Indian Coal Report

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Customer notice: IHS Markit's coal price reporting service completes fourth annual assurance review; adds four new markers to the in-scope benchmarks

The assurance review was conducted by independent professional services firm PwC and examined the policies, processes and controls that the IHS Markit coal team uses to establish price benchmarks for thermal coal. These policies, processes and controls are designed to ensure compliance with the principles for price reporting agencies (PRAs) set out by the International Organization of Securities Commissions (IOSCO). A "reasonable assurance" review was carried out for those benchmarks already in-scope, as recommended by IOSCO. In addition, the IHS McCloskey Northwest Europe Steam Coal (5,700kc min) marker; IHS McCloskey Richards Bay (5,700kc NAR min) FOB marker; NAPP FOB Rail marker; and ILB FOB Barge marker were subjected to a limited assurance review.

To download the report visit our website: https://www.ihs.com/products/coal-price-data-indexes.html

Delays in tender award restricts thermal imports

By Rakesh Dubey

Indian state generators are delaying awarding thermal coal import tenders of around 13.5mt, as offers have been above their internal price assessments.

Of the seven Public Sector Undertaking (PSU) power generating companies which had floated tenders totalling 15.25 mt between July and October, only one (Tamil Nadu Generation and Distribution Corporation Ltd or Tangedco) has so far finalized its awards totalling just 1.75 mt, according to industry sources.

A further 4.5 mt is expected to be awarded in the next two weeks by NTPC and Maharashtra State Power Generation Company (Mahagenco) – 2.5 mt from NTPC and 2.0 mt from Mahagenco.

The delays in making finals awards could curb Indian import volumes in December by 1.5-2.0 mt out of expectations of around 15.0 mt. The delays are likely to extend into January, and could reduce import volumes by a further 1.0-2.0 mt.

Falling international prices were largely blamed for the delays with buyers seeking further reduction on offered prices.

"It appears that the base price offered by suppliers does not match expectations of buyers and so they want re-negotiate," according to a tender participant.

That has prompted calls from would-be sellers to change the system so rather than a reverse auction, after which the winner has to renegotiate prices, buyers make clear their price expectations.

He said such a system would speed up the finalisation of tenders as suppliers "will only submit their offers provided they can match the expectation right from the beginning," he said.

In contrast, tenders by private buyers are concluded more quickly.

Nabha Power, a private sector company that runs a 1.5 GW plant in Punjab, finalized its 0.6 mt tender floated on 15 September which was awarded in late October.

Private firms can award more swiftly, because their electricity tariffs are linked to coal prices and can pass on changes more easily than a PSU, which tends to sell their power mostly on fixed-price contracts.

Nabha Power is likely to float another tender of 0.5-0.6 mt in January-February 2019.

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.

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Awaiting award

One of the longest-delayed awards is Tangedco's 3 mt request floated in July. The tender requested 2.4 mt for its plant in Ennore and 0.6 mt for Tuticorin, with an option to purchase +/-25%.

So far only the Tuticorin segment was awarded with the generator taking 0.75mt, after exercising its +25% option.

The business went to Maheswari Brothers Group (MBG) at $66-67/t FOR Tuticorin, basis 6,000 kc GAR.

It is unclear whether Tangedco will go ahead with the remaining 2.4 mt for Ennore as several rounds of negotiations with the lowest bidder – Knowledge Infrastructure Systems Pvt Ltd (KISPL) – were deadlocked.

In a second tender floated in September by Tangedco for 2 mt for Ennore, GMB emerged with the lowest offer, beating Chettinad Group.

But Tangedco has awarded only 1 mt to MBG at around $69/t FOR Tuticorin, basis 6,000 kc GAR. It is understood that the generator is still looking to award the remaining 1mt.

NTPC's two separate tenders of 2.5 mt each in August and September and Mahagenco for 2 mt in August are also blowing in the wind.

NTPC's first tender totalling 2.5 mt - 0.5 mt for delivery to west coast ports and 2.0 mt for delivery to east coast ports – saw Adani Enterprises emerge as the lowest bidder and a final award is likely to take place within next week, a source claimed.

But an NTPC official told IHS Markit on 12 December that the base price offered in this tender was at least 20-25% above their estimate. The estimate was arrived at after calculating fob prices, loading charges, freight rates, unloading charges, stevedoring and transportation to their plants.

"After several rounds of negotiations, a final offer has been submitted by the lowest bidder. We will seek board's approval for the revised lowest offer and then move accordingly," the official said, hinting they may even scrap the tender, if the offers are not accepted by the board.

