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## Coal India to ramp up production

Strategy in sync with government aim of 24x7 power supply

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■ **INVESTOR, P11**

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● RATING: BUY

# Coal India to ramp up production

Strategy in sync with government aim of 24x7 power supply

**COAL INDIA'S REVENUE** in Q4FY23 increased by 17% y-o-y and 9% q-o-q, reaching ₹382 bn, which is consistent with our estimated revenue of ₹363 bn. The rise in revenue can be attributed to high volumes and realisations. The blended average selling price (ASP) also increased by 13% y-o-y and 2% q-o-q to ₹1,877/t, with ASP growing y-o-y for all categories. The E-auction ASP soared by 86% y-o-y to ₹4,525/tonne but decreased by 10% q-o-q. The E-auction premium reduced to 192% from an all-time high of 329% in Q2FY23 and 241% in Q3FY23, though it remained above the historical average.

Adjusted Ebitda (net of OBR) for COAL was down by 31% y-o-y and 23% q-o-q, amounting to ₹86 bn. The decline in Ebitda was due to the higher provisions of ₹59 bn allocated towards national coal wage agreement (NCWAXI) wage provisions, resulting in employee expenses increasing to ₹170 bn, exceeding our estimated expense of ₹135 bn.



Adjusted profit after tax (APAT) of the company fell by 18% y-o-y and 28% q-o-q. The production grew 7% y-o-y and 25% q-o-q to 224mt. COAL exceeded its yearly production target in FY23 and clocked incremental sales of 80mt in a year. In FY23, the removal of over burden removal (OBR) by the company reached record levels of 1,652 million cubic meters, which is a 22% increase compared to the previous year. The 294mcm incremental OBR removal is the highest since inception, and higher OBR removal facilitates faster and higher coal extraction. High OBR removal

will help COAL achieve its FY24 production target of 770-780mt.

COAL's growth roadmap is in synergy with the government's commitment to bring about a transformative change in the power sector by providing 24x7 power supply to all homes and sets the stage for COAL to achieve strong coal production over the next few years.

COAL has received long-term demand commitments from multiple power plant companies for fuel supply agreements (FSA), which provides the company with better visibility and predictability of its business operations. To meet growing

## Financials & valuations (₹ bn)

Y/E March	2023	2024E	2025E
Sales	1,383	1,314	1,337
Adj. Ebitda	406	277	286
Adj. PAT	281	195	205
Ebitda margin (%)	29.4	21.1	21.4
Cons. Adj. EPS (₹)	45.6	31.7	33.3
EPS Gr. (%)	61.8	-30.6	5.3
BV/Sh. (₹)	93	109	125
<b>Ratios</b>			
Net D:E	-0.7	-0.6	-0.6
RoE (%)	49.1	29.1	26.6
RoCE (%)	56.7	30.5	26.8
Payout (%)	53.1	50.0	50.0
<b>Valuations</b>			
P/E (x)	5.2	7.5	7.1
P/BV (x)	2.6	2.2	1.9
EV/Ebitda (x)	2.6	3.9	3.6
Div. yield (%)	10.2	6.7	7.0
FCF yield (%)	14.0	5.0	7.5

Source: MOFSL, Company

power demand, COAL has pegged 610mt to power plants in FY24E.

## E-auction to drive profitability

Though e-auction premiums have cooled off from their highs,

they were compensated by higher volumes in Q4FY23. As coal availability to the nonregulated sector (NRS) increases, COAL has an option of placing up to 10% of its total production or 20% of production after fulfilling FSA deliveries under e-auctions. We expect COAL to sell 68-70mt of its volumes via e-auction determined prices in FY24.

## Valuation and view

We believe the world has come to terms with the fact that fossil fuels cannot be ignored, at least in the near term. Underinvestment by developed economies in the last decade has proven expensive, with no alternate sources of Russian NG in sight other than coal. Renewables remain unreliable due to challenges related to availability, costs, storage or safety. The dependence on coal is therefore likely to increase in the near term. The integration of all five different modes of auction into a single e-auction has led to better price discovery for coal. We retain our Buy rating with a target price of ₹285, valuing the stock at 5x FY24E EV/Ebitda. COAL remains our top pick in the metals and mining sector.

