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THE COMPASS

Better than expected Q1 boost for CIL

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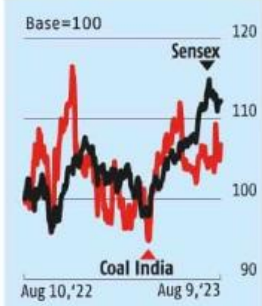
Although Coal India Ltd (CIL) reported a drop in profit after tax (PAT) in the April to June quarter (Q1) of 2023-24 (FY24), the results were considered encouraging by most analysts and by the Street. CIL had consolidated net revenue of ₹36,000 crore (up 2.5 per cent year-on-year (Y-o-Y) and down 5.7 per cent quarter-on-quarter (Q-o-Q), which was ahead of expectations. Adjusted Earnings before interest, taxes, depreciation, and amortisation (Ebitda) came in at ₹11,200 crore (down 12.5 per cent Y-o-Y), ahead of consensus estimates, due to reduction in contractual expenses and lower consumption of stores. Adjusted profit after tax (PAT) stood at ₹8,600 crore (down 8 per cent Y-o-Y, up 18 per cent Q-o-Q), ahead of consensus.

Monthly production data and global price trends are key variables going forward. The recent offer for sale (OFS) triggered a price correction and given improved production data and decent realisations in e-auctions, the future prospects look reasonable. Blended per tonne realisation shrank by 3 per cent



Source: Exchanges
Compiled by BS Research Bureau

Y-o-Y to ₹1,769, but the 14 per cent Y-o-Y decline in e-auction realisation (now at ₹3,742) was partly offset by 6 per cent rise realisation (₹1,536) under fuel supply agreements or FSAs. CIL sold 168 million tonnes (MT) under FSA (vs 15 4MT Y-o-Y) and 16.1 MT in e-auctions (vs 20.9 MT Y-o-Y). Production has risen to 229 MT (till July'23) and the target of 780 MT for FY24 (703 MT in FY23) seems achievable.

In the prior financial year, e-auction premiums had shot up by over 300 per cent due to high international coal prices and increased power sector demand. But e-auction prices have started normalising after Q2FY23, hitting ₹3,742 per tonne in Q1FY24 down from ₹6,064 per tonne in Q2FY23, as international prices softened. International prices are likely to see some more downside or remain flat in FY24 which implies e-auction realisations will also moderate. The e-auction premium over FSA was around 140 per cent.

The government has encouraged the use of Mine Developer Operators (MDOs) to improve efficiency and productivity. Of the 15 MDO projects with combined capacity of 170 MT, work orders were issued for nine projects of 127 MTPA capacity during FY23. Three of the nine projects have already begun mining and of the remaining six, bids are under evaluation or tendering is on. A total of 24 coal mining projects with a total capacity of 140.3 MT per annum were approved in FY23 and capex sanctioned for these amounts to ₹22,100 crore. The NCWA-XI agreement for salaries and wages for non-executive employees was implemented and paid at the revised rates in Q1FY24. CIL had already made provisions of ₹8,150 crore in FY23. The wage outgo-during Q1FY24 was ₹12,000 crore, up 20 per cent Y-o-Y. Volumes could be the main driver for FY24 since prices are unlikely to see a major upshift. CIL clocked incremental sales of 9 MT, which is significant as it comes over a high base. CIL achieved high dispatches to the non-power sector at 33.4 MT (up 34 per cent YoY). Assuming production targets are achieved, CIL could easily log ebitda of above ₹30,000 crore in FY24.

CIL had ₹40,100 crore of cash/cash equivalents at the end of FY23. It generated ₹35,700 crore of cash from operations in FY23, and is likely to repeat the show in the current financial year. The capex needs are estimated at ₹16,500 crore in FY24, which should be covered comfortably leaving ₹9,000 crore surplus. The company is likely to continue with its generous dividend policy and may give up to ₹15 per share. The better than expected Q1 and positive analyst recommendations saw the stock move up almost 2 per cent to close at ₹234.70 on Wednesday.