However, the second NTPC tender, where Adani and Chettinad Group made the lowest offers are still under negotiation.

Gujarat State Electricity Corporation Ltd (GSECL) had floated one tender for 1 mt in September for its various plants, while NTPC Tamil Nadu Energy Company Ltd (NTECL), a joint venture between NTPC and the state-owned Tamil Nadu Electricity Board (TNEB), floated a single tender for 0.85 mt in October for its 1.5 GW plant in Vallur.

Adani again is understood to have made the lowest offer, but that the base price used by Adani is being discussed.

It is understood, the fate of remaining awards will largely depend on how NTPC decides on award of its first tender of 2.5 mt.

The other generators, who have floated the enquiry, will take a cue from NTPC and decide accordingly because in their case, except for Tangedco, the lowest offers are higher than their expectations.

"NTPC's quick decision making will pave the way for fast award of tenders by other generators," an official of one of the participants said.

Debt-ridden private steel mills set for a new start

By Gomati Jagadeesan

India's private steel sector is poised for a reset in 2019 after insolvency-led restructuring has seen stiff competition between existing players and new global entrants keen to increase capacity.

With over 22 mt of steel capacity under restructuring plans, the ownership of some major private mills including Bhushan Steel already changed hands this year. However, with the insolvency process beset by legal challenges and court proceedings, the new year is expected to bring resolution on the restructuring of other mills including the 10 mt/y capacity steel plant owned by Essar and Bhushan Power and Steel (BPSL).

The restructuring of India's debt-ridden private mills started last year after the country's Reserve Bank referred five major mills to a national tribunal to undergo the insolvency process under the Insolvency and Bankruptcy Code (IBC).

India's two largest private integrated steel mills Tata Steel and JSW have led the acquisition pack this year. Perhaps the biggest success story in India's steel sector restructuring this year was Tata's takeover in May of Bhushan Steel (BSL), which has a 5.6 mt/y plant in Odhisha, that currently operates at around 3.5 mt/y. While the Bhushan acquisition increased the debt-level for Tata, Bhushan's operations have made a steady contribution to Tata's bottomline.

With Bhushan already integrated into Tata's operations, the company is planning to lift current output at Bhushan to 4 mt/y by the end of the current fiscal year in March 2019. Tata plans to boost its output capacity in India to 30 mt/y by 2025 from the current level of 18.5 mt/y. While much of expansion is expected via brownfield growth, it is hoping to add around 5.6 mt/y of capacity through acquisitions.

Subsequent to the BSL takeover, Tata has also inked an all-cash deal to buy out Usha Martin's steel business in September. This includes a 1 mt/y alloy-based manufacturing capacity of long products, a producing iron-ore mine, a coal mine under development and a captive power plant. The transaction is expected to close early next year.

JSW Steel, which has steel production capacity of 18 mt/y successfully acquired the 1.5 mt/y capacity Monnet Ispat and Energy in July. JSW is hoping for a complete turnaround of Monnet by the middle of next year, which also dove-tails with its expansion plans. It is planning to boost its capacity to 25 mt/y by 2021.

Earlier in the year, Vedanta Group was declared the successful bidder for the debt-laden Electro Steel, which owns the 1.5 mt/y integrated steel mill in Jharkhand in Eastern India. The mill the potential to be expanded to 2.5 mt/y.

While four of the six distressed steel mills under the insolvency process have been taken over, two major ones are still pending. This includes the 3.5 mt/y capacity Bhushan

Power and Steel (BPSL), which is facing ongoing legal challenges to its proposed acquisition by JSW.

While Tata Steel was declared the highest bidder in the initial round of bidding, most of BSPL's lenders voted in favor of a revised JSW bid in a contest that saw interest from UK-based Liberty Group.

However, Tata has alleged that BSPL lenders had allowed for changes to JSW's bid parameters after the announcement of the bid outcome, which are against the insolvency proceedings. The government tribunal, which is hearing the case, is likely to make a ruling soon.

Perhaps the most controversial bankruptcy proceeding is of Essar Steel, which owns the 10 mt/y capacity integrated steel plant in Gujarat. The mill is heavily in debt and though a consortium led by ArcelorMittal and including Nippon Steel were declared the preferred bidders, Essar Steel's promoters offered a counter bid, offering to pay down the entire debt, which has been rejected by the lenders.

