Indian Coal Report

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Indian Railways coal loading capped by low demand from power plants

By Rakesh Dubey

Indian Railways' (IR) average coal loading increased slightly in January as it received higher tonnage for transporting domestic coal, but overall loading was limited by low demand from power plants.

The national freight carrier's total coal loading was 428.7 cars/d between 1-15 January, down 4% on year, from 445.9 cars/d, but up 6% from 405.50 cars/d loaded in the previous quarter (October-December) of Indian financial year 2019-20 (see table).

Despite a quarter-on-quarter uptick in January, loadings were 14% lower from the target of 500 cars/d for entire 2019-20.

Of the total loading in 1-15 January, IR loaded 268.3 cars/d from Coal India (CIL), down 7% on year, but up 5%, from October-December loading of 254.8 cars/d (see table).

The carrier had transported 431.16 mt of coal in April-December, down 2% on year from 441.47 mt and the trend until mid-January indicates that it will miss the coal loading target of 625.04 mt set for 2019-20.

It had loaded 605.85 mt of coal in 2018-19 of which 164.38 mt was done in January-March 2019 and even if it loads 180 mt in January-March of 2020, it will cross the levels achieved in 2018-19.

The increase in loadings in 1-15 January was not entirely in sync with the increase in CIL's output, which grew 9% on year in 1-15 January to around 28.50 mt or 1.90 mt/d, from 26 mt or 1.70 mt/d and up 19%, from 1.60 cars/d in October-December.

"This (mismatch between growth in CIL's production and rail loadings) is because well stocked power plants are hesitant to take further supplies and this is restricting our loadings to them by rail," an official of Coal India (CIL) said.

As a result, CIL is diverting coal to other sectors, whose loadings in 1-15 January rose 16% on year to 48.5 cars/d. This was up 6%, from October-December loading.

The reduced intake by power plants is likely to continue for a few weeks at least. This will encourage CIL to supply even more to industrial buyers, either through e-auction or through contract commitments, to avoid stocks piling up.

Higher supplies to industrial buyers in cement and sponge sectors might negatively impact Indian industrial sector's thermal coal imports in next few months, industry sources feel.

India's thermal imports rose 10% on year to 124.27 mt in April-November, from 113.47 mt, as per provisional compilation by IHS Markit, based on data received from ports, customs and shipping companies.

Imports by power plants that are monitored by the country's

Monthly import and price data

Please see attached Excel spreadsheet for Indian coal import data by port. Also included are monthly thermal and coking coal price markers.

Coal Loading by Indian Railways (source-wise) rail cars/d

Source	1-15 Jan 2020	1-15 Jan 2019	Variation	October-December 2019	October-December 2018	Variation	April-December 2019	April-December 2019	Variation
CIL Sidings	226.7	233.3	-3%	211.3	225.7	-6%	208.4	223.7	-7%
Washery & G/Shed	41.6	54.4	-24%	43.5	52.7	-17%	45.2	45.1	0%
CIL Total	268.3	287.7	-7%	254.8	278.4	-9%	253.6	268.8	-6%
SCCL	34.2	40.2	-15%	33.2	36.3	-8%	32.6	31.8	3%
Imported	77.7	76	2%	71.7	75.4	-5%	72.3	71.8	1%
Others	48.5	42	16%	45.8	39.5	16%	42.3	42.3	0%
Total	428.7	445.9	-4%	405.5	429.6	-6%	400.8	414.7	-3%

Source: IR/IHS Markit

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Central Electricity Authority (CEA) rose to 46.53 mt, up 19% on year from 39.1 mt.

Improved domestic availability, particularly in January-March, may restrict the thermal import growth in November-March, from 61.11 mt achieved in last fourth months of 2018-19.

Imports by power plants is also likely to be impacted because of better stocks with them.

Coal stocks at 134 coal-fired plants monitored by the country's Central Electricity Authority (CEA) was slightly more than 32 mt as on 14 January. This was up 78% on year, from 18 mt.

Power plants are avoiding fresh intakes for stock build-up partly on curtailed electricity demand in the country due to tapered growth in manufacturing sector, an industry source said.

Country's main power consuming sectors like steel, cement, aluminium are struggling to increase production amid poor demand and this, in turn, is impacting electricity demand.

The latest data from CEA suggests that April-December thermal electricity generation in the country was 779.62 TWh, nearly 9% below the target of 854.12 TWh and 3% lower from 805.43 TWh generated in the same period of 2018-19.

December thermal generation was 86.12 TWh, 10% below the target of 95.37 TWh and 4% lower from 89.96 TWh produced in December 2018.

Because of lower generation, Plant Load Factor (PLF) or capacity utilization of thermal power plants in the country stood at 54.40% in December, down 9% on year from 59.54%.

April-December PLF was 55.84%. This was 6% below the target of 59.54% and 7% down on year, from 60.13%.

Sponge iron makers seek substitutes amid Richards Bay price volatility

By Rakesh Dubey

The recent price volatility in Richards Bay thermal coal market is spurring Indian sponge iron producers to scour for alternatives, though the uptake of other origins has so far been limited.

