

# BiofuelCircle Market Insights

September 2024

## From the Editor's Desk: are we at the peak?

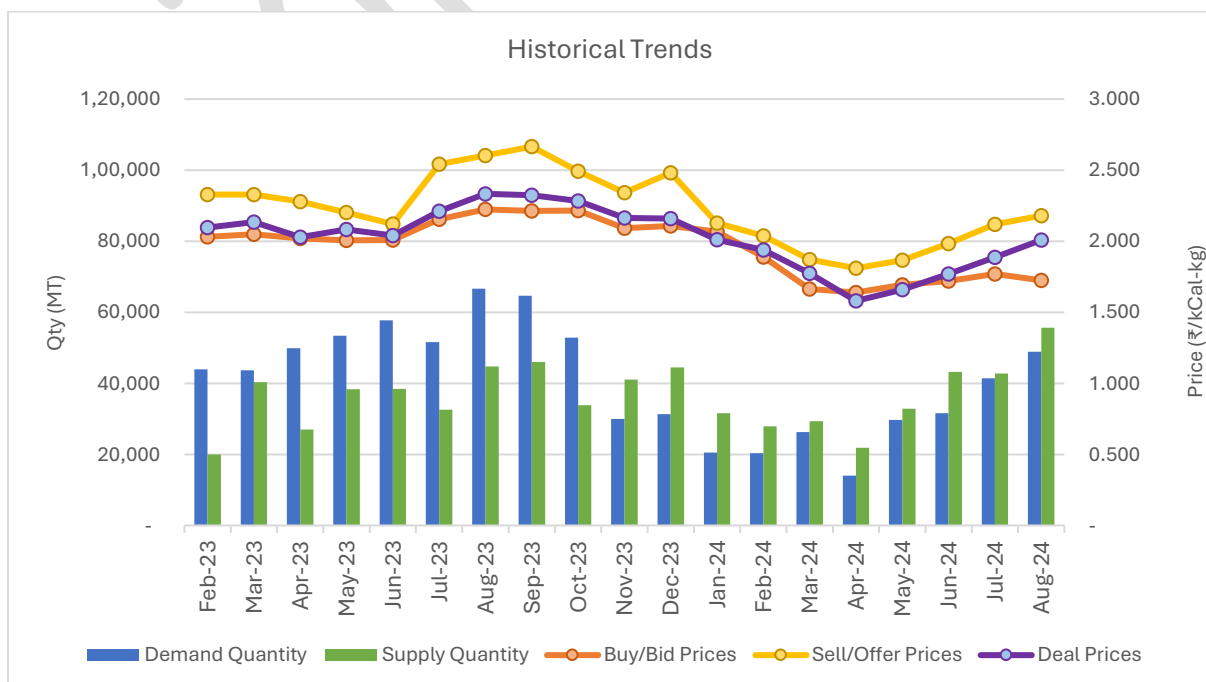
August 2024 saw average deal prices pulling closer than ever to Seller expectations. And a fall in coal prices combined with a more than 20% rise in Standard briquette prices, created a major divergence in the coal vs briquette spread.

August also saw a flat forward price curve, and Buyers holding fast to their expectations, for future delivery. With dwindling availability of Standard briquettes, Sellers held sway over the market. Average GCM went over ₹ 2,400/MT. Fears of delayed retreat of the monsoon bear heavily on the uncertainty in the market.

Have we reached the peak price typical of monsoons? Will cheaper coal force the price of densified biomass to retreat?

Read on for our analysis.

## Past Trends: Briquette Prices



This chart shows the pan-India trend on the BiofuelCircle platform, for weighted average delivered prices of Biomass Briquettes, converted to Rs per Kcal-kg over the past months, along with the availability & demand from our subscribers. Weighted average is calculated using quantity sought/ offered/ deals done, averaged over a month.