While the Arcelor bid has received some regulatory approvals, it has been objected to by a few operational creditors, who will have to take a substantial haircut. The Tribunal is likely to make a ruling early next year, potentially paving the way for a new owner for Essar.

Briefs

Railways lift imported coal haul

Indian Railways' (IR) November railing of imported coal rose 11% on the year to 9.12 mt, from 8.22 mt, according to provisional data.

This was because the national carrier slightly raised allocation of rail cars for moving stocks from ports.

IR's total coal railings in November increased 8% on the year to 50.94 mt, from 47.31 mt, and up 2% on month, from 49.73 mt.

November coal railings was 10% above the target of 46.52 mt. In all months beginning March, IR had surpassed its monthly coal loading targets, except in September.

The national freight carrier missed its September target as loading was affected by rains that impacted movement of coal from mines to rail-loading points.

Domestic coal loading in November was 41.82 mt, up 3% on the month from 40.75. This was up 7% on the year, from 39.09 mt.

Imported coal loading of 9.12 mt, the highest monthly loading in 2018 so far, was up 11% on the year, from 8.22 mt.

But the increase in the number of cars for transporting imported coal was not quite enough to stem stockpiles at 18 major ports as fresh arrivals outpaced dispatches from ports.

Stocks of imported coal rose to 19.07 mt as on 29 November, from 18.73 mt as on 1 November.

Nov coal output up 5% on year, dispatches up 3%

India's coal production in November rose a provisional 5% year on year, while in January-November, output rose 8% on the year, according to data compiled by IHS Markit.

The country's coal dispatches from mines rose a provisional 3% on year in November, and by 7% on year in January-November.

Production in November stood at 62.95 mt, up 5% on year, from 59.95 mt. In January-November, the country produced 650.64 mt, up 8% on year, from 602.58 mt.

November production rose 6% on month, from 59.63 mt. October production was up 20% on month, from 49.82 mt in September, and up 10% year on year.

Dispatches in November stood at 62.54 mt, up 3% on the month, from 60.56. This was also up 3% on the year, from 60.76 mt. In January-November, the dispatches were 661.11 mt, up 7% on year, from 620.11 mt.

The output in November was not enough to meet the demand from the power, cement and steel sectors. But the coal stocks with power plants improved a bit on lower burns in country's winter month and higher domestic availability due to prioritized allocation of rail cars.

Imports continue to rise due to soft trend in international prices that have encouraged industrial consumers to opt for more imports as their domestic allocations were scarce.

October thermal imports were 17.07 mt, up 27% on year, from 13.46 mt. This was also up 22% on month, from 13.95 mt.

A slackened growth in India's November production was primarily due to a capped 2% on year growth reported by Coal India Ltd (CIL) to 52.08 mt, from 51.29 mt. This was due to higher base last year.

Singareni Collieries Company Ltd (SCCL) and other mines, including captives, continue to record healthy on year growth in their outputs.

SCCL produced 29% more material in November at 5.77 mt, from 4.49 mt a year earlier, while other mines raised output by 22% year on year to 5.10 mt, from 4.17 mt.

Refineries cut Dec loading petcoke prices by 9%

Indian oil refineries have reduced the basic price of petcoke for loadings effective 1 December, industry sources said.

The new price is INR8,550/t ($122/t) free on rail or free on truck, basis 7,500 kc NAR, with 6.5% sulphur, down from INR9,350/t ($134/t) for loading in November.

This is the second downward revision in as many months, in response to softness in international prices and a stronger Indian currency versus the dollar.

IHS Markit assessed high-sulphur petcoke price at $59.00/t FOB USGC on 30 November, up 4% from $56.50/t FOB on 26 October, but down significantly from $79.50/t on 28 September and $85.00/t on 24 August.

The Indian currency rose to INR70.31 against the dollar on 3 December, making imports cheaper.

However, sharp falls in Indonesian and Australian thermal coal prices, mean coal remains the preferred fuel for cement makers for a third month running, with petcoke prices still about 23% more on a c.v. adjusted basis than Indonesian 3,800 kc NAR material.

Gujarat govt allows tariff increase for 3 plants

The government of Gujarat is understood to have directed its power distribution company to raise tariffs to INR3.10-3.50/KWh from around INR1.70-2.70/KWh for three imported coal-based power plants with combined generation capacity of 9.83 GW.

The directive pertains to plants owned by Adani Power (4.63 GW), Tata Power (4.0 GW) and Essar Power (1.2 GW).

Post-implementation, India's thermal coal imports, particularly of Indonesian origin, are likely to go up by around 6-8 mt/y, from last year's (2017-18) level of around 23 mt.

