Coal India Ltd — Feb 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** CIL is capitalizing on a massive e-auction realization tailwind (100%+ premiums) and record offtake volumes, more than offsetting the lack of an FSA price hike and rising diesel costs.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Q3 EBITDA (7,049 Cr) and PAT (4,558 Cr) significantly exceeded street expectations driven by 18% offtake growth.	□
Earnings Quality	High (Core driven)	Performance driven by operational volume growth and realizations; receivables improved by 6,195 Cr since March.	□
Guidance Confidence	Strong	FY22 offtake target of 670 MT is highly achievable given YTD run-rate and Q4 seasonality.	□
Management Credibility	Strong	Management delivered on volume growth and aggressive capex execution (10,717 Cr 9M).	□
Business Quality Signal	Improving	Transition to mechanized evacuation (FMC) and closure of unviable UG mines is structurally lowering the cost base.	□
Key Q&A Exchange	Q2 + Price Hike	Mgmt admitted price hike is "urgent" but "unilateral decisions are not possible," highlighting the PSU regulatory overhang.	□
The Street's Primary Anxiety	Wage Provisioning	Analysts fear the 100 Cr/month wage provision is grossly inadequate compared to historical hikes.	□
Capital Cycle Stage	Investment	High capex phase (15k-17k Cr/year) focusing on evacuation infra to de-bottleneck production.	□
Margin / Return Ratio Trajectory	Improving	EBITDA margins expanded to 27% (Q3) from 25% (YoY) despite higher input costs.	□
Pricing Power	Expanding	Massive e-auction premiums (100%+) demonstrate strong demand-supply mismatch in favor of CIL.	□
FCF Conversion & Quality	Strong	Receivables liquidation (13,428 Cr vs 19,623 Cr Mar'21) has significantly bolstered the cash position.	□
Competitive Moat Signals	Stable	Monopoly position in domestic baseload fuel remains unchallenged; import substitution (thermal coal imports down 22%) is widening.	□
Balance Sheet Strength	Strong	Net cash of ~28,000 Cr; negligible debt (3,103 Cr).	□
Working Capital Efficiency	Improving	Net Receivables dropped 31.5% in 9 months.	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on volume growth targets despite COVID and monsoon disruptions.	□
Key Vulnerability / Red Flag	Cost Inflation	Diesel prices and pending wage negotiations (unions asking for 50% hike) are primary margin threats.	□
Management Tone	Confident	Chairman was candid, emphasizing operational records and urgency of pricing adjustments.	□

Key Takeaways:

Positives: * **Realization Tailwind:** E-auction premiums spiked to 103% in January (realizations ~2,500/t), which will flow into Q4 and Q1 FY23 earnings. * **Operational Excellence:** Highest ever 9M offtake (482 MT) and production (414 MT); well on track for ~670 MT offtake for FY22. * **Balance Sheet Cleanup:** Massive reduction in trade receivables (₹6,195 Cr) and a dividend-ready cash pile of ₹28,000 Cr+.

Negatives: * **Pricing Evasion:** Management remains unable to give a firm timeline for an FSA price hike, citing the need to "bring all stakeholders on board." * **Wage Overhang:** Provisioning of ₹1,200 Cr/year for wages appears optimistic if historical hike patterns (₹4k-5k Cr annual impact) repeat. * **Input Costs:** Diesel price hikes resulted in a ₹2,000 Cr hit in 9M; management warned this could worsen if international oil prices persist at $95-100/barrel.

