From ground up

Building a better mining industry needs the Centre to take auctions seriously

Chhattisgarh Governor Shekhar Dutt has written to the prime minister’s office seeking its intervention in what he described as “anomalies” in the Mines and Minerals (Development and Regulation) Bill 2010. The broad concerns that underlie his letter are worthy of consideration. Oil and gas exploration, for example, has generally shifted to an auction-based bid system. Telecommunications spectrum, too, as we now know, is better handed out based on competitive bidding. Yet the MMDR draft suggests that prospecting licences for minerals need not meet this standard. Under its current wording, areas which have pending applications for licences cannot be opened up to states for competitive bidding. The mines ministry at the Centre, which is piloting the bill, argues that once it becomes law, all pending applications will be nullified, allowing states to notify areas for competitive bidding afresh. Yet that should not be the drift of new legislation, which should focus on decreasing the level of discretion available.

The mines ministry’s argument is simple: prospecting licences need not be treated like other licences, because they are not necessarily revenue generating, and a high-risk venture. However, that is not enough reason to not allow for auctions. Auctions are price-finding mechanisms. If the price they discover is low, so be it, but India’s error so far has not been in setting prices too low, but in not discovering prices at all. The mines ministry’s concern is that prospecting, particularly for rare earths, is a nascent industry. This is correct, to the extent that most prospecting in India today is not high-tech surveying for minerals deep below the earth’s surface, but surface-area prospecting, especially for iron ore. That, however, is bound to change, as the prices of rare earths and metals such as copper, lead and cobalt climb internationally. All the more reason, therefore, to build it up from scratch with efficient, transparent institutions.

Mining has for too long been held hostage to political interference, to discretion, and to insiders grabbing licences. Exploration for heavy minerals, in particular, is something which requires cutting-edge technology, and should ideally, to minimise environmental and political damage, be undertaken by the most professional of firms. These are precisely those most likely to benefit from an open bidding process. On each count, the thrust of the new MMDR bill should be to reduce the scope of outdated, problematic first-in-line licensing, and open up as many areas as possible to competitive auctions.
खनन माफिया
जेसीबी से बजरी का अवैध खनन

नदी पर भी माफिया की नजर

पत्रिका उद्वेगवत @ आलंकार

जिले की बससती नदियों पर बजरी खनन माफियाओं की नजरी देख हो रही है। कांस्कारी नदी के बाद जिले की नदी पर भी बजरी का अवैध खनन जोर कर पल जा रहा है। अप्रैल खननकारों ने नदी के बहाल क्षेत्र में तीन से अधिक बजरी फिल्टर प्लाट भी लगा लिए हैं।

जेसीबी बालू राम से यह सिद्ध है कि नदी पर प्रसारण और नहीं हो जिसमें विचार को इसकी जानकारी है। बजरी के अंगभूपेत्र खनन से इस नदी का भी बहाल क्षेत्र कल्पित गया है। जिले के पहाड़ों से थपथप चलती यह बससाती नदी जिले की गांव, कस्तों खाँदी, भवदार होते हुए हरकताळा राज में चली जाती है। नीति नतीजा है कि इस नदी पर बला जिलों का बांध इस बार टट गया है।

अगले तरह से बजरी का अवैध खनन और भूमिगत जल का योगदान जारी रहा। इस नदी के बहाल क्षेत्र के पास के गांव से खेतों की भूमि निकलती ही सकती है। कांस्कारी ज्यादा भार अवैध बससती से नदी में 10 से 15 फीट तक पानी आ गया है।

जेसीबी से हो रहा अवैध खनन: जिले के पहाड़ों से निकलने वाली इस नदी के करीब 18 फीलोमीटर बहाल क्षेत्र तक जेसीबी से बजरी का अवैध खनन हो रहा है। प्रभावित सैकड़ों ट्रेकिंग के बजरी की निकलनी जा रही है। इससे साक्षर को प्रभावित हो जाएगा रुपए के जुड़े रहने देने वालों के नियोजन करने पर उन्हें धमकाया जा रहा है।

