

COAL stock beaten down, why we are standing by our pick

Metals & Mining ▶ Company Update ▶ January 2, 2025

TARGET PRICE (Rs): 525

Over the past 12-18 months, investors were enthused by a large-cap stock delivering volumes growth CAGR of 7-8%, alongside an improving demand outlook resulting in solid earnings momentum. We were also subscribed to this narrative for COAL; however, the growth air-pocket in recent months has weakened that thesis. We see the company missing its FY25 guidance by 35-40mt (4.5%), and therefore, we reduce our estimate to 800mt. In addition, there has been news flow around progress on captive coal mines that could displace e-auction volumes. In our assessment, these captive mines could produce 26mt in FY28E, displacing a third of the e-auction offtake. All that said, we think the concerns are broadly in the price, whereas the medium-term demand growth outlook and project delivery catalysts are well-placed. We, therefore, reiterate our BUY rating, albeit at a reduced TP of Rs525.

Coal India: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,462,669	1,461,455	1,464,977	1,583,450	1,760,399
EBITDA	477,230	517,930	504,222	534,610	601,671
Adj. PAT	317,632	374,023	346,272	360,378	410,292
Adj. EPS (Rs)	51.5	60.7	56.2	58.5	66.6
EBITDA margin (%)	32.6	35.4	34.4	33.8	34.2
EBITDA growth (%)	76.9	8.5	(2.6)	6.0	12.5
Adj. EPS growth (%)	83.0	17.8	(7.4)	4.1	13.9
RoE (%)	61.1	52.1	37.5	32.3	30.9
RoIC (%)	31.2	31.1	26.0	23.8	24.1
P/E (x)	7.6	6.5	7.0	6.7	5.9
EV/EBITDA (x)	4.3	4.2	4.4	4.0	3.5
P/B (x)	4.0	2.9	2.4	2.0	1.7
FCFF yield (%)	11.4	0.7	5.0	8.0	8.4

Source: Company, Emkay Research

Growth air-pocket could result in guidance miss; channel checks suggest growth acceleration in CY2026

Over the past 12-18 months, investors were enthused by a large-cap stock delivering volumes growth CAGR of 7-8%, alongside an improving demand outlook resulting in solid earnings momentum. We were also subscribed to this narrative for COAL; however, the growth air-pocket in recent months has weakened that thesis. Our channel checks suggest that much of the growth acceleration from the current projects would be delivered in CY2026, essentially delaying 1bn tpa production target by a year, compared to our earlier estimates. We see the company missing its FY25 guidance by 35-40mt (4.5%), and therefore, we reduce our estimate to 800mt.

Displacement risk from progress in captive coal mines not as concerning

Lately, there has been news flow around progress on captive coal mines by aluminium producers that could displace e-auction volumes. In our assessment, these captive mines could produce 26mt in FY28E, displacing a third of the e-auction offtake. However, with the growth in aggregate power demand, much of these lost volumes could be absorbed. In addition, not all of this captive capacity would come onstream at the same time.

'Peak coal' scenario suggests demand unlikely to peak until late-2030s

Our 'peak coal' scenario analysis indicates India's coal demand peak at 1.75bt (+32% increase from current level) in late-2030s. We note that China is still not past the 'peak coal' phase despite considerable progress in new energy, which gives us confidence that there is time for India's demand to plateau, given it is behind the curve in energy transition.

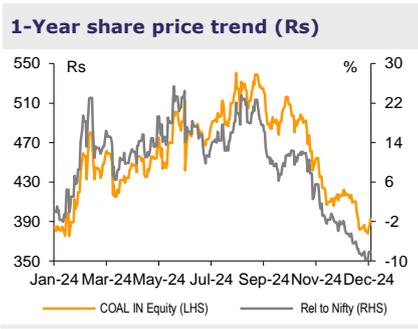
Earnings revisions negative; reduce TP to Rs525 from Rs600

We lower our production/offtake volume assumptions to 800/790mt from 820/810mt and tweak cost estimates. The stock has de-rated on growth slowdown and e-auction displacement risk; however, we think the concerns are broadly in the price, whereas the medium-term demand growth outlook and project delivery catalysts are well-placed.

