Blow to metal companies with captive blocks post Supreme Court order on coal allocation

Megha Mandavia & Rakhi Mazumdar, ET Bureau Aug 26, 2014, 04.00AM IST

(In the immediate aftermath...)

KOLKATA, MUMBAI: The Supreme Court ruling on coal block allocations since 1993 is likely to deal a heavy blow to metal sector companies. In the immediate aftermath of the SC ruling, analysts expect the sector to rely more on coal imports and expect imports to shoot up nearly 50%.

The steel sector, which accounts for some 60% of all captive coal blocks allocated to private companies, stands to risk thousands of crores of investment in predevelopment of these blocks.

"Captive coal blocks account for about 10% of total coal production which is quite significant. If that comes to a standstill our coal imports could shoot up by 50%. This is a potential risk as the judgement considers captive allocation illegal, and companies may play safe to cease production until the situation is resolved or they are allowed to produce in public interest in the meantime," Kameswara Rao, executive director (Metal, Utilities & Mining) at PwC said.

The immediate impact on iron and steel sector, however, could be somewhat limited as it stands to get only 23% of the 53 million tonnes production from captive blocks. "However, it has the largest majority of coal blocks allocated, over 60% in private sector allocation, and stands to risk its investment in pre-development activities of these coal blocks," Rao added.

Jayanta Roy, senior VP and co-head, corporate sector ratings, ICRA said: "The impact will be felt mainly by power and steel companies which account for 75% of allocations.

Out of 218 coal blocks, power sector accounted for 95 blocks or 44% by numbers alone while steel companies got 69 blocks, or 31% of allocations."

However, it is aluminium companies that are expected to affected more since energy costs comprise a substantially higher proportion of their production expenditure compared to steel companies.

"For aluminium players, power cost account for 60% of the total cost compared to only 5-10% for steel players. Aluminium companies will face the brunt of the impact.

It won't be a safe journey for them going ahead as they will be exposed to global coal price volatility," said Hitesh Avachat, group head - metals and mining at CARE Research. Companies will also be affected by rising input costs, mainly through a hike in coal prices. He said the ruling will have an impact of global coal prices, which are at a two-decade low as demand from India will increase.

Hindalco Industries crashed 9.56% to close at Rs 164.65 and JSPL plunged 13.97% to Rs 253.15 while Tata

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Steel lost 4.79% of its value to end at Rs 511.85, Sesa Sterlite shed 3.89% to close at Rs 280.25 and Adhunik Metaliks lost 4.41% to close at Rs 44.45, a share. "It is negative for Hindalco with respect to Talabira I and Mahan Coal Block. SC has not de-allocated till now. It only gives a slight hope that it might take some logical decision," Giriraj Daga, an analyst with Nirmal Bang.

Mahan Coal is equal JV between Essar Power and Hindalco. The companies have invested Rs 20,000 crore in their projects and are waiting for the final mining lease from the state government. Without captive coal, the projects will become unviable in the long run, as transporting coal from other regions to this land-locked Madhya Pradesh will increase logistics cost.

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