MIRAE ASSET Sharekhan

Coal India Ltd

Soft year till now but good volume growth outlook

Energy & Utilities	Sharekhan code: COALINDIA		
Reco/View: Buy ⇔	CMP: Rs. 403	Price Target: Rs. 560 ⇔	

↑ Upgrade ⇔ Maintain ↓ Downgrade

Summary

- Till YTDFY2025 (Apr-Nov), Coal India has reported an offtake of 492.6 mn tonne (up 1.5% y-o-y) and production of 471 mn tonne (up 2.4 % y-o-y).
- The volume growth has been weak because of strong monsoons affecting the power demand.
- However, the company has strong growth levers – 1) Volume picking up with the rise in power demand and 2) potential hike in FSA coal realizations.
- Valuation of 6.4x/6.1x its FY26/FY27 EPS estimates is attractive, and the stock offers a high dividend yield of ~6%. Hence, we maintain a Buy with an unchanged PT of Rs.560.

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

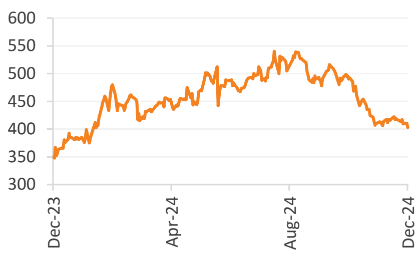
Company details

Market cap:	Rs. 2,48,296 cr
52-week high/low:	Rs. 545/342
NSE volume: (No of shares)	92.2 lakh
BSE code:	533278
NSE code:	COALINDIA
Free float: (No of shares)	227.2 cr

Shareholding (%)

Promoters	63.1
FII	9.2
DII	22.6
Others	5.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.7	-18.3	-17.2	15.2
Relative to Sensex	-5.7	-15.6	-22.0	2.3

Source: Mirae Asset Sharekhan Research, Bloomberg

Coal India Limited (CIL) has had low volume growth this year (YTDFY2025) as the second quarter was impacted by stronger than expected monsoon season. The resulting weak power demand affected the coal offtake. In Q1FY25, the volume growth was 5.5% y-o-y while after that for the next five months (July-Nov), volume growth was down 1% y-o-y. Coal demand is expected to pick up now with the end of monsoon and rise in industrial activity. With a decent pipeline of thermal capacity addition (80GW) in the next few years, there should be good volume growth of coal.

Thermal capacity addition: With the expected increase in power demand in the next decade, the government plans to add 80GW of thermal capacity till FY32. Over half of the capacity has already been awarded and around 8GW capacity is to be added every year. This would lead to strong coal demand and 7-8% volume growth is expected over the next few years.

Strong net cash position and return ratios: The company has net cash of Rs. 49/share on its balance sheet (12% of market capitalization) and it is only expected to improve with the good volume growth. Company is trading at a dividend yield of ~6% at the CMP and the return ratios of RoCE/RoE are expected to be stable over ~30%

Diversification initiatives: In Coal India's drive towards net-zero emissions, company has installed 83MW of solar capacity at the end of FY24 and further 213MW addition is expected in FY25. The plan is to achieve 3GW capacity by FY28. CIL is setting up a super critical 2x800MW (Phase-1) power plant through its subsidiary Mahanadi Basin Power Limited. Under the coal to chemical business vertical, three coal gasification projects have been taken up. A JV agreement was signed with BHEL for a project in Odisha and another JV was with GAIL for a project in West Bengal. With an objective to reduce the import dependence on critical mineral assets like lithium, cobalt, etc. CIL is actively pursuing acquisition of these minerals in India and abroad. Company emerged as the preferred for the Khattali Choti graphite block in Madhya Pradesh.

Our Call

Valuation – Maintain Buy on CIL with an unchanged PT of Rs. 560: Coal India's valuation of 6.4x/6.1x its FY26E/FY27E EPS is attractive and the stock offers a high dividend yield of ~6%. Good volume growth in coal offtake of over 8% is expected in the next few years due to the demand in the power sector. Also, the potential stake sale in Bharat Coking Coal Limited (BCCL) along with a potential listing could help unlock value. Hence, we maintain a Buy with an unchanged price target (PT) of Rs.560.

Key Risks

Lower-than-expected volume offtake amid any weakness in electricity demand and realisations (especially for e-auction) could affect margins and earnings outlook.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,38,252	1,42,324	1,43,464	1,54,235	1,64,418
OPM (%)	29.4	29.4	27.8	28.2	28.3
Adjusted PAT	31,763	37,402	35,435	38,650	40,650
% YoY growth	83.0	17.8	-5.3	9.1	5.2
Adjusted EPS (Rs.)	51.5	60.7	57.5	62.7	66.0
P/E (x)	7.8	6.6	7.0	6.4	6.1
P/B (x)	4.3	3.0	2.6	2.2	2.0
EV/EBITDA (x)	5.2	5.4	4.9	4.1	3.4
RoNW (%)	63.3	53.4	39.7	37.1	33.9
RoCE (%)	67.3	55.7	43.3	41.6	38.9

Source: Company; Mirae Asset Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – India's coal demand expected to reach 1,250-1,500 MT with increased power generation

Coal accounts for 55% of India's total commercial energy production. Although its share in India's overall energy mix is expected to fall over the next decade, it would remain a primary energy source and absolute coal offtake is expected to improve given higher demand from sectors such as power and steel. Industry estimates suggest that India's coal demand could reach 1,250-1,500 million tonnes by FY2030, assuming a 6-8% growth in power demand and despite considering growth in renewable energy capacity to 500 GW by FY2030 (from 123 GW in FY2019).

