Domestic Coal Production Remains On Growth Path in Q1; Prices Ease

CareEdge RESEARCH

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Synopsis

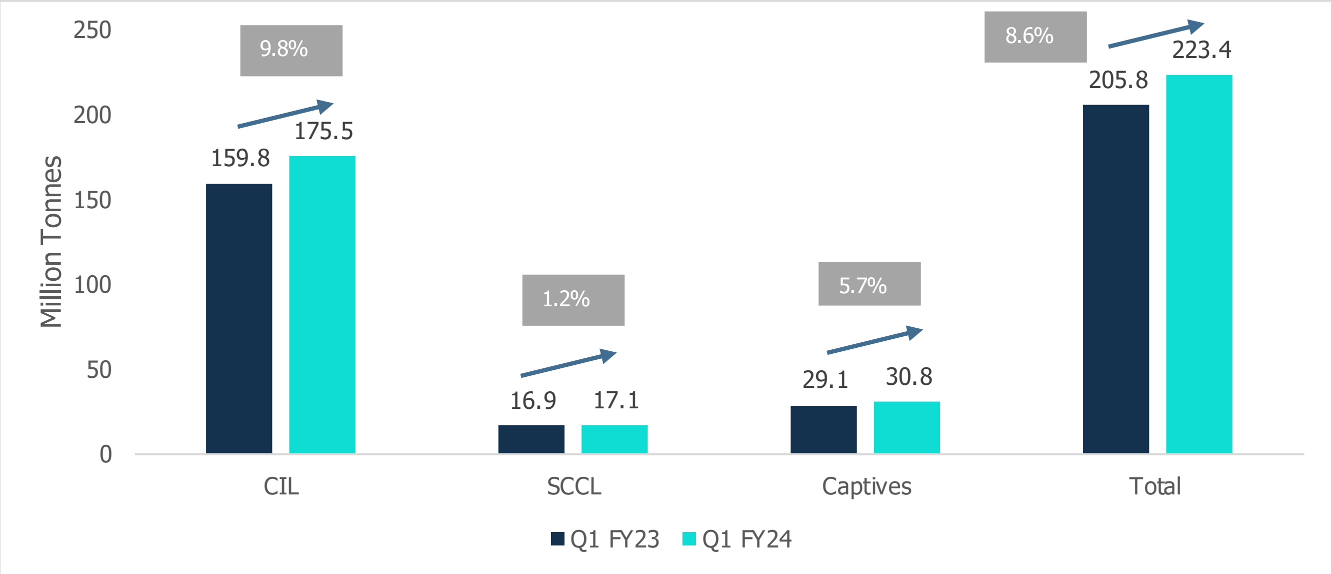
- India's coal production reached a new milestone of 223.36 Million Tonne (MT) during Q1 FY24, an 8.6% y-o-y growth, driven by a 9.8% y-o-y increase in production by Coal India Limited (CIL). This is an all-time high volume of coal produced in India in the first quarter of a financial year. The power sector continued to be the largest consumer of domestic coal, accounting for 82% of the total despatches during Q1 FY24.
- Total coal imports surged by 14% y-o-y to 47.27 MT during Q1FY24, with non-coking coal accounting for 64% of the imports.
- Under the seventh round of coal block auction, which commenced in March 2023, about 103 fully explored, partially explored, coking, non-coking, lignite etc. coal mines are being offered. In this round, 35 bids have been received for 18 coal mines.
- "The domestic coal production remained healthy in Q1FY24 and is expected to reach the government's target of 1 billion tonnes in FY24, a 13% growth y-o-y, driven by an increase in overall coal production by CIL and captive mines. The Government of India is also taking various initiatives to reduce dependency on imports for domestic demands which are expected to fructify in the medium-long term. The coal prices have cooled off and nearing the pre-pandemic level from the previous year's high. CareEdge Research expects the coal prices to remain muted during this fiscal, however, they will continue to be higher than the pre-Covid-year price averages," Tanvi Shah, Director, CareEdge Advisory & Research, said.

Domestic Production Witnessed Healthy Growth in Q1FY24

Domestic coal production stood at 223.36 MT during Q1FY24, registering a growth of 8.6% y-o-y. CIL continued to be the largest producer of coal accounting for 78.6% of the total production during Q1FY24. CIL's production grew by 9.8% y-o-y to 175.5 MT during this period.

Coal production from captive mines increased by 5.7% y-o-y in Q1FY24, contributing 13.8% to total coal production during the quarter. The production from Singareni Collieries Company Limited (SCCL) grew by 1.2% y-o-y in Q1FY24 to 30.8 MT.

