

Coal to make a comeback on demand revival

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India's coal production reported a marginal fall in the second half of FY21 as against a sharp fall in production in the first half. In the second half of FY21 coal production by CIL and SCCL (accounting for 90% of total output) fell by just 0.5% after falling by 6.5% in the first half of the year. This helped in restricting the annual fall in coal production at just 2.9% in FY21 compared with FY20. Coal output of CIL fell by a meagre 1% to 596.3 million tonnes (mt) in FY20. However, SCCL's output fell by a sharper 21% to 50.6 mt.

In FY22, the resurgence of the covid-19 pandemic once again hit demand and production of coal in the month of April 2021. Offtake of coal from all user industries like power, steel and cement remained weak during the month. Besides, CIL reported 100 million tonnes of inventories at its pit heads at the beginning of FY22. Large stock of coal supplies amid muted demand led to slower ramp up of operations during the month. Large number of employees from both CIL and SCCL tested positive for coronavirus in the second wave which also hampered operations.

However, we do expect a recovery in the coming months due to pick-up in power demand as industry gets back towards normalcy. Power plants will likely stock up coal supplies ahead of monsoon season which will support offtake of coal. Inventory at power plants remained low at just 12 days in April 2021. Also, the other major consumers of coal such as steel, cement and DRI would be growing at a faster rate with improvement in economic activities and hence there will be improved performance.

Table 1: Coal scenario in April 2021

	Apr-21	Compared with April 2019	Yoy growth	Mom growth
Coal production	46.8	-7.9%	7.8%	-46.5%
Coal despatch	59.5	2.9%	41.3%	-9.4%

Source: Ministry of Coal, Note: table includes, CIL, SCCL

India's coal production was 7.8% higher at 46.8 million tonnes in April 2021 compared with April 2020. This was mainly due to low base effect as near complete nation-wide lockdown in the corresponding year-ago month had brought most industrial and commercial activities, barring few essential sectors to a complete halt which impacted demand for coal and led to a 14.6% fall in coal output during April last year.

When compared with April 2019, coal production remained sluggish and fell by 7.9% in April 2021. On a m-o-m basis, coal production tanked 46.5% in April 2021. Coal production generally peaks in March every year as miners ramp up production to optimum levels to meet their year-end targets. In March 2021 coal output jumped 30% m-o-m. Besides, higher inventories of coal lying with coal companies and casualties due to second wave of Covid-19 pandemic at coal companies also led to slower ramp up of operations during the month.

The second wave of the coronavirus pandemic reimposed state-wise restrictions, though far less stringent compared to last year. All coal user industries witnessed m-o-m fall in their output during April 2021. Coal based thermal power generation fell 2.9% m-o-m in April 2021 despite peak-summer season demand. Total coal despatches to power sector were 10.5% lower at 47 mt in April. Lower despatched led to a fall in coal stocks at power plants. Inventory levels at power plants fell 17% m-o-m as on end of April 2021.

Output of steel, cement and DRI sectors witnessed double digit fall during April 2021 as against March 2021. Labour exodus and logistics issues due to state-wise restrictions is likely to have impacted output.

End-user scenario: Change in production growth

	Yoy growth	M-o-m growth
Coal-based thermal power generation	64.3%	-2.9%
Steel production	152.1%	-17.2%
Cement production	548.8%	-15.2%
Sponge iron production	437.4%	-26.2%

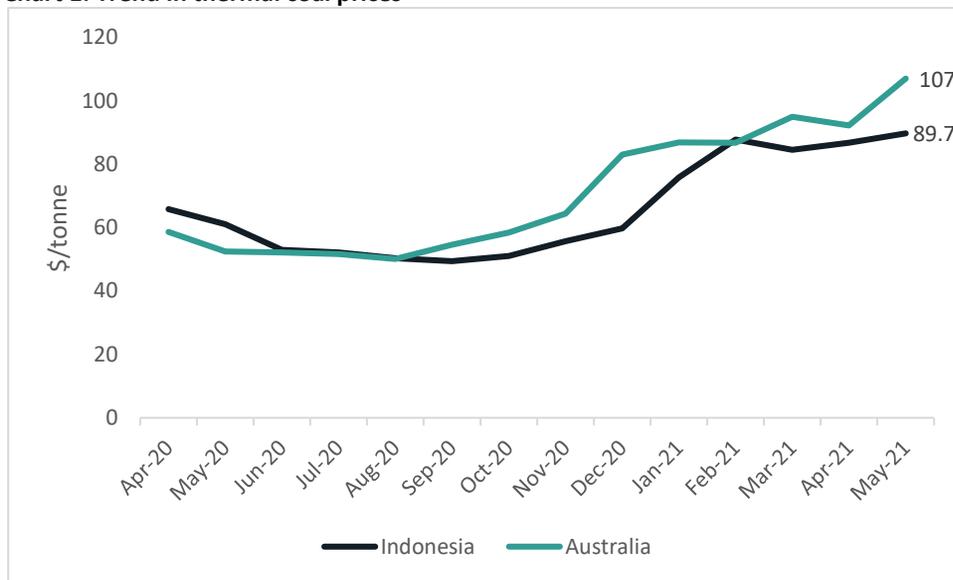
Thermal coal –

India mainly buys thermal coal from Indonesia. In FY21 almost 60% of total thermal coal were imported from Indonesia. However, the ongoing trade tension between Australia and China has led to the latter putting an unofficial ban on its number 2 supplier, Australia. This has changed the global trade pattern in a way that China has increased buying from Indonesia while Australia is catering to other markets, mainly India. Australia has also increased exports to South Korea, Taiwan and Japan and other smaller markets.

According to the Australian Bureau of Statistics the country recorded 14% mom increase in its thermal coal exports in April 2021. This was led by exports to India which rose 138% mom in April 2021 and up 906.3% from April 2020. Australia did not report any shipments to China for the fourth straight month.

The ban has also affected seaborne coal prices. Supply constraint due to heavy rainfall and higher Chinese demand has increased Indonesian coal prices. Australian coal prices also inched up due to rebound in ex-China demand and higher restocking demand ahead of the monsoon season in India. Australian Newcastle thermal coal prices of 5,500 kcal/kg fob were available at a sharp discount of \$ 33-34/t to 6,000 kcal/kg prices which averaged \$ 91.3/t fob in April 2021.

Chart 1: Trend in thermal coal prices



Source: World Bank, note: thermal coal – 6,000 kcal/kg spot price

Coking coal:

China’s ban on import of coking coal from Australian has pushed down the price of hard coking coal. Premium hard low-volatile coking coal price averaged \$151/t fob Australia in May 2021, down from a recent high of \$157.35/t in February 2021.

To conclude:

- India coal production reported m-o-m fall in April 2021. Lower demand due to uncertainty caused by the second wave of coronavirus impacted offtake. Besides, higher inventory levels and casualties due to second wave led to slower ramp up of mining operations at coal mines.
- However, we do expect production and offtake to improve in the coming months as inventories at power plants remain low and utilities would look to restock their supplies ahead of the monsoon season. Besides, demand from steel, cement and DRI sectors are also expected to improve in the coming months as labour and oxygen supply issues gets resolved with fall in the number of covid cases which had peaked in March.
- The trade tension between China and Australia has changed the global trade dynamics. India has increased import of thermal coal from Australia. Australian thermal coal prices have risen due to rebound in ex-China demand and restocking demand ahead of monsoon season.
- China's import ban on Australian coking coal has pushed prices lower. This is likely to benefit domestic steel companies. However, anticipation of softer coking prices coal in near term due to oversupply may caution domestic steel companies from stocking up excess supplies.

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