Trading - Coal

Industry Code (as per CMIE Prowess): 0101020100000000'

June 2022

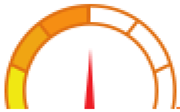
Overall Industry Risk Score: 14/20 Favourable

Sample Size: 4 Companies

Median Rating Value of sample size: A-

Individual Parameters Contributing to the Score

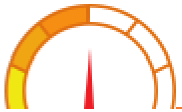
Demand & Supply Balance



12/20

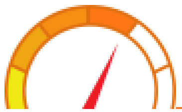
DS Equilibrium

The coal output declined during FY21 on the back of contraction in economic activity and lower offtake by power sector, the largest segment user sector. Coal India Ltd. accounts for more than 80% of India's domestic coal output. The gradual reopening of the economy is expected to result in higher power consumption & higher demand from steel sector translating into uptick in demand for coal. As per www.coal.nic.in, India's Coal production increased by 29% to 66.58 MT from 51.62 MT during April 2022 as compared to April 2021. Coal offtake increased by 8.66% to 71.30 MT from 65.62 MT during April 2022 as compared to April 2020. The overall power generation in April 2022 has been 11.75% higher than the power generated in April 2021 and 2.23% higher than power generated in March 2022. Coal imports are likely to fall by 12.3 per cent in 2022-23. A total of 175.1 million tonnes of coal is expected to be shipped to India as against an estimated 199.8 million tonnes of coal imported in 2021-22 due to a surge in international coal prices following the Russia-Ukraine war.

Extent of Competition  12/20

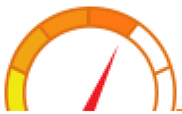
Neutral

In India, coal production has been predominantly controlled by Coal India Ltd and even lignite production is mostly under another PSU, NLC India (erstwhile Neyveli Lignite). Competition comes from imports from countries such as Indonesia and Australia. Government regulations to allow captive coal mine holders to sell 50% of their output in open market will add to availability of coal.

Regulatory Risk  16/20

Stable Regulatory environment

Government has opened up commercial coal mining for private sector players . It has also allowed 100% FDI through the automatic route for the mining of coal and lignite. This is allowed for power producers, cement and iron/steel manufacturers' captive consumption. While these reforms are necessary to improve efficiency in coal mining and reduce dependence on imported coal, the sector will remain a highly regulated business. Notwithstanding the policy focus on non fossil fuels like solar and wind energy, the fact remains that around 70% of our energy requirements are met by thermal sources and the dependence is expected to continue. The regulatory environment will be overall supportive.

Input Related Risk  16/20

No supply disruptions / very narrow price band or fluctuations

There are no major input related risks except for force majeure events such as natural catastrophes. Any violation of regulatory and environment norms can trigger operational disruption. The availability of railway rakes for transportation of coal continues to be a logistical challenge.