Coal India Ltd — Sep 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** CIL is currently an "earnings machine" where hyper-elevated e-auction premiums (up 176% YoY) are providing a massive margin cushion against rising input costs and a stagnant FSA pricing regime.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Q1 EBITDA (□12,779 Cr) and PAT (□8,834 Cr) surged 142% and 178% YoY respectively, far exceeding conservative street estimates.	□
Earnings Quality	High (Core driven)	Growth is purely operational, driven by 26% growth in average realizations and 11% offtake volume growth.	□
Guidance Confidence	Strong	Management remains firm on the 700 MT production target for FY23; Q1 run-rate (160 MT) is seasonally the weakest, making the target highly feasible.	□
Management Credibility	Strong	Successfully navigated the peak summer power crisis with record production; delivering on First Mile Connectivity (FMC) and rail infrastructure timelines.	□
Business Quality Signal	Improving	Structural shift towards higher e-auction realizations and a decreasing headcount (5% annual attrition) is improving the long-term cost-to-output ratio.	□
Key Q&A Exchange	Q5 + Windfall Taxes	Management dismissed risks of windfall tax on e-auction profits, noting that 90% of supply remains at regulated, low-margin FSA rates.	□
The Street's Primary Anxiety	Wage Provisioning	Analysts are concerned the □150 Cr/month provision is insufficient; Mgmt admits the total impact is unknown until negotiations conclude.	□
Capital Cycle Stage	Harvesting / Investing	Generating massive cash flows to fund a □16,500 Cr annual capex and maintain a high dividend payout policy.	□
Margin / Return Ratio Trajectory	Improving	EBITDA margins expanded to 39% in Q1 FY23 from 23% in Q1 FY22 due to realization tailwinds.	□
Pricing Power	Dormant (FSA) / Strong (E-Auction)	Pricing power on 90% of volumes (FSA) remains politically constrained; e-auction premiums of 300% provide a market-driven proxy for true value.	□
FCF Conversion & Quality	Distorted (Temporary)	Cash and Bank balances reached □35,599 Cr, but receivables ticked up □2,796 Cr during the power crisis; Mgmt expects normalization by Oct.	□
Competitive Moat Signals	Stable	Unchallenged monopoly in domestic baseload fuel; import substitution remains the primary growth lever.	□
Balance Sheet Strength	Strong	Net Cash position of □32,019 Cr (Total Cash - Borrowings); provides massive dividend visibility.	□
Working Capital Efficiency	Stable	Receivables grew to □14,164 Cr due to emergency supply mandates to state GENCOs; liquidation focus returns in H2.	□
Mgmt Guidance Track Record	Reliable	Consistent volume delivery; however, 1 Billion Tonne target is realistically pushed from FY24 to FY26.	□
Key Vulnerability / Red Flag	Cost Inflation	Diesel and explosive prices remain elevated; any sharp correction in global coal prices would expose the high fixed-cost base.	□
Management Tone	Confident & Realistic	Chairman Agrawal was bullish on demand longevity (15-20 years) but realistic about the timeline for 1BT and diversification.	□

Key Takeaways:

Positives: * **Realization Super-cycle:** E-auction realizations hit ₹4,340/t (vs ₹1,569 YoY), effectively decoupling CIL's profitability from its stagnant ₹1,443/t FSA price. * **Operating Leverage:** Record Q1 production (160 MT) allowed for massive absorption of fixed costs; Employee expense as a % of revenue dropped significantly despite higher provisions. * **Infrastructure De-bottlenecking:** Critical rail links (Angul-Balram, Tori-Shivpur 3rd line) are nearing completion, which is the prerequisite for the next leg of volume growth.

Negatives: * **Wage Overhang:** The gap between the current ₹150 Cr/month provision and the eventual union settlement remains the primary risk to FY23/24 earnings. * **Input Pressure:** Cost of materials consumed rose 66% YoY, driven by diesel and explosive price hikes. * **Diversification Lag:** Solar and Alumina ventures remain in early "drawing board" or bidding stages, offering no near-term hedge to the coal business.

