MARKET RESEARCH REPORT

Coal Industry GST Rate Revision Impact Report

5% to 18%: Price Effects, Market Consequences & Stakeholder Analysis

Comprehensive Analysis of India's Largest GST Rate Change for Core Industrial Commodities

+13%
GST RATE JUMP

+9.2%
NET PRICE IMPACT

₹1,290
PER MT INCREASE

Enerzon Technologies Private Limited

India's First E-Marketplace for Energy Sector

www.enerzon.co.in | info@enerzon.co.in

March 2025

Sector: Energy & Mining

Jurisdiction: India

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1. Executive Summary

Key Findings at a Glance

The Indian government's revision of GST on coal from 5% to 18% represents one of the most significant tax reforms in the energy sector. While the 13-percentage-point increase appears substantial, the simultaneous abolition of the ₹400/MT Coal Cess creates a more nuanced impact across different stakeholders.

Net Impact: Cost rises by ₹1,290/MT (9.2% effective increase) on a base price of ₹13,000/MT. However, the actual burden varies dramatically across sectors based on their ability to claim Input Tax Credit (ITC).

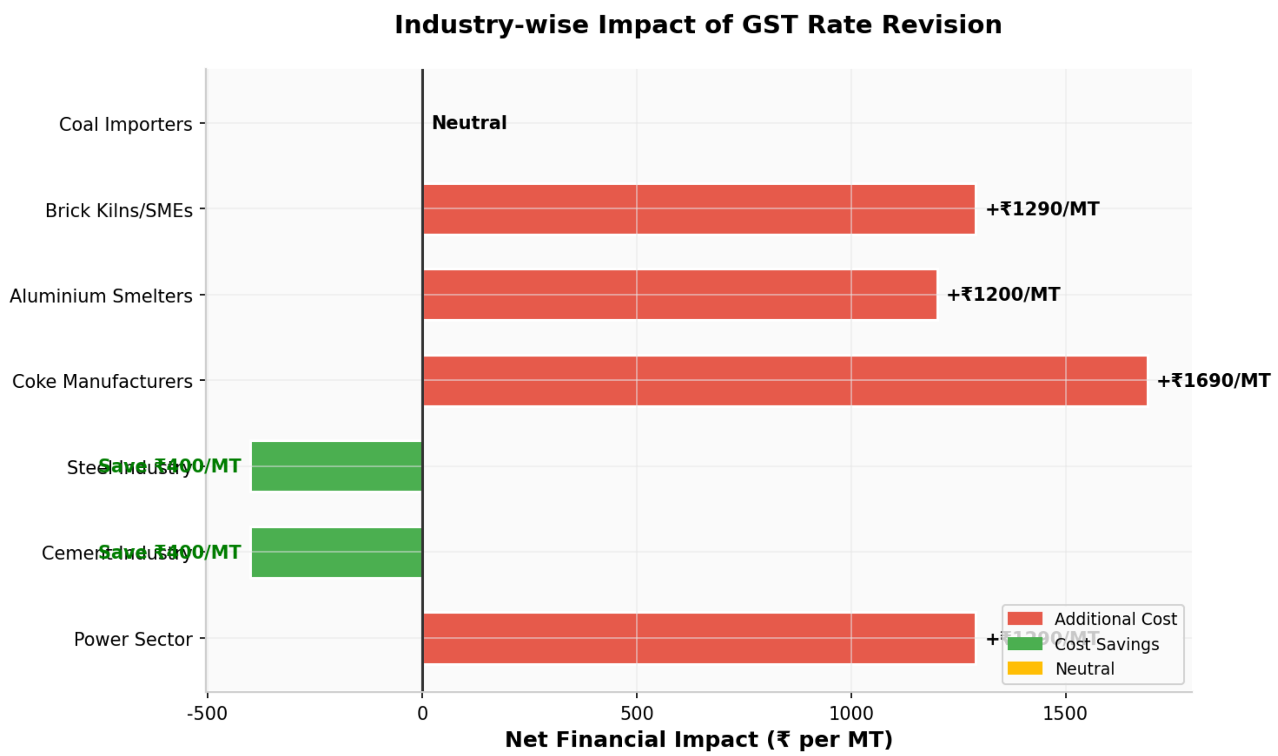

Figure 1: *Industry-wise Financial Impact of GST Revision (₹ per MT)*

KEY TAKEAWAYS

- **Winners:** Cement and steel sectors save ₹400/MT through cess elimination with full ITC benefits
- **Challenged:** Power sector faces ₹890/MT net increase due to inability to claim ITC
- **Vulnerable:** MSMEs and unregistered buyers bear the full 18% burden without offset mechanisms
- **New Crisis:** Coke manufacturers now face a fresh inverted duty structure (18% in, 5% out)

