

Coal Industry: 11M FY21 update

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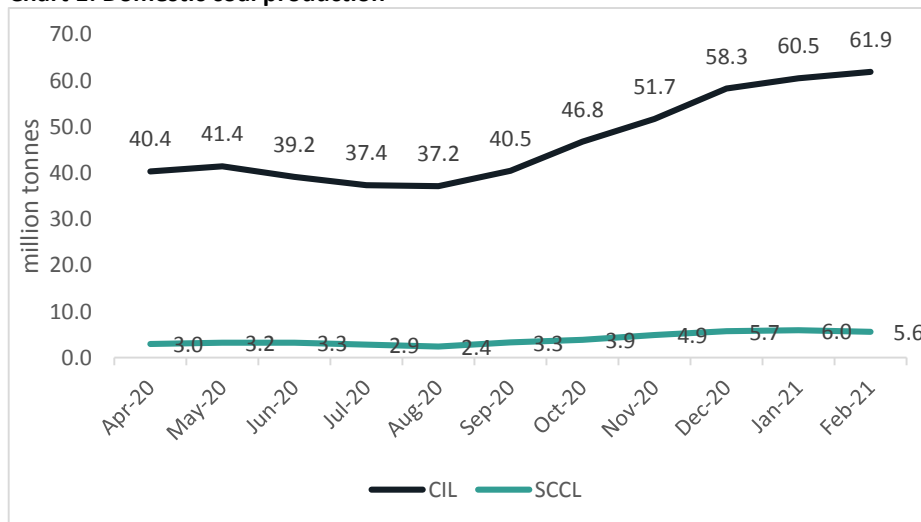
Indian Coal market in February 2021:

Domestic coal production in February 2021 fell by 6.1% from a year earlier to 67.5 mt, logging second straight month of yoy fall. The fall in output in February 2021 was mainly due to high base effect (12% yoy growth in February 2020) as well as high level of coal inventories with both coal producers and power plants. Inventory with Coal India Ltd (CIL) stood at around 77.8 mt as on February end, up from 66.8 mt at the end of January 2021.

Domestic power plants are also well stocked with coal supplies. Coal stocks at power plants stood at 31.9 mt at the end of February, enough to last 17 days. This has resulted into fall in coal offtake for the third straight month. Coal offtake fell by 7% yoy during February 2021 after falling by 5% in January 2021 and 2% in December 2020.

Power sector is the major consumer of coal with a share of 80% in total consumption followed by steel sector with a share of 7%, cement and DRI sectors account for 6.5% share each. Improvement in electricity generation and steel production has been supporting demand for coal. Electricity generation from coal based thermal power plants grew by 3.3% yoy in February 2021. Production of crude steel also rose by 3.8% yoy in February 2021. On the other hand, cement and DRI production continues to remain weak. Cement production was 5.9% lower yoy in Jan 2021 and DRI output fell 6% yoy in February 2021. Fall in cement production for the second consecutive month could indicate waning pent-up demand and normalising of operations in the infrastructure space. DRI production has also fallen due to low demand from end-user industries.

Chart 1: Domestic coal production



Source: Coal Ministry

Coal imports:

Coking coal: Coking coal imports continue to remain strong due to healthy demand from the steel sector. Imports grew by a sharp 30.4% to 5.9 mt in January 2021 compared with 4.6 mt in January 2020. India imports almost 70% of its coking coal requirements from Australia, followed by USA with a share of 5% and others countries like Indonesia and Mozambique with a share of 2-3% each. Imports from Australia grew by 25.6% yoy and imports were at 4.4 mt in January 2021. Imports from Canada jumped 99% and from USA by 31% in January 2021 compared with January 2020. However, imports from Indonesia fell by 26%.

Thermal coal: Import of thermal coal grew by 9.2% to 16.7 mt in January 2021 compared with January 2020. India largely relies on Indonesia for import of thermal coal. Almost 60% of imports are from Indonesia. However over the last four months, imports from Australia has increased while those from Indonesia has reduced. Import of thermal coal from Australia surged 385% yoy to 1.9 mt while those from Indonesia grew by just 4.3% in January 2021. Share of Australia in total thermal coal imports jumped from 1% in January 2020 to 11% in January 2021 while share of Indonesia reduced from 59% to 57%.

This is due to China's ongoing dispute with Australia which led to Beijing putting an unofficial ban on coal imports from Australia. As a result of this, China has increased coal buying from Indonesia which has forced other Asian countries to realign their trading patterns. While prices of both Indonesian and Australian coal are up 50% since the pandemic low, Indonesian coal is substantially cheaper than Australian coal which is of higher grade. However, increased Chinese buying has limited supplies from Indonesia to other countries and they are forced to look elsewhere, unable to compete with China's huge order volumes.

Indonesian coal production dropped in January 2021 to 47.2 mt, from 51 mt a year earlier due to erratic weather conditions. At the same time, Indonesia's coal shipments to China hit an all-time high of 20 mt in January 2021.

Table 1: Domestic Production and despatch of Coal (Unit: Million tonnes)

	Production			Despatch		
	Apr-Feb FY20 (Qty in mt)	Apr-Feb FY21(Qty in mt)	YoY growth	Apr-Feb FY20 (Qty in mt)	Apr-Feb FY21(Qty in mt)	YoY growth
CIL	517.8	515.2	-0.5%	528.3	514.1	-2.7%
SCCL	58.1	44.2	-23.9%	57.4	42.6	-25.8%
Captive	51.9	55.1	6.3%	51.3	55.8	8.8%
Others	6.3	5.6	-11.7%	6.34	5.6	-11.8%
Total	634.1	620.1	-2.2%	643.4	618.1	-3.9%

Source: Coal ministry

On a cumulative basis, domestic production of coal fell by 2.2% to 620.1 mt during April to February 2021 compared with the corresponding period of FY20. The two largest state-run coal miners (CIL & SCCL) produced 559.5 MT of coal, accounting for 90.2% of total production in the country. Despatch of coal to power and non-power sectors fell by 3.9% to 643.4 mt during the period. Power sector is the largest consumer of coal in India accounting for almost 80% of total consumption. Lower business activity due to the lockdown impacted off-take of coal by the power plants. In the first eleven months of FY21, domestic electricity generation declined to a three-year low and was 2.4% lower than that in the corresponding period of FY20. Generation from coal based thermal power plants was even lower, registering 3.9% yoy fall over 1.5% fall in the corresponding period of the previous fiscal.

Import of coking coal fell by 5.2% and Import of non-coking coal fell by a sharp 18.1% during April-January FY21 compared with April-January FY20.

Outlook:

Coal output in FY21 is expected to fall by 1-2% due to fall in power generation, steel and cement production given the sharp fall in industrial and commercial activity during the year due to the Covid-19 Pandemic. However, we do expect a recovery in the coming year FY22 due to a pick-up in power demand as industry gets back towards normalcy. Also the major consumers of coal such as steel, cement and DRI would be growing at a faster rate and hence there will be improved performance. At the same time, the resurgence of Covid-19 infections and the possibility of fresh restrictions pose a risk to the sustainability in economic revival and thereby demand for coal.

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