Target Price – 12M	Dec-25
Change in TP (%)	(12.5)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	33.6
CMP (02-Jan-25) (Rs)	393.0

Stock Data	Ticker
52-week High (Rs)	545
52-week Low (Rs)	368
Shares outstanding (mn)	6,162.7
Market-cap (Rs bn)	2,422
Market-cap (USD mn)	28,239
Net-debt, FY25E (Rs mn)	-225,883
ADTV-3M (mn shares)	8
ADTV-3M (Rs mn)	3,503.5
ADTV-3M (USD mn)	40.9
Free float (%)	36.9
Nifty-50	24,189
INR/USD	85.8
Shareholding, Sep-24	
Promoters (%)	63.1
FPIs/MFs (%)	9.2/22.6

Price Performance			
(%)	1M	3M	12M
Absolute	(6.8)	(22.7)	0.1
Rel. to Nifty	(6.5)	(17.6)	(10.4)

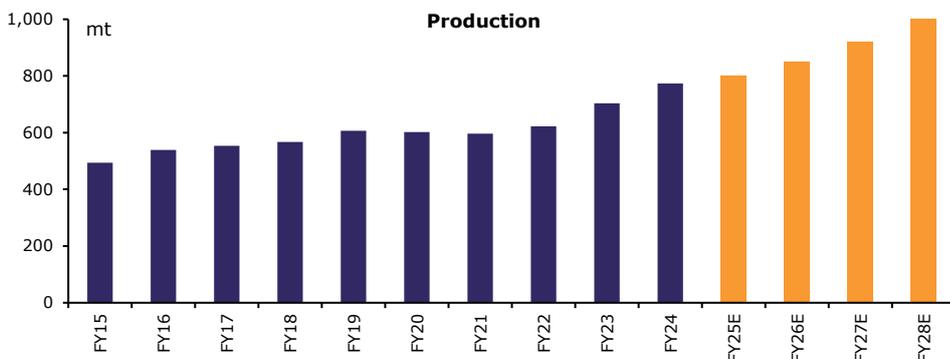


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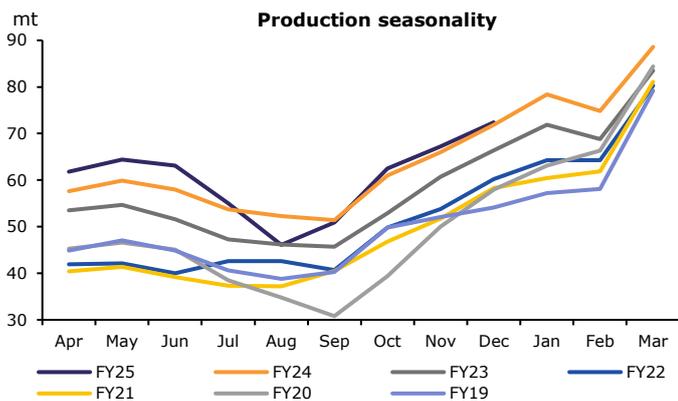
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Exhibit 1: Guidance miss likely for FY25; growth projects to deliver in FY27



