q1FY25 Actual	YoY %	QoQ %	QoQ vs Axis	QoQ vs Consensus
Sales Volume (mt)	187	202	197			NA	NA	NA	
ASP (Rs/t)	1,769	1,697	1,737			NA	NA	NA	
Net Sales/Income from operations	33,073	34,264	34,224	36,024	33,170	0%	-3%	-3%	-8%
Other Operating Income	2,911	3,147	3,149		3,294	13%	5%	5%	
Total Income From Operations	35,983	37,410	37,372		36,465	1%	-3%	-2%	
RM Costs, purchase & increase/(Decrease) in stocks	3,584	420	4,864		3,025	-16%	620%	-38%	
Contractual expense	6,683	8,146	7,185		7,810	17%	-4%	9%	
Stripping activity adjustment	646	-1,494	694		-2,796	NA	NA	NA	
Employee benefit expense	12,027	13,536	12,268		11,455	-5%	-15%	-7%	
Other Expenses	1,534	3,982	1,611		2,632	72%	-34%	63%	
Total Expenditure	25,469	26,073	27,685		22,126	-13%	-15%	-20%	
EBITDA	10,514	11,338	9,688	10,165	14,339	36%	26%	48%	41%
Adj EBITDA (Exl Stripping)	11,160	9,844	10,382		11,542	3%	17%	11%	
D&A & Impairment	1,138	1,993	1,794		1,952	72%	-2%	9%	
Other Income	1,538	2,244	1,574		1,885	23%	-16%	20%	
Interest Expense	178	232	346		209	17%	-10%	-40%	
P/L Before Tax	10,735	11,356	9,122		14,062	31%	24%	54%	
Tax	2,771	2,790	2,241		3,204	16%	15%	43%	
Extra Ordinary Items						NA	NA	NA	
Net Profit/(Loss) For the Period	7,964	8,566	6,881		10,858	36%	27%	58%	
Minority Interest	30	42	-		16	-46%	-62%	NA	
Share Of P/L Of Associates	-23	74	-		85	NA	15%	NA	
Net P/L After M.I & Associates	7,971	8,682	6,881	7,654	10,959	37%	26%	59%	43%
Basic EPS	12.93	14.09	11.17	12.42	17.78	37%	26%	59%	43%
EBITDA %	29.2%	30.3%	25.9%		39.3%	1010	902	1340	
Adj EBITDA %	31.0%	26.3%	27.8%		31.7%	64	534	387	
Tax Rate %	26%	25%	25%		23%	-303	-179	-179	

Source: Company, Axis Securities Research, Bloomberg Consensus

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23A	FY24A	FY25E	FY26E
Total Income From Operations	1,38,252	1,42,324	1,54,192	1,69,067
Consumption of Raw Materials	13,557	11,580	11,991	13,158
Increase / Decrease in Stocks	(208)	(1,522)	529	1,900
Contractual expense	23,289	27,598	31,247	34,613
Stripping activity adjustment	3,809	(6,138)	762	878
Power	2,760	3,044	3,360	3,684
Repairs	1,772	1,959	2,183	2,423
Employees Cost	49,409	48,783	48,577	49,063
Other Expenses	7,046	9,049	9,364	9,739
Total Expenditure	1,01,434	94,352	1,08,014	1,15,458
EBITDA	36,818	47,971	46,179	53,609
Adj EBIDA (Exl Overburden)	40,820	41,833	46,941	54,487
Depreciation and Amortization	4,675	6,735	7,335	8,238
EBIT	32,143	41,236	38,843	45,371
Other Income	6,551	7,969	8,942	9,746
Share Of P/L Of Associates (Net of Tax)	(8)	427	85	-
Less: Interest & Fin Chg.	684	819	1,152	1,258
Less: Exceptional Items	-	-	-	-
Profit before tax	38,001	48,813	46,719	53,859
Provision for Tax	9,876	11,443	11,206	13,232
Minority Interest	40	33	16	-
Attr Reported PAT	28,165	37,402	35,529	40,626
EPS (Rs/sh)	45.7	60.7	57.7	65.9
DPS (Rs/sh)	24.3	25.5	34.6	39.6

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23A	FY24A	FY25E	FY26E
Net Block	44,448	67,900	75,304	84,065
CWIP	15,263	14,739	17,000	17,000
Intangible assets	4,947	6,940	6,940	6,940
Investments	7,139	7,110	7,110	7,110
Inventories	8,155	10,177	11,026	12,090
Trade Receivables	13,060	13,256	14,361	15,747
Cash / Bank balance	39,922	30,235	33,527	39,443
Misc. Assets	78,272	87,315	87,315	87,315
Total assets	2,11,207	2,37,672	2,52,583	2,69,710
Equity capital	6,163	6,163	6,163	6,163
Reserves	51,082	76,567	90,778	1,07,029
Borrowings	4,115	6,289	6,289	6,289
Def Tax Liabilities	1,331	1,822	1,822	1,822
Other Liabilities	56,176	57,454	57,454	57,454
Provisions	83,791	80,992	80,992	80,992
Trade Payables	8,549	8,386	9,085	9,961
Capital employed	2,11,207	2,37,672	2,52,583	2,69,710