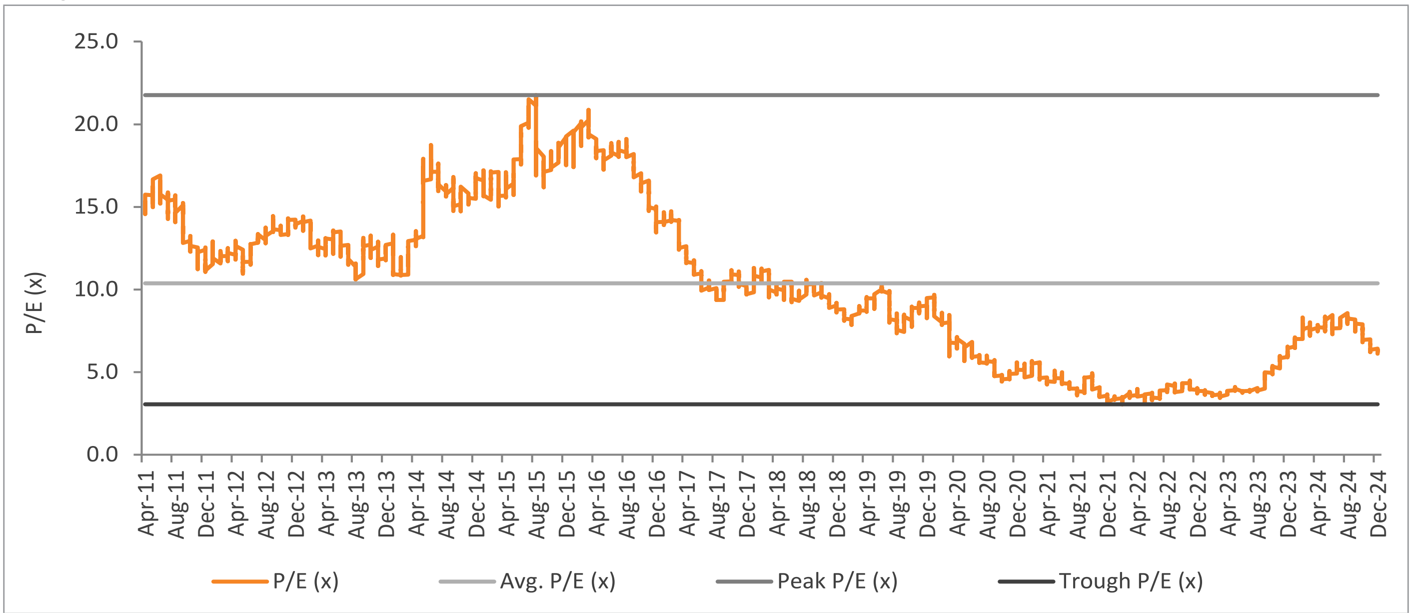
■ Company Outlook – Expect earnings to remain resilient led by volume growth and better coal realisation

Coal India posted strong performance in FY24 with PAT rising by 18% y-o-y but we expect the same to moderate going forward given lower e-auction realization due to normalization of imported coal price. Having said that, overall earnings would remain resilient and above historical levels given strong coal demand from thermal power plants and better price discovery.

■ Valuation – Maintain Buy on CIL with an unchanged PT of Rs. 560

Coal India's valuation of 6.4x/6.1x its FY26E/FY27E EPS is attractive and the stock offers a high dividend yield of ~6%. Good volume growth in coal offtake of over 8% is expected in the next few years due to the demand in the power sector. Also, the potential stake sale in Bharat Coking Coal Limited (BCCL) along with a potential listing could help unlock value. Hence, we maintain a Buy with an unchanged price target (PT) of Rs. 560.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About the company

CIL is engaged in the production and sale of coal. The company operates through ~82 mining areas across eight states and contributes to around 80% of India's coal production. The company's products include coking coal (used in steel making and metallurgical industries), semi-coking coal (used in steel making, merchant coke manufacturing, and other metallurgical industries), non-coking coal (mainly used in power generation; also used for cement, fertiliser, glass, ceramic, paper, and chemical), and washed and beneficiated coal (manufacturing of hard coke for steel making, power generation, cement, and sponge iron).

Investment theme

The government's plans to increase coal production to substitute imports (stands at more than 250 million tonne) and increase in power demand would help CIL to register sustainable volume growth over the next few years. Moreover, cost-control initiatives such as reduction of manpower would cushion margins. Moreover, valuations are reasonable to historical averages and the stock offers high dividend yield.

Key Risks

Lower-than-expected volume offtake and realisation (especially e-auction) could impact margin and earnings outlook.

Additional Data

Key management personnel

P M Prasad	Chairman and Managing Director
Mukesh Agrawal	CFO
B Veera Reddy	Director – Technical

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	9.74
2	Nippon Life India Asset Management	2.85
3	PPFAS Asset Management	2.16
4	HDFC Asset Management Co Ltd	1.6
5	Vanguard Group Inc/The	1.51
6	ICICI Prudential Asset Management	1.13
7	Blackrock Inc	1.09
8	SBI Funds Management Ltd	0.87
9	FMR LLC	0.64
10	UTI Asset Management Co Ltd	0.58

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

MIRAE ASSET Sharekhan

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