इस तरह पानी की मुश्किल: नदी के बहाल क्षेत्र में जिला अवैध खनन चल रहा है वहाँ भूमि गतिविधि की भी जबरदस्त बढ़ती हो रही है। बजरी को सफाई करने के लिए नदी अवैध बजरी भिजवान प्लाट लगा हुआ है। बजरी की भिजवान प्लाट नहीं कर पाया है। नदी में भी वादमान तालाब बना रहे हैं। उनके द्वारा बच्चों को पहुंचने न होने के लिए धरती नदी भिजवान प्लाट लगा हुआ है।

अनुभव कहते हैं कि नदी के पास में बच्चों पिथौरा प्लाट और संपत्ति खाने की उड़ेगियों की सहायता में नहीं हो सकता। इसलिए बच्चों ने पीजाया बन रहा है। आदर्श लाइफ है इस क्षेत्र के मकान बुकिंग का अवैध जुलूस और बच्चों पिथौरा प्लाट को दबा दमना जा रहा। —तुलसी भैरव, निदानकार, लोकसेवी
AUX wins Ventana takeover

Brazilian billionaire Elke Batista’s AUX Canada Acquisition reached a verbal agreement to buy about 80 per cent of gold explorer Ventana Gold in a deal that values the company at C$1.54 billion ($1.56 billion). AUX will acquire all of the remaining shares in Ventana that it doesn’t already own for C$13.06 apiece in cash, Ventana said on Monday in a statement. The offer represents a 34 per cent premium above the 20-day volume-weighted average trading price through November 16, the day before Batista offered C$12.63 a share. BLOOMBERG
MoEF GIVES ITS NOD FOR JSPL’S PLANTS IN ORISSA

The Ministry of Environment and Forests (MoEF) today gave its conditional go-ahead to Jindal Steel and Power Ltd (JSPL) for its six mtpa (million tonnes per annum) integrated steel plant and 1,000 Mw captive power plant in Orissa, which was stalled for some months. The Ministry had issued a showcase notice to the company in November 2010, asking reasons for not revoking earlier clearances.

This is the latest instance, where Environment Minister Jairam Ramesh is seen to have softened his stand on issues on which he was quite rigid earlier.

Recently, the minister gave a conditional clearance to South Korean steel-maker Posco for its $12-billion steel plant and also to SAIL for extracting iron ore from the Chiria mines in Jharkhand.

On November 22, 2010, the Ministry had issued a showcase notice to Jindal Steel and Power under Section 5 of the Environment (Protection) Act, 1986, asking the company to furnish more data in order to be granted the required environmental clearance for the six mtpa integrated steel plant and the captive power plant at Angul.

On December 7, 2010, JSPL requested the Ministry to grant one month’s time for furnishing the reply. The Ministry, in the same month granted extension of two weeks time and asked JSPL to respond by December 22, 2010. A personal hearing was also fixed on December 29, 2010.

JSPL gave additional documents sought by the Ministry in January 2011. The Ministry has now added six additional conditions which JSPL has to follow, failing which the “Ministry will be forced to take necessary action”. The directions given include that the company shall adopt dry quenching of coke to conserve water and mitigate pollution and the fly ash generated should be used for cement and brick manufacturing.

The company should not use fly ash in filling low-lying areas as proposed earlier. The company should earmark two percent of their net profit for corporate social responsibility (CSR).

The company shall monitor the air quality and stack emissions in respect to PM10, SO2 and mercury. Drawal of water from the Derjang dam should be avoided and rain harvesting measures taken. Energy conservation measures for an integrated steel plant should be introduced.

Reacting to the conditional nod, JSPL said, “The company will comply with all directions given in the MoEF communication”. Earlier in the month, Jindal Steel and Power had said it would commence phase-I of its three mtpa steel plant in Angul district of Orissa by the end of this year.

The company, which is headed by a senior Congress MP Naveen Jindal, plans to invest ₹40,000 crore in Orissa to produce 12.5 mtpa steel in phases and generate 2,500 Mw of power over the next decade. The company is investing ₹45,000 crore for coal gasification.

