Mahanadi Coalfields

Lowest-cost base in Indian coal; Volumes driving the earnings turn

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Metals & Mining | IPO Note | November 18, 2026

Price Band (Rs): 129 – 136

We recommend SUBSCRIBE to the Mahanadi Coalfields (MCL) IPO, given its position as India's lowest-cost large-scale coal producer, its long reserve life, and its strong cash generation. MCL accounted for 21% of India's coal production in FY26, with ~9.8bn tonnes of reserves (~45 years of production) and the lowest cost of production among Coal India's (CIL) subsidiaries. This supported a 41.7% EBITDA margin, against 27.8% for CIL. Earnings momentum has improved, with H1FY27 Revenue and EBITDA growing 9.3% and 7.7% YoY on 8.3% higher dispatches. Thermal power still accounts for ~70% of India's electricity generation, and non-coking coal demand is expected to keep growing until FY36, which in our view gives MCL a long runway to meet demand. At the upper band of Rs 136, MCL is valued at ~8.4x FY26 P/E and ~5.5x FY26 EV/EBITDA, implying a market capitalisation of ~Rs 900bn.

Resilient FY26 despite softer realisations

FY26 production eased 3.0% YoY to 218.3mt while dispatches held at 211.4mt, flat YoY. Revenue declined 2.6% to Rs 305.5bn, as FSA realisation slipped to Rs 1,354/t from Rs 1,384/t and non-FSA volumes fell to 29.7mt from 33.8mt, although non-FSA realisation held at Rs 1,797/t. EBITDA declined 6.7% to Rs 127.4bn (margin 41.7% vs 43.6%). Other income doubled to Rs 33.5bn, keeping PAT broadly flat at Rs 107.0bn (-1.2% YoY).

Earnings momentum building through H1FY27

H1FY27 revenue grew 9.3% YoY to Rs 160.9bn, EBITDA grew 7.7% to Rs 64.5bn and PAT 6.7% to Rs 48.8bn. Coal offtake rose 8.3% to 111.2mt, with non-FSA volumes up 23% to 16.0mt at Rs 1,774/t (+8.9% YoY), while FSA realisation was flat at Rs 1,368/t. Production was 87.5mt (-9.3% YoY), as MCL liquidated pit-head stock built in FY26; inventory fell to Rs 12.6bn from Rs 22.4bn at Mar-26.

Fixed-cost base gives volumes strong operating leverage

Coal mining is largely a fixed-cost business: employee costs alone were Rs 47.2bn in FY26 (15.5% of total income). NCWA-XI expired in Jun'26, and H1FY27 already carries an estimated provision for NCWA-XII from Jul'26, yet operating EBITDA still grew 7.7% YoY. In our view, sustained volume growth should largely offset the impact of the wage revision, subject to the final settlement being in line with the provision.

E-auction premiums are tied to domestic demand, which has been firm

FSA volumes (86% of FY26 dispatch) are sold at notified prices of ~Rs 1,354-1,368/t. Non-FSA sales carry a ~30% premium to FSA prices, and their share of sales rose to 17.9% in H1FY27 from 14.7%. We believe e-auction premiums would track domestic coal demand, which has been strong in H1FY27, as reflected in higher dispatches and auction volumes.

Cash generation supports a high, stable payout

MCL paid dividends of Rs 86.0bn/Rs 76.5bn in FY25/FY26 (~72-79% of PAT), above the DIPAM floor of 30% of PAT or 4% of net worth. Cash and bank balances stood at ~Rs 203bn at Sep-26 against negligible borrowings, while capex was Rs 29.3bn in FY26.

Key Risks

Regulated pricing and policy intervention by the majority shareholder; dependence on thermal power (68.6% of FY26 sales); softer e-auction premiums if power demand weakens; a wage hike revision above the provision; and long-term coal demand, expected to peak around FY36.

