Coal: Update

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Coal production and imports in the country have fallen as per data analysed for the period between April-July 2017 compared with the same period during the previous year.

Coal imports stood at 67.7 million tonnes for the period April-July 2017, a decrease of 8.5% for the same period during the previous year. Domestic production during the period stood at 190 million tonnes for April-July 2017, a 3.1% fall over previous year's production for the same period.

Coal India Limited (CIL) owned by the Union Government, and Singareni Collieries Company Limited (SCCL) - jointly owned by the Government of Telangana and the Union Government, together account for 89-94% of the coal produced domestically. Domestic coal mostly used by thermal power plant, fulfils 75% of India's coal demand. The remaining 25% of the shortfall in coal demand is imported.

Coking coal which is an essential ingredient for steel production, accounts for approximately 25% of the imported coal, given the paucity of local reserves. The remaining imported coal is used by thermal power plants. India buys a bulk of its imported coal from Indonesia, Australia and South Africa.

For period between April-August 2017, SCCL produced 23.26 MT of coal, growing by 5% over the previous year's production volume for the same period. The company was able to achieve 94% of its planned production target for this period. CIL for the same period produced 225.4 MT of coal, a growth of 6.6% for the same period during the previous year. CIL achieved 95% of its annual action plan target for the April-August 2017 period.

Table 1. Coal Production and Import (In Million Tonnes)

	2013-14	2014-15	2015-17	2016-17
Production	565.8	608.9(**+7.6%**)	639.9(**+5%**)	661.3(**+3.4%**)
Import	170.2	215.6(**+27%**)	207.1(**-4%**)	195.4(**-5.8%**)
SCCL Production	50.47	52.54(+4%)	60.38(+15%)	61.3(**+1%**)
CIL production	462.4	494.2(**+7%**)	538.8(**+9%**)	554.1(+2.8%)

Source: CMIE and Annual Production report of CIL and SCCL *Figures in brackets are growth rates*

- Coal production in the country has witnessed an absolute growth of 17% and CAGR of 4% for the 4 year period 2013-17.
- Imports grew at 14.7% in absolute terms and CAGR of 3.49% for the same period.
- For SCCL and CIL, the two leading coal producers in the country, CAGR of production stood at 5.1% and 4.6% respectively for the four year period 2013-17.
- The Union Government reduced the production target of Coal India Limited (CIL) from 660 MT to 600MT for FY17 due to tepid demand from the power sector. The production of coal exceeded the offtake by approximately 11MT during the previous financial year, which led to an increase in stock to approximately 65MT.

As per latest report from Central Electricity Authority, electricity generation from thermal power plants witnessed improvement compared to 2016-17 between July–August 2017.

During the period between April-August 2017, the actual electricity generation across the country grew by 4.6% and was mainly led by growth in thermal power generation. The data also suggested improved capacity utilisation in thermal power segment compared to last year for the same period. Thermal power generation witnessed better capacity utilisation owing to decrease in power generation in nuclear and hydro based power plants which forms a part of the base load generation. If the trend of higher capacity utilization of thermal power plants continue, it is likely that some power plants may have to import thermal coal during the year to fulfil their increased demand.

"SHAKTI" Progress Report:

In May 2017, the Union Government approved a coal linkage policy known as "SHAKTI" (Scheme for Harnessing and Allocating Koyala (Coal) Transparently in India). The scheme aimed at providing fuel linkage to stressed power producers who had signed power purchase agreements. The scheme also aimed at reducing coal imports up to 50% in FY18 by state-owned power producers, who imported approximately 25MT of coal. The first auction for the scheme concluded on 14th September 2017 and 10 thermal power producers participated in these auctions. The total quantity booked was 27.8 million tonnes of coal. These bidders with an installed capacity of 9000MW would get coal supply in the range of 70-80% of their demand.

Production and import :

Current Production capacity of CIL, the largest coal producer in India and the world, stands at 660 MT. The production is limited because of disruption due to rains and frequent strikes by labour unions. Limited connectivity of railway lines and inadequate wagon availability have been an added challenge over the years in transporting coal from the mines to the power plants and other users.

Table 2 Coal Production and Import for the period April-July 2017 (in Million Tonnes)

	Apr-Jul FY13	Apr-Jul FY14	Apr-Jul FY15	Apr-Jul FY16	Apr-Jul FY17
Production	166.9	176.1(**5.5%**)	186.9(**6.1%**)	196.2(**3.8%**)	190.0(**-3.2%**)
Import	59.5	66.5(**11.8%**)	70.9(**6.6%**)	74.0(**4.4%**)	67.7(**-8.5%**)

Source: CMIE

- The domestic coal production for the period April-July 2017, stood at 190 MT, 3.2% lower than previous year's production for the same period. Imports fell by 8.5% for the same period to 67.7MT.
- Steel production which is a major consumer of coking coal-most of which is imported, witnessed a production growth of 6% between April-August 2017.
- As per data filed by CIL with stock exchanges, Coal offtake has been higher than the production between April – September, 2017 and this trend has been consistent. The table below shows the comparison between production and offtake from CIL for April-September period in FY16 and FY17.

Table 3 Production Target and Offtake Target Comparison 2016 vs 2017 for CIL (In Million Tonnes)

	2016-17		2017-18	
	Production Actual (% target)	Offtake Actual (% target)	Production Actual (% target)	Offtake Actual (% target)
April	40.1(90%)	42.4(83%)	38.4(88%)	45.3(91%)
May	42.6(95%)	45.5(89%)	40.7(92%)	46.4(91%)
June	42.7(99%)	45(95%)	39.6(92%)	45.7(94%)
July	36.7(91%)	41.4(89%)	36.6(97%)	44.3(99%)
August	32.4(79%)	36.7(83%)	37.6(102%)	43.6(102%)
September	35.2(85%)	37.7(88%)	38.8(101%)	43.6(103%)
Total	229.7	248.7	231.7	268.9

Source: CIL Company update

CARE Ratings view:

The government has been pushing domestic thermal power plants to use domestic coal over imported coal. The decreased import of coal is due to higher prices in the global markets. Global coal prices as per World Bank data are at a 5 year high in the range of USD 86-90 (Rs.5,600-5,900 @ current dollar rate) for Australian thermal coal for the month of September. CIL and SCCL sell coal at much lower cost since it is regulated. The lowest grade coal is priced at roughly Rs.2,200 and the highest grade is priced at Rs. 5,300 including transportation and GST.

To sustain the recent import trend of coal, the government will have to debottleneck transportation of coal from the mines to the power plants, by rapid expansion of railway infrastructure and network as well as ensure priority availability of wagons for coal transportation. It is vital that the wagons required for increased volume is available on a priority basis and railway lines are laid closer to the coal mines for cost and time efficient transportation of coal for the power producers. Inadequate infrastructure leading to a shortage of supply may prompt power producers to resume import of coal.

Additionally, State-run coal producers will have to ramp up production and conduct more auctions under the "SHAKTI" scheme to further reduce the dependence of power producers on imported coal.

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