Coal India's monopoly has to go

We have a very successful template in the oil sector — after the govt monopoly was abolished, supplies have shot up

Coal supplies 55% of India’s primary energy and coal-fired power plants produce 60% of our electricity. Yet year after year, patchy availability of coal results in blackouts and unscheduled power-cuts, holding back valuable industrial and agricultural production. But far-reaching policy changes, needed to augment domestic coal availability, are being pushed under the carpet.

Over the last decade, our coal production has grown at 5% CAGR. Yearly demand of power, steel and cement industries, the major users of thermal coal, has been increasing by 8%, resulting in an ever-widening demand-supply gap. Pilgrims admit that by 2016-17, the deficit would have increased from the current 100 to 250 million tonnes (mt). Yet the remedial measures are all too familiar baby-steps, viz the public sector behemoth Coal India Limited (CIL) and its seven subsidiaries exhorted by the government to extract and dispatch more; railways directed to run extra rakes to move it; and, in recent years, power developers asked to import coal even if it costs thrice as much as domestic coal. Dependence on overseas supplies is growing for a country that has 207 billion tonnes of reserves, the third largest in the world.

But the scenario is changing. Coal India’s monopoly has to go. We need private players as well as the government to ensure a stable and adequate coal supply.

Coal India needs to treble domestic output by 2022 and CIL cannot do this. We need private players in the oil sector, and look at the results of that.

Ajay Dua
CRACKING THE DISINVESTMENT RIDDLE

Hard-pressed to mop almost ₹39,000 crore in a little over four months to meet the target of ₹40,000 crore through disinvestment this financial year, the government may get some clue from the suggestions given by ICICI Securities.

Disinvestment target (2011-12): ₹40,000 crore

Achieved so far through PFC disinvestment: ₹1,145 crore

Roadmap suggested by ICICI Securities

IN IMMEDIATE TO MEDIUM TERM

PSU buyback of shares
Possible candidates: ONGC, NTPC, SAIL, BHEL, CIL, OIL, Neyveli Lignite, NALCO, SJVN, SDL. (Suggested buyback size is based on using 50 per cent of company’s cash balance after providing for any applicable capex)

Strategic cross-purchase by one PSU in another
Possible candidates: NALCO acquiring five per cent in Hindustan Copper, NTPC acquiring three per cent in CIL and five per cent in BHEL, CIL acquiring five per cent in SAIL.

Secondary sale of stake in PSUs
Possible candidates: Bharat Electronics, CIL, ONGC, PFC, Power grid

Monetise Specified Undertaking of UTI (SUUTI) portfolio by selling its stake in ITC, L&T and Axis Bank (SUUTI was formed in 2003 after erstwhile UTI was bifurcated following massive financial problems)

Total ₹69,112 crore

LONG-TERM PLAN

Setting up a holding company structure on the lines of Temasek model of Singapore to hold stake in various companies in sectors like infra, financial institutions, airlines, power and utilities to better manage the portfolio

Setting up a real estate company to monetise the surplus land available with PSUs

Explore PSU banks for possible sell-off to realise ₹22,000 crore by bringing government stake to 51 per cent. Tap stake sale in insurance as well

Note: This is ICICI Securities’ suggested disinvestment programme. The financial ministry says it may not necessarily reflect its views.

Compiled by Shalbi Zuab
Coal ministry urges Orissa to form committees for mine projects

BS REPORTER
Bhubaneswar, 20 November

THE Ministry of Coal has urged the Orissa government to constitute specialised committees and build close collaboration with the district authorities to address various issues relating to coal mining projects.

Emerging out of a meeting with the state Chief Secretary B K Patnaik here yesterday, Alok Perti, coal secretary, said, “Various issues regarding coal mines in the state were discussed. What we suggested is that the state government can work out certain committees to deal with issues surrounding coal mine projects. Our talks centred around law and order matters where the state government has a major role to play”.

The chief secretary has assured that a monitoring mechanism would be put in place in respect of coal mining projects.

