Research

CRISIL
An S&P Global Company

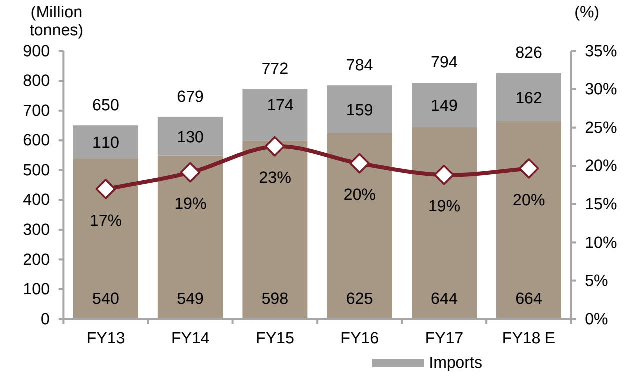
# Coal imports to remain hot

## Led by power sector, domestic demand to stay ahead of production

July 2018

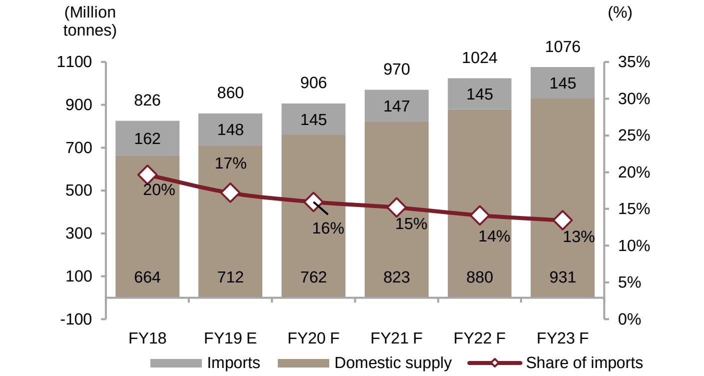
# Screenshots

### Non-coking coal consumption grew ~5% CAGR… 1



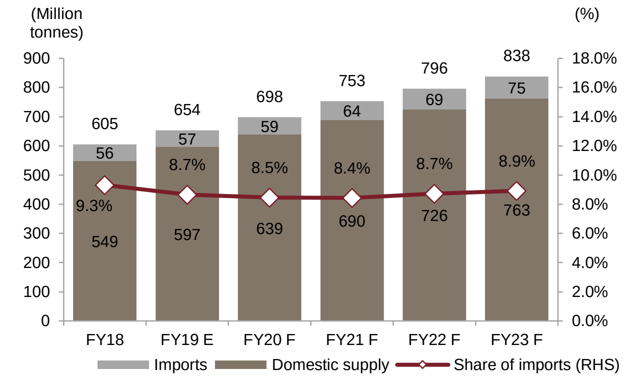

*Source: Ministry of Coal, CRISIL Research*

### …share of imports to decline over next five years 2



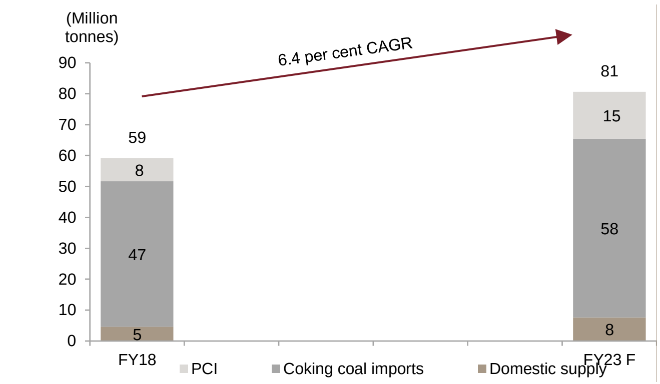

*Source: Ministry of Coal, CRISIL Research*

### Power the largest non-coking coal consumer… 3



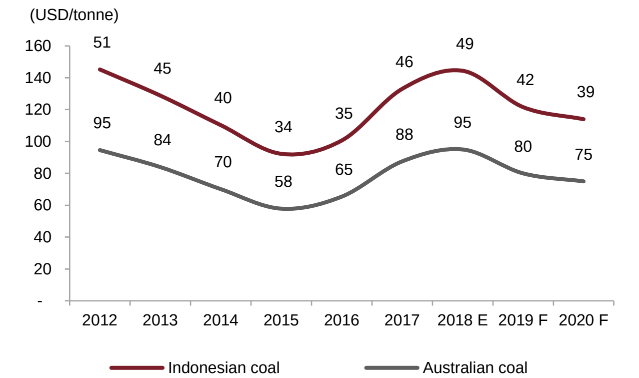

*Source: CRISIL Research*

### …and steel to drive coking coal demand 4



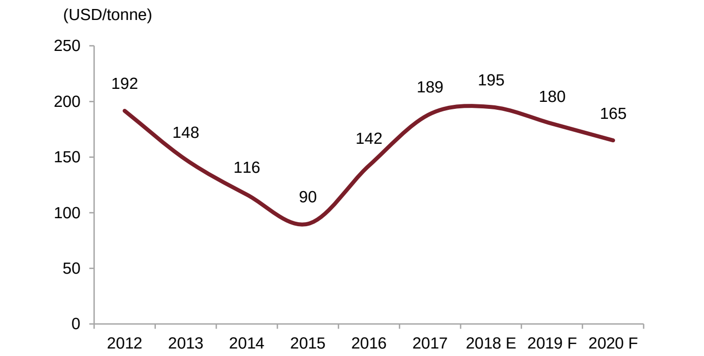

*Source: CRISIL Research*

### Thermal coal prices to stay high in 2018… 5




*Note: Prices are for Austraila – 6,300 Kcal/kg, Indonesia – 4,200 Kcal/kg coal*
*Source: Industry Publications, CRISIL Research*