Chart 1: Coal Production (MT)



Sources: Ministry of Coal, CareEdge Research Note: CIL- Coal India Limited, SCCL- Singareni Collieries Company Limited
Note: Figures in the boxes indicate y-o-y growth

India's coal production has grown by 47% over the past 9 years to reach 893.08 MT in FY23. Under the Action Plan for FY24 by Ministry of Coal, the production target for FY24 is set at 1.0 BT which is expected to be achieved through improvement in overall production, efficiency and adoption of new technologies. The incremental output is also expected from a ramp-up in the production of operational captive mines and the commencement of production from mines being auctioned by the ministry. The growth is also the result of improvement in efficiency of the coal supply chain ensuring smooth distribution across India.

The Government launched 'Mission Coking Coal' in August 2021, under which a target of producing 140MT of coking coal by 2030 has been set compared to production of 60.8 MT in FY23.

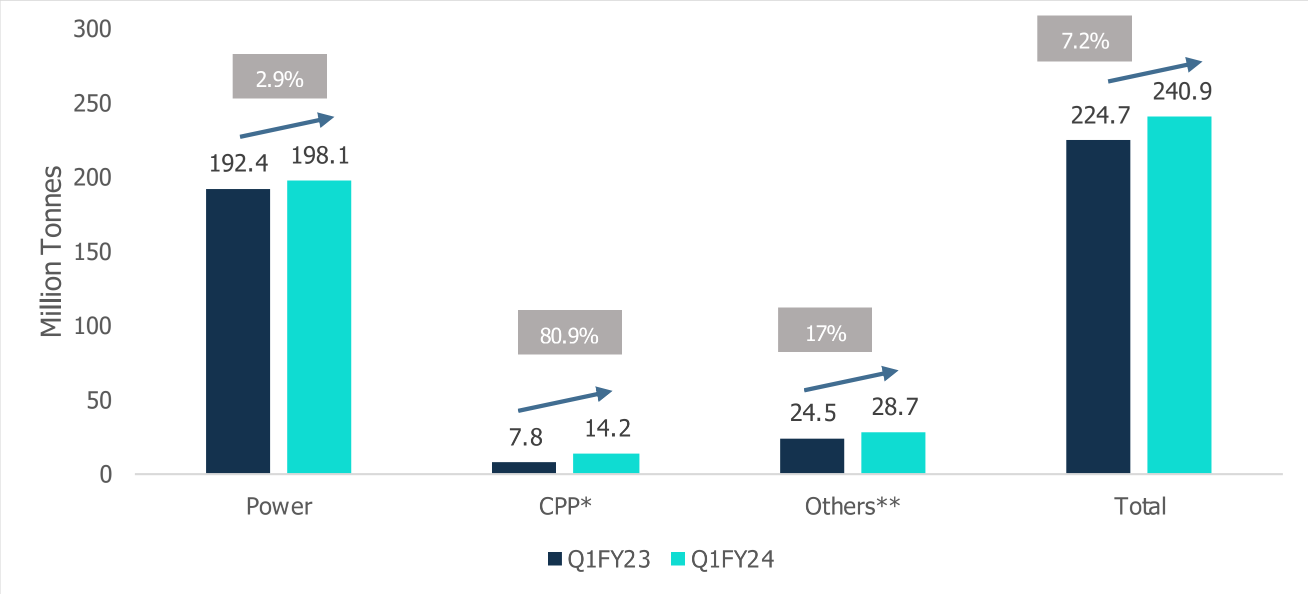
The government's initiatives including the amendment of the Mines and Minerals Act, of 1957 to permit the captive mines to sell up to 50% of their annual coal production in the open market after meeting the end-use plant requirements, production through Mine Developer and Operator (MDO) mode, increase in use of mass production technologies, expansion of existing projects and privatization of coal blocks, 100% Foreign Direct Investments, Single Window Clearance etc., will continue to boost domestic coal production in the medium-long term.

The Ministry of Coal under the "Coal Mines (Special Provisions) Act 2015 and Mines & Minerals (Development & Regulation) Act 1957 has auctioned 86 coal mines to date under six tranches, out of which 74 coal blocks have been issued vesting orders. The estimated revenue generated by these auctions is approximately Rs. 33,200 Crores.

Power Sector Consumed 82% of Total Coal Supplies in Q1FY24

The aggregate coal despatch to the power sector was 198.1 MT during Q1FY24, an increase of 2.9% y-o-y. Power sector accounted for 82% of the total coal despatches during Q1 FY24. The despatches to captive power plants grew by 80.9% y-o-y and there was a 17% y-o-y increase in supply for other sectors as the power sector demand normalised compared to previous quarter.