Buy/Bid prices (orange line) are expectations of Buyers (delivered basis). Sell/ Offer prices (yellow line) are based on responses and sells published by Sellers (again delivered basis). And finally, the Deal prices (purple line) are for deals concluded after platform-based negotiations between Buyers & Sellers. Demand (blue bars) is the total Buy quantity the month, and Supply (green bars) is the total quantity Offered by Sellers for that month.

The month of August brought no surprises as prices of Briquettes continued to climb. The weighted average price of deals done in Aug 2024 was ₹2.01 per Kcal-kg, a 6.5% increase over Jul 2024 at ₹1.89, and 27% higher than Apr 2024 when the price trend changed direction. The price last month was very close to the level seen at the beginning of the year, in January.

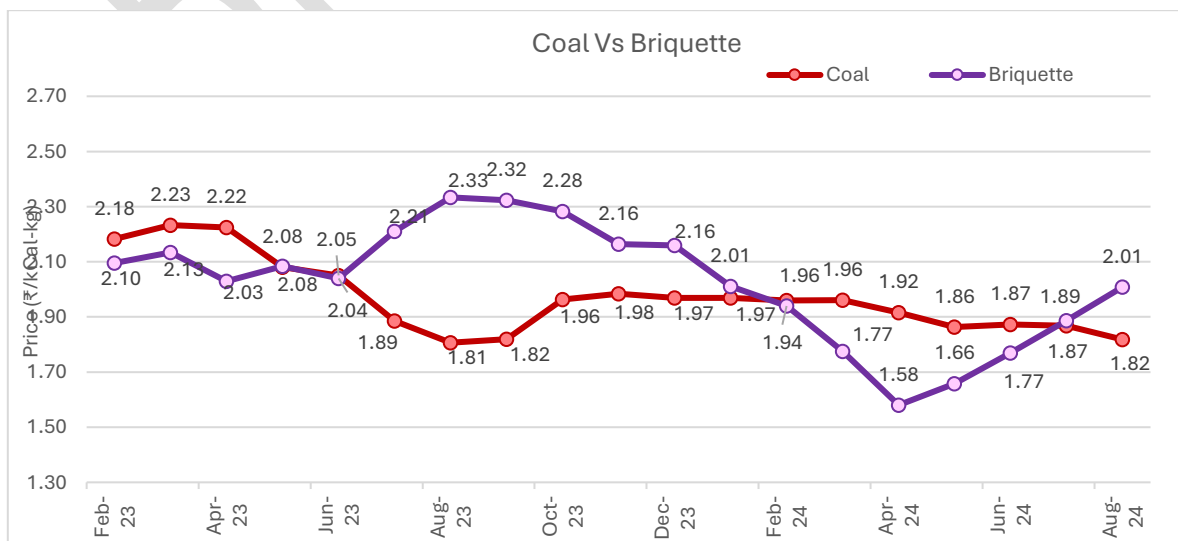
At 61% of all deals done, the proportion of Premium briquettes (GCV ~ 3800 or more, Ash ~ 8 to 12%) this month was the highest seen on the platform in the last one year. This is up from 45% in Jul 2024. Superior briquettes (GCV ~ 3400 to 3800, Ash ~ 8 to 12%) were slightly lower in the mix, at 26% last month, as compared to 31% in Jul. While Standard briquettes (GCV < 3400, Ash > 12%) became scarce, at 13% of all deals done in Aug. The share of Standard briquettes has been halving each month since June.

In line with reduced availability, the weighted average price of Standard briquettes jumped 22% in Aug 2024: from ₹1.59 per Kcal-kg in July to ₹1.94. This is amongst the steepest increases for any grade of briquettes in over a year and half. In contrast, Superior briquettes only rose 2% over July, to almost ₹2.00 per Kcal-kg. And Premium briquettes also went up ~ 2% to ₹2.03 per Kcal-kg.

The spread between Buyer and Seller expectations widened in Aug 2024. Sellers continued to seek prices higher than the previous month, offers reaching ₹2.12 per Kcal-kg. For the first time this year, the deal levels moved away from Buyers' expectations and closer to Sellers' demand. Buyers seem to have turned away, with bid prices retreating to ₹1.73 in August, down from ₹1.77 in July. So, while Buyers lowered their expectations, Sellers still gained the upper hand in August, indicating this is firmly a Sellers' market now.