Forward Watchpoint: Watch for the conclusion of wage negotiations in FY23; the gap between the current ₹100 Cr/month provision and the final agreement will be a major EPS swing factor.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q3 FY22)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Production Volume (MT)	163.8	+4.5%	+30.6%	↑	9M production at 414 MT (PPT). CMD expects FY22 to close at >630 MT.
Offtake Volume (MT)	173.8	+12.9%	+17.9%	↑	Highest ever 9M offtake (482 MT). Targeting 660-670 MT for full year.
Avg. Realization/ton (Total)	₹1,467	+3.0%	+1.9%	↑	Driven by higher e-auction premiums; January premiums hit 103%.
FSA Realization (₹/ton)	₹1,381 (9M)	+0.5%	N/A	→	Prices remain stagnant for 4 years; hike is "urgent."
E-Auction Realization (₹/ton)	₹1,695 (9M)	+13.9%	N/A	↑	Massive premium spike to ~₹2,500 in Jan'22 (Concall).
Revenue (₹ Cr)	₹28,434	+20.0%	+22.0%	↑	Growth driven by both Volume and Realization (e-auction).
EBITDA (₹ Cr)	₹7,049	+27.5%	+79.0%	↑	Margin expansion despite diesel cost headwind.
EBITDA Margin %	27%	+200 bps	+900 bps	↑	Operational leverage from high offtake volumes.
PAT (₹ Cr)	₹4,558	+47.6%	+55.4%	↑	Robust bottom line growth; EPS ₹7.40 vs ₹5.01 YoY.
ROCE (%)	43.1% (9M)	+1120 bps	N/A	↑	Based on 9M PBT/Net Worth (PPT).
Cash Flow (OCF) (₹ Cr)	Not in PPT	N/A	N/A	N/A	Receivables reduction of ₹6,195 Cr significantly aided cash.
Net Debt / (Cash) (₹ Cr)	(₹26,035)	+80.0%	N/A	↑	Cash pile of ₹29,138 Cr less ₹3,103 Cr debt.
Working Capital (Receivables)	₹13,428	-31.6%	-11.0%	↑	Substantial liquidation of dues from state discoms.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr) (9M)	YoY Growth	Realization (₹/t)	Trend	vs Company Avg	Key Development
FSA	₹53,885	+17.5%	₹1,381	→	Below Avg	Volume up 17% YoY; provides base load security.
E-Auction	₹14,094	+44.7%	₹1,695	↑	Above Avg	Premiums hitting 100%+ in Jan-Feb'22; massive tailwind.
Washed Coal	₹1,669	-16.8%	₹3,248	↓	Premium	Volume drop in non-coking washed coal; coking washed up 15%.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Volume (Offtake)	660-670 MT for FY22.	Needs 178-188 MT in Q4. Historically Q4 is strongest; feasible.	Delivered	Low
Guidance	Production	630-640 MT for FY22.	Needs 216 MT in Q4. This is aggressive (Q3 was 164 MT).	Mixed	High
Guidance	Capex	₹14,685 Cr (FY22).	Spent ₹10,717 Cr (9M). Needs ₹3,968 Cr in Q4. Fully feasible.	Delivered	Low
Strategy	Cost Control	5% annual manpower reduction for next 5-10 yrs.	On track; 11k reduction in current 9M (PPT data).	Delivered	Low
Strategy	Diversification	3GW Solar by FY24.	Early stages; only 190MW ordered. Needs rapid acceleration.	New	High
Strategy	Price Hike	"Price hike should take place immediately."	Dependent on Ministry approval; no quantified target given.	Missed	High
Macro	Import Substitution	Goal to replace all substitutable thermal imports.	Thermal coal imports down 22% (9M). Domestic supply filling gap.	Delivered	Low
Balance	Debt	Maintain near zero-debt status.	Current cash ₹29k Cr vs Debt ₹3k Cr.	Delivered	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Prashanth Kota, Dolat Capital	G1-G5 Pricing	Financials	Realization on high-grade coal vs international parity.	Management noted G1-G5 availability is low and mostly linked to NRS/ linkage auctions, preventing immediate price hikes despite high global rates. Premium realizations on these grades will only manifest when the broader price revision occurs, limiting near-term upside from global price spikes.	None	4.0	Directional clarity
2	5.0	Amit Dixit, Edelweiss	Wage Revision	Financials	Timing of wage negotiations and potential price hikes to offset costs.	Management stated negotiations are in the 3rd round and unlikely to conclude in 3-4 months, targeting FY23 end. The price hike is termed "urgent" and "imminent" to protect subsidiary survival, signaling a massive re-rating trigger if approved.	Firm timeline for price hike	3.0	Evasive on timeline
2a	3.5	Amit Dixit, Edelweiss	Receivables	Financials	Status of cash collections	Receivables dropped to 13,000 Cr in Jan and are	None	5.0	Specific & Quantified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					from state utilities.	expected to fall below 10,000 Cr by March end as states clear dues. This liquidates working capital into cash, supporting the liberal dividend policy.			
3	4.5	Rahul Jain, Systematix	FY23 Volume	Management Outlook	Sustaining growth without the benefit of opening stock liquidation.	Management expects 10% production growth in FY23 (target 700 MT) by maximizing the first quarter which was weak in FY22 due to COVID. High production growth is essential to sustain offtake as opening stocks have already been depleted by 60 MT.	None	4.0	Quantified target
4	5.0	Rahul Jain, Systematix	Wage Provisioning	Financials	Adequacy of the 100 Cr/month provision vs historical costs.	Management is providing 100 Cr/month but admitted this "may not be adequate" and provisions will increase in coming months. Under-provisioning suggests a likely earnings	Quantum of actual impact	2.5	Admitted inadequacy

