

Coal Update: February 2020

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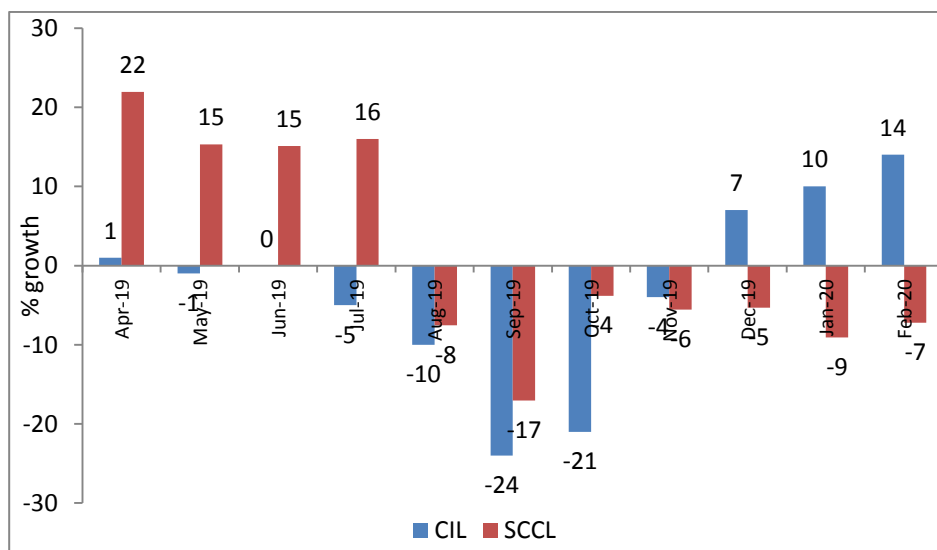
Production:

India’s coal production scenario has changed sharply in the last three months as coal production returned to growth from December 2019 onwards after reporting de-growth for five consecutive months, on a y-o-y basis.

During the first nine months of FY20, coal production fell by 5.3% to 416.7 million tonnes. This was due to a 7.8% fall in coal production by Coal India Ltd (CIL). State-owned CIL dominates domestic coal market with 80% share in total production. Lower coal production during the first nine months of FY20 was due to prolonged rains and labour unrest at CIL. The country witnessed extended rainfall in 2019 which had flooded CIL’s coal mines affecting mining activities. Besides, government’s decision to allow private foreign investments in coal mining led to labour strikes at CIL in September 2019 leading to a sharp fall in coal production during April-November 2019.

CIL and Singareni Collieries Company Ltd (SCCL) are the only two commercial coal miners in India.

Chart 1: Trend in CIL and SCCL’s coal production



Source: Ministry of Coal

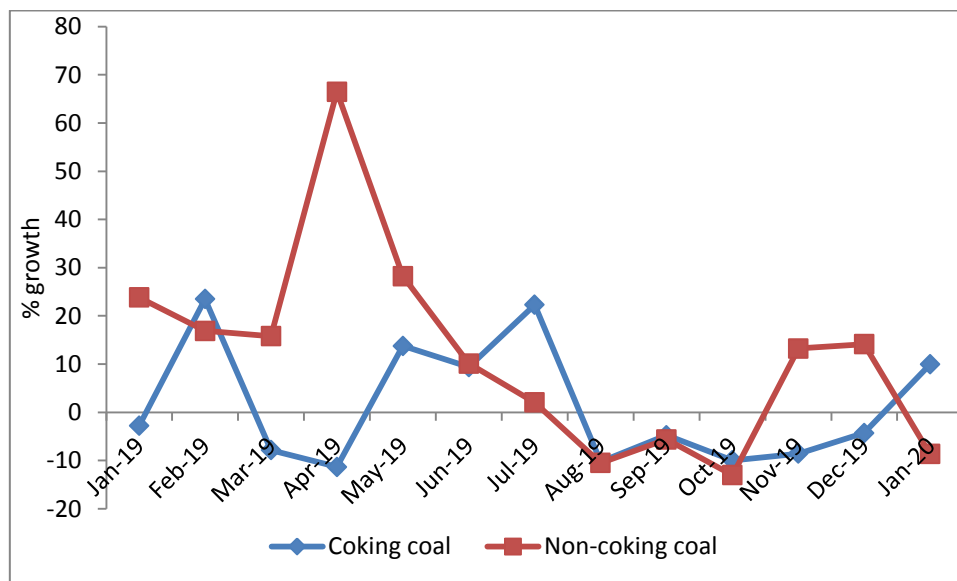
With the departure of the monsoon coal production returned to the growth path. CIL resumed production in full force but fell short of its annual production target. CIL’s coal production rose by 7-14% in each of the last three months. On a cumulative basis, the company has been able to narrow its fall with recent growth in production levels. CIL’s production for April-February stood at 517.8 million tonnes, compared with 527.7 million tonnes in the same period a year ago. SCCL’s coal production

during April-February remained at year-ago level at 58.1 million tonnes. The country’s total coal production for April 2019 - January 2020 has however been lower due to lower coal production in the earlier months.

Imports:

Coal imports rose by 6.1% to 199.2 million tonnes during April-January FY20 as compared with the corresponding period of the previous year. About 74% of the total coal imported was non-coking coal which is used in power generation and 22% was coking coal which is used mainly in steel and cement sectors.