2. Background & Context

The Indian government has revised the Goods and Services Tax (GST) rate applicable to coal from 5% to 18%. This 13-percentage-point increase is one of the largest rate revisions for a core industrial commodity in recent GST history. Simultaneously, the Coal Cess of ₹400 per metric tonne has been abolished.

KEY BACKGROUND FACTS

- Coal previously attracted 5% GST + Coal Cess of ₹400 per MT
- The cess funded the Clean Environment Fund for renewable energy initiatives
- India is the world's 2nd largest coal producer and consumer — this change has vast macroeconomic implications
- Coal is a critical input for power generation, steel, cement, aluminium, paper, chemicals, and fertilizers

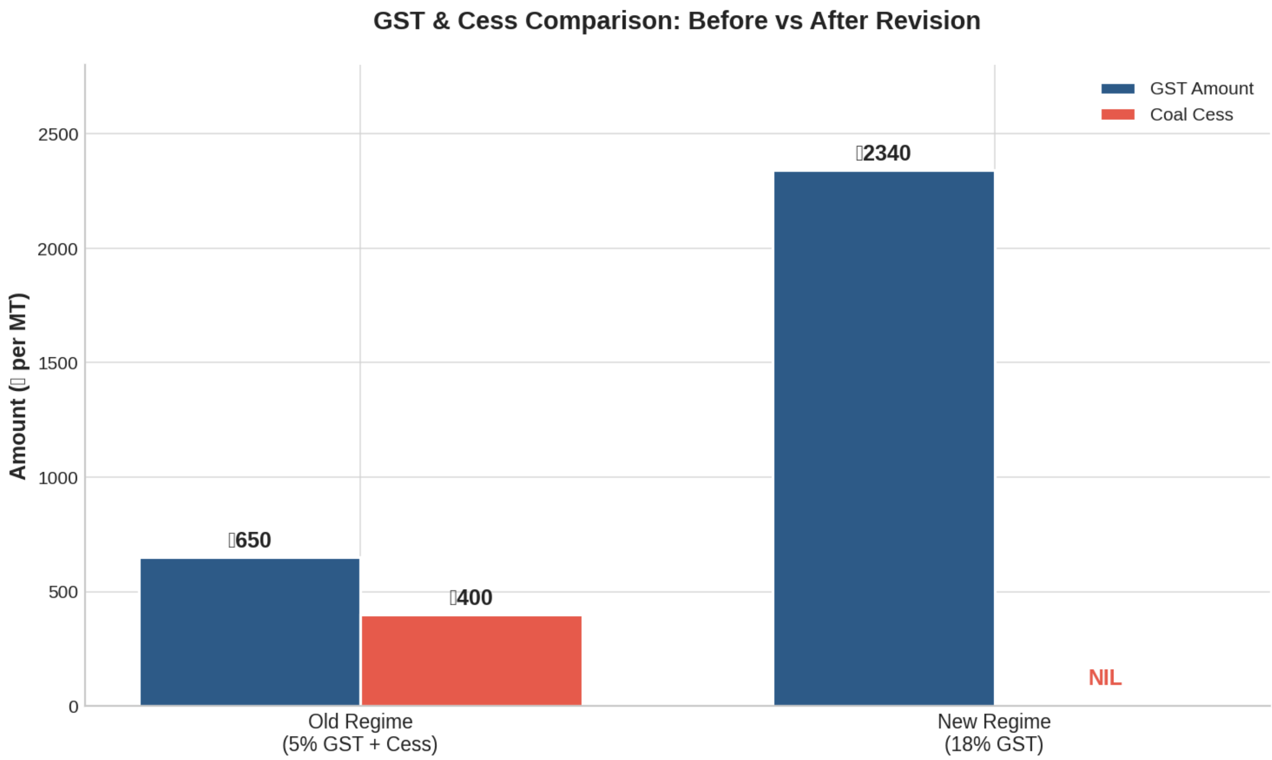

Figure 2: *GST and Cess Comparison: Before vs After Revision*

3. Solving the Inverted Duty Structure Problem

One of the most significant and long-standing tax anomalies in the coal sector has been the Inverted Duty Structure — a situation where the GST rate on inputs was higher than the rate on the final output, leading to blocked and irrecoverable tax credits.

