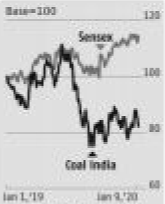
CIL: No pressure from new players, but outlook stays weak

Govt's plan to sell stake remains an overhang



Compiled by BS Research Bureau

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The government's nod to the ordinance, which allows other players to mine coal for open-market sales, impacted the stock of Coal India negatively on Wednesday. Despite the benchmark indices seeing good recovery at the close of the trading, the Coal India (CIL) stock was down 3.7 per cent over the last couple of sessions, while the Sensex gained about 1.4 per cent.

The latest development has only worsened sentiment, with a likely negative business impact for CIL, which has already reported dismal volumes for the first nine months of 2019-20 (FY20) during which production and offtake reduced around 6 per cent each.

First, the good in the bad. While there is bound to be an impact in the long term, the development is unlikely to hurt CIL anytime soon and a large part of its sales also remains protected. According to Vineeta Sharma, head (research) at Narnolia Financial Advisors: "Large portion of CIL's business is under long-term fuel supply agreement (FSA), which would not see much impact." Of the total volumes of over 600 million tonnes, in 2018-19, over 85 per cent was under FSA. The remaining 15 per cent and incremental volumes are the ones at risk. Further, an analyst from a domestic broking house believes that new players would take at least five-six years to start production.

VOLUME PERFORMANCE

Figures in million tonnes

For the month	Dec '18	Dec '19	YoY chg (%)
Production	54.14	58.02	7.2
Offtake	52.61	53.63	1.9

Year-to-date	Apr-Dec '18	Apr-Dec '19	YoY chg (%)
Production	412.44	388.41	-5.8
Offtake	444.63	417.26	-6.2

YoY: Year-on-year   Source: Company

Having said that, there is nothing very encouraging about CIL's near-term outlook as production and off-take growth for FY20 as well as 2020-21 (FY21) is expected to be dismal. Although December's performance was better, the volumes (production and offtake) are unlikely to get material push unless the power sector picks up sharply, cautions Sharma.

For FY20, volumes are expected to fall by 3-5 per cent. The only solace is that this lower base would make FY21 volume growth look a little better. Additional pain would stem from weak international coal prices, impacting realisations of CIL's e-auction business, which earns higher margin, compared to FSA-based coal supplies. Some support from non-power segment is not ruled out though.

The government's plan to sell any stake remains an overhang for the stock. In fact, with lower tax revenue of the government, stake sale target by the government is likely to increase, say analysts.

The stock is unlikely to see a sharp upside despite attractive valuations of around 4x the enterprise value to Ebitda and a high dividend payout ratio.