Coal mining bet stumbles as wary banks weigh rising risks

Reuters
Mumbai

India's drive to ramp up coal output to meet growing energy demand is faltering due to banks' reluctance to finance newly auctioned mines, though most lenders remain far from ditching fossil fuels for good, analysts and officials said.

Of the 87 mines auctioned to private companies in the past three years in a push called "unleashing coal" — part of India's energy self-sufficiency plans — only four are operating, with the rest are awaiting financing, a Coal Ministry official said.

Coal officials and banking executives in the world's second-largest coal producer discussed the issue at a June meeting called by the government in a bid to ease the funding deadlock.

MAJOR CONCERN

India's simultaneous push to build its renewable energy capacity to 500 GW by 2030 may be one of the reasons turning bankers away from coal, experts say

BANKERS' WARINESS

Bankers' wariness is partly seen stemming from India's parallel push to boost renewable energy — which raises questions about coal's long-term viability — and from global investors' demands for lenders to limit their fossil fuel exposure.

Past legal troubles on mine block allocations also explain funders' caution, analysts said.

Global investors who fund private banks increasingly consider coal "a no-go asset class" as they align with ESG (Environmental, Social and Governance) values, Saurabh Trivedi, research analyst with the Institute for Energy Economics and Financial Analysis (IEEFA) said.

Climate campaigners and investors are asking banks globally to rein in funding to coal, oil and gas — the leading sources of the man-made greenhouse gas emissions heating up the planet, but reports suggest money continues to flow.

India's central bank cautioned banks in its bulletin last year to limit their exposure to fossil-fuel related industries and to boost green finance in a larger push to mitigate climate-related financial risks.

Still, only one Indian bank — Federal Bank— has put coal on its exclusion list for loans, according to energy think-tanks.

"Indian financial institutions are a long way behind in terms of formulating coal divestment policies," the report said.

COAL OR RENEWABLES?

Besides growing global pressure for banks to shun coal, the financing delays to new mines reflect bankers' concerns about the granting of environmental permits that are required by miners prior to acquiring land — used by banks as collateral.

"We made the banks aware of the (land acquisition) process and we are hopeful they will finance these new miners," the Coal Ministry official said.

The banking sector has been more cautious about granting loans to coal miners since 2014, when India's Supreme Court scrapped all but four of 218 coal blocks allocated by the government since 1993, describing the allocations as illegal.

India's simultaneous push to build its renewable energy capacity to 500 gigawatts (GW) by 2030 may be another factor turning bankers away from coal, energy experts said.

With clean energy capacity growing and the possibility of energy storage systems approaching fast, "the incremental market and the readiness of customers to buy coal at any price may disappear", said Sutirtha Bhattacharya, former Chairman and Managing Director of Coal India Ltd.

This "risk of migration" could be influencing banks' investment decisions, he added.

Consulting firm Climate Trends assessed project finance loans to 42 coal and renewable energy projects in India — which has set a net-zero goal by 2070 — that reached financial closure in 2021 and found that all the investment had gone to renewable energy projects.

But the India's government says the nearly 90 newly auctioned mines in the the country will help meet its ever-growing energy demand as crippling heatwaves and growing consumer numbers make thermal plants hungry for more coal.