Domestic Coal Production Grows 32% in Q1, Highest in Last Decade

CareEdge RESEARCH

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Synopsis

- Domestic coal production reached 205.6 million tonnes (MT) in Q1 FY23, registering a 32% growth over the same period in FY22, on account of the low base effect.

- The global benchmark (South African thermal coal) had crossed its all-time high price of around USD 200 per tonne (which was seen in October 2021) and peaked at around USD 300 per tonne in April 2022 before settling at USD 285 per ton in June 2022.

- During FY23 (up to May), the total coal imports declined by 1.8% over the same period in FY22, which is mainly on account of high international coal prices.

- CareEdge Research estimates the domestic coal production to be in the range of 850 – 900 MT during FY23 with significant upside potential.

Coal Production

Domestic coal production reached 205.6 million tonne (MT) in Q1 FY23, registering a 32% growth over the same period in FY22, on account of a low base effect. The coal production in Q1 FY23 saw a pickup on account of various measures taken by the government to maintain the coal demand and supply in the country. This was further supported by the contribution of the two commercial mines that became operational in Q1 FY23.

During Q1 FY23, the contribution of Captives in the total coal production increased to 14% from an earlier 10%. This growth comes after consistent initiatives taken by the Ministry of Coal such as promoting private participation in domestic coal production. The increased coal production from Captives helped in shortening the demand-supply gap in the domestic market. As of June 2022, the energy deficit in the country has come down to 0.6% (796 million units) as against 2% (2,752 million units) in April 2022.

Table 1: Coal Production during FY23, FY22 up to June

Production (in MT)	Q1FY23	Q1FY22	Growth % (Q1FY23 vs. Q1FY22)
CIL	159.8	124.0	28.9
SCCL	16.9	15.6	8.7
Captives	28.9	16.3	77.2
Total	**205.6**	**155.9**	**31.9**

Sources: Ministry of Coal, CareEdge Research Note: CIL- Coal India Limited, SCCL- Singareni Collieries Company Limited

Sectoral Coal Supplies

Table 2: Coal Despatch up to June FY23, FY22

Sectors	Despatch up to June 22 (in MT)		Growth (%) (Q1FY23 vs. Q1FY22)
	Q1FY23	Q1FY22	
Power	192.1	156.9	22.4
CPP*	7.6	12.0	-36.8
Others**	24.7	26.3	-6.2
Total	**224.4**	**195.2**	**14.9**

Source: Ministry of Coal, CareEdge Research

*CPP- Captive power plants. **Others – cement, steel, sponge iron, fertilizers, textiles, chemicals, paper & pulp, and other basic metals

The share of coal despatch to the power sector increased significantly by around 22% during Q1FY23 over Q1FY22. During Q1 FY23, the aggregate coal despatch to the power sector and CPP combined is around 200 MT i.e. around 89% of the total coal despatch as against 87% in Q1FY22. This increased supply to the power sector is majorly on account of increased demand for electricity during Apr – May 22 due to the hotter than usual summer season.

The growth in despatches is also supported by a steady increase in rakes being made available to the power sector to keep up with the increased demand in the country.

Table 3: CIL's Rake Supply towards Power Sector (Average Number of Rakes Per Day)

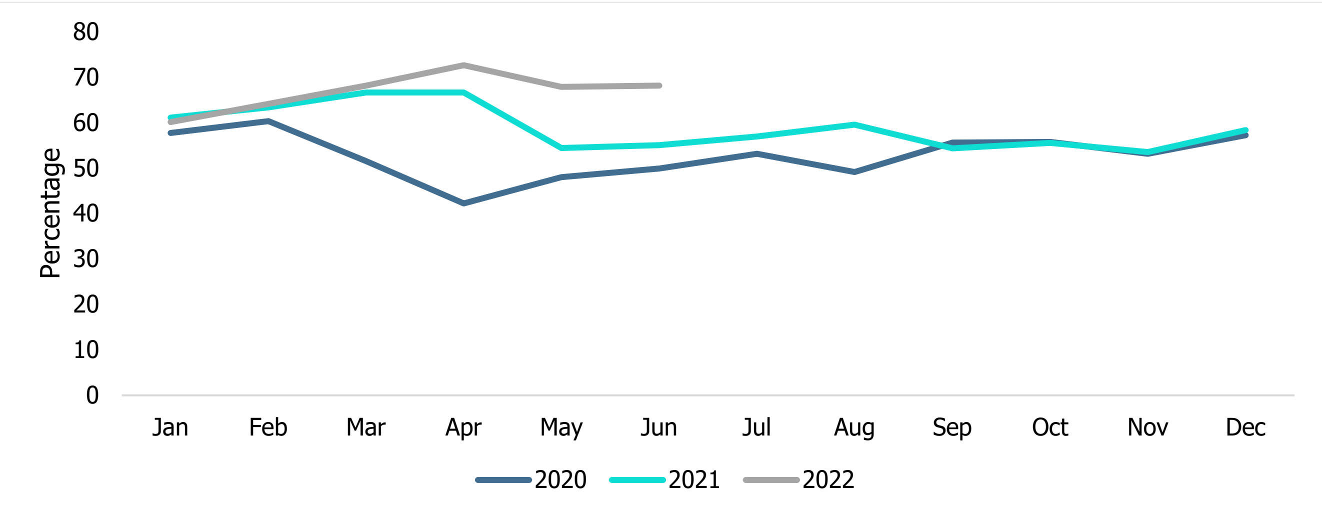
Average Loading in Rakes (per day)	FY23	FY22	Growth % (FY23 vs. FY22)
April	260.9	243.4	7.2
May	274.3	244.8	12.1
June	277.7	221.8	25.2