3.1 What Was the Inverted Duty Structure?

Before this change: Coal mining services attracted 18% GST, but coal sold to power, cement, and steel companies was taxed at only 5% GST.

The Problem Explained

Coal producers and traders were paying 18% tax on their service inputs but could only recover 5% through their output sales tax. The difference in tax paid vs. tax collected was permanently stuck as blocked credit — a major cash flow problem.

Example: A miner pays 18% GST on mining machinery services but charges only 5% GST when selling coal to a power plant. The accumulated input credit cannot be offset — resulting in credit pile-ups, refund claims, and working capital blockage.

3.2 The Fix: Uniform 18% GST Rate

With a uniform 18% GST rate on coal now, the input and output rates are aligned. This resolves the inverted structure, allowing:

- Miners and coal traders to properly claim input tax credits on all purchases
- Reduction in credit blockages and refund backlogs at GST portals
- Simpler tax compliance — one rate across the supply chain
- Lower effective cost burden for businesses with complete ITC chains

Inverted Duty Structure: Before vs After

Scenario	Old Regime (5% GST Out)	New Regime (18% GST Out)
Mining Services GST Paid (Input)	18%	18%
Coal GST Collected (Output)	5%	18%
ITC Mismatch (Blocked Credit)	**13% BLOCKED**	**0% — Fully Matched**
Refund Claims Required?	Yes — Frequent	No — Credits flow freely
Cash Flow Impact on Miner	**Negative**	**Neutral to Positive**

4. Detailed Price Calculation

A step-by-step cost comparison based on a Basic Cost of ₹13,000 per MT to illustrate the real-world financial impact:

Detailed Cost Comparison: Before vs After GST Revision

Component	Old Regime (5% GST)	New Regime (18% GST)	Change

Basic Coal Price (per MT)	₹13,000	₹13,000	No change
GST Rate Applied	5%	18%	+13 pts
GST Amount	₹650	₹2,340	+₹1,690
Coal Cess @ ₹400/MT	₹400	NIL	Removed
Total Tax Outgo	₹1,050	₹2,340	+₹1,290
Final Cost to Buyer (per MT)	₹14,050	₹15,340	+₹1,290
Effective Tax Burden %	~8.08%	~18%	+9.92%
ITC Eligibility (registered businesses)	Yes (Partial)	Yes (Full)	Improved