Company Background

Incorporated in 1992 and headquartered in Sambalpur, Odisha, MCL is a wholly owned subsidiary of CIL and the largest single coal producer in India, accounting for ~21% of domestic coal production in FY26. The company operates opencast and underground mines across the Talcher and IB Valley coalfields, which together hold audited reserves of 9,840mt, sufficient for around 45 years of production at current levels. Operations are highly mechanised, with ~99.8% of output from opencast mines. MCL produces various grades of non-coking coal along with a washery that produces washed coal for select customers. Coal is sold through long-term fuel supply agreements (FSA) and e-auctions to customers across 16 states, supported by a rail-led evacuation network with port connectivity as well.

Issue Details	
Issue Opens	November 19, 2026
Issue Closes	November 23, 2026
Type of Issue	100% Book Built Offer- Total 661.8mn (OFS)
Face Value (Rs)	2
Price Band (Rs)	129 – 136
Bid Lot / Bid Size	110 shares / Rs 14,960
Issue Size at upper price band (Rs bn)	90.0
Market Cap at upper price band (Rs bn)	900.0
Issue Structure	QIB- 50%, NII- 15%, Retail- 35%
BRLMs	SBI Capital Markets, Axis Capital, BOB Capital Markets, IDBI Capital Markets & Securities, IIFL Capital Service etc.
Registrar	KFin Technologies Ltd

Shareholding Pattern (%)	Pre-Issue	Post-Issue
Promoter	100.0	90.0
Public	NA	10.0

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Deep reserves, opencast mining, and a turn in dispatch momentum

Mining operations: scale, geology, and evacuation

- **Two contiguous coalfields with ~45 years of reserves:** Audited reserves stood at 9,840mt as of Apr'26 (Talcher 5,429mt; IB Valley 4,411mt), almost entirely in the proved category, limiting exploration and acquisition risk.
- **Opencast-led production keeps unit costs low:** 99.9% of FY26 production came from opencast mines, with a stripping ratio of 1.50 cu m/t in FY25-26 and 1.31 in H1FY27. Underground mines contribute only 0.15% of output.
- **Production built a buffer in FY25-26, now being drawn down:** Production rose to 225.2mt in FY25 and was 218.3mt in FY26, ahead of dispatch of ~210.0mt in both years. H1FY27 production of 87.5mt reflect stock liquidation and seasonal monsoon impact; H2 is typically the stronger half. We view a pick-up in H2FY27 production as the key operational monitorable.
- **Rail-led evacuation widens the market:** Integrated rail evacuation and port connectivity reduce road dependence and lower customer logistics costs, supporting supply to customers across 16 states in FY26.

Pricing and demand: realisation mix is improving

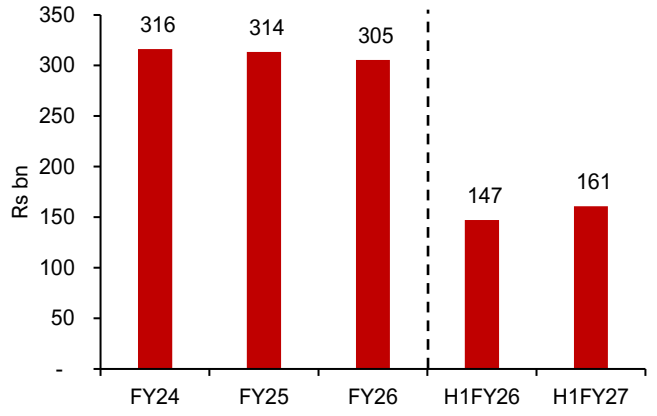
- **FSA realisation has stabilised:** FSA sales (95.3mt in H1FY27) realised Rs 1,368/t, flat YoY, after Rs 1,354/t in FY26. Flexi/premium linkage supply to power stations at a 40% premium to notified prices provides an additional lever.
- **Non-FSA sales are rising in both volume and price:** E-auction and other sales rose to 16.0mt in H1FY27 from 13.0mt, at Rs 1,774/t vs Rs 1,630/t. In our view, firm domestic demand from power and non-regulated sectors supports this trend, subject to monsoon-related disruptions and inventory levels at power plants.