Forward Watchpoint: The conclusion of the National Coal Wage Agreement (NCWA) XI will be the defining "bottom-line" event for the next four quarters; any provision catch-up could temporarily impact quarterly PAT.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q1FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Production Volume (MT)	159.8	+28.9%	-23.5%	↑	Highest ever Q1 production. YoY growth driven by massive power demand and import substitution.
Offtake Volume (MT)	177.6	+10.8%	-14.9%	↑	Seasonal QoQ dip; YoY growth driven by 19% increase in power sector supplies (152.5 MT).
Realization - FSA (₹/t)	1,442.67	+3.5%	+4.5%	→	Improvement driven by better grade mix and high-grade dispatches from ECL/BCCL.
Realization - E-Auction (₹/t)	4,339.97	+176.6%	+78.3%	↑	Driven by global energy crisis; premiums currently reaching 300% in some auctions.
Revenue (₹Cr)	35,092.17	+38.8%	+6.8%	↑	Revenue growth purely realization-driven as offtake volumes were slightly lower QoQ.
EBITDA (₹Cr)	12,779.00	+142.1%	+33.8%	↑	Massive margin expansion due to high-margin e-auction volumes.
EBITDA Margin %	39%	+1600 bps	+800 bps	↑	Operational leverage peaked this quarter; realizations outpaced cost inflation.
PAT (₹Cr)	8,834.22	+178.3%	+32.1%	↑	Highest ever quarterly PAT.
ROCE (%)	Not in PPT	-	-	-	PPT mentions Net Worth of ₹52,538 Cr.
Net Debt / (Cash) (₹Cr)	(32,019)	+23%	+23%	↑	Cash & Bank balances at ₹35,600 Cr vs Borrowings of ₹3,625 Cr.
Opex/t (Raw Coal)	1,291	+12.6%	+14.2%	↓	Increased costs of diesel and explosives offset by higher production volume.

2B. SEGMENT BREAKDOWN

Segment	Net Sales (₹Cr)	YoY Growth	Avg Realization (₹/t)	Trend	vs Company Avg	Key Development
FSA	22,188.14	+24.9%	1,442.67	→	Below Avg	Supplies to power sector prioritized; volume up 20.6% YoY.
E-Auction	9,074.65	+91.6%	4,339.97	↑	High Premium	Volume dropped 30.7% YoY as coal was diverted to meet FSA power mandates.
Washed Coal (Coking)	517.92	+167.1%	10,678.74	↑	Premium	Volume grew 81.5% YoY; BCCL production rebounding.
Washed Coal (Non-Coking)	317.89	-4.9%	2,284.84	↓	Above Avg	Volume fell 16.3% YoY; low demand from non-power for washed coal.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Production	700 MT for FY23.	Needs 180 MT/qtr for remaining 9 months. Feasible given Q4 peak seasonality (>200 MT).	Reliable	Low
Guidance	Capex	₹16,500 Cr for FY23.	Spent ₹3,034 Cr (18%). Needs ₹4,488 Cr/qtr. Q4 usually sees a capex spike.	Reliable	Low
Guidance	E-Auction Volume	80-90 MT for FY23.	21 MT achieved in Q1. Needs 20-23 MT/qtr. Feasible if power demand moderates in H2.	Mixed	Medium
Strategy	Manpower	5% annual reduction.	On track; Manpower down from 2,48,550 (Apr) to 2,45,764 (July).	Reliable	Low
Strategy	Evacuation	FMC Ph-I complete FY24.	6 of 35 projects commissioned; 29 in progress. Heavy backend loading.	Reliable	Medium
Strategy	1 BT Target	Achieve 1 Billion Tonnes by FY25/26.	Needs 100 MT+ annual increments from FY24. Highly aggressive; depends on MDO success.	Delayed	High
Macro	Price Hike	"Trying for wage compensation" via price hike.	Dependent on Govt approval; unlikely in high inflation environment.	Missed	High
Balance	Receivables	Normalization by Oct'22.	Current ₹14k Cr. Needs ~₹4k Cr reduction to hit Mar-22 levels.	Mixed	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Amit Dixit, Edelweiss	Wage Provisions	Financials	"Could you please throw some light on the possible quantum of increase that you would provide for [wages]?"	Management is providing ₹150 Cr per month (up from ₹100 Cr earlier) but cannot commit to the final impact until negotiations conclude. Inadequate provisioning poses a risk of a "catch-up" earnings hit in future quarters.	Final quantum of impact.	2.0	Evasive Live ris
2	4.5	Amit Dixit, Edelweiss	E-Auction	Financials	"What kind of number can we expect in terms of realization in this quarter and going ahead?"	Realizations remain high at ~₹4,500/t (300% premium) and volume is expected to reach 80-90 MT for the full year. High market premiums will continue to buffer bottom-line even as power demand takes priority.	None	4.0	Clear tailwind
3	4.0	Vishal Chandak, Motilal Oswal	Railway Infra	Capex and Allocation	"What would be the current status of the expansion [Tori-Shivpur and Jharsuguda-Sardega]?"	Tori-Shivpur 3rd line and Jharsuguda-Sardega doubling are targeted for completion by March 2023. Successful completion will significantly de-bottleneck MCL and CCL evacuation capacities.	None	4.5	Specific timeline
4	4.5	Vishal Chandak, Motilal Oswal	1 BT Target	Management Outlook	"How soon can we plan to realistically approach a full	Realistic target is FY25 (>900 MT) or FY26 (1 BT) as the	None	3.5	Realisti reset