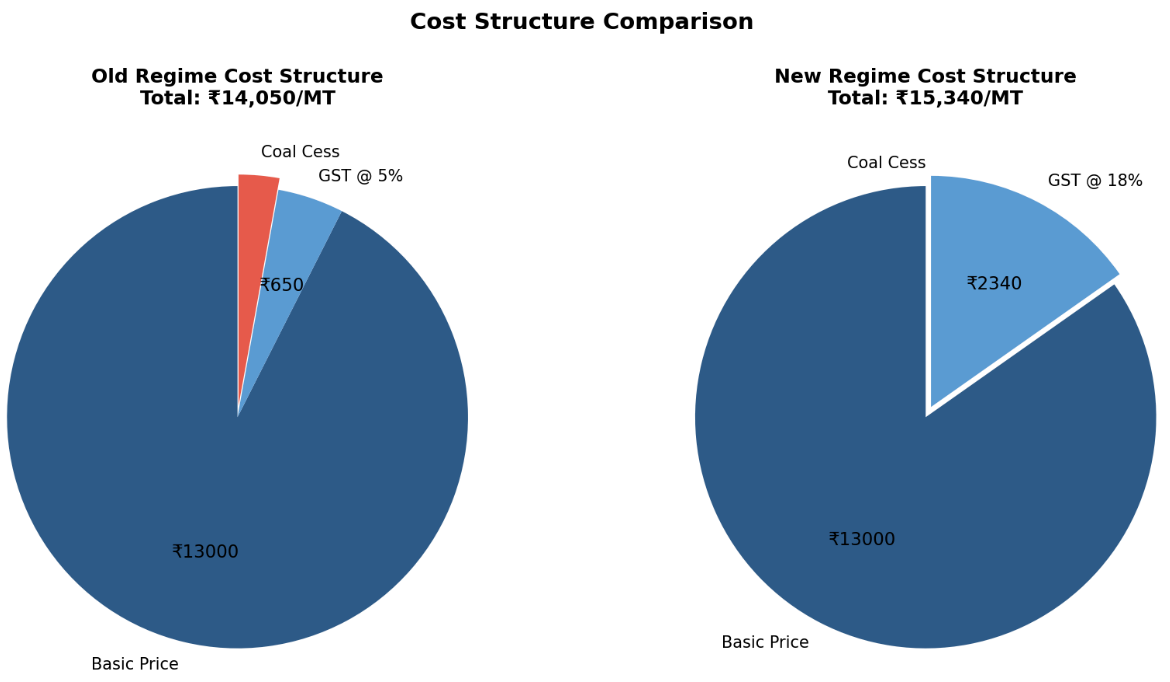

Figure 3: *Cost Structure Comparison: Old vs New Regime*

Key Insight: Net Effective Impact After Cess Removal

While the GST rate increases by 13 percentage points, the removal of ₹400/MT Coal Cess partially offsets the impact.

Net additional burden = ₹2,340 – ₹1,050 = ₹1,290 per MT (vs. nominal GST hike of ₹1,690 per MT)

For ITC-eligible businesses (cement, steel), the effective out-of-pocket cost may be near-zero or even negative vs. the old regime, since 18% GST is fully creditable and the old cess was not.

5. Impact on Power Sector

The power sector faces a uniquely challenging position under the new GST regime because electricity is outside the GST framework entirely — making input tax credits on coal purchases non-claimable by power producers.

Why Power Companies Cannot Claim ITC

Since electricity is exempt from GST, power generation companies cannot offset GST paid on coal against any GST collected on output sales. This means the full 18% GST on coal is a sunk cost for the power sector — unlike cement and steel, which can recover it.

Power Sector Impact Analysis

Parameter	Old Regime	New Regime	Note
GST on Coal (per MT)	₹650	₹2,340	**+₹1,690**
Coal Cess (per MT)	₹400	NIL	**–₹400**
Total Irrecoverable Tax	₹1,050	₹2,340	**+₹1,290**
ITC Claimable?	No	No	Unchanged — power is outside GST
Net Additional Burden/MT	—	+₹1,290	**Full burden, no offset**

Tariff Implications

Power companies facing higher coal costs will inevitably petition state electricity regulators for tariff revisions. Whether tariffs are actually raised depends on political and regulatory sensitivity — electricity pricing is a highly politicised issue in India.

- **Short-term:** Power companies may absorb the extra ₹890/MT cost, compressing margins
- **Medium-term:** DISCOMs are likely to seek and receive incremental tariff hikes of ₹0.08 to ₹0.15 per unit for industrial consumers
- **Long-term:** Higher coal costs accelerate the economic case for renewable energy and battery storage, benefiting India's clean energy transition

6. Benefits to Cement & Steel Industries

Unlike the power sector, cement and steel companies operate fully within the GST ecosystem — meaning they charge GST on their output products and can claim input tax credits on coal purchases.

Why Cement & Steel Are the Big Winners

Cement and steel are fully GST-registered sectors with output rates of 28% and 18% respectively. This means they can claim 100% Input Tax Credit on the 18% GST paid on coal, effectively making coal cost-neutral from a GST perspective.

The abolished ₹400/MT cess is the real gain: Cess was never creditable — it was a permanent out-of-pocket cost. With the cess gone and replaced by creditable GST, these industries are unambiguously better off.

Cement & Steel Industry Benefits

Parameter	Old Regime	New Regime	Note
GST on Coal (per MT @ ₹13,000)	₹650	₹2,340	Higher — but fully claimable as ITC
Coal Cess (per MT)	₹400	₹0	Fully eliminated

Net Cash Out (after ITC)	₹400	₹0	SAVING of ₹400/MT
Effective Coal Tax Burden	₹400/MT	NIL	Zero burden
Profit Margin Impact	Baseline	Positive	Margin improvement expected

Key Takeaway: For every metric tonne of coal consumed, cement and steel companies effectively save ₹400 in previously irrecoverable cess. For a large steel plant consuming 5 million MT of coal annually, this translates to a **₹200 crore annual saving** — a material improvement to margins.