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						"catch-up" hit in future quarters once the deal is signed.			
5	5.0	Rahul Modi, ICICI Sec	E-Auction Premium	Financials	Recent trends in auction pricing and NRS demand.	January premiums hit 103% (~₹2,500/t) and management expects February to stay in the same range with volumes >12 MT. This indicates a significant sequential jump in EBITDA/ton for Q4, providing a massive earnings buffer.	None	5.0	Quantified tailwind
6	4.5	Rahul Modi, ICICI Sec	Diesel Cost Impact	Financials	Impact of rising crude prices on the cost structure.	Diesel price hikes cost the company >₹2,000 Cr in 9M; further oil price increases will impact margins unless offset by volume/ price. This highlights the vulnerability of the mining cost structure to international energy inflation.	None	4.5	Specific cost impact
7	4.0	Murtuza Arsiwala, Kotak	Capex	Capex and Allocation	Full year and FY23 capex targets.	FY22 capex is seen at ₹15.5k-16k Cr, with FY23	None	5.0	Specific timeline

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						targeted at 17k Cr+ focused on evacuation. This heavy investment is the prerequisite for the 1 Billion Tonne production goal.			
8	4.0	Saket Kapoor, Kapoor Co	Buyback & Listing	Governance	Tax efficiency of buybacks and potential listing of subsidiaries.	Management is avoiding buybacks due to the 50% tax leakage but is considering listing CMPDI or BCCL depending on financial strength. Listing subsidiaries could unlock value for the holding company but remains a medium-term prospect.	None	3.5	Strategic intent
9	4.0	Pinakin, JPMorgan	Linkage Auction	Business Overview	Volume of coal sold under linkage vs spot auctions.	Linkage auction volume is ~100 MT/ year; anything where linkage has lapsed is pushed to e-auction. This structural shift towards e-auctioning lapsed linkages allows CIL to capture	Volume breakdown for Q3	3.0	Directional

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						higher market-driven prices.			
10	3.5	Satyan Wadhwa	Coking Coal	Business Overview	Plans to increase washed coking coal output.	Management clarified that Indian coking coal quality limits blending to 20-25% at steel plants, targeting 15-18 MT by 2030. This tempers expectations for a major import substitution play in the coking coal segment.	None	4.0	Realistic assessment
11	4.0	Kamlesh Bhagmar	FSA Realization	Financials	Lack of pricing growth over the last decade.	Management admitted FSA prices have only grown 6% in 9 years while costs spiked, emphasizing that pricing power is currently dormant. The dormant pricing power represents a coiled spring for future valuation re-rating.	None	3.0	Strategic admission

PATTERN FLAGS & SENTIMENT

Theme Clusters: * **Pricing Anxiety:** Analysts are hyper-focused on the FSA price hike. Management's posture is defensive yet urgent; they are clearly pushing for it but are constrained by the Ministry of Coal/Power. The concern remains live as costs (diesel/wages) continue to climb. * **E-Auction Optimism:** The 100%+ premium in Jan/Feb was the highlight. This resolved concerns about whether CIL could monetize the global coal shortage. * **Wage Hike Skepticism:** Analysts are not convinced by the 100 Cr/month provision. This topic generated significant friction and will likely result in a sharp provisioning spike in Q4 or FY23.

Analyst Sentiment Verdict: The overall sentiment was **Positive but Skeptical on Costs.** Analysts were pleasantly surprised by the e-auction premiums and receivable liquidation but remain hostile toward the lack of an FSA price hike. Management's credibility on operational execution is at an all-time high, but the "PSU discount" persists due to the opaque pricing timeline. The single greatest risk remains the wage negotiation outcome exceeding current provisions.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Wage Provisions	Provisioning is being done.	₹100 Cr/month "may not be adequate."	Admission that provisions are likely significantly below the final impact.	Margin compression risk in FY23.
Price Hike Timing	"Very urgent/ Imminent."	"Cannot tell when it will happen."	No firm commitment on timeline despite cost pressures.	Earnings growth dependency on e-auctions.
Solar PLI	Bidding for PLI.	Out of the first ₹4,500 Cr list; now hoping for the next tranche.	Initial exclusion from PLI benefits.	Slower execution of clean energy transition.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — treated as baseline quarter for tracking.

What Changed	Prior Quarter	This Quarter	Direction
E-Auction Premium	Not available	**103% (Jan'22)**	↑
Receivables Balance	₹19,623 Cr (Mar'21)	₹13,428 Cr	↑
Dividend Yield	Not available	1st+2nd Interim declared	→
Wage Provisioning	Nil	₹100 Cr / Month (from July)	↓
Offtake Momentum	Not available	17.6% 9M Growth	↑