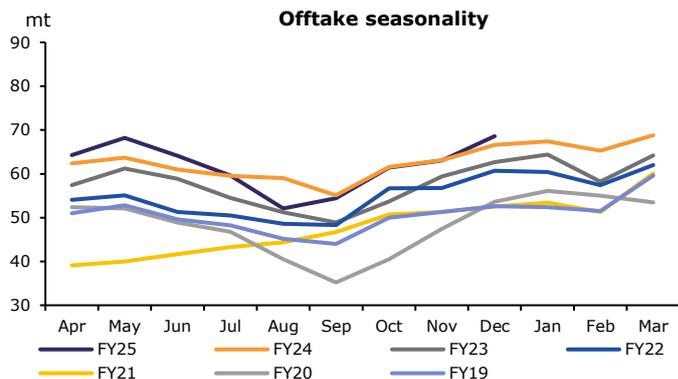
Source: Company, Emkay Research

Exhibit 2: Seasonality benefit has not kicked in meaningfully



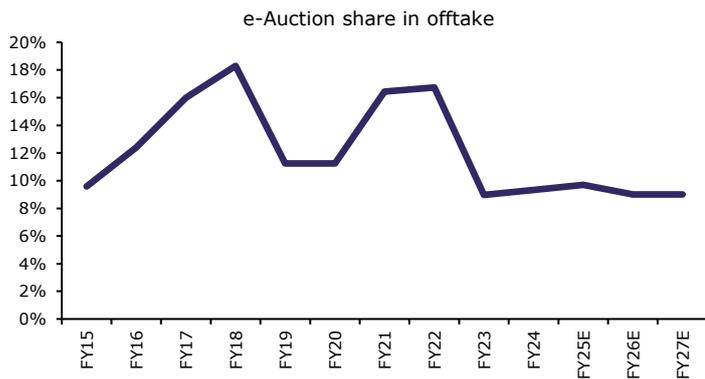
Source: Company, Emkay Research

Exhibit 3: Offtake slower than production, leading to inventory build



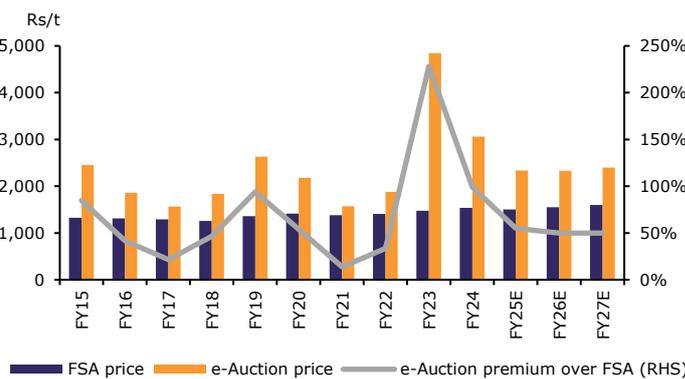
Source: Company, Emkay Research

Exhibit 4: e-Auction volumes to remain around 10% of total offtake



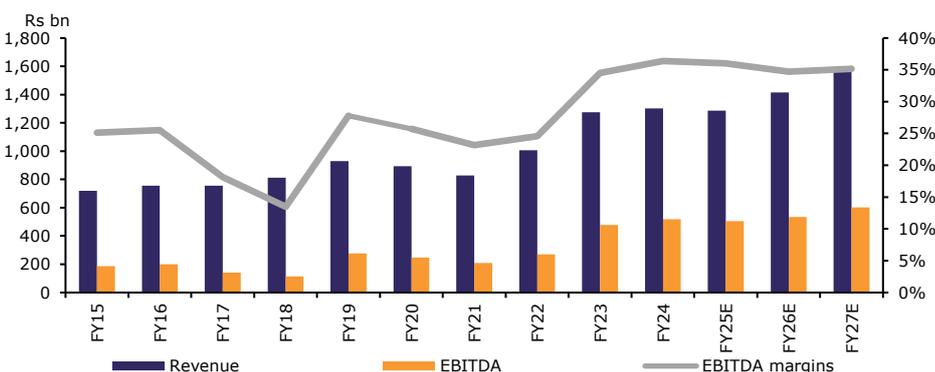
Source: Company, Emkay Research

Exhibit 5: Premiums are normalizing around 50-60% over FSA price



Source: Company, Emkay Research

Exhibit 6: EBITDA profile still healthy, even though it has slipped vs earlier estimates