7. The Coke Manufacturers' Dilemma

While the GST revision resolves the inverted duty problem for coal, it creates a fresh inverted duty structure for coke manufacturers — a critical and often overlooked consequence of the rate change.

The Coke Manufacturer's Inverted Duty Problem

The issue: Coke — an essential input in steel production — still attracts only 5% GST. But the primary input for making coke (coking coal) now attracts 18% GST. This creates a new inverted structure:

- **Input GST:** 18% on coking coal
- **Output GST:** 5% on finished coke
- **Credit Blocked:** 13% — cannot be offset against output sales tax

The result? Coke manufacturers accumulate excess input tax credits that cannot be consumed, forcing reliance on refund claims through an often slow and bureaucratic GST refund process. This blocks working capital and creates cash flow stress.

Coke Manufacturers Impact

Parameter	Old Regime	New Regime	Impact
Coking Coal Input Cost (per MT)	₹13,000	₹13,000	Unchanged

GST Paid on Coking Coal	₹650	₹2,340	**+₹1,690**
Coke Output GST Rate	5%	5%	Unchanged
ITC Usable Against Output	5% Max	5% Max	**13% still blocked**
Blocked ITC per MT (approx.)	₹0	₹1,690+	**Major new blockage**
Refund Claim Required?	No	Yes	New compliance burden
Cash Flow Impact	Neutral	Negative	**Significant working capital hit**

Government Response: To partially offset this, the government has restricted coke imports, encouraging domestic coke production. However, the fundamental tax mismatch — 18% in, 5% out — creates persistent challenges that import limits alone cannot solve.

Policy options being discussed include raising the GST rate on coke to 12% or 18%, or creating a special ITC refund fast-track mechanism for coke manufacturers. Until resolved, coke makers will continue to face cash flow pressures from blocked credits.

8. Double Billing vs Single Billing Problem

One of the most significant — yet least discussed — consequences of the old 5% GST + ₹400 cess regime was the widespread billing ambiguity it created for coal importers and traders. The co-existence of different tax rates on coal (5%) and ancillary services like handling (18%) gave rise to two very different billing practices across the industry.

8.1 The Root of the Problem

When a coal importer supplied coal to a buyer, the transaction typically had two components:

- Coal itself — attracting 5% GST + ₹400/MT cess
- Port handling / distribution charges — a separate service attracting 18% GST

The critical legal question was: Are these two components a single composite supply (taxed at one rate), or two separate independent supplies (taxed at their respective rates)?

8.2 Method A — Double Billing (Correct, Compliant Practice)

Invoice 1 — Coal Supply

Basic Coal Price	₹1,000
GST @ 5%	₹50
Coal Cess	₹400
Sub-total	**₹1,450**

Invoice 2 — Handling Charges

Handling Charges	₹225
GST @ 18%	₹40.50
Sub-total	**₹265.50**

Total Buyer Outgo: ₹1,715.50 per MT | Tax Paid: ₹490.50

8.3 Method B — Single Billing (Shortcut Practice, Legally Risky)

Single Invoice — Combined

Coal Price + Handling	₹1,225
GST @ 5% on ₹1,225	₹61.25
Coal Cess	₹400
Total	**₹1,686.25**

Tax Paid: ₹461.25 | **Tax Underpayment: ₹29.25/MT**

8.4 How the Flat 18% GST Eliminates This Problem

The 18% GST Solution

With coal now taxed at 18% GST — the same rate as handling and distribution services — the entire double billing vs. single billing debate becomes moot.

New Calculation: Coal @ ₹1,000 + 18% GST = ₹180 | Handling @ ₹225 + 18% GST = ₹40.50 | **Total = ₹1,465.50**

Whether issued as 1 invoice or 2 invoices — the tax math is identical. There is no longer any incentive to manipulate billing structure.