### …but coking coal prices to decline 2019 on 6




*Note: Prices are for Austraila – 6,300 Kcal/kg, Indonesia – 4,200 Kcal/kg coal*
*Source: Industry Publications, CRISIL Research*

## Revival in power demand, commissioning of coal-based capacities, pick-up in industrial activities to boost domestic non-coking coal demand

Consumption of non-coking coal is expected to clock a compound annual growth rate (CAGR) of ~5.4% to ~1,076 million tonne (MT) in fiscal 2023 from 826 MT in fiscal 2018. This would be driven by a 6.5% CAGR in coal-based power generation.

Domestic supply is forecast to log a CAGR of 7% to 931 MT from 664 MT between fiscals 2019 and 2023. The growth will ride on increased production from Coal India Ltd (CIL) and commissioning of large captive coal blocks such as Pakri Barwadih, Parsa East and Kente Basan (15 MTPA each), primarily allotted to PSUs.

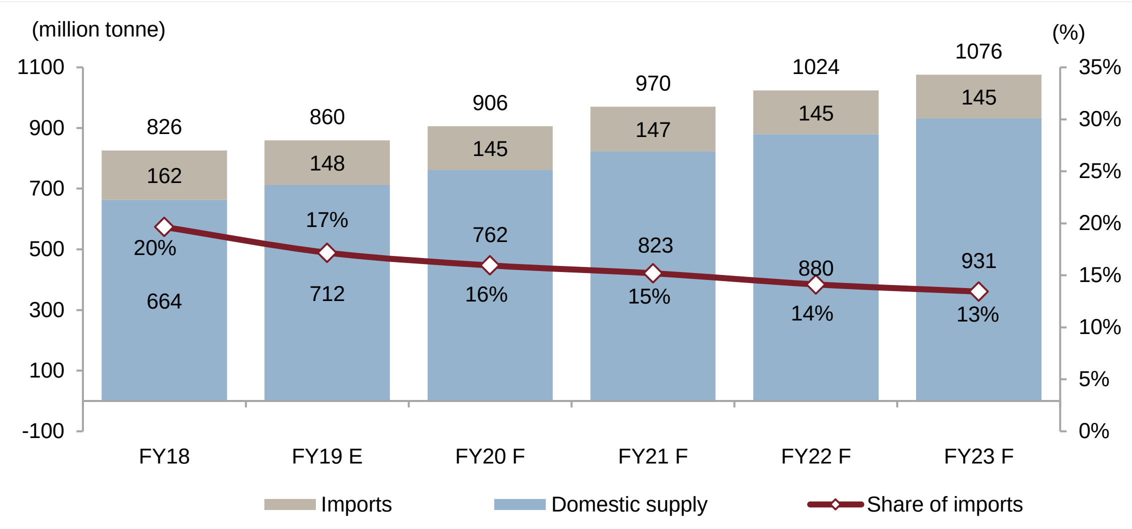
Consequently, the share of imports in non-coking coal consumption is forecast to fall to 13.4% in fiscal 2023 from 19.6% in fiscal 2018.