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					year production of 1 billion tonnes?"	company lost two years to COVID. The 1 BT target is a "stretch goal" dependent on MDO execution and land acquisition.			
5	5.0	Pinakin Parekh, JPMorgan	Policy Risk	Management Outlook	"Are there any risks to the e-auction prices or volume in terms of potential policy action [windfall taxes]?"	Management dismissed windfall tax risks, arguing that 90% of supply is at non-profitable FSA rates, providing no basis for such taxes. Regulatory intervention on pricing remains the primary "PSU discount" factor for the stock.	None	4.0	Policy clarity
6	4.0	Pinakin Parekh, JPMorgan	Receivables	Financials	"What has driven [the □3,500 Cr increase in receivables]?"	Increased receivables resulted from prioritizing supply to state GENCOs during the power crisis; Mgmt expects strict control and reduction from October onwards. Working capital bulge is temporary and doesn't threaten the dividend floor.	None	4.0	Tempor bulge
7	3.5	Sanjay Parekh, Soham	Realization Gap	Business Overview	"What is the discount today on e-auction versus imported coal?"	Even at □10,000-11,000/t for G5 coal, CIL remains at or slightly	Specific research data.	3.0	Directi

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						below international parity, ensuring continued demand for e-auction volumes. Competitive pricing ensures e-auction remains the primary margin driver.			
8	3.0	Sanjay Parekh, Soham	Coking Coal	Business Overview	"For coking coal, over three to five years, what sort of volumes can we get?"	Self-sufficiency is difficult due to coal quality (blending limits of 25%); focus is on increasing washing capacity to 15-18 MT by 2030. Coking coal remains a small but high-value segment with limited import substitution potential.	None	4.0	Pragma outlook
9	3.5	Sanjay Parekh, Soham	Diversification	Capex and Allocation	"What is the payback threshold for us to invest in [Alumina/ Solar]?"	Projects must meet a minimum 12% Project IRR threshold; Solar for self-consumption offers much higher returns. Guardrails on IRR protect against value-destructive diversification.	None	4.0	Discipli IRR
10	3.5	Kamlesh Bagmar, Lotus	Level Playing Field	Business Overview	"All these coal mines which would be coming [captive] would be enjoying [no compensation cess] benefit?"	Captive mines won't compete directly as they pay high auction premiums; CIL holds the best	None	3.0	Logical defense

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						mines and passes cess costs to consumers anyway. Competitive threat from commercial mining is largely mitigated by CIL's superior geology.			
11	3.5	Vipul Shah	Productivity	Management Outlook	"What percentage of that portion [retirees] is employed in underground mining?"	A higher percentage of retirees come from UG mines (which employ 1 lakh people but produce <5%); this naturally improves CIL's overall productivity mix. Attrition in UG mines is a structural tailwind for cost reduction.	Exact UG retiree %	3.0	Directic
12	4.0	Atul Jain	FSA Pricing	Financials	"Why aren't we able to achieve [price hikes]?"	High current profitability makes a price hike politically unfeasible in an inflationary environment, despite the "urgent" need to offset costs. Dormant pricing power remains the stock's greatest "unlocked" value.	Firm hike timeline	2.0	Evasive Policy
13	4.0	Amit Dixit, Edelweiss	SECL Performance	Business Overview	"SECL has been an underperformer... are there some	Land acquisition and village relocation issues in Dipka/	None	4.0	Operati fix

