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MORE THAN A COAL INDIA PROBLEM

India's primary coal producer can only be partly blamed for the coal shortage saga



Commercial mining of coal might work out well in the long-term, but in the short- to medium-term, the importance of Coal India and import dependence is likely to continue.

WEEKLY
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Betri coal, coal, coal (This damned coal).
—Kaula Ka by Varun Grover and Sneha Khanwalkar from *Gangotri Wasayee II*.

India is in the midst of a coal shortage and that has led to its power plants having very little coal. As per the latest daily coal stock report of the Central Electricity Authority, as of 21 October, the 135 coal linkage-based power plants had an average coal stock of four days. This is down from seven days as of 1 September and 15 days as of 31 March.

In this scenario, India's primary coal producer, the government-owned Coal India Ltd has emerged as the villain of the piece. The question is: Is it fair to blame just Coal India alone? At the end of the day, Coal India is a part of the system as it exists. But before we get into this, first, we need to understand what Coal India is all about.

THE COAL MONOPOLY
After independence, much of India's coal production was privately owned. The growth in coal production proved to be sluggish and was less than 2% per year before the 1970s. The former Coal India chairman, Partha Bhattacharya, mentioned in a June 2007 presentation: "The situation necessitated channeling public funds into coal mining. Mainly for this reason, coal mining was nationalised between 1974 and 1975."

Private firms were brought under the ambit of Coal India, which was formed as a public sector enterprise in November 1975. The company has seven wholly-owned coal producing subsidiaries and one mine planning consultancy company. These subsidiaries are headquartered in Nagpur, Dhanbad, Sanctoria, Samalpur, Bilaspur, Singrauli and Ranchi, with two companies being headquartered in Ranchi.

In 2020-21, the total coal produced by Coal India stood at 206.2 million tonnes. This was a little over 83% of the total 761.1 million tonnes produced in the country. India's dependence on Coal India has come down over the years, but at a snail's pace. In 1980-81, four decades back, Coal India produced 88.5% of India's coal. This monopoly of the Coal India firms has translated into tremendous operating margins. As per the Public Sector Enterprises

Survey for 2019-20, the state-owned public sector coal firms had an operating margin of 37.3% in 2019-20 and 37.5% in 2018-19, respectively. These margins are largely due to two firms, the Northern Coalfields Ltd and the Mahanadi Coalfields Ltd. In 2020-21, the two companies produced around 263 million tonnes or around 44% of the total coal produced by Coal India. Nonetheless, the South Eastern Coalfields Ltd, with 150.6 million tonnes was by far the largest producer, though its operating margins were significantly smaller.

Clearly, coal has been a profitable business for the government and that being the case, why do we have shortages? A profitable business should ideally encourage companies to produce more.

COAL RESERVES
As of April 2020, India had 1344 billion tonnes of coal reserves. In fact, Coal India's annual report for 2020-21 points out: "At the current rate of production, the reserves are adequate to meet the demand for multiple centuries."

So, why is there a coal shortage? Take a look at the adjacent chart that plots the percentage of coal demand met, through coal being produced and dispatched within the country, as well as imports. The coal demand fulfilled has been declining over the years. In 2020-21, only 96.1% of the coal demand was met. This was primarily due to a fall in coal production within the country in 2020-21.

It is interesting to see how the production of Coal India has grown over the decades. In the decade between 1980-81 and 1990-91, the coal production grew by 6.5% per year on average. This fell to 3.5% per year between 1990-91 and 2000-01. Between 2000-01 and 2010-11, it stood at 4.9% per year. In the decade between 2010-11 and 2020-21, it has fallen to an all-time low of 3.2% per year. A part of this slowdown can be attributed to the covid-19 pandemic leading to a contraction in production in 2020-21.

In order to adjust for this, let's look at the growth in coal production for the ten-year period ending 2019-20. That stands at 8.4% per year on average. This is more or less similar to the per year growth for the ten-year period ending 2020-21. The point here is that the production of Coal India typically tends to grow by 3-4% per year on average. The demand for coal on the other hand in the last ten years has grown by around 4.8% per year. So why is Coal India

not able to expand coal production fast enough? The answer lies in the fact that the firm is not able to start new coal mines fast enough. The annual report of 2020-21 points out: "114 coal projects with a sanctioned capacity of 836.5 million tonnes and a sanctioned capital of 12.2 trillion are in different stages of implementation, out of which 75 projects are on schedule and 39 projects are delayed."

The delay is attributed to delay in forest clearances, possession of land from which coal has to be mined and rehabilitation and resettlement of people living on that land. The firm also had to contend with encroachment and an appreciation in land prices. Simply put, Coal India runs into the major systemic challenges encountered by any entrepreneur in India.