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23A	FY24A	FY25E	FY26E
Profit before tax	38,001	48,846	46,735	53,859
Depreciation	4,675	6,735	7,335	8,238
Interest Expenses	684	819	1,152	1,258
Non-operating / EO item	(533)	(10,387)	-	-
Change in W/C	2,609	(2,381)	(1,255)	(1,573)
Income Tax (Paid)/Refund	(9,750)	(11,727)	(11,206)	(13,232)
Operating Cash Flow	35,686	31,905	42,761	48,550
Capital Expenditure	(14,209)	(16,380)	(17,000)	(17,000)
Free cash Flow	21,477	15,525	25,761	31,550
Other Investments	(9,214)	11,894	-	-
Investing Cash Flow	(23,423)	(4,486)	(17,000)	(17,000)
Proceeds / (Repayment) of Borrowings	805	1,423	-	-
Finance cost paid	(138)	(224)	(1,152)	(1,258)
Dividend paid	(14,328)	(15,098)	(21,317)	(24,376)
Other Financing activities	-	-	-	-
Financing Cash Flow	(13,661)	(13,899)	(22,469)	(25,634)
Change in Cash	(1,398)	13,520	3,292	5,916
Opening Cash	7,063	5,627	6,009	9,301
Closing Cash	5,665	5,345	9,301	15,217

Source: Company, Axis Securities

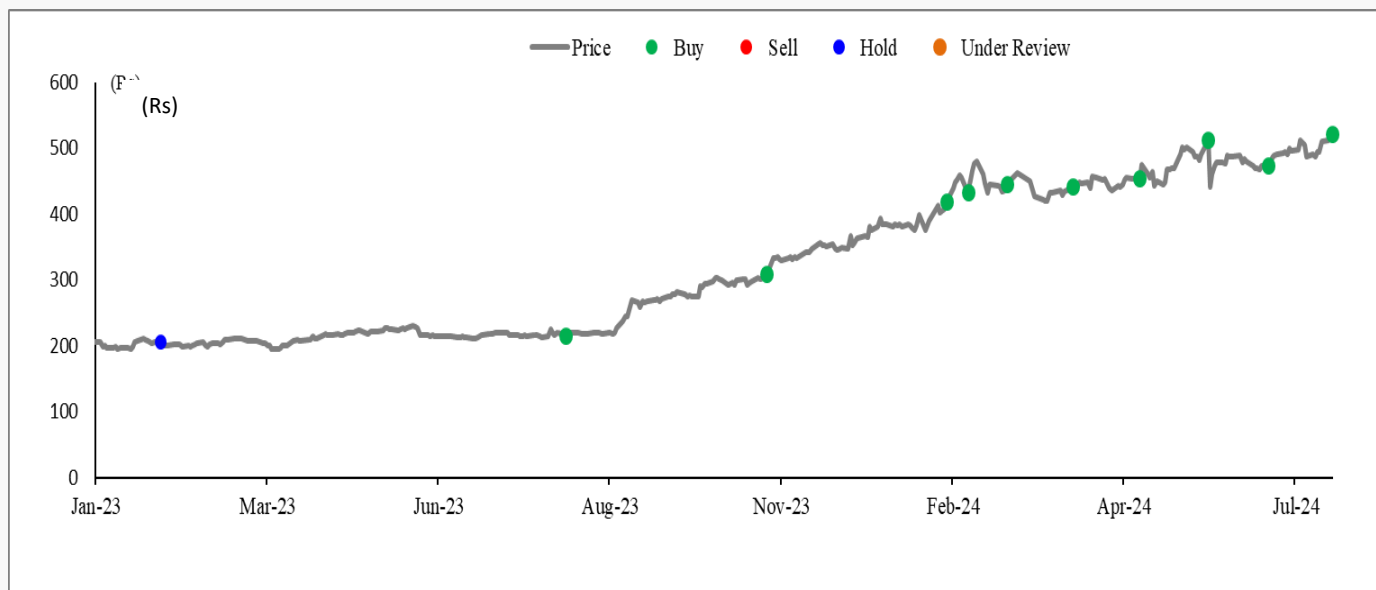
Ratio Analysis

(%)

Y/E March	FY23A	FY24A	FY25E	FY26E
Operational Ratios				
Sales growth (% YoY)	26%	3%	8%	10%
EBITDA growth (% YoY)	43%	2%	12%	16%
Op. profit growth (% YoY)	59%	28%	-6%	17%
Net Profit growth (% YoY)	62%	33%	-5%	14%
EBITDA Margin %	30%	29%	30%	32%
Net profit Margin %	20%	26%	23%	24%
Tax Rate %	26%	24%	24%	25%
Efficiency Ratios				
Total Asset turnover (x)	0.7	0.6	0.6	0.6
Sales/Gross block (x)	2.1	1.7	1.4	1.4
Sales/Net block(x)	3.2	2.5	2.2	2.1
Working capital/Sales (x)	(0.00)	0.09	0.09	0.09
Valuation Ratios				
PER (x)	4.4	8.6	9.1	7.9
P/BV (x)	2.2	3.9	3.3	2.8
EV/Adj Ebitda (x)	7.0	7.1	6.3	5.3
EV/Sales (x)	2.1	2.1	1.9	1.7
Dividend Yield (%)	12%	5%	7%	8%
Return Ratios				
ROE	56.1%	53.4%	39.5%	38.7%
ROCE	24.4%	26.0%	21.3%	22.9%
ROIC	111.0%	53.6%	42.3%	42.8%

Source: Company, Axis Securities

Coal India Price Chart and Recommendation History



Source: Axis Securities

Date	Reco	TP	Research
01-Feb-23	HOLD	245	Result Update
08-May-23	BUY	275	Result Update
09-Aug-23	BUY	270	Result Update
13-Nov-23	BUY	380	Result Update
13-Feb-24	BUY	500	Result Update
01-Mar-24	BUY	510	Top Picks
01-Apr-24	BUY	510	Top Picks
01-May-24	BUY	510	Top Picks
03-May-24	BUY	505	Result Update
03-Jun-24	BUY	550	Top Picks
01-Jul-24	BUY	550	Top Picks
01-Aug-24	BUY	575	Result Update

Source: Axis Securities

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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