In absolute terms, non-coking coal imports are estimated to decline to 145 MT in fiscal 2023 from 162 MT in fiscal 2018.

Power sector imports are projected to cross ~75 MT by fiscal 2023, driven by demand from imported coal-based plants as their plant load factors (PLFs) improve following growth in power demand.

However, non-power sector imports are expected to decline to ~70 MT due to improvement in domestic supply post linkage auctions and development of key captive blocks allocated to the non-regulated sector.

**Outlook on non-coking coal demand over FY18-23**

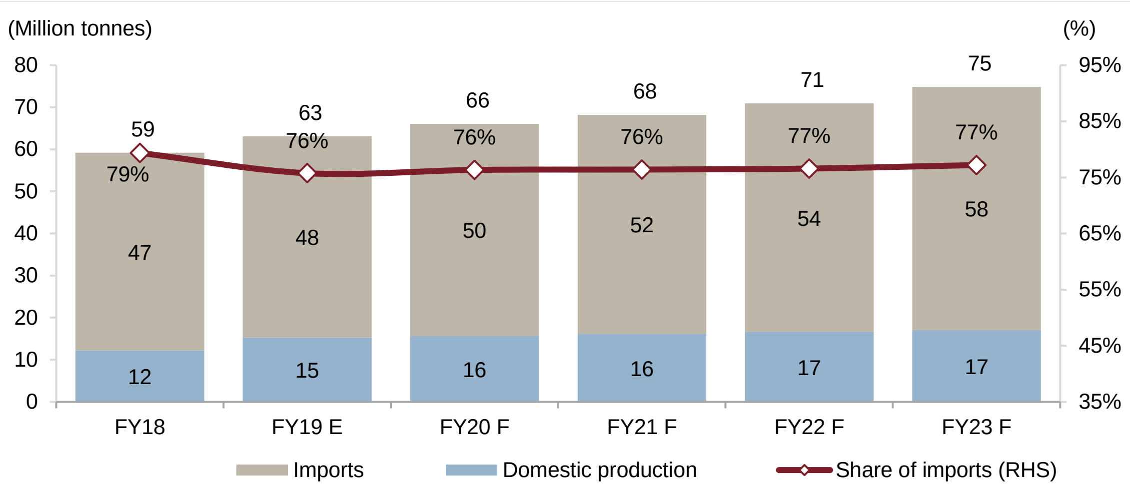



*Source: CRISIL Research*

### Rise in steel production to stoke coking coal demand

Growth in steel production is expected to push up demand for metallurgical coking coal to 65 MT in fiscal 2023 from 51 MT in fiscal 2018, logging a CAGR of 5%. However, domestic supply of metallurgical coking coal is estimated to remain low in spite of logging a CAGR of 9.5% to 19 MT in fiscal 2023. Consequently, the share of imports is forecast to remain high at 85-87% over the next five years. In absolute terms, coking coal imports are expected to increase to 58 MT in fiscal 2023 from 47 MT in fiscal 2018.