THE CAPTIVE STORY
This is not to say that the government isn't aware of the situation. In fact in 1983, the government decided to allocate coal blocks to both private sector and public sector companies for captive consumption. Anyone starting a power plant could own a coal mine and use the coal from that mine to produce power.

By 2013-14, 218 coal blocks with a geological reserve of around 50 billion tonnes had been allocated. In September 2014, the Supreme Court cancelled allocation of 204 out of these 218 coal blocks. Some analysts have blamed the court for derailing India's coal story. But the fact is that captive blocks never really produced a significant amount of coal in the first place. In 2012-13, the total production of captive coal blocks stood at 37 million tonnes. This formed around 6.7% of the total coal production during that year. In 2020-21, net production from captive coal blocks was 69.4 million tonnes or around 9.3% of the total production. This is a slight improvement, but not something that can make a huge difference.

THE IMPORT STORY
In this scenario, coal imports became an important... Between 2012-13 and 2020-21, coal imports fulfilled a little over a fifth of the demand. In particular, imports from Indonesia became extremely important. Most coal mines are located in eastern and central India, whereas coal is needed all across the country. Transportation costs can be substantial—Indian railways, which moves a bulk of the coal within the country, uses its freight revenue to subsidize passenger travel.

A March 2019 Brookings report stated that on a landed basis, Indonesian coal is attractive more of the time. In 2020-21, India imported 92.5 million tonnes or around 43% of its total coal imports from Indonesia.

WHAT

The production of Coal India typically tends to grow by 3-4% per year on average. The demand for coal, on the other hand, has grown by around 4.8% per year in the last ten years.

AND

Coal India is unable to expand coal production fast enough because it is not able to start new coal mines fast enough. The delay is due to systemic issues such as delays in forest clearances.

MOREOVER

The trade receivables of Coal India as of March 2021 had jumped to ₹19,623 crore from ₹5,499 crore in March 2019. With money stuck, the company has less legroom for exploration and mining activities.

Between April and August 2021, coal imports from Indonesia stood at just 31.8 million tonnes, down 34.3% from 48.4 million tonnes during April-August 2019. This was primarily because of rains in Indonesia, the main reason behind the recent coal shortage. This has pushed down overall imports by 12.5% to 94.9 million tonnes during April-August in 2021 against 108.5 million tonnes during the same period in 2019. This fall hasn't been replaced by imports from other countries, simply because international coal prices in the last one year have gone through the roof. Alongside, the demand for electricity during April and September this year rose by 13% compared to the same period a year ago and 13.1% compared to the corresponding period in 2019, pushing up the demand for coal.

While the current crisis has been caused by a crash in coal imports, the entire equation was precariously balanced anyway—ultimately, this is a supply problem. India doesn't produce enough coal domestically despite the huge reserves.

WILL RENEWABLES DO THE TRICK?
There has been great focus on renewable energy. Yet, the dependence on

STEEP FALL

The coal demand fulfilled has been declining in India over the past few years.



Source: Coal Controller's Organisation, SARDISH KUMAR SHARMA/ANI

coal-based power continues. In 2005-06, coal-based power accounted for 53.1% of total power produced in India. By 2020-21, it was down to 53%. In absolute terms, almost twice more coal-based power was produced in India in 2020-21 than in 2005-06.

In fact, this dependence on coal is unlikely to change in the years to come. The Coal India annual report points out: "As India aims to increase its power generation capacity in coming years, a significant portion of the capacity is expected to come from coal itself. As of now, the share of coal in overall energy mix is expected to remain high at 48-54% even beyond 2050."

COMMERCIAL MINING OF COAL

The commercial mining of coal was allowed when the Parliament passed the Mineral Laws (Amendment) Bill in March 2020. Now, it is possible for a private company to produce coal and sell it commercially. The trouble is that the pri-

vate miners will face exactly the same problems that Coal India does when it comes to setting up a new coal mine. Along with the systemic issues mentioned earlier, the lack of human resources will also limit the ability of private miners. Currently, only employees and retired employees of Coal India have the expertise. Commercial mining of coal might work out well in the long-term, but in the short- to medium-term, the importance of Coal India and import dependence is likely to continue.

WHAT CAN BE DONE?

The trade receivables of Coal India as of March 2021 had jumped to ₹19,623 crore from ₹5,499 crore as of March 2019. Why is that?

Former coal secretary Anil Swarup writes in his book *Ethical Dilemmas of a Coal Secretary*: "The poor financial health of DISCOMs (the power distribution companies) would ultimately affect the payments to be made by DISCOMs to power generating entities, which in turn would find it difficult to make payments to Coal India Limited for coal supply." Swarup was coal secretary between October 2014 and November 2016.