BS REPORTER
New Delhi, 14 February
HINDALCO

Buoyancy in Aluminium will Boost Realisations

AMBITESHWAR MATHUR & CRYSTAL BARRETO
ET INTELLIGENCE GROUP

Hindalco's performance in the December '10 quarter was adversely impacted by a sluggish performance in its key copper division, which accounts for nearly two-thirds of its quarterly sales. The company grappled with lower treatment and refining charges (TC/RC) on a year-on-year (YoY) basis in its copper division in the third quarter, coupled with production bottlenecks.

Domestic players import copper concentrate from overseas mines and their smelters produce finished products such as copper cathodes. TC/RC represent the profit margins for these smelters. Also, in Hindalco's smaller aluminium division, the company was able to only partially take advantage of average LME prices for this metal that were 18% higher in the third quarter. And that's because of production constraints at its Hirakud smelter facilities, Orissa.

As a result, Hindalco's operating profit margin declined 170 basis points YoY to 15.4% in the third quarter, despite net sales that grew 23.4% to ₹5974.8 crore.

However, a decline in its interest cost helped net profit rise 7.8% year-on-year in the quarter under review. The quarterly results were broadly below analyst's expectations.

Players with large smelter capacity in neighbouring countries have been recently able to negotiate higher TC/RC rates with their key customers. This has raised hopes that Indian players, like Hindalco, would also be able to take advantage of this development, over the next few quarters. Also, the current buoyancy in aluminium is expected to help the company get better realisations in the short term.

The results were declared on Saturday. And on Monday, the stock managed to rise 3.9% to ₹219.4 on investor expectations of a pick up in the company's performance over the next few quarters. This would also be facilitated by its production levels returning to Hindalco's peak capacity levels, going forward, on expectations of overcoming production constraints.

Meanwhile, in Hindalco's overseas subsidiary Novellis, it only partially benefited from strong demand and higher aluminium prices in the quarter, due to rising operational costs. Also, restructuring charges of $20 million related to the closure of overseas facilities, resulted in a net loss of $16 million in the third quarter.
Hindalco (Hold)

**CMP:** Rs 219.40

**Target:** Rs 280

Copper EBIT declines on low TeRe margins, high energy costs: Hindalco's cathode production at 80 kt (-10 per cent y-o-y, -15 per cent q-o-q) was hit by cooling tower outage at its Dahej smelter. This resulted in lower contribution from the copper business and a 10 per cent y-o-y decline in its EBIT.

Expansions, improvement in Novelis' performance to drive growth: In our view, Hindalco's performance over FY12-FY13 will largely be driven by timely completion of its green-field expansions at Utkal (refinery) and Aditya/Mahan smelting projects, a stronger operating performance at Novelis led by capacity expansions and stable EBITDA margins, and improved outlook on aluminium/copper prices.

We maintain our 'hold' rating with a SOTY*-based target price of Rs 280. We value Hindalco (India) at 6x FY13E EBITDA and Novelis at 7x FY13E EBITDA.
Strong dollar limits gold’s gains

Dow Jones
Feb. 14
Gold held below $1,360 an ounce in Europe on Monday as a stronger dollar put a lid on last week’s gains, though a second consecutive weekly price rise has underpinned investor confidence in the precious metal. Spot gold was bid at $1,357.93 an ounce at 1225 GMT, against $1,356.12 late in New York on Friday. US gold futures for April delivery fell $1.90 an ounce to $1,358.30. Among other metals, platinum was at $1,821.24 an ounce against $1,802.50, while palladium was at $818.70 versus $811. Silver was at $30.15 an ounce versus $28.85.

BULLION RATES
Mumbai: Silver (.999 purity) Rs 46,145/kg; Standard gold (99.5 purity) Rs 20,155/10 gm; Pure gold (.999 purity) Rs 20,260/10 gm.

