

Coal: Update (April-Aug 2018)

Contact:

Madan Sabnavis

Chief Economist

madan.sabnavis@careratings.com

+91-22-67543489

Ashish K Nainan

Research Analyst

ashish.nainan@careratings.com

+91-22-6754 3443

Mradul Mishra (Media Contact)

mradul.mishra@careratings.com

+91-22-6754 3515

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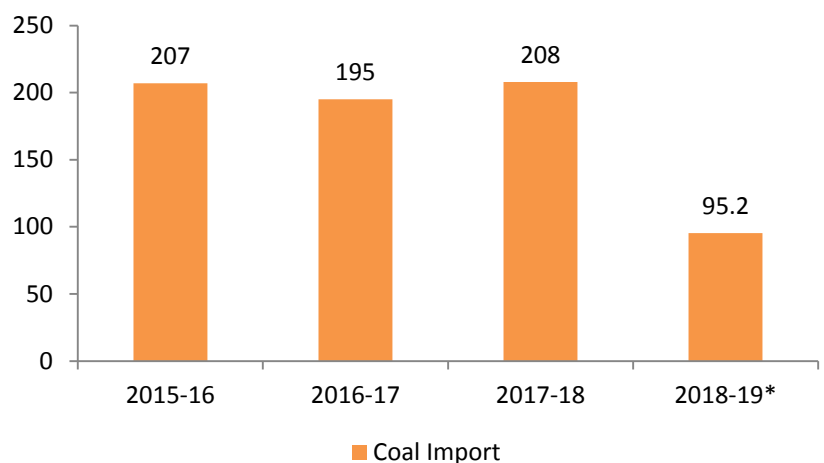
Total coal production in India during April-August 2018 was 264 million ton (MT) and recorded a growth of 10% y-o-y. It was mainly aided by 12% growth in production by Coal India (216 MT) during the first five months of FY19.

The two largest state-run coal miners (CIL & SCCL) produced 240 MT of coal, accounting for 90.5% of total production in the country.

Imported Coal Volume witnesses sharp growth

Coal imports grew by 13.9% during the April-Aug 2018 period, at 95.2 MT. Share of coal from Australia, Indonesia and South Africa stood at 21.8%, 41.8% and 14.8% respectively. Coal from USA more than doubled y-o-y for the period and constitutes 8% of the total coal imported by India.

Graph 1. Coal Import (in Million Ton)



Source: CMIE in million ton * April-August 2018

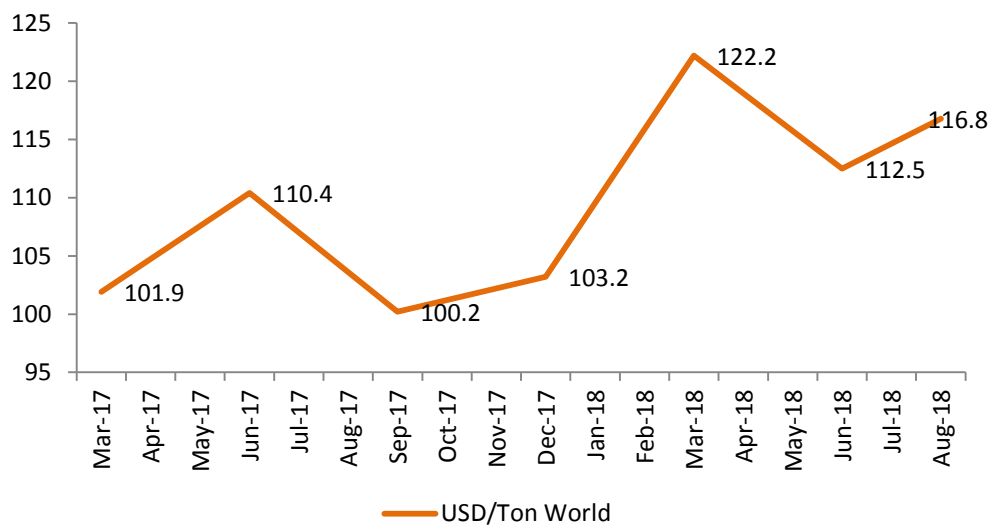
Coal import trend is expected to continue as power, cement and steel industry are expected to witness improvement in demand and capacity utilization. India is the second largest producer and second largest importer of coal behind China.