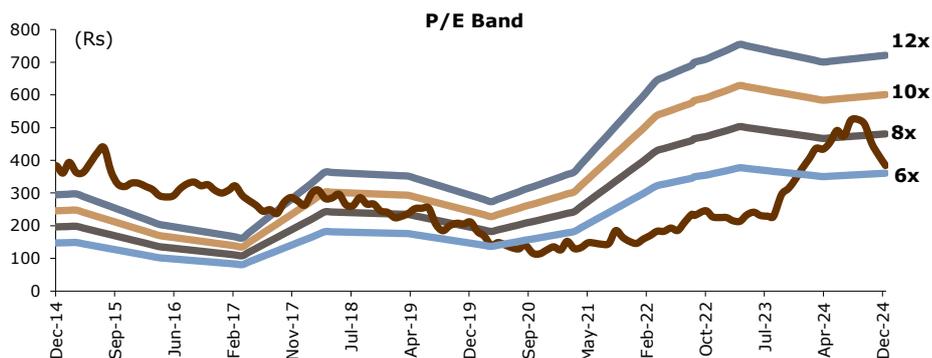


Source: Company, Emkay Research

Exhibit 7: Blended valuation at Rs525/share, implying 36% return

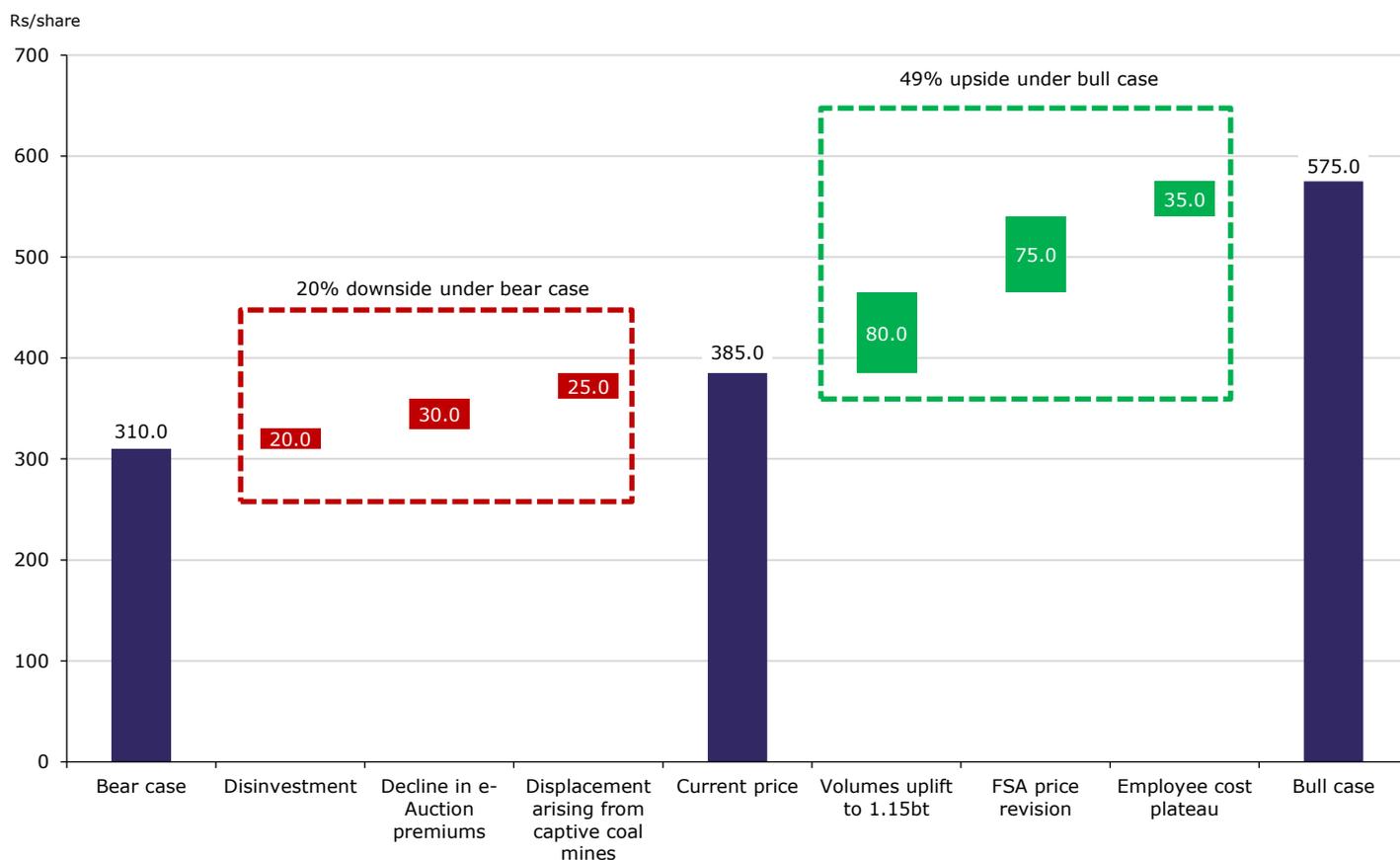
	Period	Multiple	Rs mn	Per share	Weight
DCF					
Enterprise value		DCF	2,991,406.5	485.4	
Less Net debt/(cash)			-239,461.5	-38.9	
Less Minority interest			8,521.2	1.4	
Add Projects			290,841.8	47.2	
Equity value			3,513,188.6	570.1	33%
EV/EBITDA					
Enterprise value	Dec-26E	4.5	2,632,074.8	427.1	
Less net debt, minorities, other			-521,782.1	-84.7	
Equity value			3,153,856.8	511.8	33%
P/E					
Equity value	Dec-26E	8.0	3,182,507.2	516.4	33%
Blended equity value			3,283,184.2	532.7	
Rounded target price				525	
Current share price				386	
Expected price return				35.9%	
Expected dividend yield				6.5%	
Expected total return				42.4%	