Chennai: Bull silver Rs 46,160 a kg, retail silver Rs 49.40/gm; standard gold Rs 20,245/10 gm; retail 22-carat ornament gold Rs 883/gm.
QUEENSLAND’S CONCERN

Mining output down under water

R. Balaji
Brisbane, Feb. 14

From the 13th floor of office of the Queensland Resources Council visitors get a clear view of the Brisbane River flowing serenely. For someone on a short trip to the city of Brisbane in Queensland, the only indication of the havoc it caused recently when it overflowed its banks a few weeks ago are the news reports in local dailies and national papers.

Life in the city may appear to have gone back to the routine. But the same cannot be said of Queensland’s one of largest contributor to the economy – the mining sector.

Mining has taken a big hit and the Queensland Resources Council’s chief economist, Mr David Rynne, declines to comment on when life in mining would return to normal – We are “still in the wet season,” he points out.

‘SIGNIFICANT RESTRICTIONS’

There are two-three months to go, says David Rynne. The council estimates that of the 57 coal mines in Queensland just about 15 per cent are in full production. There are ‘significant restrictions’ in more than 80 per cent of the mines. With rail lines to the ports damaged, both production and supply have been hit.

Output from its mines could be down 30 per cent on the estimated production of about 204 million tonnes in 2010-11. As of now, the council hopes coal output would be about 174 million tonnes for the year but with the possibility of more rains in the coming months supply could drop further to about 150 million tonnes, he tells a group of journalists visiting Brisbane as a part of a tour organised by the Department of Foreign Affairs and Trade, Australian Government agency.

According to council estimates, as of now, over $5 billion is being lost in production and about $1.6 million a day in royalty income to the Government. If the situation worsens, the losses could mount to $9 billion and about 2.9 million a day in lost royalties.

Of immediate concern to the council, which represents the interests of the mining sector and counts among its members over 190 companies in mining and related areas, is the need to pump out the flooded mines and resume operations. Australia as one of the largest suppliers of coal to the industries globally, and Queensland accounting for a major share, means the calamity in the Outback has a worldwide impact. But there are deeper concerns. The polluted water from the mines would flow into the Fitzroy River which empties into the Pacific. This would have an effect not just on the river but also the Great Barrier Reef, a unique ecosystem. Pacific.

EMERGING DIRECTION

The mining companies have applied for TEPs (Transitional Environmental Programmes) for about 40 mines, which for the mines is effectively a relaxation of the rules governing effluent discharge under the environment legislations. The regulator needs to “cut us a bit of slack,” says Mr Rynne.

The industry is urging the Government to use its emergency direction to allow the pumping apart from putting in place a long-term plan to deal with such emergencies.
‘We have retained cash flexibility for Novelis, Hindalco’

Slowdown in global aluminium demand unlikely: Debu Bhattacharya

Interview

Suresh P. Iyer
Mumbai, Feb. 14

Hindalco Industries, the flagship of the Aditya Birla Group, seems to have revived the Canadian maker Novellis Inc faster than expected.

Four years ago, Hindalco acquired Novelis, which was nearly three times its size, in a $6-billion deal. Since then, Hindalco has not only returned around Novelis but also recovered half of the cash outgo for acquisition by way of dividend.

Novelis is now set to be part of Hindalco’s growth in India. It plans to invest $18 million in a new multi-chamber melting furnace to recycle 50,000 tonnes of aluminium scrap annually to feed the rolling mill at Alunorf, Germany.

Mr Debu Bhattacharya, Managing Director, Hindalco Industries, spoke more about the company’s plans to Business Line.

What is your strategy for Novelis in the coming days?

We have recently de-leveraged the Novelis balance sheet by refinancing its high cost debt. The move would ensure strategic flexibility for both (Novelis and Hindalco) to retain financing flexibility for their growth aspirations while maintaining sufficient liquidity. We have put in a debt structure which diversifies sources of capital and provides tenor at competitive pricing with less onerous covenants. It will improve the maturity profile of Novelis and avoid the risk of refinancing.

Why was the cost of funds for Hindalco down this quarter?