Valuation: cash-adjusted multiples appear undemanding relative to quality

- **Returns well above the parent and peers:** MCL's FY26 RoNW of 53.8% compares with 27.8% for CIL (which consolidates MCL), and 23.4% for NMDC.
- **Large cash pile lowers the effective multiple:** At the price band of Rs 129–136, MCL is valued at 8.0–8.4x FY26 P/E, a modest premium to CIL's 8.1x, and a market capitalisation of Rs 854–900bn. Adjusting for cash, bank balances and investments of Rs 202.9bn as of Sep'26 (~23–24% of market cap), the issue is priced at 5.1–5.5x FY26 EV/EBITDA. In our view, these multiples appear attractive relative to MCL's return ratios and cost leadership.
- **Dividend support at the issue price:** FY26 dividends of Rs 76.5bn translate into ~Rs 11.6/share, implying a yield of 8.5–9.0% across the price band. We believe this provides downside support, even if e-auction premiums soften.
- **Overhang and governance:** CIL would hold 90% post-OFS, and further stake sales cannot be ruled out over time to meet minimum public shareholding norms. Pricing resets, wage revisions, and capex allocation remain linked to parent (CIL) and government policy.

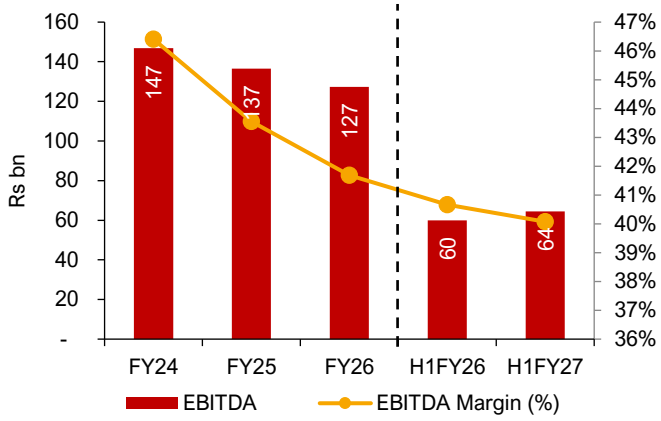
Story in Charts

Exhibit 1: Revenue picks up on the back of strong volumes



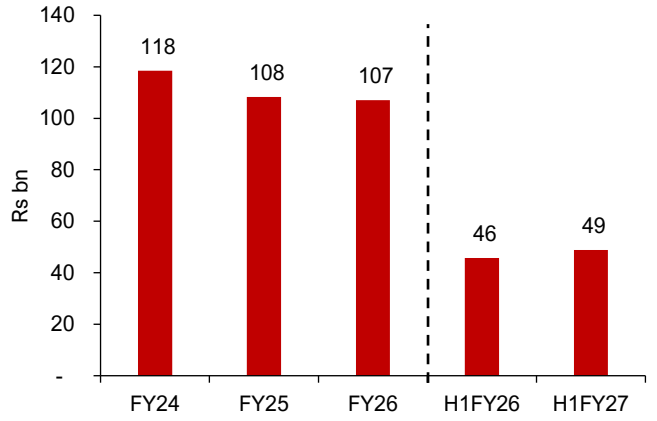
Source: Company, RHP, ABM Research

Exhibit 2: EBITDA margins follow realization trends



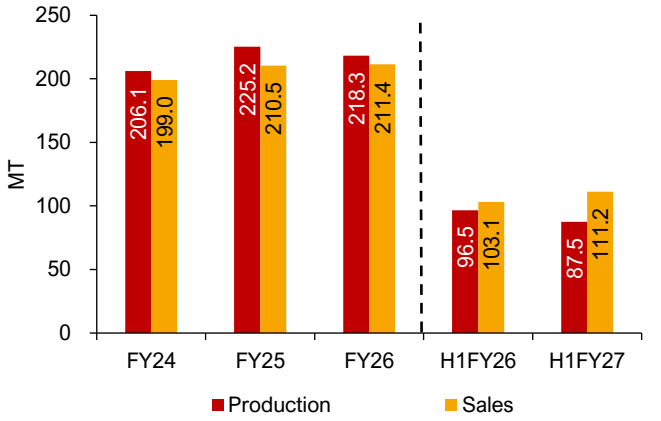
Source: Company, RHP, ABM Research

Exhibit 3: PAT remains consistent for the last 3 years



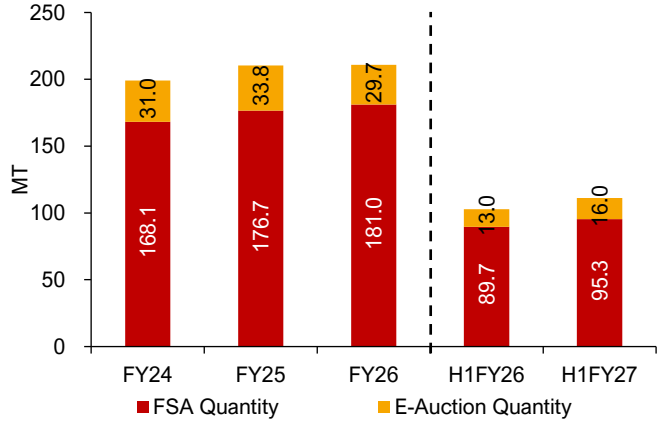
Source: Company, RHP, ABM Research

Exhibit 4: Operational performance



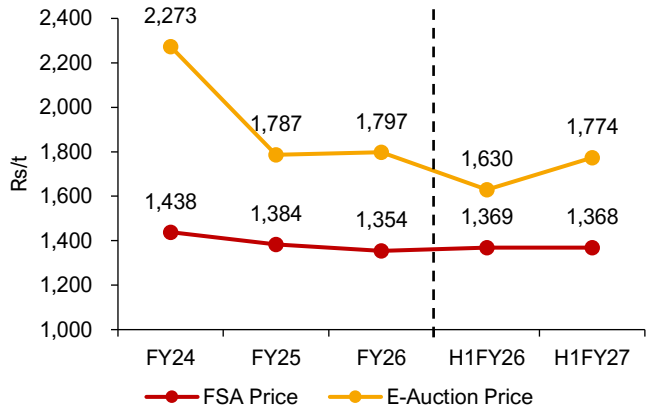
Source: Company, RHP, ABM Research