Asked on allocation of coal blocks for the independent power producers that have proposed coal-based power plants in the state, “I cannot say much. These cases have to be examined company wise. For private companies, we have already decided to offer coal blocks through the competitive bidding route.”
वैष्णो देवी पहाड़ियों
में खनन की अनुमति
वापस ली जाए

पूर्वी दिनों, (पूरे में) : इसके राष्ट्रीय पहाड़ियों की अपघात पुजा
कलरुा ने मां वैष्णो देवी की
पहाड़ियों में खनन की सरकारी
अनुमति का कहा विरोध करते हुए
कहा कि एक मां वैष्णो का
कहा है।

वहाँ की पहाड़ियों की खुदाई
व खनन से मां के कोरों को
पेंट पहाड़ियों व पहाड़ियों में विपश्चनन
मां ध्यान में मन है। उनके ध्यान
में विज्ञ पड़ा।

अतः सांस्कृतिक संस्था ने
वहाँ अंग्रेजी शराम भी अपील की है फक
बह, जानकारी देखकर नहीं आकर
सही निर्णय ले और इसका कहा
विरोध करें। अपघात पुजा कलरुा
का कहना है फक जाम-क्लेमिर के
पुख्तम्बों को अपना निर्णय बदल
कर मां सत्यार्थी में आरोप प्रकट
करने चाहिए और मां के कृष्ण पे
बचना चाहिए। पुजा कलरुा
का कहना है फक इस समय देश के संतों
और भक्तों को एक साथ निश्चत
इसका विरोध करना चाहिए ताकि
यह मंजूरी वापस ली जाए ताकि
करोड़ों भक्तों को खराब होना को
चौट न चाहिए इस पर बलकर
को भी खतरा रहता है अगर इस
यंत्रण बांध का प्रभाव नहीं लिया गया
तो इसका सभी शाखा को होकर
निश्चित करना होगा।
Retailing UPA reforms

Don’t bet on them yet—Pension Bill took 6 years

Going by newspaper reports, UPA 2 is taking one more shot at economic reforms with allowing foreign investment in multi-brand retail once more on the cards, the Pension Bill has been cleared by the Cabinet, the new nuclear power rules go a long way in allaying fears of equipment suppliers, the Mining Bill is listed among the Bills to be passed by Parliament... on the day the new conditions for allowing FDI in multi-brand retail were reported, newspapers also reported clearances for three mega infrastructure projects worth ₹25,000 crore.

Even assuming the government’s ill-conceived move to open the BJP in the telecom scam will not disrupt the parliamentary agenda, it is useful to keep in mind how long it takes to get a reform. The Pension Bill that hopefully Parliament will now pass was last cleared by the Cabinet six years ago! Multi-brand retail, it is true, doesn’t require clearing by Parliament, but the government has already gone back and forth on it, adding and subtracting riders from it. At one time, it was for restricting firms with FDI to just the 36 large cities with more than a million persons (whether they’d like to go to smaller towns is, in any case, doubtful); later on, a suggestion was made that 50% of investments made and jobs created should be in rural areas—how this squares with the large city restriction is not clear. Another rider is that at least 30% of products must be sourced from firms with an investment of under ₹1.25 crore in plant and machinery! If the kind of bureaucracy that this involves isn’t mind-numbing enough, keep in mind that since retail is a state subject, no retailer can set up shops unless each state government allows it. Given how many years it takes to set up shops, large retailers will be setting up shop just around the time elections are due! How many local politicians will allow that?

So the proposal to allow FDI in multi-brand retail will continue to lurch around for some time to come. Keep in mind that none of the three infrastructure projects cleared on Friday were new ones. The L&T metro project in Hyderabad is at least two years old and is still struggling over land clearance, the Hinduja power project has been in the works since 1998 and the plain-vanilla 182 km highway project is something that should have got cleared as a matter of routine. Expect many more press notes on ‘clearances’ given to FDI in retail over the next few years.
Selective leak?
The CAG audit report on coal diversion from the captive mines of ultra mega power projects like Sasan and Tilaiya got leaked to the media, somehow. But no such leak has happened to the power ministry's interim reply to the CAG's observations. The ministry is reported to be legally on a very solid wicket. We presume that the comptroller and auditor general of India Vinod Rai is innocent in the matter and the power ministry is being coy about the issue because of official propriety.
FE STUDY

Steep fall in operating profit
Tough operating conditions hurt PSUs’ bottom line

Pradip Kumar Dey

PSUs from steel and oil sectors delivered anaemic financial results during the July-September quarter due to the tough operating conditions. While the bottom line of steel companies like SAIL was impacted by the high costs of inputs such as coking coal and sluggish growth in domestic demand, oil marketing PSUs had to face mounting under-recoveries on the retail sale of diesel, domestic LPG and PDS kerosene. A depreciating rupee also added to the PSUs’ financial woes.