### Outlook on coking coal demand over FY18-23




*Source: CRISIL Research*

## Coal India hike to buoy domestic non-coking coal prices

We expect domestic coal prices to increase 10-12% between fiscal 2018 and 2019, led by:

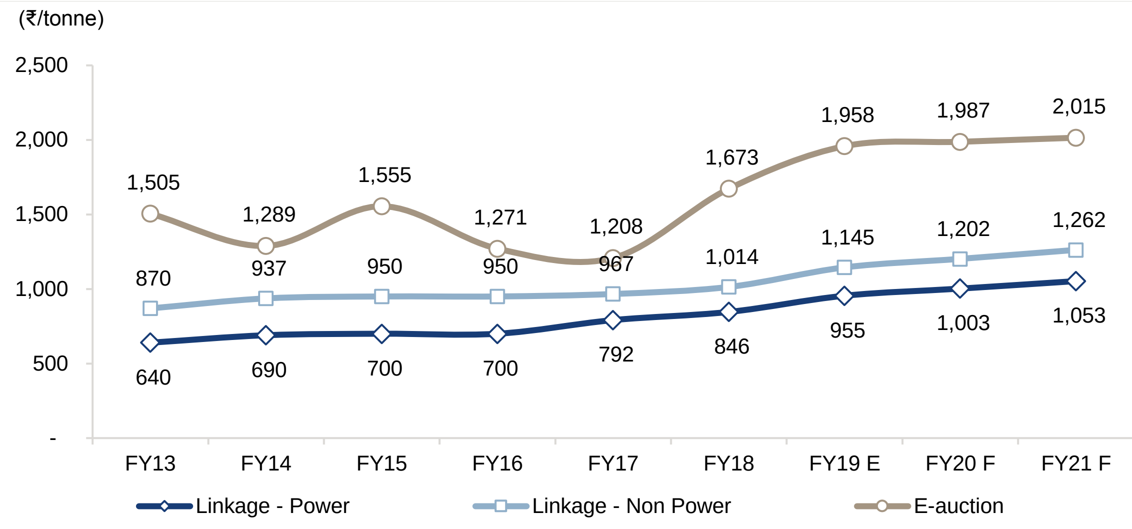
- **Linkage prices**: CIL has hiked the prices of non-coking coal for both power and non-power sectors from January 9, 2018 by 12-15% across grades. It has also introduced an evacuation facility charge of Rs 50 per tonne for all its consumers who source coal by rail or road. We do not expect any further rise in auction prices in fiscal 2019 as the recent price hike has spurred concerns of an increase in power tariffs. Moreover, narrow margins for the non-power sector and the government's focus on increasing domestic consumption leaves little room for any further price hike.
- **Auction of linkages:** in a bid to ensure assured supply to power plants from domestic coal producers, the government has introduced auction of linkages for the power sector through its newly launched Scheme for Harnessing and Allocating Koyala Transparently in India, or SHAKTI. However, central and state-owned plants are exempt from such auctions. Hence, independent power producers will have to participate in auctions to secure coal supply for power plants.

  Meanwhile, In order to move towards market-determined pricing, the Ministry of Coal has introduced a new mechanism in the linkage policy for non-power sectors. Under this mechanism, the existing linkages of non-power companies will not be renewed and new linkages will only be awarded through auctions, wherein players bid for a premium over the notified price.

  However, the response in auctions for the sponge iron and cement sectors has been tepid. The reasons include uncertainty over quality of coal supplied (grade slippages), and high cost of logistics (transporting coal from the pithead to the end-user) in certain cases. With these factors expected to continue over the next two years, we expect the premium over the notified price to remain low.

- **Spot auctions:** Coal companies also sell coal through spot auctions for power and non-power sectors periodically. In fiscal 2018, Coal India sold ~55 MT of coal through spot auctions at a premium of ~66% over the notified price. In fiscal 2019, the premium earned in spot auctions is expected to be 45-50% on account of rise in demand from both power and non-power sectors. However, going forward, we expect spot auction premiums to decline on account of replenishment of coal stocks at power plants, increased supply to the non-regulated sector, and stable import price outlook.