9. Broader Market Impact Analysis

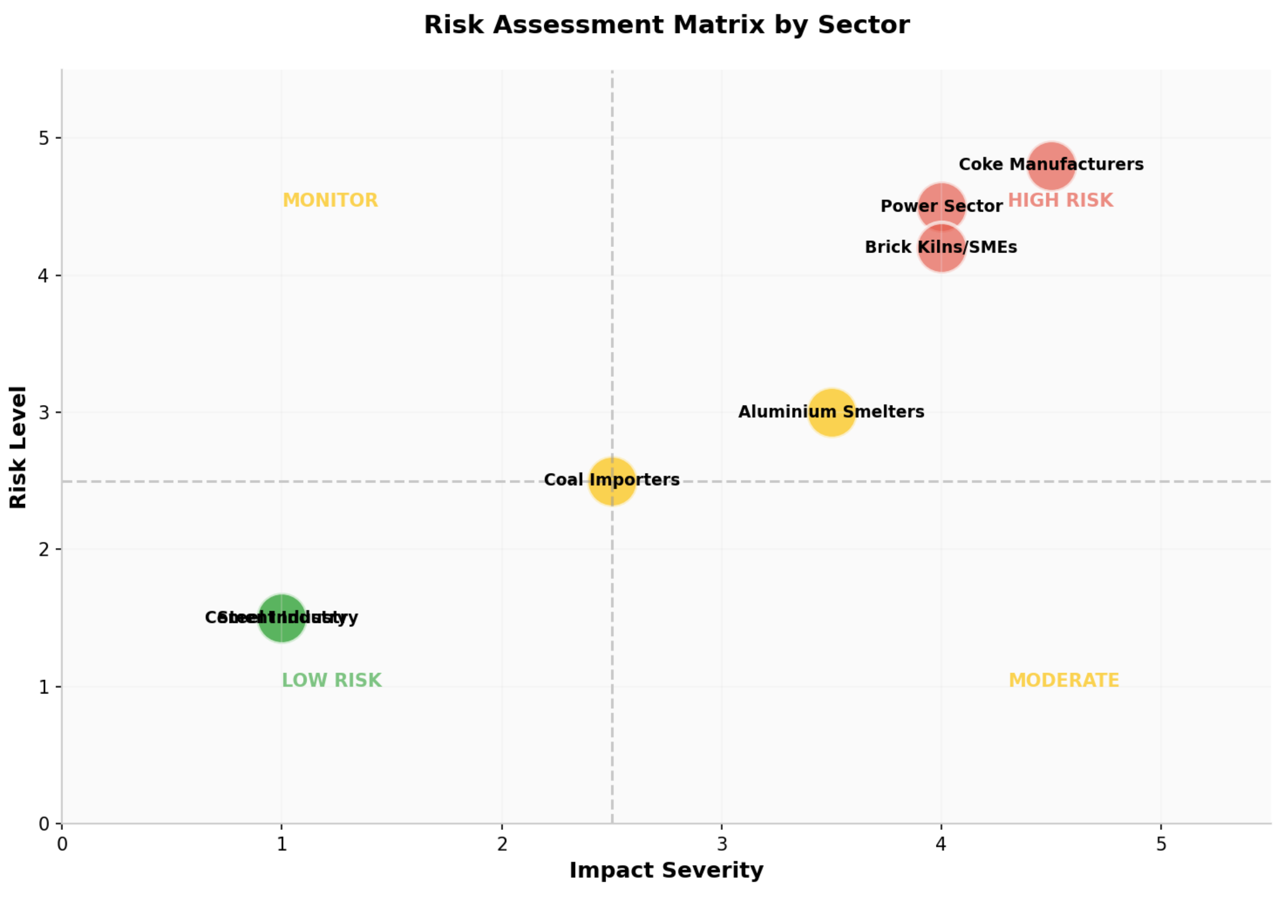

Figure 4: *Risk Assessment Matrix by Industry Sector*

9.1 Downstream Industry Cost Impact Summary

Industry Impact Summary

Industry	GST Impact	Estimated Effect	Consequence	Risk Level
Power Sector (Thermal)	High	₹0.08–0.15/unit	Electricity tariff hike risk	High
Steel (Integrated Plants)	Low-Med	Net saving ~₹400/MT	ITC benefit; margin positive	Low
Cement Industry	Low-Med	Net saving ~₹400/MT	ITC benefit; margin positive	Low
Coke Manufacturers	Severe	₹1,690+ blocked ITC	New inverted duty crisis	Very High
Aluminium Smelters	Medium	₹1,200–2,000/MT	Export competitiveness at risk	Medium
Brick Kilns / SMEs	Severe	Full ₹1,290/MT hit	Viability risk for small units	Very High
Coal Importers	Medium	High upfront IGST	Cash flow strain; ITC recoverable	Medium