However, Petronet LNG, which deals in imported natural gas or liquefied natural gas, did better in the quarter on the back of higher demand for the fuel due to a drop in production at Reliance Industries’ D6 block.

An FE study shows that eight out of 46 PSUs showed operating losses while collectively the 46 PSUs recorded a 38.7% decline in operating profits during July-Sept ’11.

The study both central and state PSUs but excludes banks and NBFCs.

Operating profit margin of major PSUs
Operating profit to sales in %

<table>
<thead>
<tr>
<th>Companies</th>
<th>July-Sept ’11</th>
<th>July-Sept ’10</th>
<th>July-Sept ’09</th>
</tr>
</thead>
<tbody>
<tr>
<td>NMDC</td>
<td>95.95</td>
<td>84.81</td>
<td>85.75</td>
</tr>
<tr>
<td>Power Grid Corp.</td>
<td>92.48</td>
<td>88.34</td>
<td>89.57</td>
</tr>
<tr>
<td>NHPC</td>
<td>87.25</td>
<td>98.25</td>
<td>93.90</td>
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<tr>
<td>Oil India</td>
<td>70.41</td>
<td>65.91</td>
<td>60.80</td>
</tr>
<tr>
<td>ONGC</td>
<td>68.98</td>
<td>67.21</td>
<td>66.14</td>
</tr>
<tr>
<td>Neveel Lignite</td>
<td>44.41</td>
<td>49.11</td>
<td>46.95</td>
</tr>
<tr>
<td>NTPC</td>
<td>27.63</td>
<td>30.29</td>
<td>36.68</td>
</tr>
<tr>
<td>BHEL</td>
<td>21.16</td>
<td>21.55</td>
<td>21.54</td>
</tr>
<tr>
<td>GAIL(i)</td>
<td>18.47</td>
<td>19.83</td>
<td>19.06</td>
</tr>
<tr>
<td>SAIL</td>
<td>12.08</td>
<td>19.52</td>
<td>29.41</td>
</tr>
</tbody>
</table>

The operating profit of 46 PSUs increased by 49.2% to ₹46,471 crore during July-Sept ’10 and decreased thereafter by 38.7% to ₹28,483 crore during July-Sept ’11.

The net profit of these PSUs also increased by 98.5% to ₹25,681 crore during July-Sept ’10 and decreased thereafter by 76.1% to ₹6,145 crore during July-Sept ’11. Mostly oil marketing companies such as IOCL, HPCL and BPCL are responsible for this downturn.

The net sales of the PSUs rose by 25.5% to ₹2,63 lakh crore in July-Sept ’10 and by 17.1% to ₹3,08 lakh crore in July-Sept ’11. So the operating profit to net sales ratio fell from 17.63% during July-Sept ’10 to 9.23% during July-Sept ’11. The net profit to sales ratio also decreased from 9.74% to 1.99%.

Interest outgo of these PSUs increased to 67.1% during July-Sept ’11 from a marginal increase of 6.7% during July-Sept ’10.

Among the PSUs, the significant increase in the growth of operating profit was seen with Petronet LNG, increasing from 6.4% during July-Sept ’10 to 61.4% during July-Sept ’11. In Oil India’s case, the operating profit increased from 22.4% during July-Sept ’10 to 47.3% during July-Sept ’11.

July-Sept ’11, ONGC had the highest operating profit of ₹15,601 crore followed by NTPC (₹14,248 crore), NMDC (₹12,938 crore), Oil India (₹12,302 crore) and BHEL (₹12,179 crore).

A steady decrease in the operating profit to net sales ratio was seen with 14 PSUs, key among them being NTPC, SAIL, Engineers India, Indraprastha Gas, GNFC, STC and National Fertilisers. The ratio steadily decreased for SAIL, from 29.41% during July-Sept’09 to 12.08% during July-Sept’11.

It is known that steel producers such as SAIL marked the worst performance in more than six quarters. The company suffered from the double impact of higher cost of raw materials as well as rupee depreciation. SAIL’s sales increased by a mere 2% to ₹10,836.68 crore due to sluggish demand. Its operating profit declined by 36.8% to ₹1,309 crore during July-Sept’11.