### Price Comparison

The chart below compares the weighted average delivered prices of Biomass Briquettes to those of imported coal (GCV 3400 GAR). We call the difference between these prices as the 'spread.' Coal prices in this chart (maroon line) are sourced from market publications, for Indonesian origin coal (3400 GAR), imported at Kandla and delivered on average 300 km inland. Briquette prices (purple line) are based on deals done on the platform. Both are converted to GCV basis, for meaningful comparison.



Aug 2024 saw a full reversal in the spread between coal and briquette prices: on a weighted average basis, domestic briquettes are now 10% more expensive than equivalent imported coal.

In a departure from a narrow range of values, the prices of imported coal fell in August, to ₹1.82 per kCal-kg, a level last seen a year ago in Sep 2023. In energy terms, 3400 GAR coal is cheaper than Standard briquettes!

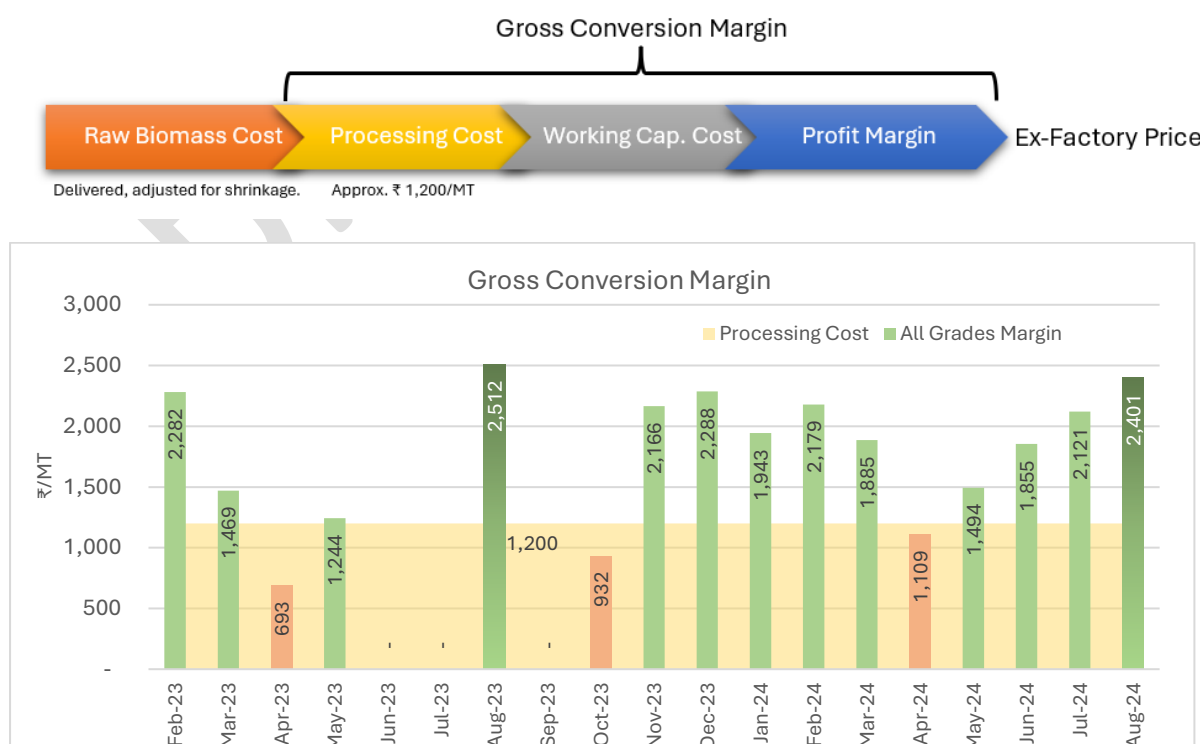
In the international markets, coal prices came under significant pressure in Aug 2024 with demand falling in all major import markets. Power demand in India declined by 5.3% on a year-on-year basis, the first time this has happened in 15 months. Last year, August saw a rainfall deficit and warmer average temperatures, which in turn lead to higher demand for power for both cooling and irrigation. In contrast, Aug 2024 saw excess rainfall across the country, with reduced demand for power, especially for irrigation. Higher rainfall also led to reduced output from the cement industry, further lowering demand for coal.