South African coal is preferred by sponge iron makers because of its higher Fixed Carbon (FC) content and suitable volatiles. However, the price rally, which has squeezed margins of steel makers, is forcing Indian end-users of South African coal to look at alternatives from Russia, Australia and even Colombia.

"Literally, today the sponge iron makes do not have any substitute at all. They have no option, but to buy south African coal, whatever the price is," an official of a trading company said.

At least two Kolkata headquartered sponge iron makers are now seriously looking at alternatives in the form of Australian coal and have already initiated discussions with potential suppliers, but deals haven't been concluded, sources said.

One trader confirmed there were firm enquiries but points out that even if the deal is finalized, the actual loading is not going to happen before March-end.

There is a limitation to availability of similar type of coal or coal that suits South African specs of high FC above 52%, volatile matter of 22-27%, sulphur of less than 1% and does not comes with CSN, a coking property.

"We have to look at alternatives. If we continue to rely fully on South African coal, a situation will soon come when our position will become like that of Indian steel makers of 10-12 years back when their entire coking coal supplies were coming from Australia," an official of one of the Kolkata headquartered company said.

This company buys about 1.5 mt/y or one cape in every 40 days of South African for its plants in West Bengal and Jharkhand.

Indian imported about 34 mt of South African coal in 2018, as per compilation by IHS Markit based on data received from ports, customs department and shipping companies.

Of the total 34 mt, around 75-80% or 26-27 mt was estimated to be 5,500 kc NAR coal which is consumed primarily by sponge iron makers. Another about 15-20% or 5-7 mt was 4,800 kc NAR and the remaining around 5% was 6,000 kc NAR.

In 2019, India's January-November thermal imports is provisionally estimated at 35.90 mt, up 13% on year, from 31.71 mt.

November imports of 3.32 mt were up 3% on the month and 44% on the year, but December import is likely to be a bit lower on month, but still up significantly from 2.21 mt in December 2018.

India's South African imports rose in 2019 because of reduced domestic availability and attractive pricing in April-September.

IHS Markit assessed South African coal prices averaged $63.74/t FOB in April-September 2019, down 37% on year, from $100.95/t in the same period of 2018.

However, the prices started firming up from September and jumped 57% to $88.21/t FOB, basis 6,000 kc NAR, on 10 January, from a low of $56.31/t FOB, same basis, on 30 August.

The price of 5,500 kc NAR South African coal jumped 44% to $66.83/t FOB in the same period, from $46.47/t FOB.

Limitations of other sources of supply

Other sponge iron makers believe that currently options are limited, but even if they can manage 20-25% of their requirement from Russia, Australia or even Colombia, their dependence on a single supplier will come down.

According to traders and sponge makers, the alternative sources have their own issues and it may not be possible to completely replace South African coal.

There are probably 1-2 mines in Australia that can supply coal that has specifications like South African coal and options could be available from Russia as well. And probably from Colombia, if pricing can be matched.

The generic Australian thermal coal mines have coal with low VM of 17-18% and coking properties (CSN).

"Ultimately it is CSN and vols that are problems with Australian coal. Presence of CSN makes the coal sticky during burning and this is not suitable for sponge making. But there is some coal available in Australia that is loaded from DBCT and

comes with FC of 50-52%," a trader said.

Coal from Mozambique is also not suitable for sponge makers because of high sulphur, presence of CSN and its fine quality.

Russian coal can be an option as it does not have CSN issue, but no sponge maker has probably tried it so far.

"Options must be there, and we have to find it out. We will try Russian coal as well as Colombian coal. The latter can be considered if the delivered price is matched," said another sponge iron maker that buys 1.2 mt/y of South African coal.

Past efforts

A few years back, a trader had brought Australian coals from Queensland and tried to develop it as a substitute for RB2 for sponge iron makers.

That was the time when Australian thermal coal prices had become cheaper as against South African coal.

It sold almost 1 mt into to a few sponge iron units, where it was found to be technically suitable. However, not everybody in the industry were willing to trial out the new specifications coal.

As end-users dithered, South African coal became more economic and the trade had to liquidate the remaining stocks to power plants, and the initiative came to a halt.

Possible reason for failure

The primary reasons for lack of proper experimenting with other origin coals to replace South African coal was the fragmented nature of sponge iron industry in India and presence of mostly the small players.

Barring a few who can consume 50,000 t a month, everybody consumes anything between 3,000-15,000 t/m, who find trialing new cargoes cumbersome, the trading company's official said.

Another key reason is the easy availability of South African coal, which can be brought by traders into any Indian port for stock and sale selling. The long wait times at other origins becomes untenable as most Indian sponge iron makers rely on very short term purchasing.

Briefs

CIL aims to ramp-up Q1 e-auction

An aggressive production goal in January-March has resulted in Coal India Ltd (CIL) planning to auction higher tonnages and deliver on postponed contracted tonnes to industrial buyers in the same period.