Chart 2: Trend in import of coking coal and non-coking coal



Source: Ministry of commerce

While import of non-coking coal grew at double-digit rates during January-June 2019 due to lower domestic production, it started to decline from April onwards till October 2019. This was due to lower demand from the power sector on the back of broader economic slowdown that lowered demand from user industries. Thermal coal imports marginally grew over the next two months before dropping again in January 2020. Higher coal production and lower demand led to rise in coal stocks with thermal power plants indicating weak demand for power. Coal availability at pithead and non-pithead plants as on 1 March 2020 stood at 15 days and 23 days, respectively. Import of coking coal has also dropped by 0.01% during April-January FY20.

Table 1: Production growth of major end-user industries

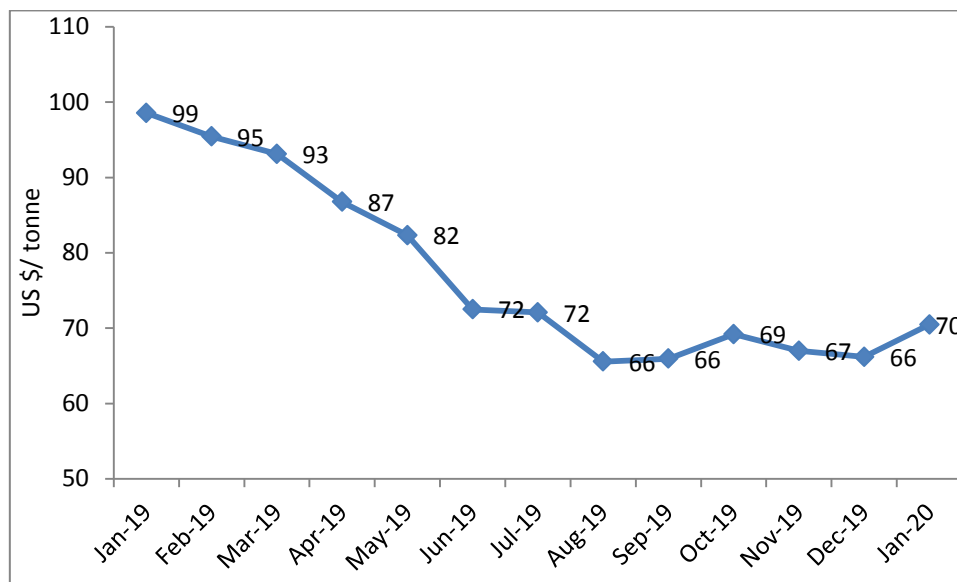
Industries	Period FY20	Change (y-o-y)
Thermal power	Apr-Jan	-2.81%
Crude steel	Apr-Jan	0.03%
Cement	Apr-Dec	0.66%

Source: CEA, WSA

Coal Prices:

Coal prices also remained under pressure. Benchmark Australian coal prices dropped from US \$ 87 per tonne in April 2019 to US \$ 66 per tonne in August 2019. Prices have remained in the range of US \$ 66-69 during August to December 2019. Coal prices picked up slightly in January 2020 to average US \$ 70 per tonne.

Chart 3: Trend in coal prices



Source: World Bank

Domestic e-auction coal prices:

E-auction premium have fallen to 51% in January 2020 from 67% in December 2019 due to weakness in domestic demand.

CIL allocated 24.87 million tonnes of dry fuel for the spot electronic auction (e-auction) during April-January, down by 8.19 per cent over the same period of last year. Coal India (CIL) had allocated 27.09 million tonne (MT) of coal in the year-ago period.

Policy measures/ Activities in coal sector during the year:

I. Coal De-regulation

The Union Cabinet on 8 January 2020 opened up coal sector for commercial coal mining to firms other than those in the steel and power sectors and removed end-use restrictions on the fuel. This was done by approving the promulgation of Minerals Law (Amendment) Ordinance 2020 to amend Mines and Minerals (Development and Regulation) Act, 1957 (MMDR Act) and Coal Mines (Special Provisions) Act, 2015 and Mines and Minerals Development Act, 1957 (CMSP Act).

The ordinance allows any India-registered company to bid and develop coal blocks. There shall be no restriction on the sale and/ or utilisation of coal produced from the coal mine and the Successful Bidder shall be free to sell coal in any manner.

By removing the restriction on prior experience in coal mining, the Ordinance enables wider participation in auction of coal mines. Further, the Ordinance also enables auction of unexplored and partially explored coal blocks for mining through prospecting license-cum-mining Lease (PL-cum-ML).

Government of India, Ministry of Coal (“MoC”) is considering to auction coal mines for sale of coal (commercial mining) under the provisions of CM(SP) Act, 2015 and MMDR Act, 1957.

II. Foreign Direct Investment (FDI) in Coal Sector

FDI policy for coal sector has been amended and for sale of coal, it now allows 100% FDI under automatic route for coal mining activities including associated processing infrastructure. Associated processing infrastructure includes coal washery, crushing, coal handling, and separation (magnetic and non-magnetic).

III. Coal India stake sale

The Government of India (GoI) offloaded 2.91% stake in Coal India. Post sale, the government's stake reduced to 66.14% from 69.05% earlier.

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