9.2 Inflationary Transmission Chain

The cost increase in the power sector creates a cascading inflationary effect across the broader economy:

- **Coal → Power generation costs → DISCOM tariff hikes → All industrial and household consumers**
- Coal → Steel costs → Construction, infrastructure, automotive price increases
- Coal → Cement costs → Real estate, housing, public works cost escalation
- Coal → Fertilizer input chain → Agricultural costs → Food price inflation

9.3 Impact on Coal Traders

Benefits for Traders

- Higher ITC accumulation — larger credit pool to offset taxes
- Full ITC set-off across supply chain — less cash blocking
- Cess removal simplifies documentation
- Registered traders gain advantage over unregistered rivals

Challenges for Traders

- Higher upfront GST payment — more cash needed
- Cash flow strain if ITC refunds delayed
- Small traders without GST registration bear full 18% cost
- Price renegotiations required for all existing contracts

10. Consequences for End Users & Importers

10.1 End User Impact by Category

End User Impact Analysis

End User Category	Impact Level	Explanation
Large Corporates (GST Registered)	Low–Medium	Full ITC claimable; minimal net burden if ITC chain is complete
MSMEs & Small Industries	High	Often on composition scheme; cannot claim full ITC on inputs
Unregistered Buyers / Small Units	Very High	No ITC benefit at all; full 18% borne as permanent sunk cost
Domestic Households (via electricity)	Medium	Power tariff hikes passed through by DISCOMs over time

Agricultural Sector	Medium	Fertilizer and irrigation cost chain — farmer income squeezed
Government & PSUs	Low	Budget provision adjustment; ITC eligible for commercial use

10.2 Impact on Coal Importers

Benefits for Importers

- ITC on IGST paid at port of entry is fully claimable
- Cess abolition removes a non-creditable cost layer
- Simplified tax structure — fewer levies to reconcile
- Better alignment with international trade tax practices

Concerns for Importers

- Massive upfront IGST outgo at customs — immediate cash hit
- ITC refund delays from GSTN create working capital gaps
- Exchange rate + GST compound pressure on import landed cost
- Custom duty + 18% GST + port charges = very high total cost

