

BiofuelCircle

Market Insights

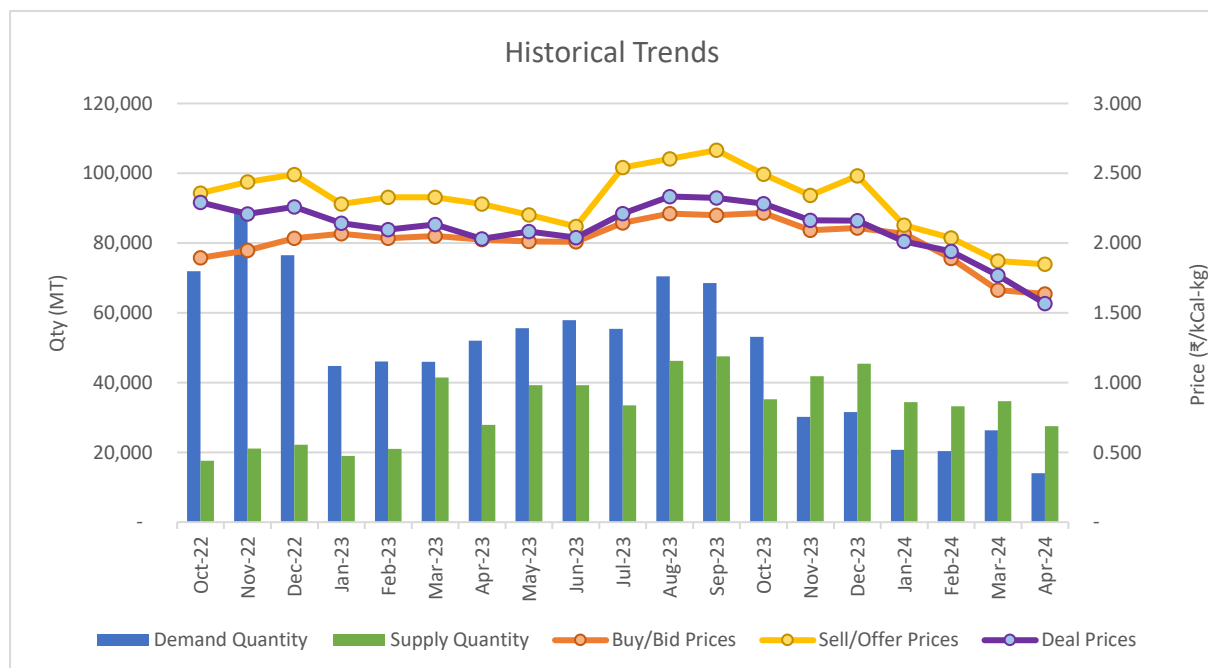
May 2024

From the Editor's Desk: should buyers stock briquettes for the monsoon?

Briquette prices for immediate delivery saw a further fall by 11% over last month. But for delivery in the near months of May & June, prices are marginally higher than April. The platform also saw some inventory deals, where buyers purchased upfront and are stocking briquettes for consumption in the monsoon months. Are we seeing the price trend bottoming out?

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.

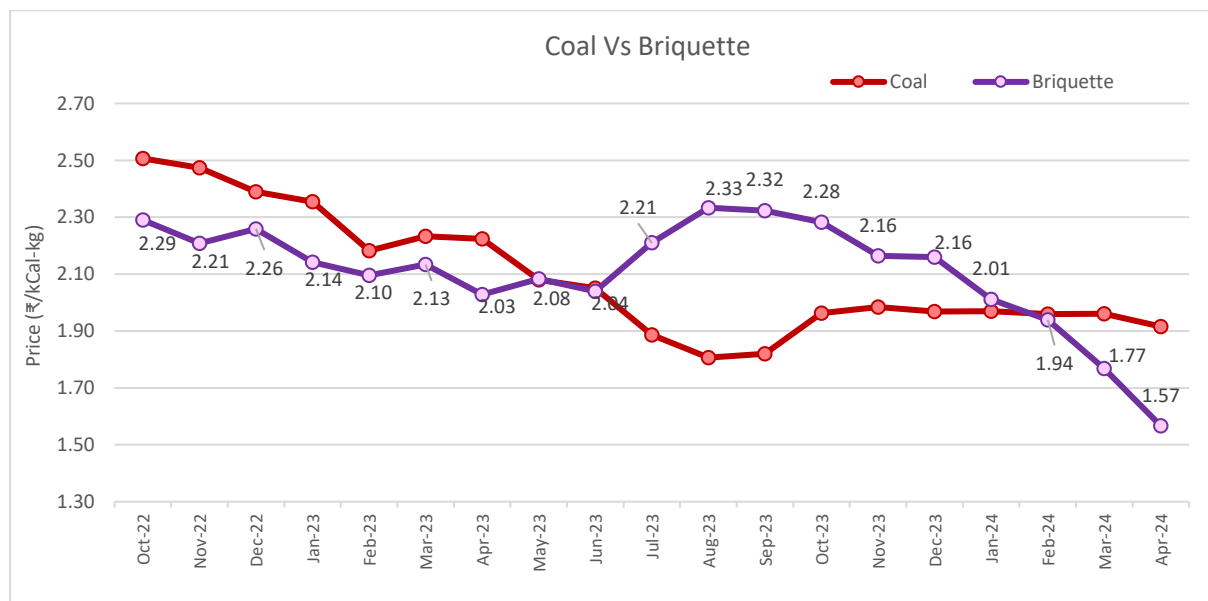
Deals on the platform for April 2024 averaged at ₹1.57 per Kcal-kg, 31% lower than the peak price of Oct 2023. This number is skewed because Standard briquettes (GCV< 3400, Ash >12%) dominated 92% of the biomass briquette deals, at an average price of ₹1.52 per Kcal-kg, which is a sustained fall of ₹0.16 (~9%) over Mar 2024. The balance almost 7% was made up of Premium briquettes (GCV> 3800, Ash < 8%) at an average of ₹2.13, marginally lower than the previous month by 0.07 (~3%). The quantity of Superior briquettes (GCV ~ 3400 to 3800, Ash ~ 8 to 12%) traded was miniscule compared to the other grades, with a 6% drop in average price to ₹1.70 per Kcal-kg.