While it is not expected to lower imports in the first three months of the year, the jury is still out on the impact further out.

The state-owned miner is planning to deliver an extra 18-20 mt to industrial (cement, captive power and sponge iron) buyers of contracted coal that was delayed primarily due to the poor weather from August to October which caused flooding at multiple mines.

Many of the end-users took to the import market over that period, particularly the industrial players, to cover their shortfall as CIL had prioritised delivery to state-owned power plants.

In addition, there are obvious doubts over the likelihood of CIL reaching is aggressive production goal.

"We are aiming to produce 228-255 mt in January-March at average 2.5-2.8 mt/d and will offer up to 27% (62-69 mt) out of this for sale through the e-auction route," a senior CIL official said.

This would be 34-61 mt more than the same period last year when 194 mt was produced and massively over the 147 mt produced in October to November 2019 period that was impacted by the monsoon.

Consequently, industry expectations are that CIL will be only be able to produce around 210 mt in this period. Despite this, it is still expected that CIL will be able to make tonnes available for auction and contract catch-up.

CIL's intention behind dispatching as much coal as possible through the e-auction is to keep its inventories within manageable limits as the power sector's demand is tapering.

Stocks typically rise in January-March as production increases due to favourable weather conditions and at a time when burn by power plants tapers down due to low electricity demand.

One-day strike crimps CIL output

A one-day strike called by major Indian trade unions on 8 January to protest government plans to bring in a new citizenship law restricted production at some of Coal India (CIL)'s mines.

CIL is currently producing at around 1.95 mt/d and the strike action is expected to cost less than 150,000-200,000 t of lost output, a CIL official said.

Most of the workers who joined the protests returned to work shortly after, the official said.

Attendance of 89% was recorded at all CIL subsidiaries in the first shift of the day and operations were normal at most of the mines, with the exception of three subsidiaries.

The Rajmahal and Mugma mines of Eastern Coalfields Ltd (ECL) each lost around 15,000 t of production, while sporadic incidents of protests by trade union representatives affected around 50,000-75,000 t of output at Mahanadi Coalfields Ltd (MCL).

One of Bharat Coking Coal Ltd (BCCL)'s mines was partially affected by the strike, while seven smaller mines of South Eastern Coalfields Ltd (SECL) saw production losses due to the protests.

Operations at SECL's larger mines such as Dipka, Kusmunda and Gevra were near normal, the official said.

Briefs (continued)

Thermal imports up November on stock rebuild

India's thermal coal imports rose 13% on the month and 10% on the year on higher intake from South Africa and Indonesia, the latest IHS Markit compilation of provisional data from ports, customs and shipping companies show.

Imports rose for the second straight month as consuming sectors, including sponge iron makers, rushed to replenish post monsoon stocks. Stock had dwindled sharply on an extended monsoon that ended in mid-October against the normal mid-September.

Imports in November stood at 16.80 mt, up 13% from a revised 14.93 mt in October and 13.08 mt in September. This was up 10% on the year, from 15.29 mt in November 2018.

Imports in November from South Africa rose 3% on the month to 3.32 mt, but were up 44% on the year from 2.30 mt.

Indonesian imports rose 22% on the month and 15% on the year to 11.96 mt.

In all, India's thermal imports were a provisional 171.56 mt in January-November, up 12% from 153.35 mt in the same period last year. Coal imports in 2018 were 167.17 mt.

Power plants coal imports up 28% on year in November

Coal imports by Indian power plants rose 28% on the year in November as they raised their intake in anticipation of curtailed domestic supplies and better electricity demand.

Total imports in November stood at 6.59 mt, up from 5.15 mt in November 2018, and 9% on the month, from 6.02 mt, according Central Electricity Authority data.

Imports by power plants rose 22% on the year in January-November, to 63.53 mt, from 51.90 mt.

The increase in November imports was largely because of a 40% on the year rise in imports by inland plants that use imports to supplement domestic supply shortages, with the volume rising to 2.47 mt, from 1.76 mt.

Coal India output hits fiscal year high in December

Coal India achieved its highest monthly production of the current Indian financial year (April 2019-March 2020) in December.

In the process, it also recorded the first year on year increase in monthly output since May.

The state-owned miner produced 58.02 mt or 1.87 mt/d in December, which was up 16% on the month from 50.02 mt (1.67 mt/d) and up 7% on the year, from 54.14 mt (1.75 mt/d).

Despite an improved performance in December, the miner's April-December production was down 6% on the year to 388.41 mt, from 412.44 mt.

CIL's 660 mt target for the financial year is certainly out of its reach. It would have to produce 90.53 mt/m or 2.98 mt/d in the next three months (January-March) to achieve the target. This far exceeds its monthly record of 79.20 mt or 2.55 mt/d, set in March 2019.

Another government-owned miner, Singareni Collieries Company Ltd (SCCL), reported a 5% on the month rise and 5% on the year decline in production to 5.71 mt, while its dispatches rose 4% on the month, but fell 8% on the year.

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