While thermal power plants reduced their coal inventories in August, they are in no hurry to restock. Coal prices are not expected to recover at least till the end of the monsoon.

### Past Trends: Gross Conversion Margin

This chart shows the pan-India trend on the BiofuelCircle platform, of the difference between weighted average ex-factory price of Briquettes and weighted average delivered prices of Raw Biomass, converted to Rs per Kcal-kg over the past months. Weighted average is calculated using quantity sought/ offered/ deals done, averaged over a month. This chart excludes commodities such as paddy straw, which are directly used for conversion to biogas or bioethanol.

To assess the inherent value of briquettes, we have compared the delivered price of raw biomass, with the ex-factory price of briquettes. Raw biomass prices have also been adjusted for expected shrinkage across various inputs. The difference represents the GCM (Gross Conversion Margin), which includes the processor's cost of conversion, inventory holding cost, and a profit margin. We have tried to benchmark this against an average processing cost of ₹ 1,200/MT (approx. ₹0.34 per kCal-kg) as represented by the shaded region in the graph below. On top of this will be the cost of working capital, which varies from processor to processor.



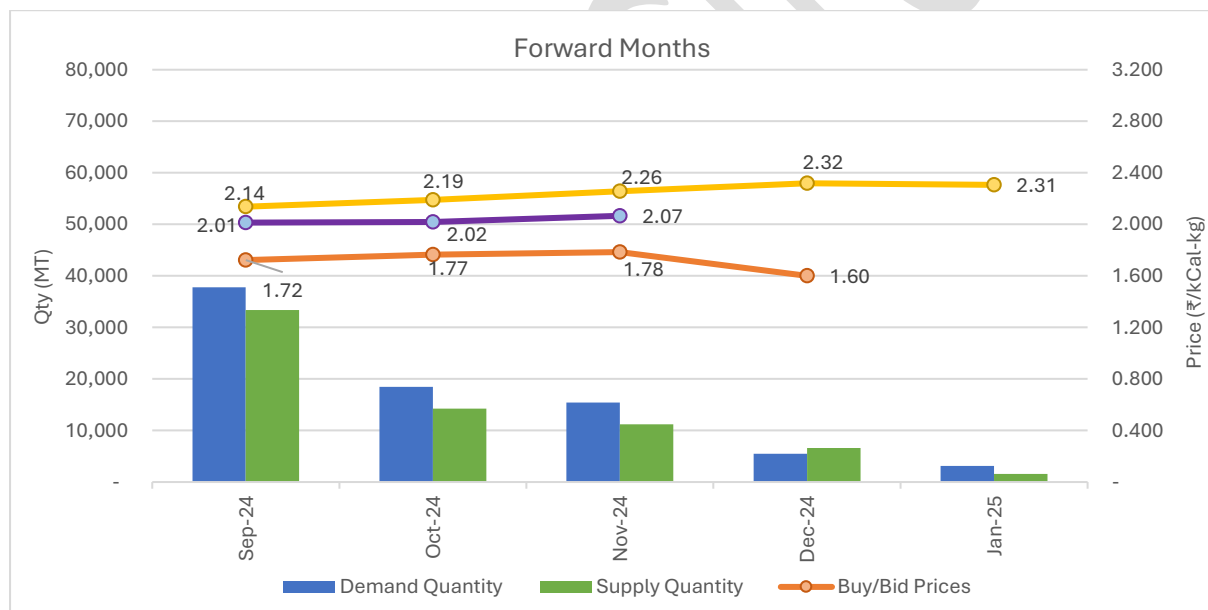
The average Gross Conversion Margin for all grades also climbed to ₹2,401 per MT in Aug 2024, just under the peak value of ₹2,512 last August. It can be argued this is adequate margin territory, being 33% of weighted average price of briquettes (all grades) for the month. Backing out the benchmark average processing cost of ₹1,200, would leave about 16% net realisation for a typical briquette manufacturer.