**Outlook on domestic coal prices (run-of-mine, 4,200 kcal/kg)**




*Sources: CIL, industry publications, CRISIL Research*

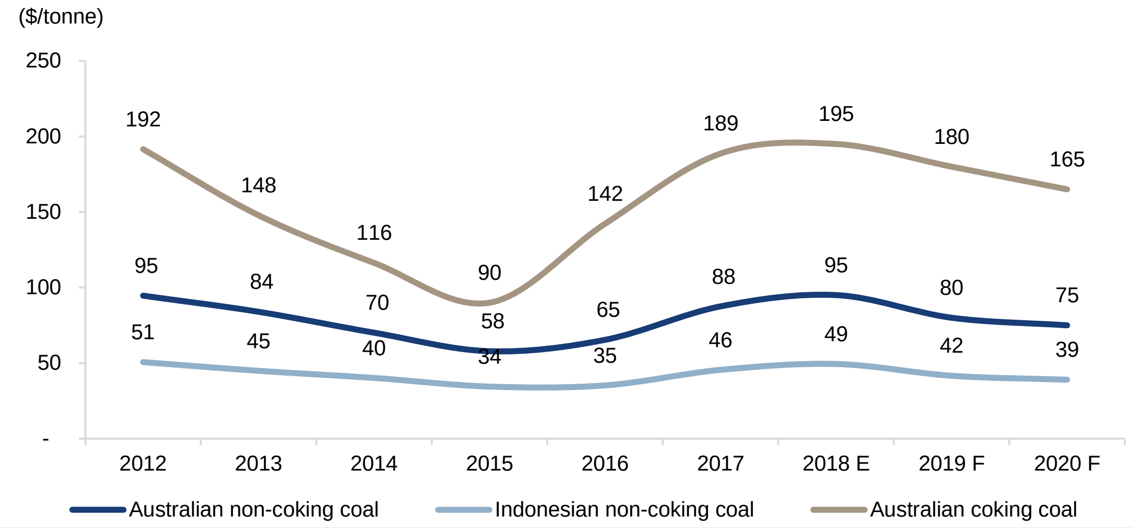
## Global non-coking coal prices to stay high in 2018 as supply deficit persists

Non-coking coal prices increased ~35% on average in 2017 due to rise in demand from China, India and other coal importing countries such as South Korea. However, supply remained subdued due to mining disruptions in Australia and mine closures due to safety concerns in China.

The premium of Australian coal to that of Indonesian coal remained relatively high, leading to a spurt in Indonesian coal exports pushing prices upward in 2017.

However, prices are expected to ease through 2018 and decline further in 2019 as supply returns to normal and demand moderates. Moderation in GDP growth and shift to renewables in order to combat rising pollution levels is expected to result in a fall in demand for non-coking coal in China, which accounts for more than half of global non-coking coal consumption. On the other hand, resumption of mining operations in Australia and Indonesia is expected to overcome deficit situation in the market, leading to a gradual decline in prices. Consequently, we expect Australian (FoB Newcastle, 6,300 kcal/kg) coal prices to range between $90 and $100 per tonne through 2018 and decline to $75-85 per tonne in 2019.

**Outlook on international coal prices**




*Note: 1. Prices are for Australian thermal coal: FoB basis, Newcastle – 6,300 kcal/kg; Indonesian thermal coal: FoB basis ,Kalimantan – 4,200 kcal/kg.*

2. Note: Price refers to FoB price of premium low volatile coking coal

*Source: Industry publications, CRISIL Research*

## Global coking coal prices to soften, but still be dear at $190-200/ tonne in 2018

Coking coal demand is expected to be positive over the next five years owing to revival in steel demand across the world.

Coking coal production is expected to improve, led by resumption of coal mines that had been closed down following government intervention in China, resolution of transport bottlenecks in Australia, and scrapping of restrictive policies in the US.

Slow-moving coal cargo at major coal handling ports in Australia and China on account of a sudden rise in coal demand is delaying deliveries further, leading to soaring spot prices.

However, with resumption of supplies from major exporters and moderate coking coal demand persisting, CRISIL Research expects prices to decline only marginally and range between $190-200 per tonne in 2018. Prices are expected to fall further in 2019, to $175-185 per tonne.

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