Sources: Ministry of Coal, CareEdge Research
Note: Data are Provisional

Plant Load Factor

PLF (Plant Load Factor) or capacity utilisation is the proportion of electricity generated in comparison to overall installed capacity. As of June 2022, PLFs of coal-based power plants have slightly improved to 68.1 on account of increased supply by domestic coal producers to keep up with the increased demand for electricity in the country.

Chart 1: Plant Load Factor (Coal-based power plants)



Source: Central Electricity Authority (CEA), CMIE, CareEdge Research, Data is provisional

As of August 1, 2022, the coal stock at non-pithead power plants has improved to 10 days from an earlier of around 8 days in June 2022. This comes after continuous efforts of government and domestic coal producers to increase coal supply to power plants and also build coal stock at these plants. As per CEA, pithead power plants have around 101% of their normative stock available as of August 1, 2022, while non-pithead plants (non-pit head plants are power plants where the coal mines are more than 1,500 km away) have only around 49% of their normative stock available.

Coal Imports

During FY23 (up to May), the total coal imports declined by 1.8% over the same period in FY22. This decline in imports is majorly on account of high international coal prices. The increased demand for coal in the country is being met by improved domestic coal production.

Table 4: Total Coal Imports

Type of Coal	Apr-May (in MT)		Growth (%) Y-o-Y
	FY23	FY22	
Non-Coking	27.3	29.0	-5.6
Coking	9.6	9.2	4.5
Others*	4.6	4.1	11.2
Total	**41.5**	**42.2**	**-1.8**

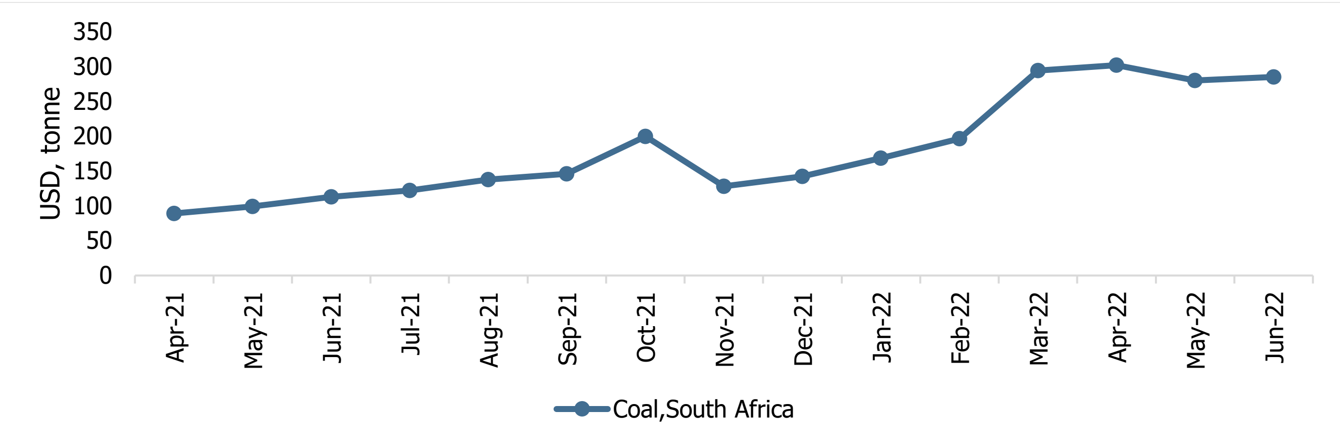
Sources: Ministry of Coal, CareEdge Research
Note: *Anthracite, PCI Coal, Pet Coal, Met Coke

In FY22, key non-power sectors such as cement, steel, and sponge iron (Direct Reduced Iron) were impacted due to low coal supplies as coal supply was being prioritised to the power sector to meet increased electricity demand. However, with the increased domestic coal production in FY23, domestic coal supply to these sectors has improved thus resulting in a y-o-y decline in non-coking coal imports.