Exhibit 5: FSA vs E-Auction quantity split



Source: Company, RHP, ABM Research

Exhibit 6: FSA vs E-Auction pricing differential



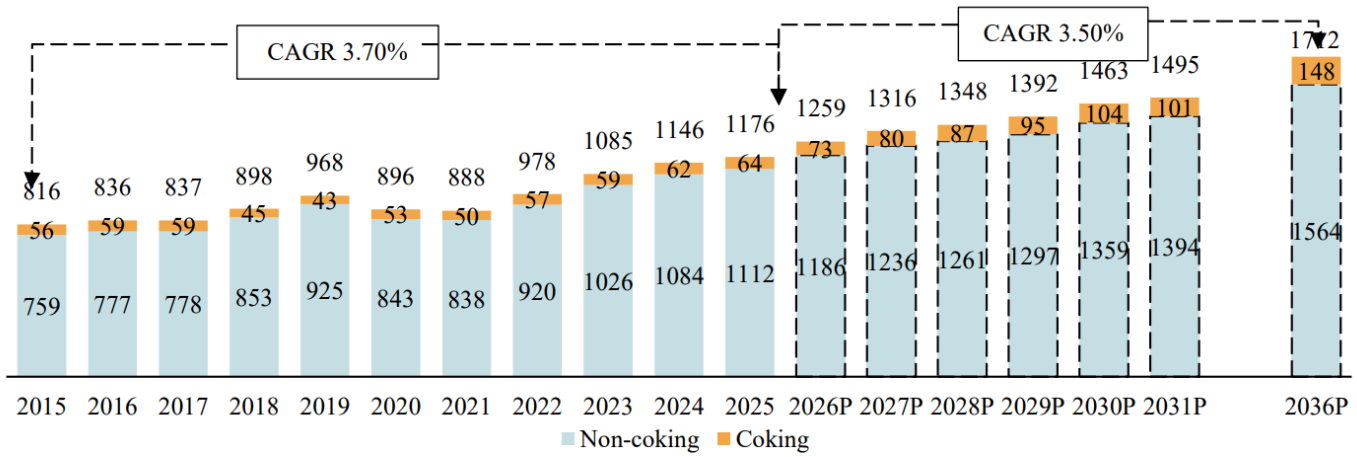
Source: Company, RHP, ABM Research

Exhibit 7: Peer Comparison (FY26)

Company	Revenue (Rs mn)	EBITDA Margin (%)	PAT (Rs mn)	EPS (Rs)	P/E (x)	RoCE (%)
MCL	305,496	41.7	106,981	16.1	8.4	73.3
CIL	1,684,003	24.9	310,706	50.5	8.1	36.3
BCCL	136,448	-3.62	1,283	0.3	-	5.0
NMDC	320,709	28.9	74,147	8.5	8.1	32.2
GMDC	26,534	36.4	9,567	30.1	23.3	18.3
MOIL	14,728	28.2	2,675	13.1	14.5	12.6

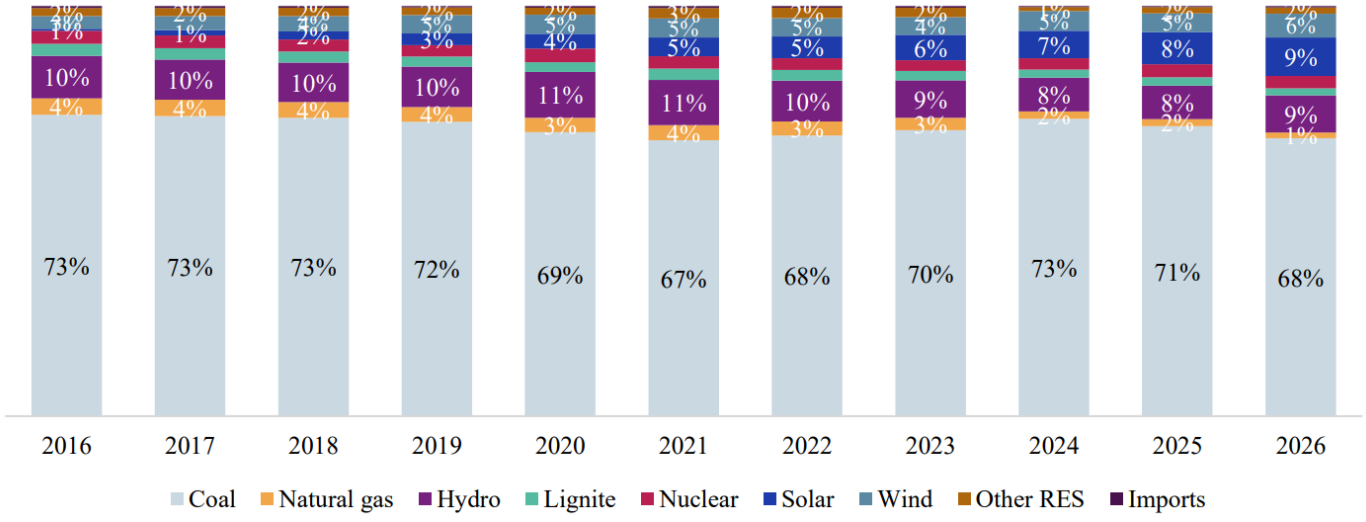
Source: Company, Bloomberg, ABM Research

Exhibit 8: Coal demand in India



Source: Company, RHP, ABM Research

Exhibit 9: Power generation share from different sources (%)



Source: Company, RHP, ABM Research

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