Source: Company, Emkay Research

Exhibit 8: Valuations attractive following recent pullback, trading 1SD below 10-year average P/E

Source: Bloomberg, Emkay Research

Exhibit 9: Bull/bear scenario indicates -20% to +49% downside/upside range



Source: Emkay Research

Exhibit 10: Estimate revisions negative owing to volumes cut

Rs mn unless stated	FY25E			FY26E			FY27E		
	New	Old	% chg	New	Old	% chg	New	Old	% chg
Financial metrics									
Net sales	1,286,814.9	1,333,613.3	-3.5%	1,415,048.6	1,481,468.0	-4.5%	1,571,533.6	1,641,417.7	-4.3%
Total income	1,464,977.3	1,489,923.5	-1.7%	1,583,450.1	1,651,326.1	-4.1%	1,760,399.3	1,831,207.5	-3.9%
EBITDA	504,221.6	519,544.9	-2.9%	534,610.0	570,649.6	-6.3%	601,670.7	641,122.3	-6.2%
Adj. EBITDA	374,734.1	416,374.7	-10.0%	428,231.2	468,349.5	-8.6%	492,604.2	537,181.7	-8.3%
EBIT	432,919.9	448,243.2	-3.4%	457,776.9	493,668.7	-7.3%	518,475.3	557,263.6	-7.0%
Net profit	346,271.8	358,555.0	-3.4%	360,378.2	389,575.9	-7.5%	410,291.8	444,298.4	-7.7%
EPS (Rs)	56.19	58.18	-3.4%	58.48	63.21	-7.5%	66.58	72.09	-7.7%
DPS (Rs)	25.25	26.25	-3.8%	26.25	28.50	-7.9%	30.00	32.50	-7.7%
Net debt / (cash)	-219,165.2	-244,428.4	10.3%	-269,108.9	-328,680.5	18.1%	-310,988.0	-409,433.1	24.0%
Operating metrics									
Production (mt)	800.0	820.0	-2.4%	850.0	880.0	-3.4%	920.0	950.0	-3.2%
Offtake (mt)	790.0	810.0	-2.5%	850.0	880.0	-3.4%	920.0	950.0	-3.2%
FSA price (Rs/t)	1,505.5	1,520.9	-1.0%	1,550.7	1,566.5	-1.0%	1,597.2	1,613.5	-1.0%
e-Auction price (Rs/t)	2,333.5	2,403.0	-2.9%	2,326.0	2,349.7	-1.0%	2,395.8	2,420.2	-1.0%
e-Auction premium (%)	55.0%	58.0%	-5.2%	50.0%	50.0%	0.0%	50.0%	50.0%	0.0%
Blended price (Rs/t)	1,773.2	1,792.4	-1.1%	1,811.3	1,831.7	-1.1%	1,861.1	1,882.4	-1.1%
Capex	200,000.0	180,000.0	11.1%	200,000.0	180,000.0	11.1%	204,000.0	184,500.0	10.6%