Chart 2: Coal Despatch (MT)



Source: Ministry of Coal, CareEdge Research
*CPP- Captive power plants. **Others – cement, steel, sponge iron, fertilizers, textiles, chemicals, paper & pulp, and other basic metals
Note: Figures in the boxes indicate y-o-y growth

The average number of rakes available per day decreased by 4% y-o-y during Q1FY23 due to constraints in railway logistics. The Ministry of Coal in association of Ministry of Railways is constructing 13 railway lines for expansion of coal distribution capabilities. Further, the Ministry of Coal in line with PM Gati Shakti is taking up 67 First Mile Connectivity (FMC) Projects with capacity of 885 MT in 3 phases costing Rs. 26,000 cr. to develop multimodal connectivity.

Table 1: CIL's Rake Supply towards Power Sector (Average Number of Rakes Per Day)

Average Loading in	Q1FY23	Q1FY24	% Change
April	261	260	0%
May	274	262	-5%
June	278	256	-8%
Total	813	777	-4%

Sources: Ministry of Coal, CareEdge Research; Note: Data are Provisional

Plant Load Factor for Coal-based Power Plants on the Rise

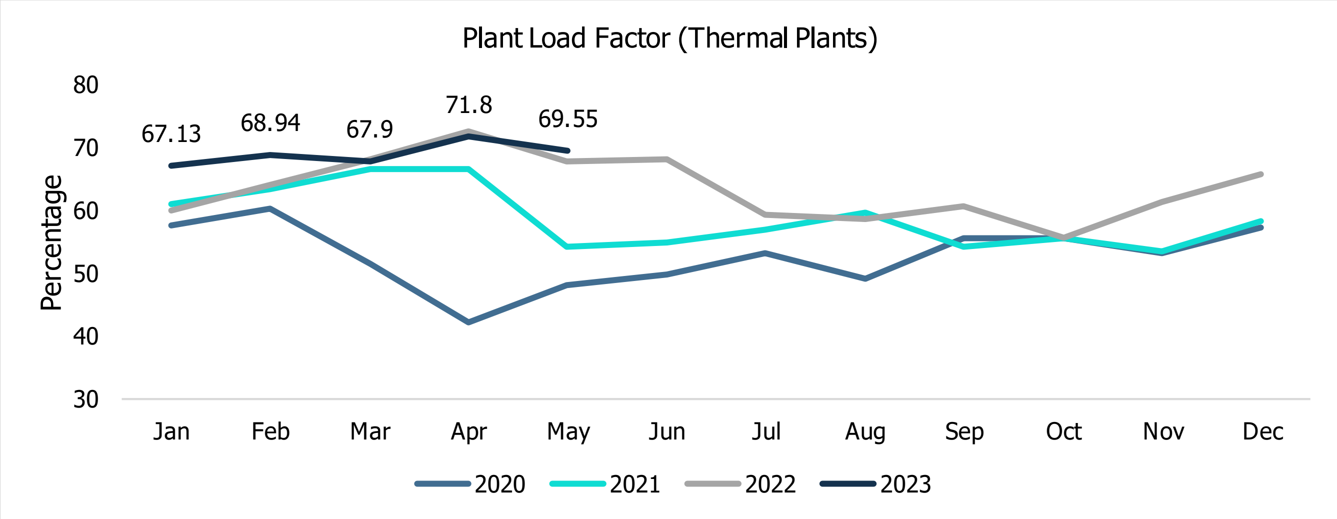
Coal-based power generation accounted for more than 69% of total power generated in Q1FY24. The PLF[1] of coal-based power plants improved to 70.26% in FY24 (April-May) from an average of 64.15% in FY23, primarily due to higher coal availability.

As of June 30, 2023, the coal stock at non-pithead power plants has improved to 12.5 days compared to 8.5 days in June 2022, which is well above the critical stock levels of below 7. As per CEA, pithead power[2] plants have around 85% of their normative stock available as of June 30, 2023, while non-pithead plants[3] have only around 48% of their normative stock available.

[1] PLF or capacity utilisation is the proportion of electricity generated compared to overall installed capacity
[2] Pit head plant are any captive or stand-alone power unit which have captive transportation system for exclusive movement of coal from loading point to the power station
[3] Non-pit head plants are power plants where the coal mines are more than 1,500 km away

The coal stock of the power plants is regularly monitored by Inter-ministerial Secretary-level. As on December 2021, the Government has also issued revised coal stocking norms which mandate the power plants to stock sufficient coal to be maintained between 12 to 17 days for pithead plants and 20 to 26 days for non-pit headed plants with month-wise variation according to the coal despatch and consumption.

