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EQUITY, DERIVATIVES, CURRENCY, COMMODITY, DEPOSITORY, MUTUAL FUNDS, INSURANCE* & NBFC*

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Coal: *Opening up of commercial mining of coal will consolidate local industry*

The Cabinet Committee on Economic Affairs on 20 February 2018 approved the methodology for auction of mines or blocks for sale of coal under the Coal Mines (Special Provisions) Act and the Mines and Minerals (Development and Regulation) Act. The opening up of commercial coal mining for private sector is the most ambitious coal sector reform since the nationalisation of this sector in 1973.

In 2014, the Supreme Court had cancelled 204 coal mines or blocks allocated to the various government and private companies since 1993 under the provisions of Coal Mines (Nationalisation) Act, 1973. To bring transparency and accountability, the Coal Mines (Special Provisions) Bill 2015 was passed by the Parliament which was notified as an Act in 2015.

The methodology gives highest priority to transparency, ease of doing business and ensures that natural resources are used for national development. There will be an 'ascending forward auction' — a two-stage online auction comprising (i) technical bid and (ii) financial bid with initial and final price offers. There will be no curbs on the sale or use of coal from the mine.

At present, private sector firms are only allowed to mine coal for use in cement, steel, power and aluminium plants. Coal India Ltd (CIL) is the sole commercial miner with 80% market share. About 70% of power generated in India uses coal. Domestic coal has been able to meet only 75% of our annual coal demand. The move, which would not just help attract foreign investment but also bring in efficiency and promote competition, follows government's decision of opening up the coal sector to commercial mining by private entities.

A key feature of the proposal is allowing 100% FDI in commercial mining as well as coal export. Coal production is likely to increase in future, transforming into a competitive scenario. This new norms would be a great opportunity to overseas companies in countries where coal mining is either on the wane or has been stopped completely, but there is a need to choose companies with superior technology and competence. The move could be the first step towards the full privatisation of the mining sector, adding that global mining giants like BHP, Rio Tinto, Anglo American and Glencore have expressed interest in prospecting for coal in India. However, coal blocks would be commercially viable only if they are offered in minimum blocks of 40-50 million tonnes.

It is expected to bring in greater efficiency, technology, higher investment and more employment. It would also lead to more revenue that can be used for development of the area and inhabitants around the mine by the State. Jharkhand, Odisha, Chhattisgarh, West Bengal, Madhya Pradesh, Telangana and Maharashtra would benefit the most.

FICCI welcomes Cabinet approval of Commercial Mining of Coal

FICCI welcomes Cabinet approval to introduce commercial mining of coal and sees it as a landmark policy decision that will change the face of Indian Coal Sector by ushering in rebalancing of prices and market dynamics riding on efficient and large-scale mining.

FICCI considers it as an enabling measure to concurrently reinforce 'Make in India' initiative and attract foreign capital to boost productivity while progressively reducing dependence on coal imports. A defining measure will be to create a policy framework that will enable international participation and make the coal sector subject to competition and efficient pricing.

FICCI also welcomes the proposal of ascending forward auction as a means to maximise the value of a scarce resource like coal and consequent redistribution of wealth.

FICCI had pioneered the concept of commercial mining of coal, suggesting a biding framework for auctioning of mining leases and market construct on the lines of a Clearing House for transparent price discovery. FICCI believes that the ripple effect of efficient coal mining will benefit the downstream sectors of iron and steel, cement and power in improving their market access and serving a larger cross-section of buyers as a vehicle for economic growth. For power especially, coal being the feedstock of significantly large capacities, a collateral benefit will be higher capacity utilisation and leveraging of short term and spot markets that can be serviced by commercial coal to improve liquidity and secure new revenue streams.

Given the country's vast coal reserves and potential for scientific exploitation in un-mineralised areas, commercial mining entrusted to specialised agencies under a commercialisation, scaling up domestic coal production and strengthening India's market-based economy.