International Coal Prices

Coal prices of South African thermal coal, a global benchmark, have been on an upward trajectory since November 2021 and the geopolitical tensions between Russia and Ukraine had further pushed up the international coal prices. The global benchmark had crossed its all-time high price of around USD 200 per tonne (which was seen in October 2021) and peaked at around USD 300 per tonne in April 2022 before settling at USD 285 per ton in June 2022.

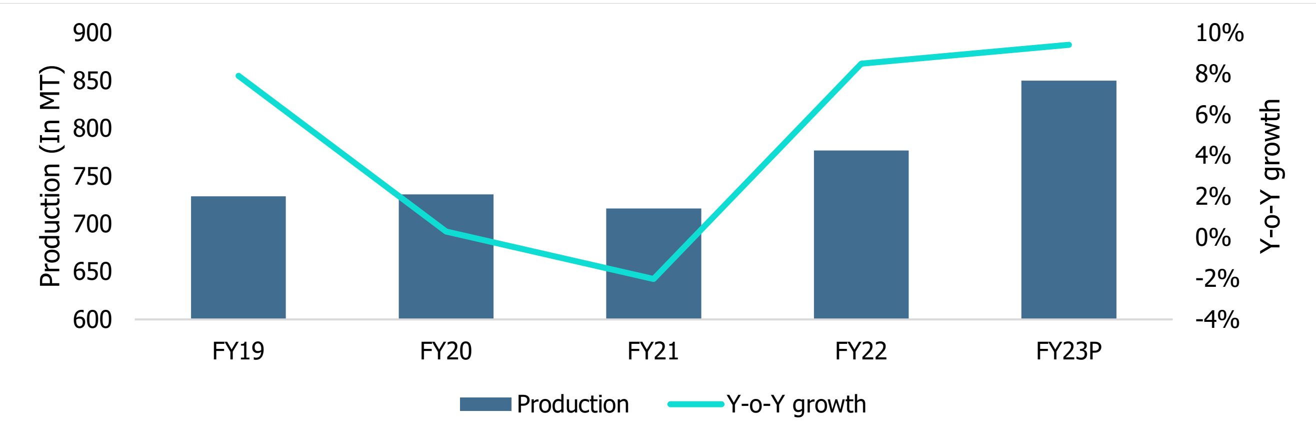
Chart 2: Prices in South Africa (USD/tonne)



Source: World Bank, CareEdge Research

Outlook: Stable

Chart 3: Estimated Production



Source: CareEdge Research

Domestic coal production has surged sharply by 32% in Q1 FY23 – the highest in any quarter over the past decade. Although production might get affected during the monsoon season, as with the past, it is expected to pick up sharply in the second half of the year. Hence CareEdge Research estimates the domestic coal production to be in the range of 850 – 900 MT during FY23 with significant upside potential.

Ministry of Coal has reached out to the Ministry of Environment, Forest and Climate Change (MoEF&CC) to consider the expansion of mines up to 50% of their capacity. Under the Office Memorandum, 10 clearances have been given which will help in adding a capacity of 9.6 million tonne per annum. In line with this, CIL plans to ramp up their production by increasing its production through mine developer cum contractor (MDO model), by adding capacity through greenfield and brownfield projects while also taking steps to upgrade its mechanised coal transportation and loading system. At present, there are a total of 36 Captive and commercial mines that are under production and it is expected that an additional 12 new mines will start production during the year which will further help in meeting the coal demand in the country.

Given the increased coal production in the country, the government has also eased coal import targets for utilities owned by State Government and private companies. According to the government notification, the power ministry has agreed to let State Government utilities and private power producers decide their blending requirements, post evaluating the availability of domestic coal supplies rather than mandatorily importing 10% of their total coal needs for blending. The improved coal stock at the power plants and eased electricity demand following the monsoon season have led to a relaxation in the targets by the government.

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