On an average basis, the price expected by Buyers in April (₹1.63) was more or less the same as March (₹1.68). The demand for Standard briquettes in the month was almost five (5) times that for Premium & Superior combined, but deals happened at lower levels on average. Sellers on the other hand, continued to hold out reducing prices (₹1.85 in April vs ₹1.87 in March) when making their first offer, but were willing to negotiate and conclude deals at lower levels especially for Standard briquettes.

This is borne out also by the gap between availability and requirements: supply was almost double of demand in April. Buyer interest was much higher for May 2024 (refer chart for Forward Months), with a narrower gap there, as compared to Supply. With more choices to buyers, the result was reflected in lower deal prices.

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.



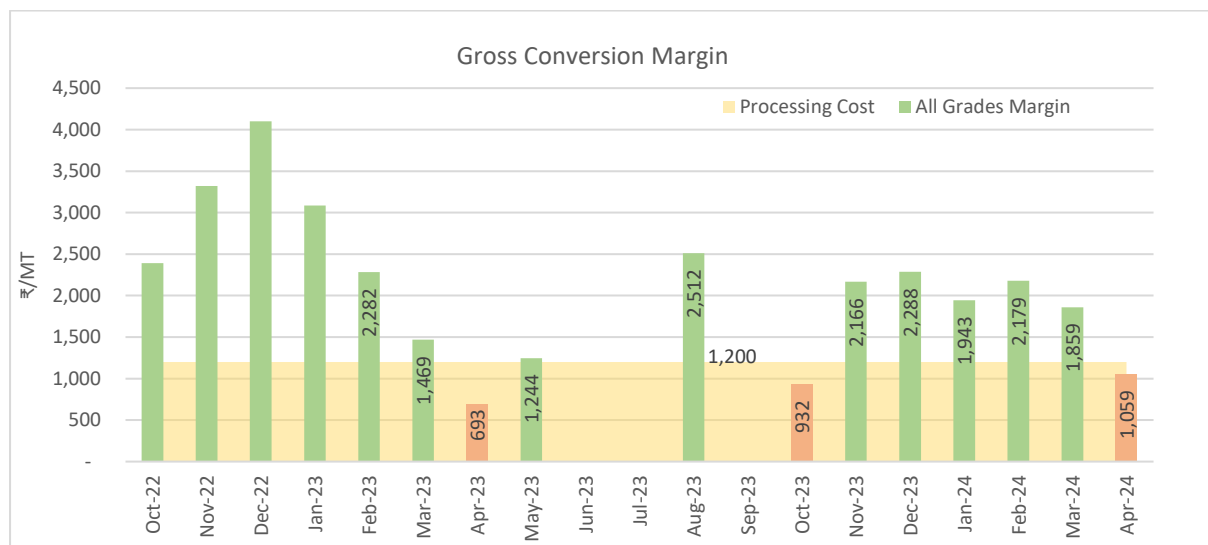
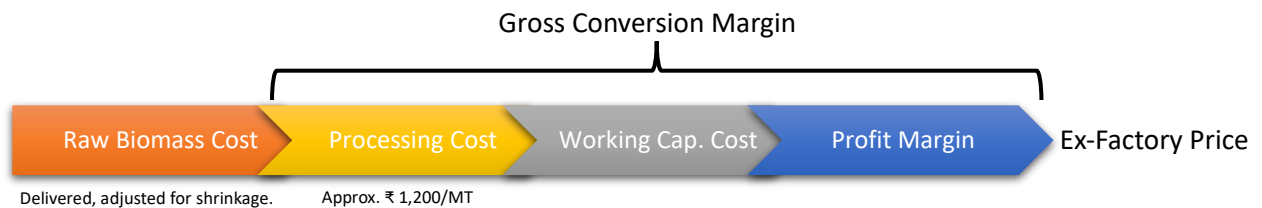
Imported coal prices in Apr 2024 were in the same band as the last six months, but on the lower side of the range at ₹1.92 per kCal-kg. Lower demand for imports is cited as the reason. In price per GCV terms, the spread between Biomass briquettes has widened to further negative ₹0.35 per kCal-kg. This is the widest negative value seen since Sep 2022. This makes Briquettes about 18% cheaper to comparable coal (3400 Kcal/kg), when measured in energy terms.