Adani Power, at its peak, imported 16.77 mt of coal in the 2015-16 Indian financial year for its Mundra Plant. Adani's imports fell to 10.97 mt in 2017-18.

Essar Power's import peak of 3.00 mt was in 2014-15,

Briefs (continued)

dropping to just 1.17 mt as it progressively closed units from October 2017 to avoid mounting losses as its long-term tariff of INR1.70-2.70/KWh became unviable.

Tata Power imported 11.14 mt for its plant near Mundra in 2017-18, but has kept its imports at a consistent level, despite incurring losses. Tata has a stake in an Indonesian mining company, which helped offset a part of its generation losses.

Adani's and Tata Power's plants are designed to burn on low-c.v. (3,400-4,200 kc GAR) Indonesian coal, while Essar's plant can burn Indonesian as well as South African coal of 4,800 kc NAR and even 5,500 kc NAR.

These power generators had entered into back-to-back long-term coal supply agreements with Indonesian miners at a fixed price, but those broke down after a change in Indonesian law in 2010, which exposed them to vagaries of the Indonesian coal market, while keeping them on fixed electricity tariffs.

They sought upward revision in their fixed tariffs citing force majeure after the change in Indonesian law, but this was rejected by the India's Supreme Court in April 2017.

After progressive closures, Adani Power completely stopped generation in March of 2018.

This prompted the central government to direct the Gujarat government to devise a mechanism to save the INR500bn ($7.15bn) investment it had made in these projects.

The Gujarat government formed a special committee that recommended an increase in tariffs for these plants.

The recommendation by the special committee was then taken before the Supreme Court, which directed the generators and discoms to seek tariff revision approval from concerned regulatory authorities.

It is understood that the regulators (Central Electricity Regulatory Commission or CERC and State Electricity Regulatory Commission or SERC) will accept the recommendation of the special committee.

India's core sector growth slows to 4.8% in October

The growth rate of eight Indian infrastructure sectors slowed down to 4.8% in October due to contraction in the production of crude oil, natural gas and fertilizer.

Eight infrastructure sectors of coal, crude oil, natural gas, refinery products, fertilizer, steel, cement and electricity had grown by 5% in October 2017.

Fertilizer production dropped sharply by 11.5%, crude oil by 5% and natural gas by 0.9% in October over the year-ago month, according to recent data by the commerce and industry ministry.

The production of coal, cement and electricity, on the other hand, expanded in the month under review. During April-October 2018-19, the eight sectors recorded a growth rate of 5.4% against 3.5% in the same period last year.

The country's core sector growth in September was 4.3%, the lowest in past four months.

Power plants Oct coal imports up month and year

Coal imports by Indian power plants jumped by more than a third in October from the previous month, boosted by firmer electricity prices and limited domestic fuel supplies, data from the Central Electricity Authority (CEA) show.

October thermal coal imports rose to 6.61 mt, up 36% on the month from 4.87 mt. This was also up 26% on the year, from 5.25 mt, at 155 power plants with combined generation capacity of 183.81 GW monitored by the CEA.

In the first ten months of the year, imports by power plants fell 6% on the year to 46.75 mt, weighed down by a 14% reduction in intake by coastal plants to 30.81 mt, from 35.75 mt in the same period last year.

However, a decline in coal prices from first-half highs and better power prices have seen their intake jump in October.

Import volumes by coastal plants rose 61% on the month and 23% on the year, to 4.69 mt, from 3.11 mt in September and 3.82 mt in October 2017, with imports by Tata Power more than doubling to 1.25 mt, from 0.52 mt in September and up from 0.88 mt in October 2017.

Day-ahead electricity prices averaged INR5.94 ($0.09)/KWh in October, up 27% on the month, from INR4.69 ($0.07)/KWh. This was also up 46% from the year ago average of INR4.08 ($0.06)/KWh.

Import intake by inland plants which commonly use imports to top up domestic supply shortfalls, rose 9% on the month to 1.92 mt, from 1.76 mt. Their imports were up 35% on the year from 1.43 mt.

Total coal consumption by the 155 power plants stood at 56.46 mt in October, up from 52.26 mt in September.

Of the 155 monitored plants, 35 plants with combined generation capacity of 48.46 GW used imported material in October.

In September, 33 plants had used imports and their combined generation capacity was 42.94 GW.

In October 2017, only 25 plants with combined generation capacity of 34.15 GW used imported coal.