With money stuck, Coal India has less legroom for exploration and mining activities. This is something that Coal India itself can't do much about; it needs support from the central government. The government also needs to support Coal India in sorting out issues related to land acquisition and environmental clearances. This needs to be done for the private commercial mines as well. The systemic issues, if at all, can only be resolved by those at the top of the system. In fact, this has been done in the past. Swarup writes: "Meetings were held at the state level and with the collectors, deputy commissioners to expedite process. This yielded the desired results as Coal India went on to acquire more than 5,000 hectares in 2014-15. A similar effort was made to facilitate environment and forest clearances as most of the coal-bearing areas lay under forest cover."

Further, in the past, the managerial capabilities of Coal India have been diverted towards fulfilling other social objectives of the government. This is not the job of mining managers and must be stopped. If all this falls into place, India may produce enough coal to meet its demand—perhaps a decade from now.

Urvashi Kaul is the author of 'Bad Money'. Disclosure: Kaul owns Coal India stock.

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DATA MONITOR

Coal output up 33% y-o-y in September

Coal production in September 2021 registered growth of 33% y-o-y and 31% vis-a-vis Sept'19 figures. However, on a m-o-m basis, it saw a fall of around 4%. Production and despatch volumes of coal were affected due to heavy rainfall in September across the mining geographies.

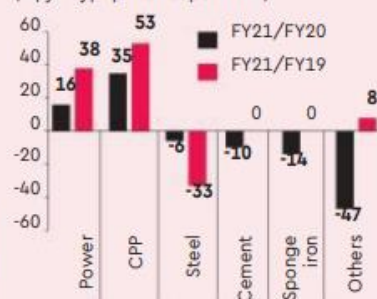
Coal production

September 2021 (Provisional)



Growth in sector-wise coal despatch

(%, y-o-y, April to September)



Note: CPP-Captive power plants, Others include fertilizers, textiles, chemicals, paper

Trend in international thermal coal prices



Sources: Ministry of Coal, World Bank, CARE Ratings



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कोल इंडिया-आईआईएम इंदौर के बीच एमओयू

धनबाद। कोल इंडिया लिमिटेड ने अपने अधिकारियों के लिए एक सप्ताह के आवासीय प्रबंधन विकास कार्यक्रम मैनेजिंग पीपल के लिए भारतीय प्रबंधन संस्थान (आईआईएम) इंदौर के साथ एमओयू पर हस्ताक्षर किया। वरिष्ठ एवं मिडिल लाइन के अधिकारियों को प्रशिक्षित करने के लिए समझौता ज्ञापन पर हस्ताक्षर किया गया।

सूत्रों ने बताया कि कोयला क्षेत्र में कई तरह के सामाजिक मुद्दे होते हैं। लोगों को मैनेज करने समेत अन्य मुद्दों को हल करने के टिप्स प्रबंधन संस्थान के गुरु कोयला अधिकारियों को देंगे। विनय रंजन, निदेशक (पीएंडआईआर), कोल इंडिया ने कोल इंडिया की ओर से समझौता ज्ञापन पर हस्ताक्षर किया और आईआईएम इंदौर की ओर से प्रो हिमांशु राय, निदेशक आईआईएम इंदौर ने हस्ताक्षर किया। सूत्रों की मानें, तो इस तरह के संक्षिप्त कोर्स से कोयला अधिकारियों को विवादित मुद्दे हल करने में आसानी होगी।

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जोशी ने बिजली संयंत्रों को 22 लाख टन की रिकॉर्ड आपूर्ति के लिए कोयला कंपनियों की सराहना की

नई दिल्ली। कोयला मंत्री प्रह्लाद जोशी ने सार्वजनिक क्षेत्र की कोल इंडिया लिमिटेड सहित अन्य कंपनियों द्वारा ताप बिजली संयंत्रों को 22 लाख टन कोयले की रिकॉर्ड आपूर्ति के लिए उनकी सराहना की है। कोयले की रिकॉर्ड आपूर्ति ऐसे समय हुई है जबकि ताप बिजली संयंत्र कोयला संकट से जूझ रहे हैं।

मंत्रालय ने बयान में कहा कि कोयला मंत्री जोशी ने

बृहस्पतिवार को ताप बिजली संयंत्रों को कोयले की रिकॉर्ड 22 लाख टन की आपूर्ति पर खुशी जताई है। जोशी ने ट्वीट कर कहा कि इसमें से 18 लाख टन कोयले की आपूर्ति कोल इंडिया ने की। उन्होंने कोयला कंपनियों को इस उपलब्धि के लिए बधाई दी। मंत्री ने कोयला कंपनियों से कहा कि वे उत्पादन और उठाव में बढ़ोतरी के अपने प्रयासों को जारी रखें।