Source: Company, Emkay Research

Exhibit 11: Summary of estimates

Consolidated (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E		FY23	FY24	FY25E	FY26E	FY27E
P&L						Operational metrics					
Net sales	1,276,274.7	1,303,256.5	1,286,814.9	1,415,048.6	1,571,533.6	FSA price (Rs/t)	1,474.9	1,536.2	1,505.5	1,550.7	1,597.2
Cost of sales	985,439.0	943,524.9	960,755.7	1,048,840.1	1,158,728.6	e-Auction price (Rs/t)	4,841.4	3,059.2	2,333.5	2,326.0	2,395.8
EBITDA	477,230.0	517,930.0	504,221.6	534,610.0	601,670.7	e-Auction premium	228.3%	99.1%	55.0%	50.0%	50.0%
Adj. EBITDA	360,856.5	418,333.2	374,734.1	428,231.2	492,604.2	Blended price (Rs/t)	1,990.1	1,888.8	1,773.2	1,811.3	1,861.1
Depreciation	68,329.4	67,354.2	71,301.7	76,833.1	83,195.4	Production (mt)	703.2	773.6	800.0	850.0	920.0
EBIT	408,900.6	450,575.8	432,919.9	457,776.9	518,475.3	Offtake (mt)	694.7	753.5	790.0	850.0	920.0
Interest and taxes	139,361.6	151,985.1	120,215.5	130,208.5	150,948.2	FSA (mt)	620.7	670.4	701.6	761.4	824.9
Net earnings	317,632.3	374,022.9	346,271.8	360,378.2	410,291.8	e-Auction (mt)	62.3	70.2	76.6	76.5	82.8
EPS (Rs/sh)	51.54	60.69	56.19	58.48	66.58	Unit cost (Rs/t)	1,251.9	1,065.7	1,072.6	1,097.4	1,129.6
EPS (Rs/sh) - Ex OBR	47.23	53.07	48.02	50.77	59.07	Financial metrics					
Dividend (Rs/sh)	24.25	25.50	25.25	26.25	30.00	EBITDA margin	34.5%	36.4%	36.0%	34.7%	35.1%
Number of shares	6,162.7	6,162.7	6,162.7	6,162.7	6,162.7	Net margin	21.7%	25.6%	23.6%	22.8%	23.3%
Balance sheet						ROE	60.2%	51.5%	37.2%	32.0%	30.7%
Gross block	674,897.6	807,740.0	944,380.9	1,135,595.8	1,323,661.3	ROCE	28.2%	27.3%	23.3%	22.2%	22.8%
Inventories	81,546.8	101,772.3	92,858.4	89,445.8	93,961.5	ROIC	31.2%	31.1%	26.0%	23.8%	24.1%
Receivables	130,604.8	132,557.5	148,071.9	127,935.9	129,167.1	Gross debt (Rs mn)	41,147.3	62,890.2	62,890.2	62,890.2	62,890.2
Payables	85,491.8	83,856.5	78,929.7	86,890.2	91,114.2	Net debt/(cash) (Rs mn)	-358,069.8	-239,461.5	-219,165.2	-269,108.9	-310,988.0
Net working capital	126,659.8	150,473.3	162,000.6	130,491.5	132,014.5	Net debt to EBITDA (x)	-0.8	-0.5	-0.4	-0.5	-0.5
Cash	399,217.1	302,351.7	282,055.4	331,999.1	373,878.2	Net debt to Equity	-58.1%	-28.6%	-21.4%	-22.0%	-21.5%
Total assets	2,224,306.6	2,376,722.6	2,561,101.9	2,773,180.6	3,002,509.7	Valuation					
Total liabilities	1,608,170.4	1,540,903.6	1,534,620.0	1,548,092.1	1,557,844.6	P/E (x)	4.1	5.1	6.9	6.6	5.8
Total Equity	616,136.2	835,819.0	1,026,481.9	1,225,088.5	1,444,665.1	EV/EBITDA (x)	2.0	3.2	4.3	4.0	3.5
Cash flow						FCF yield	16.3%	0.9%	5.0%	8.0%	8.4%
Operating cash before WC	428,317.5	460,133.0	434,844.7	472,093.4	534,938.8	Dividend yield	11.4%	8.3%	6.5%	6.8%	7.8%
Working capital and other	-70,977.8	-279,102.0	-114,959.1	-82,294.5	-131,088.8	Methodology					
Operating cash flow	357,339.7	181,031.0	319,885.6	389,798.9	403,850.0	Rs mn	Rs/sh				
Capex	-142,140.3	-163,799.5	-200,000.0	-200,000.0	-204,000.0	DCF	3,513,188.6	570.1			
Other investing items	-92,514.6	118,941.5	30,235.2	28,205.5	33,199.9	EV/EBITDA	3,153,856.8	511.8			
Investing cash flow	-234,654.9	-44,858.0	-169,764.8	-171,794.5	-170,800.1	P/E	3,182,507.2	516.4			
Borrowings/(repayments)	8,051.5	14,959.9	0.0	0.0	0.0	Blended fair value	3,283,184.2	532.7			
Equity changes	-143,280.7	-150,978.5	-155,608.9	-161,771.6	-184,881.8	Target price		525.0			
Other financing items	-1,814.3	-2,974.1	-8,175.7	-6,289.0	-6,289.0	Current price		386.4			
Financing cash flow	-137,043.5	-138,992.7	-163,784.6	-168,060.6	-191,170.9	Price return		35.9%			
Net change in cash	-14,358.7	-2,819.7	-13,663.8	49,943.8	41,879.1	Dividend return		6.5%			
Ending cash	56,274.3	53,454.6	39,790.8	89,734.5	131,613.6	Expected total return		42.4%			
Free cash flow	215,199.4	17,231.5	119,885.6	189,798.9	199,850.0	WACC		12.0%			