India: Performance of demand driving sectors for coal

- April-Aug 2018 period witnessed sustained demand for steam coal from power sector with electricity generation reporting 5.3% growth y-o-y.
- Other sectors like cement and steel which use thermal coal as feedstock and coking coal as raw material reported steady growth in production. Steel production has been growing steadily and reported 3.4% growth in FY18. Cement production grew by 14.7% during April-Aug 2018.
- Thermal power plants in the country reported capacity utilisation above 60.5% after having touched 59% levels in 2017-18.
- Thermal power plants under CEA reported a marginal drop in receipt of imported coal from 23 MT for April-Aug 2017 vs 22.5 MT for April-Aug 2018. This indicates captive power users and others industries are major drivers of demand for imported coal.
- Domestic coal shortage has been widely reported especially for thermal power plants. The state-run miner (CIL) on its part has been trying to address the issue of coal shortage at power plants. CIL and SCCL together reported 9% growth in offtake and 10.6% growth in production during April-August 2018.
- Supply chain issues due to inadequate rail-connectivity for coal evacuation and rake availability continue to be a major factor impacting availability of coal.
- Shortage of coal has impacted spot market and merchant power tariffs, hitting Rs. 18 per unit levels.

Coal prices:

Graph 2. Global Steam Coal Prices (in USD/ per tonne)



As per CMIE data (World Average Realisation)

- Between January-August 2018, coal prices have been in the range of \$ 100-125 with prices hitting the peak average price of \$125 in April 2018. Global steam coal prices have been on a steady rise after having touched a low of \$ 50 per tonne in May 2016.
- The price fluctuation has been on account of change in policies and supply bottlenecks in Indonesia, which contributes to 2/3rd of the thermal coal imports to India. Increase in demand for thermal coal from China has been another major factor for increase in global coal prices.

- Domestically, CIL was planning to introduce a new pricing methodology based on energy content of coal starting April 1, 2018. The implementation of the same has been postponed and is still under discussion. We expect the same to be implemented in the coming quarters of FY19.

Coal import:

- India imported 95 MT of coal (coking and non-coking), recording a growth of 13.9% y-o-y. India imports most of its thermal coal from Indonesia. Coking coal used in the steel industry is imported from Australia.
- Indonesia (39.8 MT), Australia (20.8MT), South Africa (14.2 MT) and USA (7.6 MT) are the largest source of imported coal by volume between April-August 2018.
- Roughly 80-85 GW of thermal power capacity in India is partially or fully dependent on imported coal for fuel.
- Imported coking coal fulfils 65-70% of the total coking coal demand from steel industry.
- Around 3/4th of India's coking coal imports come from Australia, and the remaining from Canada, USA, Russia, Indonesia etc.

Performance of CIL and SCCL

Coal India Limited and Singareni Collieries Company Limited are the two largest coal miners in the country. The two companies together produced 240 MT of coal which includes largely thermal coal and limited quantity of coking coal.

- India's largest coal producer CIL has been unable to meet its production target but we expect the same to improve in the following quarters as mining operations improve post monsoon.
- Capex achievement by CIL and NLC stood at 19% of the Rs. 17,150 crore planned capex during the year. In order to meet their production targets, the mining companies need to achieve their capex targets, focusing on improving production and productivity through mechanization and automation.

Table 1. Production by State-Miners (Volume in Million Ton)

Company	April-Aug 2018 Actual(MT)	April-Aug 2017 Actual(MT)	Growth(%)
CIL	216.2	193.1	12
SCCL	23.4	23.2	0.6
Total	239.6	216.3	10

Source: Ministry of Coal MT- Million ton

CARE Ratings View

- Total domestic coal production may remain stagnant with 2.5-3.5% of growth in FY19 at 705-712 MT. Realisation is expected to increase especially on the back of shortage and implementation of the new coal pricing policy by CIL.
- We continue to expect higher import of coal during the year in the range of 225-240 MT vs 208 MT in FY18. Improved capacity utilization in power (captive and non-captive users), cement and steel would be major drivers of coal import.

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Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.com

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