

## Coal Sector Update – September 2020

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Domestic coal production continued to be lower on m-o-m basis as well as y-o-y basis for the fourth straight month ended July 2020. High inventory and lower off-take of coal by end-user industries such as power, steel and cement have impacted demand and consequently production of coal.

Off-take of coal improved sequentially in July 2020 due to gradual relaxations in lockdown measures but contracted by 8.3% compared to the year-ago month. Consumption of coal by end-user industries also improved marginally from 54.2 million tonnes (mt) in May 2020 to 56.7 mt in June 2020. However, on a y-o-y basis consumption of coal in June was lower by 19.8%.

Thus, though off-take and consumption of coal have shown marginal improvement on m-o-m basis due to gradual relaxations in lockdown measures, production of coal continues to fall even sequentially due to high stockpiles and slower than anticipated resumption in business activities.

**Table 1: Production and off-take of coal (quantity in million tonnes)**

Month	Production	y-o-y growth	Off-take	y-o-y growth
Apr-20	47.0	-15.0	46.2	-26.0
May-20	49.9	-13.6	48.1	-23.8
Jun-20	47.3	-15.2	49.8	-16.6
Jul-20	45.5	-5.5	51.7	-8.3

Source: Ministry of Coal

Domestic coal production stood at 45.5 mt in July 2020, down by 5.5% compared to July 2019 and 3.8% compared to June 2020.

Coal India Ltd (CIL) (which accounts for 80% of domestic coal output) announced provisional figures for August 2020 which shows 7% y-o-y growth in coal production during the month. However, this was mainly due to lower coal production in August 2019 (-10.4%) because of heavy rainfall and law and order problems. CIL's coal production fell by 0.5% in July 2020 when compared to June 2020. CIL's coal despatch to various consuming sectors remained unchanged in August 2020 compared to July 2020 although compared to the year-ago month it was higher by 9.3%.

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Total coal despatches improved marginally in June and July 2020 on m-o-m basis due to phased relaxations in lockdown measures but remained 25% lower from pre-Covid levels and 8.3% lower compared to July 2019. Power sector consumes almost 80% of total coal produced. During Apr-July FY21, 78% of total coal despatches were to the power sector. Despatch of coal to power sector fell by 19.7% during Apr-July FY21 compared to the corresponding period of FY20. Despatch of coal to non-power sector witnessed even sharper contraction. During the five month period despatch of coal to steel, cement and sponge iron sector contracted by 18%, 46.1% and 28.8%, respectively.

**Table 2: Coal-based thermal power generation (million Kwh)**

Month	Coal-based thermal power generation	y-o-y growth
Apr-20	59,122.3	-32.5
May-20	69,664.1	-24.0
Jun-20	70,142.5	-19.7
Jul-20	78,094.8	-3.2

Source: CEA

There has been a pickup in domestic demand and generation of electricity from the lows of April 2020 (86 billion units) with the easing of lockdowns and the consequent gradual resumption of economic activity in various regions. Coal-based thermal power generation, which has the dominant share of 64% in total domestic electricity generation witnessed growth on a sequential basis.

Though there has been an improvement in electricity demand there is still huge inventory of coal lying with both the coal mining companies as well as the power plants which has resulted in slower off-take of coal

The increased coal production in the last few months of FY20 followed by slower than anticipated off-take of coal by end-user industries due to the outbreak of Coronavirus and the subsequent lockdown measures led to surge in coal inventories at power plants and with coal miners.

Coal inventory at thermal power stations have risen 67% to stand at 37.7 mt as on 31 July 2020 compared to the year-ago month. This is sufficient to last the power plants for 21 days. Besides, coal stocks with commercial coal miners stood at 73.4 mt as on 1 August 2020 compared to 30.8 mt as on 1 August 2019.

Lower demand and ample availability of coal in the domestic market led to a sharp fall in import of coal during Apr-July 2020. Import of coking coal fell by 39.9% to 10.7 mt during Apr-July FY21 vs Apr-July FY20. Import of non-coking coal fell by 35.7% to 38.8 mt during the same period.

Average coking coal import prices have declined 23% as on June 2020 since Pre-Covid levels (February 2020) due to sluggish demand from the steel sector.

### Outlook:

We expect coal demand to remain subdued in the coming months due to high inventory and slower than anticipated pick-up in commercial and industrial activities.

Coal imports are also expected to be lower in FY21 due to ample availability in the domestic market. Besides, CIL has been mandated by the government to replace at least 100 million tonnes of imports with domestically produced coal in FY21.

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