On the other hand, a steady increase in the ratio was seen with eight PSUs, including ONGC, Oil India, SJVN, Container Corporation and RCF. The operating profit to net sales ratio of ONGC steadily increased from 66.14% during July-Sept’09 to 68.98% during July-Sept’11.

Among the industries studied, a significant increase in operating profit was seen with electrical goods, engineering, gas distribution, oil exploration and mining/mineral/metalduring July-Sept’11.

A downward trend in operating profit was seen in cases of aluminium, shipping, steel and trading.
Jharkhand set to unveil new industrial policy

Press Trust of India  
New Delhi, Nov. 20

Mineral-rich Jharkhand will soon unveil a new industrial policy, which will aim at providing more job opportunities and encouraging private investments, the State Chief Secretary, Mr S.K. Choudhury, said today.

The policy will encourage private investments in value added products and generate mass employment opportunities for promoting inclusive growth, he said.

It will introduce investor-friendly climate and promote Jharkhand as an ideal investment destination, Mr Choudhury said while addressing a seminar organised by Assocham.

The State also plans to upgrade road infrastructure for better connectivity. "In the next five years, we will have four-lane highways linking major city centres. Ranchi and Bokaro will be connected with an expressway," Mr Choudhury said.

AIR CONNECTIVITY  
Ranchi airport is also being modernised by the Airports Authority of India. By 2013, there could be chartered flights from South-East Asian countries such as Thailand, Malaysia and Indonesia to promote religious tourism.

Many corporates such as Jindal Steel and Power are planning to build privately-owned airports in Jharkhand in Jamshedpur and Deoghar, said Mr Choudhury.

"With mining and broad-based industrial activity contributing to the State’s growth, we want to empower local people with skills in agriculture and rural sector. We would also like to promote irrigation, rural connectivity, health, education and non-farm rural activities," he said.

Jharkhand is rich in mineral resources such as uranium, mica, bauxite, granite, gold, silver, graphite, magnetite, dolomite, fire-clay, quartz, feldspar, coal, iron and copper.
Ministries spar over methane

ANIMESH SINGH  NEW DELHI

In what can be described as a unique dispute of its kind, two key Central Ministries — that of Coal as well as Petroleum and Natural Gas — are fighting over five Jharkhand coal fields having methane reserves within them, on which one of them should have the right to extract the natural gas component.

Coal India Ltd (CIL) had floated global tenders in April this year for extraction of methane gas from the five coal fields belonging to it through a technology called coal mine methane. Under this technology, methane gas is extracted from active mining area. The public sector undertaking’s (PSU) aim was to invite bids from private players for extracting methane, later to sold at market rates, with CIL sharing the revenue.

Top Government sources told The Pioneer that soon after the bids were floated, the Petroleum Ministry came into the fore, claiming ownership of methane, as it is a component of natural gas, something which falls under its jurisdiction.

The Petroleum Ministry claimed that the Coal Ministry should share the revenue from the sale of methane with it, as the gas is its resource.

The Coal Ministry on the other hand, claims that mining

THE COAL MINISTRY IS OF THE VIEW THAT SINCE METHANE LIES WITHIN COAL FIELDS, WHICH ARE ITS PROPERTY, THEREFORE NO QUESTION OF SHARING REVENUE WITH THE PETROLEUM MINISTRY ARISES

operations are undertaken under the Mines Act, which defines that under a vertical boundary there has to be a single owner. It does not identify more than one owner.

Continued on Page 4
Ministries spar over methane

From Page 1

If gas extraction is to be done through another owner then statutory problems arise. It is of the view that since methane lies within coal fields, which are its property, therefore no question of sharing revenue with the Petroleum Ministry arises.

Both the Ministries are sticking to their guns, while the Petroleum Ministry cites its Coal Bed Methane policy, which says that the gas is its property, the Coal Ministry says that since the Mines Act has been passed by Parliament, it should prevail.

The warring Ministries have had one round of negotiations to resolve the differences, however no breakthrough has been achieved as of now. Sources privy to the development said. They added that another round of deliberations may happen soon.

Due to the emerging tussle, the CIL was forced to extend the submission dates for the bids twice, first in June and then in August this year.