This high price of Standard briquettes in August gave a CGM in the range of ₹1,700 – 1800 per MT: a relief for such manufacturers after almost six months of pressure on margins. Prices of Standard briquette feedstock (adjusted for moisture loss) continued to remain higher than feedstock for Superior briquettes. GCM for Superior and Premium briquettes fared better, upwards of ₹2,500 per MT.

Until fresh Standard feedstock is available from this harvest, the platform mix will heavily include Superior and Standard briquettes.

### Forward Months: Briquette Prices

The prices (for Buys/ Bids, Sells/ Offers & Deals), as well as demand & supply quantities in the chart below are for delivery of biomass briquettes in the months to come.



Prompt month (Sep) demand remains stronger than supply, with deal prices averaging almost the same as Aug 2024. The forward price curve is flat around ₹2.00 – this can be seen as an indication of the market peaking. Buyers seem to be unwilling to commit large quantities at current high price levels, waiting for post-monsoon price correction. Seller expectations for near months are around ₹2.14, rising to high of ₹2.32 for December, though beyond November there is hardly any buying interest and limited supply available.

Buyer expectations at ₹1.72 – 1.78 for near months track closely the bid price levels in August. And these drop to ₹1.60 per Kcal-kg. This is another sign of Buyers retreating from the market, unwilling to deal at current levels.

According to the Indian Meteorological Department rainfall across the country in Aug 2024 was 16% above normal. States like Gujarat & Rajasthan saw almost 30% excess rainfall. The forecast for Sep 2024 is also above normal for most parts of the country, especially the Northern states.

On the other hand, Eastern & North-eastern India may see a below normal rainfall. A key concern being tracked is the likely delay in withdrawal of rains this year and the formation of the La Nina effect in September. This might delay availability of fresh feedstock beyond mid-October and into early November.

## In Conclusion

With even Standard briquettes becoming more expensive than equivalent coal, buyers are feeling the heat of high prices. Coal prices are expected to remain low till at least the end of the monsoon. And any delay in withdrawal of monsoon beyond September may delay availability of feedstock from the kharif harvest.

Buyers have already indicated unwillingness to continue buying for future delivery beyond the current price levels around ₹2.00 per kcal-kg. The flat forward price curve is a sign of resistance to further increase in price. Demand and Supply for deliveries beyond September also points to Buyer interest waning, and Sellers unwilling to commit just yet. Average CGM is already in the ₹2,400 – 2,500 range which we expect puts a cap on margins. At least for one more month, and possibly into mid-October, the deal mix on the platform will remain in favour of Superior and Premium briquettes.

It looks like September is going to be like the Monday of all months. Everyone is just looking to go through with it and somehow get to October!

Are you a consumer of briquettes or pellets? Log in to the platform to get a quotation. Or connect with [your BiofuelCircle representative](#) navigate this tricky period.

If you are a Briquette/ Pellet manufacturer, have you checked availability of feedstock on the platform? [Get in touch with your BiofuelCircle representative](#) to help formulate a sales plan as we head into the harvest season.

**Disclaimer:** This data is based on deals published and concluded on the BiofuelCircle platform during the period specified. The information contained is merely a guidance and not to be considered as an advisory for trading. The contents do not constitute professional advice or provision of any kind of services and should not be relied upon as such. BiofuelCircle does not make any recommendations and assumes no responsibility for any transaction/trading in commodities done based on the information given in the document and any such commitment/trade is subject to market and commercial risks for which BiofuelCircle shall not be responsible.

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