MOTILAL OSWAL

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**ECONOMY & PUBLIC AFFAIRS P6**

# COAL INDIA'S 1-BN TONNE TARGET TO SPUR MINING

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# CIL's 1-bn tonne target to spur mining in states

SHIREYAJI & NITIN KUMAR  
New Delhi, 8 May

National miner Coal India Ltd (CIL), which is targeting 1 billion tonne (bt) of coal production by 2025-26 (FY26), is set to push enhanced mining activity in mineral-rich states.

CIL has worked out a \$2-mine plan for meeting the production target. Of these, 13 are new coal mines; the rest are expansions of existing ones.

Jharkhand leads the pack with 15 new mining projects, of which three are new; the rest are expansion of existing coal mines in the state. It is followed by Chhattisgarh — It will have eight new coal mine projects. Maharashtra and West Bengal will get seven new coal mining projects each.

The new coal mining projects CIL will take up have a peak-rated capacity (PRC) of 129 million tonnes (mt) per annum and will contribute 29.4 mt by FY26. The expansion of existing mines of CIL's seven subsidiaries in eight states will contribute 241 mt by FY26. These 39 mines have a PRC of 315 mt.

The Ministry of Coal has set a 1-bt coal production target by the end of the current fiscal year (2023-24), on the back of enhanced private coal mining. Of the targeted 1 bt, CIL will produce 780 mt, while privately owned captive and commercial mines will contribute 162 mt; the balance by The Singareni Collieries Company.

Most of the new coal mining projects will reach their peak capacity by 2026-27. A handful by 2030. Speaking to *Business Standard*, Pramod Agrawal, chairman and managing director, CIL, had said, CIL — in a two-pronged approach — was pushing for capacity augmentation through the expansion of existing mines and operationalisation of greenfield projects.

"In pursuit of 1 bt, these will contribute incremental projected production of 102 mt in FY26. We have worked out year-wise production plans until 2026 for monitoring them closely. Mahanadi, South Eastern, and Central Coalfields will be significant contributors towards the challenging goal, with Mahanadi alone chipping in with 29 per cent towards the 1-bt plan," he said.



CIL firms	States	New mines	Expansion	PRC of all mines (mtpa)
Central Coalfields	Jharkhand	3	12	109.50
Western Coalfields	Maharashtra, MP	1	9	28.47
Eastern Coalfields	West Bengal	1	6	29.59
Mahanadi Coalfields	Odisha	2	3	130.00
South Eastern Coalfields	Chhattisgarh, MP	5	4	96.67
Northern Coalfields	Uttar Pradesh, MP	0	3	55.00
North East Coalfields	Assam, Arunachal	0	2	1.00
Bharat Coking Coal	Jharkhand	1	0	1.83

PRC: Peak-rated capacity; mtpa: Million tonnes per annum

Source: Coal India

## Questions on just transition

The enhanced mining by CIL comes in the wake of increasing power demand in the country. This year, the power demand of the country is expected to touch 220 gigawatt — a historic high.

Fuelled by thermal power, the country's electricity sector is still largely dependent on coal, notwithstanding strides in renewable energy generation. Currently, close to 75 per cent of India's power demand is being met by thermal power generation.

As enhanced mining picks up in mineral-rich states, the question of the country's energy transition and net-zero goal also comes up.

India has set 2070 as the target year for being a net-zero carbon economy and 2030 for meeting 50 per cent of its electricity demand from non-fossil fuel sources.

In coal-rich states, especially Jharkhand and Chhattisgarh, which have always been the hotbed of ecological issues arising from mining activities, the new employment-generating mines are a mix of good and bad news.

Laxmi Chauhan, an activist from Korba, Chhattisgarh, said the government's move to increase coal production seems to benefit private miners, who have already invested in the sector. "With international pressure on moving away from fossil fuels rising, the government wants to extract as much coal as it can now. The licensed capacity for coal mining is already more than twice the need. People end up paying for the inefficiency, corruption in financial, ecological, and health costs," said Chauhan.

CIL is increasingly outsourcing its mining activity through the mine developer and operator mode. To open up coal mining to the private sector, the coal ministry has already awarded close to 133 coal mines with a PRC of 515 mt since 2015 to private companies. Of these, 27 have commenced production.

Sudheep Srivastava, a Bilaspur-based advocate and activist, said there is already surplus coal production in the country and the existing thermal power plants are not even running at full capacity.