11. Economic & Policy Consequences

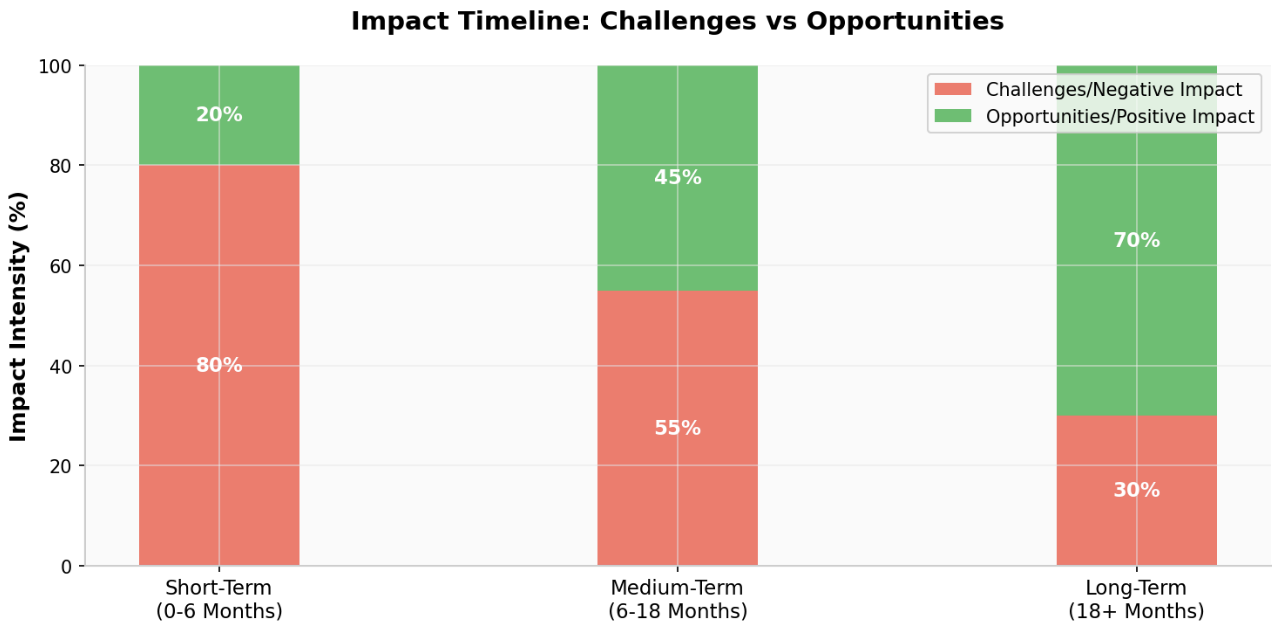

Figure 5: *Impact Timeline: Challenges vs Opportunities*

11.1 Short-Term (0–6 Months)

- Immediate price escalation for all coal procurement contracts — renegotiations across industries
- Demand slowdown in coal-intensive sectors as buyers defer pending price clarity
- Stockpiling behaviour by large consumers ahead of full rate implementation
- Working capital squeeze for mid-size traders, coke makers, and importers
- DISCOMs petition state regulators for tariff revisions

11.2 Medium-Term (6–18 Months)

- Inflationary pressure of 0.3–0.8% on WPI from the energy cost chain
- Power tariff increases passed on to industrial and household electricity consumers
- Acceleration of renewable energy adoption as coal cost-competitiveness erodes
- MSMEs in energy-intensive sectors may face viability stress and possible job losses

- Formalisation of coal trade as unregistered dealers cannot absorb 18% irrecoverable GST

11.3 Long-Term Structural Consequences

Positive Outcomes

- Drives India's energy transition — higher coal cost makes solar/wind more attractive
- Government revenue windfall from higher GST collections vs. lost cess
- Cleaner, more transparent coal supply chain through greater formalisation

Negative Outcomes

- Near-term industrial competitiveness risk vs. countries with cheaper energy
- Coke manufacturers face structural cost disadvantage until GST rates are realigned

12. Policy Recommendations

1 Fix the Coke Inverted Duty Structure

Raise coke GST to 12% or 18%, or create a fast-track ITC refund mechanism for coke manufacturers to resolve cash flow blockages.

2 MSME Relief Mechanism

Targeted ITC advance refund scheme for small buyers to prevent cash flow crisis in the unorganised and MSME sector.

3 Power Sector Support

Fast-track tariff revision approvals for DISCOMs to avoid financial stress on power distribution companies facing non-creditable 18% GST.

4 Export Sector Protection

Zero-rating of coal inputs for export-oriented units (EOUs) to protect India's steel, textile, and chemical export competitiveness.

5 Phased Implementation Consideration

For future reviews, a staggered transition (5% → 12% → 18%) over 18 months would reduce supply-side shocks to vulnerable sectors.

13. Conclusion

The GST hike on coal is fundamentally a step towards fixing tax distortions and simplifying compliance — but its impact is far from uniform across industries.

SUMMARY OF WINNERS AND LOSERS

- **Winners:** Cement and steel sectors stand to gain materially through the elimination of the non-creditable ₹400/MT cess and smooth ITC flow. The government exchequer also benefits from higher GST collections, and — indirectly — the renewable energy sector gains relative competitiveness.
- **Challenged:** Power producers face slightly higher irrecoverable costs (~₹890/MT net increase) and will seek tariff adjustments. Coke manufacturers face a brand-new inverted duty crisis that policymakers must urgently address.
- **Most Vulnerable:** MSMEs, unregistered small buyers, and end consumers bear the heaviest burden — particularly in sectors like brick kilns, small foundries, and households dependent on subsidised electricity.

Net Impact on ₹13,000/MT Coal: Cost rises by ₹1,290/MT net (₹14,050 → ₹15,340), representing a ~9.2% effective price increase. For ITC-eligible industries (cement, steel), the real cost may be neutral or positive due to cess removal.

Policymakers must urgently address the coke manufacturer dilemma, protect MSMEs with targeted ITC relief, and support power DISCOMs with timely tariff revisions — balancing the revenue and reform goals of this GST change with the practical realities of India's energy-intensive economy.

Enerzon

Enerzon Technologies Private Limited
India's First E-Marketplace for Energy Sector
www.enerzon.co.in | info@enerzon.co.in | +91 9005010444

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