Source: Company, Emkay Research

Coal India: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,462,669	1,461,455	1,464,977	1,583,450	1,760,399
Revenue growth (%)	30.6	(0.1)	0.2	8.1	11.2
EBITDA	477,230	517,930	504,222	534,610	601,671
EBITDA growth (%)	76.9	8.5	(2.6)	6.0	12.5
Depreciation & Amortization	68,329	67,354	71,302	76,833	83,195
EBIT	408,901	450,576	432,920	457,777	518,475
EBIT growth (%)	81.4	10.2	(3.9)	5.7	13.3
Other operating income	106,244	119,983	114,052	124,539	140,698
Other income	0	0	0	0	0
Financial expense	12,304	13,992	13,451	11,801	11,818
PBT	432,746	488,126	449,704	474,182	539,858
Extraordinary items	0	0	0	0	0
Taxes	115,516	114,435	103,432	113,804	129,566
Minority interest	(403)	(332)	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	317,632	374,023	346,272	360,378	410,292
PAT growth (%)	83.0	17.8	(7.4)	4.1	13.9
Adjusted PAT	317,632	374,023	346,272	360,378	410,292
Diluted EPS (Rs)	51.5	60.7	56.2	58.5	66.6
Diluted EPS growth (%)	83.0	17.8	(7.4)	4.1	13.9
DPS (Rs)	24.3	25.5	25.3	26.3	30.0
Dividend payout (%)	47.1	42.0	44.9	44.9	45.1
EBITDA margin (%)	32.6	35.4	34.4	33.8	34.2
EBIT margin (%)	28.0	30.8	29.6	28.9	29.5
Effective tax rate (%)	26.7	23.4	23.0	24.0	24.0
NOPLAT (pre-IndAS)	293,384	336,141	329,488	343,973	388,909
Shares outstanding (mn)	6,162.7	6,162.7	6,162.7	6,162.7	6,162.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	432,746	488,126	449,704	474,182	539,858
Others (non-cash items)	(4,429)	(27,993)	(14,859)	(2,088)	(4,919)
Taxes paid	(97,497)	(117,267)	(103,432)	(113,804)	(129,566)
Change in NWC	26,519	(161,835)	(11,527)	31,509	(1,523)
Operating cash flow	357,340	181,031	319,886	389,799	403,850
Capital expenditure	(142,140)	(163,800)	(200,000)	(200,000)	(204,000)
Acquisition of business	(16,638)	(7,170)	0	0	0
Interest & dividend income	26,841	29,469	30,235	28,206	33,200
Investing cash flow	(234,655)	(44,858)	(169,765)	(171,794)	(170,800)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	8,052	14,960	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(2,974)	0	(8,176)	(6,289)	(6,289)
Dividend paid (incl tax)	(150,979)	0	(155,609)	(161,772)	(184,882)
Others	0	0	0	0	0
Financing cash flow	(145,901)	0	(163,785)	(168,061)	(191,171)
Net chg in Cash	(23,216)	0	(13,664)	49,944	41,879
OCF	357,340	181,031	319,886	389,799	403,850
Adj. OCF (w/o NWC chg.)	330,820	342,866	331,413	358,290	405,373
FCFF	215,199	17,232	119,886	189,799	199,850
FCFE	223,251	32,191	119,886	189,799	199,850
OCF/EBITDA (%)	0.7	0.3	0.6	0.7	0.7
FCFE/PAT (%)	0.7	0.1	0.3	0.5	0.5
FCFF/NOPLAT (%)	0.7	0.1	0.4	0.6	0.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	61,627	61,627	61,627	61,627	61,627