"We have extended submission dates (for bids) a couple of times, as the issue coming in the way is that which ministry should have the jurisdiction over the procedure. The Petroleum Ministry says that methane belongs to them whereas we say that coal fields are ours, so we should have jurisdiction," a senior Coal Ministry official said. The talks between the two ministries are being held at the Joint Secretary level.

The bids for methane extraction were invited by Central Mine Planning and Design Institute Ltd (CMPDIL), a subsidiary of CIL.
‘Draft Mining Bill will Harm Companies’

S THIAGARAJAN
DIRECTOR (FINANCE)
NMDC

DEEPIKA AMIRAPU
Two months ago, Cabinet approved a draft law that seeks to create a better legislative environment to attract investments in mining and ease land acquisition through higher compensation to people displaced by projects. This show of goodwill could help the government win some hearts in troubled landscapes of Odisha and Karnataka. But mining companies are not entirely convinced as they have to pay higher royalties and want changes to be made before the law is enacted. India’s largest miner, NMDC, is no exception. The company’s director for finance S Thiragarajan says there are loopholes in the Bill that need to be plugged.

“We have found that in many areas, the proposed legislation would not meet the needs of the industry and, in some cases, certain provisions could be counterproductive. One of the most important problems is mining by the unorganised sector. Small-scale miners operate in small land holdings with little application of technology and bypass most standard operating procedures by violating environmental norms. The new Bill proposes to free state governments from taking the Centre’s approval to grant mining leases and, therefore, does not completely prohibit small leases to mine ore. The highest bidder would be granted the lease and the party may not be the most capable of investing and arranging for scientific, eco-friendly and community support mining,” he says.

Secondly, in India, unlike many other countries, all minerals beneath the surface are properties of the state. Ergo, when the state arranges for the mine’s exploitation by itself or an agency nominated by it, the benefits should accrue to all parties: the miner; the state and the locals. Again, the Bill requires more clarity on how all parties concerned will equally benefit. It calls for an equal amount of the royalty paid to the state to be deposited in a special district development fund meant for the region’s advancement. For coal miners, the amount would be 26% of profits from the projects. “But is the royalty a one-time payment? If there is no subsequent fee to be paid, the state will stand to lose. Also, the question we miners are asking is whether a particular community can continue to benefit every year from the proceeds? The law should look at the issue of the state benefitting from the lease perpetually. The Bill is not equipped to curb illegal mining either. If the state grants leases, a number of vested interests could gain leases, he says.

Moreover, we are asking for more transparency over the use of the proposed ₹10,000-crore fund. Thiragarajan says, “From my reading, there could be a mismatch between development needed in the area and funds available. This may lead to a disparity between villages that are getting such funds and other villages that don’t, leading to lopsided development.” The issue of recovering money from mining companies for district development funds needs to be debated further.

The ministry of corporate affairs is considering a proposal to make corporate social responsibility (CSR) a statutory obligation. A company’s finances could come under pressure if it is obliged to contribute to the district development fund in addition to CSR work it undertakes voluntarily, he says. NMDC has granted 11,500 scholarships to the economically-backward students in Bastar, one of the most impoverished regions in the mineral-rich Chhattisgarh state.

Thirdly, we miners have requested for one nodal body and a single-window clearance for approvals required such as environmental, forest and so on. At present, it takes close to three years for miners to obtain clearances and start mining. While the Bill proposes to give automatic mining approvals once a discovery is made after prospecting, it doesn’t talk of obtaining all clearances under one agency.

The fourth objection relates to state government granting leases after consulting the locals and holding discussions on all aspects concerning mining, jobs and other aspects. While companies do consult gram panchayats and obtain their nod before commencing mining, they do not deal with locals directly. Should this provision continue? asks Mr Thiragarajan.

Royalty paid to the state is among the most contentious issues. “The proposed law does not state if the royalty has to be paid before or after tax. Any ambiguity will lead to huge financial repercussions.” Many companies that have interests in mining have submitted a proposal to the ministry of mines seeking more clarity in some provisions and amendments to others before the Bill is passed by Parliament.

The mining industry needs big money in exploration over a long period, but there’s no guarantee that such efforts will throw up metal reserves. “If implementing all the rules of the book means an increase in cost, then companies may have to pass on the cost to the end-customer.”