Chart 3: Plant Load Factor (Coal-based Power plants)



Source: Central Electricity Authority (CEA), CMIE, CareEdge Research

Coal Imports Increased in FY24(April-May), Led by Non-coking Coal

Coal imports increased by 14.04% y-o-y to 47.27 MT in FY24 (April- May). Non-coking coal, mainly used in power generation, cement and metals sectors, accounted for 64% of the total coal imports. Over 70% of the non-coking coal is imported from Indonesia and South Africa while coking coal is majorly imported from Australia.

Table 2: Total Coal Imports (MT)

Type of coal	April to May		Growth (%) y-o-y
	FY23	FY24	
Non-Coking	27.34	30.34	10.97%
Coking	9.57	10.43	8.99%
Others*	4.54	6.5	43.17%
Total	**41.45**	**47.27**	**14.04%**

Sources: Ministry of Coal, CareEdge Research

Note: * indicates that others include Anthracite, PCI Coal, Pet Coal, Met Coke

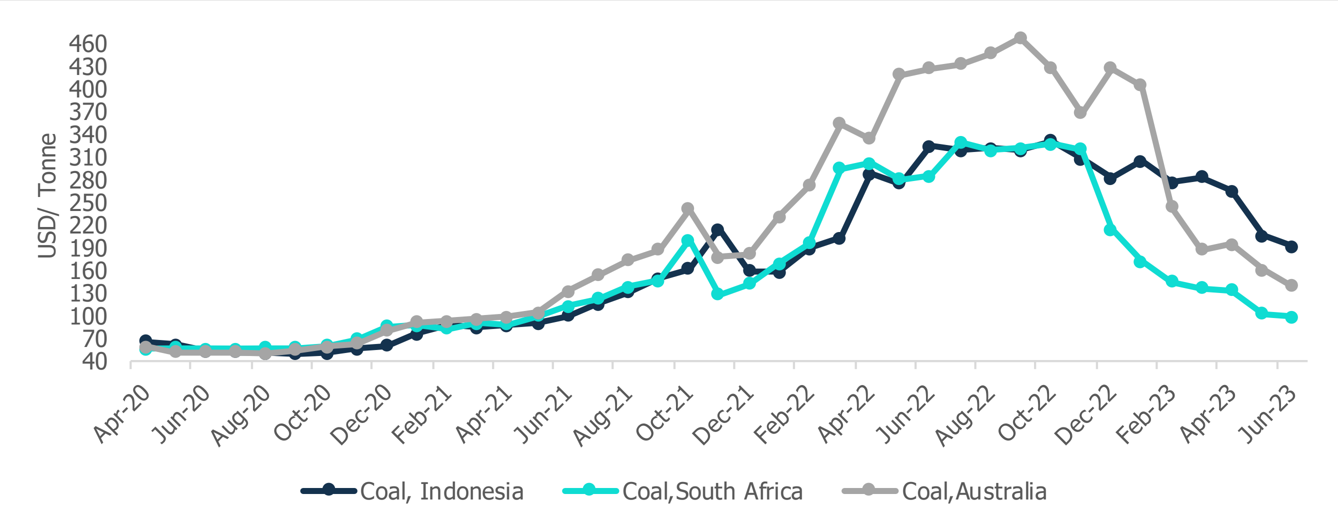
In January 2023, the power ministry directed the thermal power plants to import coal to achieve imported to domestic coal blending at the rate of 6% for the remaining period of the current fiscal and H1FY24. The move was targeted to reduce the coal shortfall anticipated during the summer months. However, to reduce dependence on imported coal over the medium-long term, the Government has been taking various initiatives including auctioning of coal blocks for commercial mining, FDI under the automatic route, expansion of existing mines, opening of new mines under CIL and development of evacuation infrastructure.

The Government has launched the 'National Coal Gasification Mission' under which 100 MT of coal will be gasified and liquefied by 2030. Under this scheme, a 50% rebate on revenue share will be provided to all future coal block auctions subject to at least 10% of the coal produced being gasified. This initiative is expected to reduce the imports of natural gas, methanol etc and meet the domestic demand. An outlay of Rs 6,000 crores is being proposed under this scheme.

International Coal Prices Softened Further in Q1FY24

During Q1FY24, the average coal prices for Indonesian coal, South African coal and Australian coal were 25%, 61% and 58% lower, respectively, as compared to prices during the same period in FY23. Coal prices have been softening since November 2022 as the increase in supplies from South Africa and Columbia has alleviated the demand crunch in European countries caused by the reduction of coal imports from Russia. While the prices have dropped compared to FY22, they have remained above the pre-Covid-year price averages. The coal prices are expected to stay muted in the current fiscal due to sufficient availability of coal in the global market, subdued global demand and gradual adjustments of the global markets to the Russia-Ukraine war.

Chart 4: International Coal Prices (USD/tonne)



Source: World Bank, CMIE, CareEdge Research

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