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdic
					specific issues there?"	Kusmunda mines are being resolved; production expected to rebound strongly from October. SECL's recovery is critical for CIL to hit the 700 MT annual target.			
14	3.5	Mohit Kumar, DAM Cap	MDO Costing	Financials	"What is your cost of production under the new MDO contract... how does this compare?"	MDO costs are 10-15% higher than CIL's own extraction but offer volume certainty and lower execution risk. MDO model is a trade-off: higher opex for guaranteed production growth.	None	4.0	Clear trade-o
15	3.5	Nilendra Sinha	Evacuation	Management Outlook	"How confident you are... if the evacuation projects... get delayed?"	Existing lines can handle 700 MT; new projects like Angul-Balram (Oct'22) and signaling upgrades provide capacity for next year's growth. Volume growth is currently not constrained by rail capacity for FY23.	None	4.0	Infra comfor

PATTERN FLAGS & SENTIMENT

- **Wage Provisioning Anxiety:** This is the most consistent friction point. Analysts believe management is significantly under-provisioning for the NCWA XI settlement (providing ~□1,800 Cr/year vs market expectations of much higher impacts). Management's posture is defensive, choosing to wait for a final agreement before taking the full P&L hit. This remains a "live" risk for H2 FY23.

- **Pricing Power vs. Political Sensitivity:** Analysts repeatedly probed for an FSA price hike. Management was candid in admitting that record profits make it "unfeasible" to demand hikes from the government right now. This confirms that CIL's pricing is currently a function of political optics rather than economics.
- **Infrastructure Credibility:** Unlike previous years, there was less skepticism about evacuation. Management's specific updates on Tori-Shivpur and Jharsuguda-Sardega suggest a visible roadmap to de-bottlenecking, which analysts largely accepted.

Analyst Sentiment Verdict: The sentiment was **Overwhelmingly Positive on Earnings, Cautious on Sustainability.** Analysts were stunned by the Q1 beat but focused heavily on the "cost catch-up" (wages and fuel). Management's credibility has improved regarding operational execution, but the persistent lack of an FSA hike timeline keeps the "PSU discount" firmly in place. The greatest unresolved risk is the wage settlement quantum.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (PPT / Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
1 BT Target	Reiterate goal for 1 Billion Tonnes.	Target realistically pushed to FY26.	2-year delay vs original timeline.	Volume growth CAGR will be lower than earlier 1 BT projections.
Wage Provisions	Provisions are being made (₹150 Cr/mo).	Total impact is currently unquantifiable.	Admission of uncertainty; current provisions may be low.	Potential for a large one-time earnings hit in FY23/24.
FSA Price Hike	Necessary/Urgent.	Unfeasible to implement in the current high-profit/inflation environment.	Strategic pause on price hikes.	Earnings growth is entirely dependent on global coal prices (E-Auction).

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3FY22)	This Quarter (Q1FY23)	Direction
E-Auction Realization	₹1,695 / tonne (9M)	**₹4,340 / tonne**	↑
EBITDA Margin	27%	**39%**	↑
Wage Provisioning	₹100 Cr / month	**₹150 Cr / month**	↓ (Higher Cost)
Receivables Balance	₹13,428 Cr	**₹14,164 Cr**	↓ (Working Cap)
Volume Target (FY)	670 MT (Offtake)	**700 MT (Production)**	↑
1 BT Timeline	FY24/25 Target	**FY25/26 Realistic**	↓ (Delayed)
Cash Position	₹29,138 Cr	**₹35,599 Cr**	↑
FSA Realization	₹1,381 / tonne (9M)	**₹1,443 / tonne**	↑ (Grade Mix)

- **Working Capital Lever:** The divergence between record PAT (₹8.8k Cr) and a slight increase in receivables (₹2.8k Cr QoQ) indicates that cash conversion was hampered by emergency state utility supplies. However, the ₹6.4k Cr jump in Cash/Bank balances confirms that e-auction cash flows are more than offsetting the FSA credit extensions.