

Coal – Overview & Outlook

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India’s coal production stood at 730 million tonnes (mt) in FY19, growth of 7.9% over FY18. Of the total coal produced, 90% was non-coking coal, which is used for power generation.

India is the second largest producer of coal in the world, behind China. However, domestic coal production is not sufficient to meet the demand and also most coal produced in India has high ash content and low calorific value. Consequently, India has to depend on imports. Coal imports have risen in the last five years. The country is the second largest importer of coal in the world. Coal imports in FY19 stood at 235 mt, up from 208 mt in FY18 and 191 mt in FY17. Of the total coal imported, non-coking coal imports stood at 183 mt in FY19. India mainly imports coal from Australia (34.3%), Indonesia (27.6%), South Africa (10.4%) and USA (7.5%). India imports most of its non-coking coal from Indonesia and coking coal from Australia.

Currently, state-owned Coal India Ltd. (CIL) and Singareni Collieries Company Ltd. (SCCL) are the only 2 companies that commercially mine coal in India. CIL accounts for 90% of the total coal produced in India.

Current scenario:

Production

Table 1: Coal production (in million tonnes)

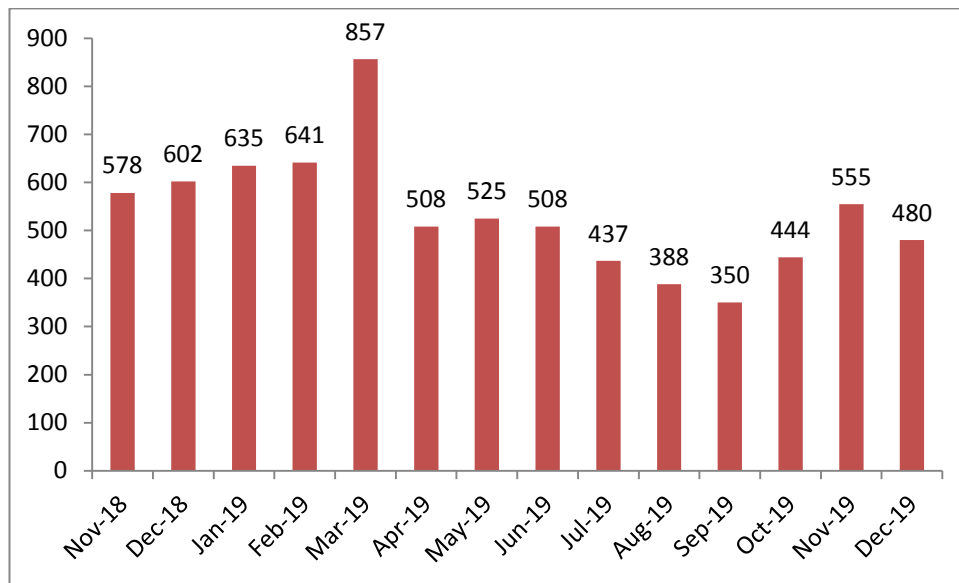
	Apr-Dec 19	Change (y-o-y)
Total Coal Production	480.0	-3.7%
CIL	388.4	-5.8%
SCCL	46.8	2.6%
Captive	39.7	14.1%
Others	5.2	-8.7%

Source: Ministry of coal

CIL’s production returned to growth in December 2019 after registering negative growth m-o-m since May 2019. In December 2019, CIL’s production grew by 7% to 58 mt. In the April-November 2019 period, CIL’s production fell 7.8% over the comparable period last year.

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Chart1: India's coal production (million tonnes)



Source: Ministry of mines

Heavy and prolonged rains had flooded CIL's mines which hampered production during the first seven months of FY20. Besides, government's decision to allow private foreign investment in coal mining resulted in labour strikes at CIL in September 2019 which also disrupted production.

Demand

Table 2: Production growth of major end-user industries

	Period	Change (y-o-y)
Steel	FY20 Apr-Sep	5.20%
Cement	Apr-Nov	0.00%
Coal-based thermal power generation	April-Dec	-3.00%

Source: Steel Insight, CSO, CEA

Power is the major demand driver for coal. Approximately 70% of India's power generation capacity is coal-based. Lower availability of coal led to drop in the country's thermal power generation. Electricity generation from coal based thermal power plants fell by 3% to 718.5 billion kwh in April-December 2019 period compared with the corresponding year-ago period.