Coal Industry- an overview

Coal is a key element in energy as it provides around 30% of the global primary energy needs and generates 40% of the world's electricity. It is currently the world's second largest source of primary energy and is widely expected to replace oil as the world's largest source of primary energy within a few years.

In India, coal is the most dominant energy fuel which meets more than 50% of country's primary commercial energy requirements. Around 72% of the entire power generated in the country is coal based. The pivotal role of coal is expected to continue in the foreseeable future, primarily because of abundance of coal reserves, easy accessibility and importantly affordability. As of 1 April, 2015, the estimated geological resource of Indian coal was 306.59 billion tonne.

Coal industry in India is predominantly state owned. Major share of the country's coal production is contributed by PSUs like Coal India, Singareni Collieries Company, Neyveli Lignite Corp. For the fiscal FY2017, Coal India has achieved a production of 554.13 mt, down by 44.48 mt or 7.43% from target production of 598.61 mt, but clocking a growth of 17.62 mt or 3.3% from production of 536.51 mt corresponding previous year.

Domestic Coal production and imports

Domestic coal production dropped a marginal 0.1% to 65.21 million tonnes (mt) in December 2017 over December 2016 but higher by 7.1% over November 2017. Coal production inclined 1.3% to 468.46 mt in April-December period of FY2018 compared with over a year ago period. Coal production grew 3.2% to 671.53 mt in FY 2017 after registering a growth of 4.8% to 650.79 mt in FY2016.

The coal import stood at 19.68 mt worth Rs 13,045.89 crore in December 2017, up 28.8% in volume terms and higher by 12.1% in value terms from corresponding previous year. For April-December period of FY 2018, Coal imports grew 4.9% in volume terms to 157.69 mt and up by 46.6% in value terms to Rs 1,05,835.45 crore. Coal imports de-grew 4.4% in volume terms to 195.34 mt but up 19.5% in value terms to Rs 1,05,616.82 crore in FY2017 over a year ago period.

CIL production and offtake for January 2018

Coal India (CIL) missed its production and sales target for January 2018. It produced 56.69 mt coal in January 2018, a shortfall of 6.63 mt or 10.47% from the targeted production of 63.32 mt for the month. The PSU's coal off-take stood at 53.70 mt, a shortfall of 3.66 mt or 6.38% from the sales target of 57.36 mt. CIL's has fulfilled 90% of production commitments and achieved 94% of sales (offtake) target. Total five out of eight coal producing companies under CIL failed to meet production and five out of eight failed to meet sales targets.

CIL has achieved a production of 440.62 mt during April-January period of FY2018, down by 29.28 mt or 6.23% from target production of 469.90 mt, meanwhile, coal off-take stood at 475.12 mt, a shortfall of 14.34 mt or 2.93% from the sales target of 489.46 mt during the period. For the fiscal FY2017, CIL has achieved a production of 554.13 mt, clocking growth of 17.62 mt or 3.3% from production of 536.51 mt corresponding previous year. Meanwhile, coal off-take stood at 543.16 mt, clocking a growth of 10.90 mt or 2% from offtake of 532.26 mt corresponding previous year.

Coal India Q3 net profit jumps 4%

Coal India (CIL) total income from operation inclined 6% to Rs 21,643.28 crore for the third quarter ended December 2017, due to rise in sales volume partially offset by drop in realization. Coal India's production inclined by 2.9% at 152.04 million tonnes (MT) during quarter, meanwhile Offtake raised by 6.8% to 152.43 MT. CIL's average realizations was down 8.6% to Rs 1359 per tonne.

OPM inclined by 230 bps to 21.3%. As a %age of sales and net of stock adjustments, employee benefits cost rose 170 bps to 41.5%, while contractual cost declined 100 bps to 15.3%. As a result, the operating profit inclined by 18% at Rs 4617.85 crore.

