

# STEEL<sup>TM</sup> INSIGHTS

STEEL BUYER'S GUIDE

INTERVIEW

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## 'INDIAN MILLS SHOULD ADOPT JSM STRATEGY OF JOINT COAL PROCUREMENT'

Coking coal as an input material for steel gains prominence as the majority of steel produced in India is done through the blast furnace route. However, the country is not endowed with this premium coal to the extent required. Thus to sustain operations, Indian steel mills are heavily dependent on coking coal imports from countries like Australia, the US and Canada. This makes coking coal prices an important barometer for profitability of steel mills in India. High coking coal prices contract margins of the mills and thus make timely procurement of coking coal an important strategic objective.

In this context, experts are of the opinion that coking coal prices are expected to moderate going forward and are unlikely to sustain at the current high levels. With steel prices sliding from the highs of calendar year 2018 due to trade tensions and a slower pace of economic growth, coking coal prices are yet to follow suit, putting pressure on the margins of steelmakers.

However, this is not likely to continue in the mid-term.

At prevailing prices, some large global coking coal miners are achieving higher earnings. Supported by the high profit levels of miners, capital spending in expansion projects is expected to pick-up. A natural corollary of high coal prices is supply response from miners. For instance, in 2018, Australian coking coal exports increased year-on-year by 5 million tons. This trend of rising exports from Australia is likely to continue in 2019 as well. It is expected that coking coal supplies from some of the major exporting nations like Australia, Indonesia, Mozambique, South Africa, and Canada will increase. In contrast, China's coking coal imports are largely flat and India's imports are increasing only at a modest rate. Thus, the seaborne coking coal market is expected to be in oversupply in 2019, which in turn may weigh down the prices.

In their effort to trim costs and partly mitigate the impact of high volatility in seaborne coking coal prices, domestic mills have been experimenting with various coal blends. Domestic steelmakers are experimenting with a higher share of semi-hard coking coal and a corresponding lower share of costlier hard coking coal in making coke. Additionally, mills are increasingly investing in upgrading their furnaces to allow the use of pulverized coal injection (PCI). Also, the Indian steel mills are diversifying their coal sourcing, as reflected in the increasing share of coking coal sourced from across the Atlantic, and a corresponding lower share from Australia. The longer term trend is that in both India and other large steel-producing nations blast furnaces are increasingly getting larger, which comes with the benefit of lower fuel rate and better efficiency norms.

At this juncture, Arun Jagatramka, Group Chairman, Gujarat NRE Coke Ltd, shares his views on the outlook of coking coal and coke market in India with Tamajit Pain & Arindam Bandyopadhyay.

Excerpts:

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**What is the present scenario like in the coking coal market? How is the volatility impacting Indian steel mills?**

The coking coal market is a mixed bag. There is no certainty about demand and supply. Also, cash position of most of the buyers are tight owing to the fiscal year end. The prices in the global market are volatile. The price volatility is affecting the steel producers and the currency volatility is also impacting sentiment in this sector.

Also, there are logistics issues affecting supply. There are long queues delaying shipments from Australia. That continues to be another issue.

**How is the coking coal scenario in China?**

When compared with India, China gets coking coal at a much lower price. If you track those prices, you will find that CIF China prices for coking coal are almost the same as FOB Australia prices. That's because of their bargaining power. Of course, freight from Australia to China is lower, about two-third the freight for India, as China is 14-15 days sailing time, while India is 21 days sailing time.

Overall, Chinese prices are low because that's the way the market has been developed, even though, I would say, today India buys more coking coal than China. China buys around 45 million tons (mt), while India buys a little more than that. Earlier, China used to import around 50-60 mt, but today it is down to 45 mt only, whereas Japan remains at around 70 mt.

**Do you think that India should follow combined bargaining strategy for coking coal procurement?**

Indeed. Unless we exercise joint bargaining, we cannot get such competitive rates. The Japanese Steel Mills have had the bargaining clout all along. I would say that Indian steel mills need to have such bargaining clout in the market. That is very much needed for the benefit of the Indian steel sector as a whole. Currently, the Indian mills are doing it in silos; everybody is doing it separately and having separate contracts and all. And everybody is paying through his nose for it.

There is another issue here. China imports only about 5 percent of its coking coal requirement. They consume almost 500-600 mt of coking coal, so 45 mt is only 5-7 percent of their consumption. If they are paying \$100 extra on imports, on their total requirement they may be paying \$10 extra. India imports 90 percent of its requirement. So, if we are paying the same \$100 extra, then we are paying \$90 per ton on our total steel raw material. That is another design of China to keep coking coal price high so that Indian steel cannot compete with them. That is a much bigger ball game.

**How can the Indian buyers gain that edge through joint bargaining?**

You need to understand that we can't operate our plants and will shut them down if we don't import coking coal for a month. At the same time, their (Australia's) mines cannot keep producing if you don't buy for a month. And they have a much bigger problem than you have, because for you, it's a calculable commercial loss

of production to that extent, if at all. But for them, coal is produced underground by Longwall mining. You can't stop a LW mine's production, because if you stop it, roof fall will occur and you will lose the machine. So you need to keep mining on an ongoing basis.

Moreover, they have very limited stockpile space both at the mine and at the port. So they cannot store coal. For them the compulsion to sell is more than the compulsion at my level to buy. If you have a monopoly, I am also a monopoly. If I don't buy 45 mt from you, you just will have to throw it to the Great Barrier Reef. You can't stop production. It is not switch on and switch off. If I stop my blast furnace, I will have to incur some expenses, but the blast furnace will not get damaged. But if they stop production at an underground mine, they will have to lose the mine for multiple roof falls etc.

If they are producing at a mine, then they must keep advancing. Longwall method is such that you keep on cutting the coal and the roof keeps falling behind you. If you stop it midway, the LW will be holding the roof just in front of you, but the

face beyond the LW is unsupported and that starts falling. And the moment there is one fall, it gets triggered to many.

Besides, by LW mining, you produce 10,000-12,000 tons of coal a day. Where do you store so much of production if you don't have buyers?

**Coming to metallurgical coke segment, what was the total demand for met coke in India last year?**

As a ballpark estimate, we are looking at around 45 mt of coking coal import per annum. Domestic production of coking coal can be taken at around 5-7 mt. So, 50 mt of met coal means you are looking at 35-38 mt of coke. That will be the thumb rule. Additionally, around 3 mt of coke is imported every year. So the total estimated demand for met coke in the country can be taken up to 40 mt.

Now, India produces around 65 mt of hot metal per annum through blast furnace route, which means around 60 percent or 35-36 mt of coke (at the rate of 600 kg per ton) is required to be fed. If you use pulverized coal injection (PCI), it reduces the coke rate. Nowadays, the use of PCI has

gone up. Most of the steel mills have started using PCI.

**India is looking at increasing its steel production substantially and blast furnace remains the primary production route till now. In that case coke demand will go up in tandem. Going forward how much do you see the demand to be like?**

There is no reason for coke demand to go down. Of course, coke rate will keep reducing in future, but in absolute terms, coke demand will continue to move up. As we know, in 10 years' time, the government is planning to have 300 mt of steel capacity in the country. Even if we reach the level of 250 mt, we will be needing at least 100-110 mt of coke every year.

However, capacity utilisation in the coke making segment is not showing much increase. Merchant coke plants, I think, are continuing with around 30 percent of utilization level. Despite imposition of the anti-dumping duty on imported coke in 2016, not much has happened because Chinese coke may be coming with some other labels. Then, Polish coke and Russian coke also keep coming to India. Imports



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