As part of the Novelis debt restructurings, Hindalco received a dividend of $1.7 billion which was used to repay some high cost debt. We have invested the remaining $700 million in treasury to be used for funding our expansion projects in India.

India Inc is concerned over the increasing cost of operations and rising interest rates. What is your take on this?

The rising input cost has been a cause of concern. We have seen a sharp increase in prices of all energy products. For instance, coal prices have gone up by 20 per cent in this quarter. CP (calcined petroleum coke) has increased by 45 per cent and furnace oil and natural gas by 15 per cent. However, we have managed the cost pressure by using less expensive inputs without compromising on quality. We are also producing more from the available asset and choosing the right product mix.

Do you expect any global slowdown in aluminium demand?

We do not expect a slowdown in global aluminium demand. The World Bank has recently forecast a global GDP growth of 4.2 per cent in 2011. China is expected to grow at 9.2 per cent and India at 8.6 per cent. We expect the current stockpile at the London Metal Exchange to remain more or less at the current level. However, high inflation and hardening interest rates may impact consumption. The global aluminium production in 2011 is expected to be slightly on the higher side at 47 million tonnes compared to the consumption of 46 million tonnes.

Is there a delay in work at the Mahan Coal Block allotted to you and Essar Power?

The coal block developed by Mahan Coal (MCL) has come under the ‘No Go’ area recently classified by the Environment Ministry. As most of the land of this block is in the forest area, the Madhya Pradesh Government had forwarded our proposal for forest clearance to the Environment Ministry in December 2007 for Stage-I clearance.

The Forest Advisory Committee of MoEF had already held four meetings and MCL has compiled with all the directions of the FAC.

The Prime Minister has also set up a Group of Ministers to resolve all cases where there is significant progress on construction of downstream projects, and mining approval is awaited from the Forest Department. We expect a favourable response in the February 17 meeting of the Group of Ministers. As an interim measure, we have applied to the Ministry of Coal for temporary supply (of coal) to the Mahan captive power plant until our own mines commence operations.
Hindalco target price at Rs 210

Hindalco's PAT rose 8% yoy to Rs 960 crore (6% below Citi estimate) on higher aluminium LME and copper byproduct prices. PAT was adversely impacted by lower aluminium volumes (Hindukush production disruption), lower copper volumes, TC/Ros; higher energy costs and an appreciating rupee. Ebitda was flat yoy at Rs 820 crore.

Ebit was 6% higher yoy and Ebit margin at 12.6% was in line with Q4 last year (12.3%). This was largely driven by a 12% yoy rise in aluminium LME prices ($2,343/t vs $2,009/t). Q3 performance was impacted by lower metal production (4% yoy to 1,894t). For copper business, there has been sequential improvement, but a difficult quarter. Ebit fell 14% yoy to Rs 140 crore despite higher copper byproduct prices. Copper production fell 14% yoy to 80,024t in Q3. Novelis has completed refinancing tran-

NOVELIS HAS RAISED $4.8 BN OF DEBT AND RETURNED $1.7 BN TO ITS PARENT. THE FUNDS WILL BE USED TO REDUCE GROUP'S DEBT.

actions to recapitalise its balance sheet and give both Hindalco and Novelis greater flexibility in financing capex and growth plans. Novelis has raised $1.8 billion of debt and returned $0.7 billion to its parent. The funds will be used to reduce overall group's debt, and fund Hindalco's expansion plans.

Hindalco (India) has plans to triple its aluminium, power and aluminium capacity to 4.5 mtpa, 4,000 mw and 1.6 mtpa. Our target price is Rs 210. To value Hindalco standalone, we use a P/E of 8x on September 11 earnings at the higher end of its trading range (8x to 10x) over the past five years.