Reserves & Surplus	546,802	765,671	956,333	1,154,940	1,374,517
Net worth	608,429	827,298	1,017,961	1,216,567	1,436,144
Minority interests	7,707	8,521	8,521	8,521	8,521
Deferred tax liability (net)	(11,706)	(13,191)	(13,191)	(13,191)	(13,191)
Total debt	903,997	909,957	915,232	920,744	926,272
Total liabilities & equity	1,508,427	1,732,584	1,928,523	2,132,641	2,357,746
Net tangible fixed assets	772,219	876,887	1,070,962	1,256,645	1,438,348
Net intangible assets	49,475	69,399	69,399	69,399	69,399
Net ROU assets	0	0	0	0	0
Capital WIP	152,626	147,387	147,387	147,387	147,387
Goodwill	0	0	0	0	0
Investments [JV/Associates]	293,630	360,191	364,191	364,191	364,191
Cash & equivalents	399,217	302,352	282,055	331,999	373,878
Current assets (ex-cash)	681,620	736,482	743,082	719,534	725,281
Current Liab. & Prov.	687,734	612,725	601,166	609,127	613,351
NWC (ex-cash)	(6,114)	123,757	141,916	110,407	111,930
Total assets	1,508,427	1,732,584	1,928,523	2,132,641	2,357,746
Net debt	(358,155)	(246,180)	(225,883)	(275,827)	(317,706)
Capital employed	1,508,427	1,732,584	1,928,523	2,132,641	2,357,746
Invested capital	994,940	1,165,264	1,370,866	1,525,041	1,708,267
BVPS (Rs)	98.7	134.2	165.2	197.4	233.0
Net Debt/Equity (x)	(0.6)	(0.3)	(0.2)	(0.2)	(0.2)
Net Debt/EBITDA (x)	(0.8)	(0.5)	(0.4)	(0.5)	(0.5)
Interest coverage (x)	(0.1)	(0.1)	0.0	0.0	0.0
RoCE (%)	28.2	27.3	23.3	22.2	22.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	7.6	6.5	7.0	6.7	5.9
P/CE(x)	6.2	5.4	5.7	5.4	4.8
P/B (x)	4.0	2.9	2.4	2.0	1.7
EV/Sales (x)	1.6	1.7	1.7	1.5	1.3
EV/EBITDA (x)	4.3	4.2	4.4	4.0	3.5
EV/EBIT(x)	4.7	7.3	10.0	9.2	8.0
EV/IC (x)	1.9	2.8	3.2	2.8	2.4
FCFF yield (%)	11.4	0.7	5.0	8.0	8.4
FCFE yield (%)	11.8	1.4	5.0	8.0	8.4
Dividend yield (%)	6.2	6.5	6.4	6.7	7.6
DuPont-RoE split					
Net profit margin (%)	21.7	25.6	23.6	22.8	23.3
Total asset turnover (x)	1.0	0.9	0.8	0.8	0.8
Assets/Equity (x)	2.7	2.3	2.0	1.8	1.7
RoE (%)	61.1	52.1	37.5	32.3	30.9
DuPont-RoIC					
NOPLAT margin (%)	20.1	23.0	22.5	21.7	22.1
IC turnover (x)	2.1	1.6	1.3	1.2	1.1
RoIC (%)	31.2	31.1	26.0	23.8	24.1
Operating metrics					
Core NWC days	36.2	42.1	46.0	33.7	30.7
Total NWC days	(1.5)	30.9	35.4	25.4	23.2
Fixed asset turnover	2.1	1.8	1.5	1.4	1.3
Opex-to-revenue (%)	0.7	0.6	0.7	0.7	0.7

Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jan-25	386	600	Buy	Amit Lahoti
26-Oct-24	461	600	Buy	Amit Lahoti
01-Oct-24	509	600	Buy	Amit Lahoti
31-Jul-24	522	600	Buy	Amit Lahoti
03-May-24	475	550	Buy	Amit Lahoti
26-Mar-24	436	550	Buy	Amit Lahoti

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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