Some parts of the country also experienced rainfall in the later part of April, which led to reduced offtake of coal. It is expected though, that Indian summer peaking in the month of May will lead to increased demand for power, which in turn could lead to more imports of coal, and some reversal of falling price is expected.

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.

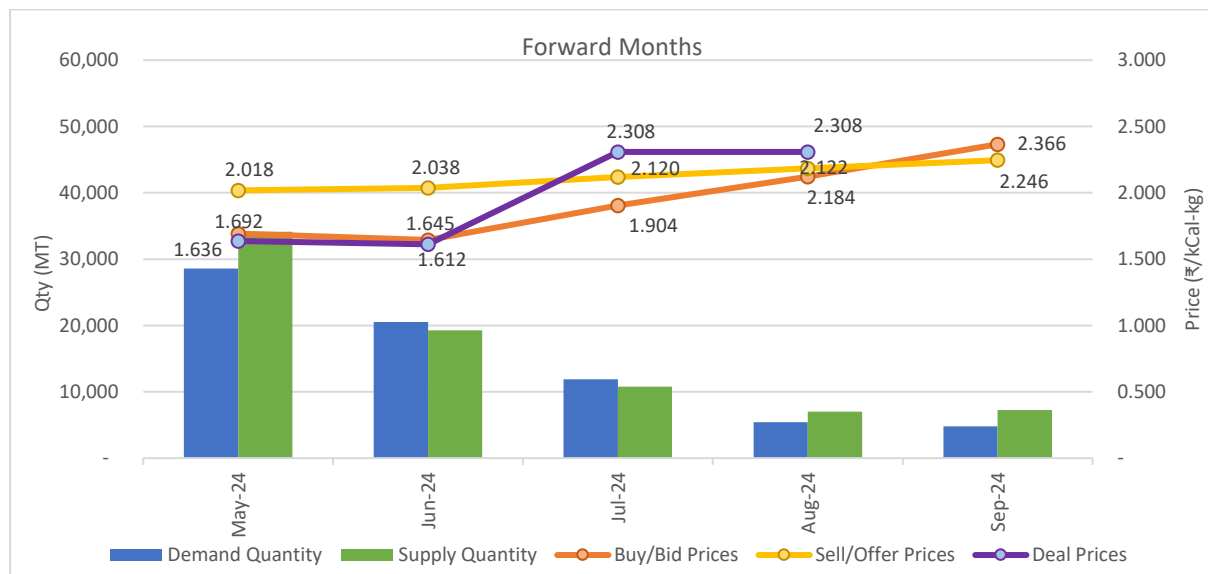


April 2024 saw the Gross Conversion Margin (average of all grades) drop to ₹1,059 per MT, below our benchmark level of ₹1,200, which represents average processing cost for a typical briquette manufacturer. This implies that manufacturers barely recovered cost of working capital & raw material

in the month. Standard Briquette manufactures were hit harder, with their GCM in the ₹600-700 range. Superior & Premium Briquettes fared better with GCM between ₹1,700-1,800 per MT. Limited availability, particularly with end of collection season for most Standard grade raw material combined with downward pressure on Briquette prices is responsible for this squeeze.

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.



The forward delivery months show an increasing trend of prices, going from ₹1.69 per Kcal-kg Prices for May, a small dip to ₹1.61 in June and significant jump of ₹0.70 (more than 40%) into the monsoon months of July and further. While deals for May & June delivery are still happening closer to prices sought by Buyers, it is pertinent to note that Buyers have also progressively raised their expectations from ₹1.57 per kCal-kg to ₹1.64 going on to ₹1.90 for July and crossing ₹2.0 thereafter. The higher average Buy/Bid prices in Sep 2024 (as compared to average Sell/Offer) is due to the mix or proportion of grades: Buyers are looking for more Premium/ Superior grades, whereas Sellers have more of cheaper Superior/ Standard on offer.

Last month, the platform saw a few inventory deals where a Buyer asked Seller to stock briquettes at a designated warehouse for supply in the months of July & August 2024. The Deal price curve shown above includes these deals and represents the cost of carrying inventory.

In Conclusion

The data seems to indicate a reversal in prices of briquettes is imminent, especially with monsoon expected to hit sooner this year. There still is a case for stocking up in May & June 2024, for consumption from July onwards, depending on location of warehouses and cost of inventory holding. Prices of coal are also expected to recover from May onwards, though the price spread will remain favourable to briquettes for some months to come.

If you are consumer of briquettes or pellets, [Contact your BiofuelCircle representative](#) for a stocking programme designed for your needs. Or log in to the platform to get a quotation.

If you are a Briquette/ Pellet manufacturer, BiofuelCircle can offer term processing deals to contract your production capacity for a fixed conversion fee. [Get in touch with your Support representative](#) to know more.

Let's Discuss! Reply if you are interested.



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