The multiple appears justified given our outlook of improving aluminium prices and its position as a low-cost domestic producer. We value Novelis and Hindalco's other businesses at 7.5x EV/Ebitda and we estimate Ebitda/tone of $325 in FY11 and FY12. The valuation is at a small premium to average global multiples, which range from 6x to 9x. At our target price, Hindalco would trade at a consolidated September 11 EBITDA of 7.5x and P/E of 11x.
Scramble for Mozambique coal

An intriguing international contest for control of Mozambique-centred Australian coal mining company Riversdale took a dramatic turn last week. CSN, Brazil’s biggest steel manufacturer, increased its holdings in Riversdale from 17.6% to 19.9%. This occurred even as the global mining giant Rio Tinto extended its bid for a takeover of Riversdale for $3.9 billion.

Speculation is growing about CSN’s motives in raising its own equity in Riversdale, which has assets of over 13 billion tonnes of coking coal in the Benga and Zambéze areas of Mozambique. One line is that the Brazilian steel major is manoeuvring for a better bargaining position to entice a higher buyout offer from Rio Tinto, which is currently quoting $15 per share of Riversdale. CSN’s acquisition of additional equity pushed Riversdale’s share price close to $16 in the Sydney stock exchange and this value could reach $20 as the struggle for its acquisition escalates.

By almost reaching the equity threshold for a takeover of Riversdale, CSN may also be preparing for a counter offer against Rio Tinto. With a reported war chest of $7 billion for acquisitions, CSN is racing to make amendments for failed high profile M&A attempts of the past. CSN’s maverick CEO, Benjamin Steinbruck, has a finger in in abortive bids for the Anglo-Dutch steelmaker Corus (which was won by India’s Tata Steel) and Luxembourger’s Arcelor (which went to the firm then known as Mittal Steel).

The most interesting angle to the intensifying global battle over Mozambique’s rich coking coal resources relates to China, which happens to be Rio Tinto’s lifeline customer for coal supplies. Rio Tinto is today in a commanding position in the commodities sector, with an underlying annual profit jump of 122% because of endless demand from China. Although Rio Tinto and the Chinese government have a chequered relationship, any takeover bid by a Rio Tinto inflamed with earnings from Chinese clients raises international suspicions of a proxy Chinese lock looming over the world’s natural resources. China’s official media are portraying CSN as a Brazilian powerhouse “on the prowl for targets in logistics, mining and cement”. CSN has in turn warned the Brazilian government to ban Chinese steel companies from investing in the Brazil’s strategic iron ore sector.

China’s unquenchable thirst for metallurgical coal—an essential ingredient in steel manufacturing—could be one reason why CSN and Tata Steel (currently the largest share holder in Riversdale) will resist Rio Tinto’s offers to cash out their holdings. When Rio Tinto’s talks with Riversdale emerged, Tata Steel stated that its 34% ownership of the latter was a “strategic investment” that will be protected (possibly by its own counter bid for takeover).

Given the stinging global shortage of hard coking coal, neither the Brazilians nor the Indians would wish to lose access to the Zambéze and Benga mines’ future production.

Heartrum from authoritative sources in Mozambique about growing governmental and popular fears regarding Brazil’s looming shadow over their economy. Owing to a shared colonial past as formerly Portuguese-ruled countries, Brazilian companies have targeted Mozambique as a favoured destination for outward investment. Brazilian foreign investors’ focus on Lusophone-speaking African countries has triggered concern among foreign players, Mozambique worries less about China’s penetration of its motherlodes via Rio Tinto than Brazil’s swamping influence.

The stakes on hand thus transcend mere access to raw materials by competing steel conglomerates. Political preferences and lobbying by governments in emerging economy capitals of China, Brazil and India and in the host countries of Africa will inevitably determine winners and losers of such scrambles. Market structure has a political economy context that should not be ignored while calculating arithmetic about which company ends up getting how much of the pie.

The author is Vice Dean of the Jindal School of International Affairs
CIL eyes another US-based firm’s coal assets

Even as talks to buy an around 15% stake in US-based Peabody Energy’s coal properties in Australia near their conclusion, Coal India is eying the West Virginian assets of another American firm, a top executive said. “Due diligence is on to buy up to a 15% stake in the Australian assets of US-based Peabody Energy Corp. We hope the deal will be sealed soon. We are also looking at buying some stake in another company in West Virginia,” Coal India director, personnel, R Mohan Das said.
GPS to be must for ore trucks

BANGALORE: The State government, which has imposed a ban on ore export, is all set to make it mandatory for vehicles carrying ore and other minerals to be fitted with global positioning system (GPS) before they are issued mineral despatch permits.