While thermal power generation fell, hydro and nuclear power generation picked up. Abundant rains and more water in the reservoirs boosted power generation from hydro-electric dams. Combined power generation from hydro and nuclear sources grew by 18% in January-December 2019.

Though the share of renewable power is growing it is still cheaper to make electricity via coal. Therefore, coal-based power generation is not entirely substitutable, at least for now.

The demand for coal from steel and cement sectors were impacted by the slowdown in the economy. Steel and cement companies use non-coking coal as feedstock for power and coking coal as raw material. Domestic steel demand growth has steadily decelerated during the first half of FY20. Steel production growth decelerated from 6.9% y-o-y in the June 2019

quarter to 3.1% y-o-y in the September 2019 quarter. Cement production remained flat at 210 million tonnes in April-November 2019 over the corresponding period.

Table 2: Offtake of coal (in million tonnes)

	Apr-Nov 19	Change (y-o-y)
CIL & SCCL		
- Overall Offtake	404.4	-7.0%
- Dispatch to Power	325.8	-8.2%
Coal Import	165.6	8.1%

Source: Ministry of Coal, CMIE

Imports

Lower domestic availability of coal and softening international coal prices led to growth in imports. Country's coal imports grew by 8% to 165 mt in the April-November 2019 over the corresponding year-ago period. 74% of the total coal imported during the period was non-coking coal. Non-coking coal imports grew 9.8% and coking coal imports fell by 0.6%.

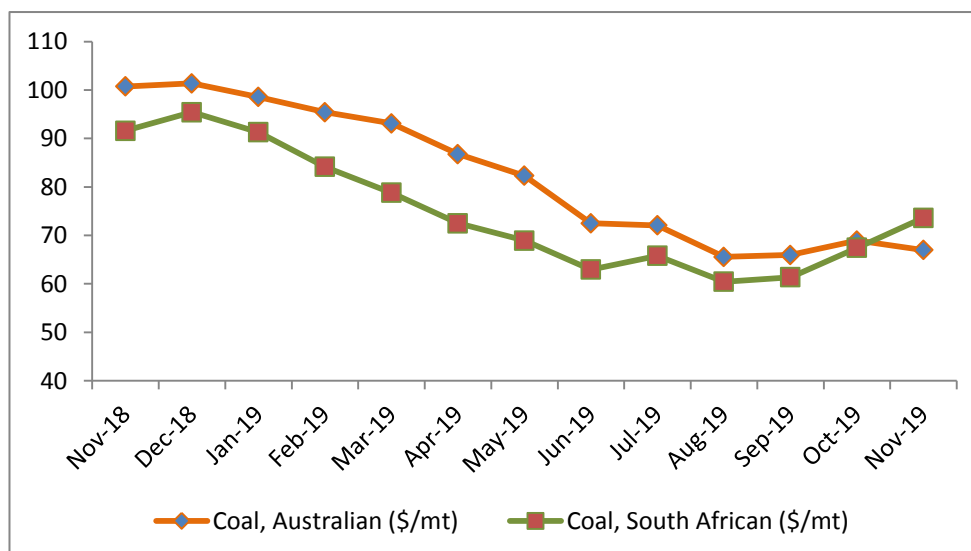
Coal Prices

Benchmark international coal prices (Australian coal prices) fell by more than 30% since January 2019. Australian coal prices have fallen from USD 98.6 per mt in January to USD 67 per mt in November 2019.

China remains the driving force behind the global coal market. China accounts for around half of the total demand. The country wants to become more self-sufficient in coal and has reduced its reliance on imported coal. Besides, abundance in availability of natural gas has also cut demand for coal.

Slowdown in steel production in Europe, India and Japan has led to a fall in price of coking coal. Spot coking coal prices have fallen by 38% this year to USD 136 a tonne.

Chart 3: Coal prices in Australia, South Africa (\$)



Outlook for FY20

Table 4: Expected GDP growth and growth in major end-user industries for FY20

	FY20 E
GDP	5.2%
Power	1-2%
Steel	4.0%

E* - CARE estimate

- Coal production is expected to improve in the remaining months with the withdrawal of monsoon.
- Thermal power generation has dropped 3.2% in April-December 2019 as compared with the corresponding year-ago period. With improvement in availability of coal we expect power generation to grow by 1-2% in FY20. Power sector consumes 80% of the total coal produced in India.
- Steel production is also expected to grow by about 4% in FY20.
- The above factors are likely to keep coal production growth to around 1-2% in FY20.