

## FALLING DEMAND

# Coal imports seen down as industrial output stagnates

BY RUCHIRA SINGH  
ruchira.s@livemint.com

NEW DELHI

India's coal imports in the year to 31 March may fall as stagnating industrial production, including slower growth in power generation, could curb demand for the fuel, experts said.

The projected decline in coal imports is surprising as India's appetite for the resource has always been expected to be perennially on the rise. India produced 539.94 million tonnes (mt) of coal in 2011-12, while demand stood at 696.03 mt, according to coal ministry data.

"It is possible coal imports may fall," said Khaleel Rahim, marketing director at **State Trading Corp. of India Ltd (STC)**, the government's commodity trading arm that imports coal for local users including **NTPC Ltd**, the country's largest power producer. "If you see, the manufacturing sector that requires power has not been able to grow much."

Rahim, speaking on the sidelines of the Mjunction coal seminar on Wednesday, said power, cement and steel companies had imported 45-50 mt of coal last year, but this year there were hardly any import tenders floated by the big companies.

India's industrial production rose 0.1% in July from a year earlier, weighed by a contraction in manufacturing, mining and capital goods purchases, government data showed earlier this month. The cumulative industrial output in April to July contracted 0.1% from a year ago, the data showed.

"Most of the companies we are dealing with, such as the power producers, have balance sheets that are in the red," said Virendra K. Arora, president, coal services at **Karam Chand Thapar and Brothers (Coal Sales) Ltd**, a private coal import-

er. "In the current year, we (India) are not really importing much more (than last year)."

Arora said India's total imports expected this fiscal are estimated at 70-80 mt, nearly the same as last year.

Coal prices in the international market are slumping as demand has slowed down, the experts said. However, longer term forecasts for India's demand continue to remain bullish.

"In the next three to five years, we are expecting a shortfall of 250 mt between demand and supply so we are expecting imports to grow close to 150 mt," said Kaamil Fareed, senior manager-trading at **Coal and Oil Co. Llc.**, a trading outfit that aims to sell 9 mt of coal to India this year.

The lack of interest in coal imports can also be the result of the lack of liquidity with the companies, specially power firms, which are said to be cash strapped owing to their commitment of selling power at low prices.

"Whatever money we put in has to come back to us. That guarantee, that assurance, nobody is able to give us," STC's Rahim said, adding that for this year, "we have not been able to finalize the (import) figures because everything is in a fluid state".

**Coal India Ltd**, the world's largest producer of the resource, is also looking to import coal to bolster its supplies. The company has so far only toyed with the idea of importing coal with the independent members of its board opposing imports and the idea of pooling of prices.

"The modalities have not been worked out," Rahim said, referring to Coal India's plan to import coal. According to him, Coal India has projected an import requirement of 42 mt, a part of which may be routed through STC.

"We don't know who is going

to come to us this year. Last year, it was NTPC," Rahim said.

Another reason why experts said they saw slower imports of coal this year was a thrust in the domestic production of Coal India.

Coal India has produced 162.86 mt of coal in the April-August period, reporting a 6.8% rise from the 152.49 mt produced in the year earlier. Chairman S. Narsing Rao said earlier this month the company was poised to meet the full year's target of 464 mt.

"There is a push in Coal India with the new chairman. Even if they manage to produce 30-35 mt more than last year, it would make a big difference," said Karam Chand Thapar's Arora. "Coal India has been static for the last two years. This year they are hoping there will be more action."

One of the actions Rao took after assuming chairmanship earlier this year was to invest in a railway link to increase the offtake of coal lying at pitheads.

Participants at the Mjunction seminar said international coal prices were depressed with the likelihood that prices will decline further.

"The outlook is looking bearish at the moment with the Chinese going away from imports at the moment, and with India's current capacity. There is not much demand in Europe," Coal and Oil's Fareed said. "The market is going to be bearish for another three to six months."

The current price of South African thermal coal of 6,500 kilocalorie in India is at \$95 (around ₹5,092 today) a tonne including insurance and freight cost, shipped in a capesize vessel. Fareed said a further 5% drop is expected in the prices in the next three months, based on market expectations.

Others were more bearish.

Karam Chand Thapar's Arora said he took advantage of a recent "distress sale" of a shipment that was destined to China from Indonesia. Arora said he purchased the 3,600-3,800 kilocalorie thermal coal for India at \$42 a tonne including insurance and freight cost.

"This is the rock bottom. If prices fall any further, miners will close capacities and shippers won't find it viable to transport coal."