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Steel, sponge iron players scramble for coal supplies

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Coal India says timeline for mine linkage auction cannot be ascertained now

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India's secondary steel-makers, including sponge iron mills, are scrambling to secure coal supplies after Coal India, the country's largest coal miner, refused to give them assurance on renewal of supply contracts or provide a timeline for mine linkage auctions.

Linkages and contracts for many are set to expire in July-August in the backdrop of the monsoons, a lean period for mining.

According to a secondary steel mill official, Coal India has told some mills that it will not be renewing supplying contracts "for an indefinite period". Mills can opt for single window auction for obtaining coal.

Most mills are dependent on imports.

Industry representatives say, the average stock available with them is to the tune of 15-odd days versus a normal 2-months of stock.

Coal India officials told *BusinessLine* that the clause in the policy specifies that "contract could be renewed with the mutual agreement of both the parties". And this is not the first time the miner has refused to renew contracts.

A similar tranche of contracts were "not renewed last year too" However, they are eligible to participate in the next round of linkage auctions.

"The timeline for when the new linkage auctions would be held cannot be ascertained now," the officials said.

Importing coal



CareEdge said share of coal despatch to sectors like cement, steel, sponge iron, fertilisers, textiles, chemicals, paper and pulp, etc – declined, while volumes de-grew by around 8.7 per cent on a base of 17.8 million tonnes in FY22 to 16.3 mt during FY23 (April to May).

Coal prices of South African thermal coal, a global benchmark, have been on an upward trajectory since December 2021. In May 2022, the benchmark coal prices was at \$280 per tonne, the first decline since November, but still at elevated levels on y-o-y basis.

“So mills either opt for single window auction or we get imported coal, and price of both are high. In some cases, the FSA agreements by Coal India are not being fulfilled either. So it has created further apprehensions among users,” according to Deependra Kashiva, Executive Director, Sponge Iron Manufacturers’ Association.

Typically, sponge iron mills use 1.6 tonne of domestic coal, priced at ₹7,000–9,000 per tonne while imported coal comes at ₹18,000 – 20,000 per tonne but less than one tonne is required, depending on the grade.

“In May, mills saw a 6 per cent growth y-o-y driven by better demand for re-bars with construction activity picking up. But if fuel supplies are not restored and imported coal price remain high, it again puts us at a disadvantage,” Kashiva added.

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