Other income was down 21% to Rs 840.86 crore, thus, the PBIDT inclined 10% to Rs 5458.71 crore. The Company interest cost fell 12% to Rs 97.44 crore, while depreciation cost grew 7% to Rs 751.06 crore. Thus, the Profit before Tax (PBT) grew 11% to Rs 4610.21 crore.

The net Tax Expense for the quarter rose by 26% to Rs 1605.19 crore. The effective tax rate for the quarter increased 420 bps to 34.8%. Thus, PAT before EO and minority interest gained 4% to Rs 3005.02 crore. After accounting loss of Rs 0.23 crore in shares in JV's/associates, Net Profit was up 4% to Rs 3004.79 crore.

CEA directs all States to use 5-10% of biomass pellets with coal for power generation in thermal power plants

Union Minister of State (IC) for Power and New & Renewable Energy, Raj Kumar Singh informed that the Ministry of Power has issued a policy to use 5-10% of biomass pellets along with coal for power generation in thermal power plants. Further, Singh said that in order to promote use of the Biomass pellets, the Central Electricity Authority (CEA) has written to all Central/State Utilities, State Governments, Power Equipment Manufacturers/Integrated Power Producers/ Generating Companies that all fluidized bed and pulverized coal units of power generating utilities (coal based thermal power plants), public or private located in India except those having ball and tube mill, shall endeavour to use 5-10%

blend of Biomass pellets made, primarily, of agro residue along with coal after assessing the technical feasibility, viz., the safety aspects etc. The Minister also informed that the NTPC has invited tenders for procurement of 500 TPD (tonnes per day) agro residue based biomass pellets and 500 TPD of agro residue based torrefied biomass pellets/briquettes for power generation at NTPC Dadri Project, to be supplied over a period of two years.

Enhanced Production by CIL Helps Decline in Coal Imports says Ministry of Coal

As per the current import policy, coal is kept under Open General License (OGL) and consumers are free to import coal from the source of their choice as per their contractual prices on payment of applicable duty. However, Coal imports have fallen from 217.78 Mte in 2014-15 to 203.95 Mte. in 2015-16 and further to 190.95 Mte. in 2016-17. The trend of fall in import of coal has continued in 2017-18. The fall in imports is largely on account of enhanced production by CIL. The vendible stock of CIL has increased from 53.47 Mt. as on 01.04.2015 to 68.42 Mt. as on 01.04.2017. However, the gap between demand and supply of coal cannot be bridged completely as there is insufficient domestic availability of coking coal and power plants designed on imported coal will continue to import coal for their production.

Outlook

After nearly 41 years of state domination in the coal mines of India, Cabinet approval to introduce commercial mining of coal could be seen as a landmark policy decision that will change the face of Indian Coal Sector by ushering in rebalancing of prices and market dynamics riding on efficient and large-scale mining. Given the country's vast coal reserves and potential for scientific exploitation in un-mineralised areas, commercial mining entrusted to specialised agencies under a commercialisation, scaling up domestic coal production and strengthening India's market-based economy. The move would further buttress domestic production by exploiting the country's 300 billion tonne rich coal pits, enough to last for the next 400 years at current consumption levels. Also, it is expected to relax reliance on imports, saving India's precious forex in the long run.

Meanwhile, the domestic economic growth seems to have turned around the corner. India's Gross Domestic Product (GDP) growth has further accelerated 7.2% in the quarter ended December 2017 (Q3 of 2017-18), showing improvement from 6.5% growth in the preceding last quarter and 6.8% in the corresponding quarter last year. Quarterly Gross Value Added (GVA) also rose at improved pace of 6.7% in Q3 of 2017-18 over the corresponding quarter of previous year, showing improvement in growth from 6.2% in Q2 of 2017-18. The GDP growth stood at 6.4% in April-December 2017, compared with 7.5% recorded in the corresponding period last year. The GDP growth estimate for 2017-18 has also been revised upwards to 6.6% at second advances estimates level from 6.5% at first advance estimate level released in early January 2018.