The draft of the Karnataka (Prevention of Illegal Mining, Transportation and Storage of Minerals) Rules, 2011, that was gazetted on February 5, the Department of Commerce and Industries has stipulated that a mineral despatch permit (MDP) should be issued from mine head to the destination by road up to 100 km per day. And, if it is beyond 500 km, the validity will be for a maximum of eight days.

No person will be allowed to transport or cause transportation of any mineral outside the limits of a prospecting license or a mining lease to any predetermined destination without a MDP, by a competent authority.

The draft says that if the competent authority does not issue the mineral despatch release order (MDRO) within three working days or rejects the application, the applicant can appeal to the director of mines and geology within 30 days. An application can’t be rejected without being heard by the applicant.

A person who intends to buy, store, process and sale of minerals should register with jurisdictional competent authority by paying Rs 10,000. The period of registration will be for five years.

Postcheck

Another new measure proposed is that if the director of mines and geology considers it necessary to check the transport or storage of minerals, may direct the setting up of checkpost or erection of barrier or recognised computerised weighbridge or all of them, at any place or places within the State.

The government intends to bring the proposed rules into effect from April 1 this year. The objections/suggestions can be made by the public within 30 days from the date of notification.

The Supreme Court that heard a case of mining on Friday, directed the Karnataka government to implement the proposed act by March 31.

Lokayukta Santosh Hegde, who is probing into the mining scams, has announced that he would submit his final report to the government before March end.
QUARTERLY RESULTS

Tata Power profits rise on high coal prices, low costs

BY JOEL REBELLO
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Mumbai

Tata Power Co. Ltd on Monday said quarterly profit increased nearly fivefold as its mining business benefited from the rising global price of coal.

Profit in the quarter ended 31 December increased to ₹442.37 crore from ₹92.57 crore a year earlier.

Net revenue declined 1.7% to ₹4,412.91 crore. But the company gained from higher provisions last year for stripping costs—a technical term for expenses related to coal mining—that helped it cut costs in the latest quarter.

India’s largest private utility spent ₹370.67 crore to mine coal last fiscal, increasing costs. This year, it saved ₹71.43 crore from mining.

Executive director S. Ramakrishnan said a revision in stripping ratio last year also helped. A revision of the mine stripping ratio—a measure of the waste material that has to be removed in a coal mining operation and which reflects the cost of coal extraction—made the firm write down past mining expenses in December. “It is just a accounting entry, the money has already been spent. But higher global coal prices helped.”

The firm sold 16 million tonnes (mt) of coal this year, against 17 mt last year, but realisations increased to $75 (₹3412.5) a tonne from $60 last year.

Tata Power owns 30% each in three Indonesian coal mining companies—PT Kaltim Prima Coal (KPC), Bumi Resources and PT Arutmin Indonesia.

Rupesh Sankhe, an analyst at Angel Broking Ltd, said the firm’s profit has to be looked at in the context of the adjustment for the stripping cost. “Mining output has also fallen because the weather conditions have not been good, and the power business will only start making money when more capacity comes on stream, possibly in 2012-13 or beyond,” he said.

The firm’s coal business, which is secondary to its main power generation, transmission and distribution business, swung to a profit of ₹432.57 crore in the December quarter from a loss of ₹171.17 crore a year earlier.

Profit at the main power business, however, dropped 22% to ₹401.62 crore, which the firm blamed on low merchant rate realisation and unscheduled maintenance.

Merchant power rates have dropped to ₹3.50 a unit from ₹5 a unit last year.

Tata Power shares ended up 3.74% at ₹1,241.30 apiece on the Bombay Stock Exchange on Monday, in line with a 2.67% rise in the benchmark index to 18,202.20 points.