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Geonesis

(A GEMCO KATI INITIATIVE)

Indian Mining & Exploration Updates

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COAL BLOCK ALLOCATION

AND THE WINNER IS !

COAL AUCTION WINNERS AND LOSERS

Mines Earmarked for Power Sector				
S.No.	**Coal Mine**	**Name of Successful Bidder**	**Bid price**	**previous owner**
1	Amelia North	Jaiprakash Power Ventures Limited	712	Jaiprakash Power Ventures Limited
2	Sarisatolli	CESC Limited	470	CESC Limited
3	Talabira-I	GMR Chhattisgarh Energy Limited	478	Hindalco Industries Limited
4	Tokisud North	Essar Power M.P. Limited	1110	GVK Power (Goindwal Sahib) Ltd
5	Trans Damodar	The Durgapur Projects Limited	940	West Bengal Mineral Development and Trading Corporation Ltd
Mines Earmarked for Iron & Steel, Cement and Captive Power Sector				
1	Ardhagram	OCL Iron & Steel Limited	2302	Sova Ispat
2	Belgaon	Sunflag Iron & Steel Company Limited	1785	Sunflag Iron & Steel Company Limited
3	Bicharpur	Ultratech Cement Limited	3003	ACC
4	Chotia	Bharat Aluminium Company Limited	3025	Prakash Industries Ltd
5	Gare Palma IV/4	Hindalco Industries Limited	3001	Jayaswal Neco Industries
6	Gare Palma IV/5	Hindalco Industries Limited	3502	Monnet Ispat
7	Gare Palma IV/7	Monnet Ispat & Energy Limited	2619	Raipur Alloys & Steel Ltd
8	Kathautia	Hindalco Industries Limited	2860	Usha Martin
9	Mandla North	Jaiprakash Associates Limited	2505	Jaiprakash Associates Limited
10	Sial Ghogri	Reliance Cement Company Private Limited	1402	Prism Cement
Schedule III Coal Mines | List of Successful Bidders				
Mines Earmarked for Power Sector				
1	Jitpur	Adani Power Limited	302	Jindal Steel & Power Ltd
2	Mandakini	Mandakini Exploration & Mining Ltd	650	Tata power Monnet Ispat & Jindal Photo
3	Tara	Jindal Power Limited	126	Chhatisgarh Mineral Development Corporation(CMDC)
4	Ganeshpur	GMR Chhattisgarh Energy Limited	704	Tata Steel and Adhunik Power and Natural Resource Limited

(Continued on page 2)...

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S.No.	Coal Mine	Name of Successful Bidder	Bid price	previous owner
5	Utkal □ C	Monnet Power Company Ltd	770	Utkal Coal Ltd
Mines Earmarked for Non Power				
1	Moitra	JSW STEEL LIMITED	1512	Jayaswal Neco
2	Brinda & Sasai	USHA MARTIN LIMITED	1804	Abhijeet Infrastructure
3	Meral	Trimula Industries	727	Abhijeet Infrastructure Ltd
4	Ne-rad Malegaon	Indrajit Power Private Ltd	660	Gupta
5	Dumri	Hindalco Industries Limited	2127	Nilachal Iron & Power Ltd.
6	Mandla□South	Jaypee cement Corporation	1852	MP State Mining Corporation Ltd.
7	Gare□Palma Sector□IV/8	Ambuja Cements ltd	2291	Jayaswal Neco Industies Ltd
8	Lohari	Araanya Mines P Ltd	2438	Usha Martin

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INDIA COAL-MINE BID WINNERS RISK FUTURE EARNINGS PRESSURE

The Indian government will ensure that power companies that won coal mines in auctions reduce rates for customers, rather than seeking to recover their costs by including them in capital expenses in their tariff applications.

"We will make sure the intended aim of tariff reduction is achieved," Coal Secretary Anil Swarup said in a phone interview Monday. "That was the whole purpose of conducting the reverse auctions for power companies."

While winning the mines will ensure companies are able to run their plants without disruption, returns for some utilities will be crimped, said analysts including Kameswara Rao, executive director for energy and utilities at PricewaterhouseCoopers LLP in India. The first round of auctions for 18 producing mines ended Sunday, Feb. 22.

"There's no doubt that returns for some of these companies will be hit," said Rao. "The concession on merchant power is too small to make up," he said, referring to an auction rule that allows the winners to sell as much as 15 percent of power produced from the mines in the open market.

India is conducting the coal-mine auctions after the nation's top court in September canceled 214 of the 218 coal mine permits given to companies, calling the allocations "arbitrary and illegal." After the auctions, some mines will be retained by their original permit-holders and some will have new owners.

Reverse Auctions

Six of the mines in the most recent sales were reserved for power companies and were bid for in reverse auctions, where the lowest bidder wins, to help reduce the cost of coal and electricity.

In such bidding, on reaching zero, the direction of the auction reverses to an ascending order. Among power companies, Essar Power M.P. made the highest bid of 1,110 rupees ($17.85) a metric ton. That means Essar will have to charge zero fuel cost in its tariff from the power plant that uses the coal and additionally pay the bid amount to the eastern state of Jharkhand, where the mine is located.

Mutually agreed power tariffs are made of two components -- one is fixed, which is the capital cost and the other is the variable component, which is the fuel cost. Power producers pass on increases in fuel costs to distribution companies, which in turn pass them on to electricity consumers through tariff increases.

1 Trillion Rupees

The auction of the 18 mines will generate proceeds of more than 1 trillion rupees ($16 billion) over a mine-life of 30 years, Swarup said Feb. 22 in a posting on Twitter. The proceeds will go the states where the mines are located. In addition, the six mines sold to power companies will produce a benefit of 370 billion rupees through tariff reductions for users, his Tweet said.

"The bids indicate there was an assumption of continued coal scarcity, a substantial increase in imported coal prices in the future and a massive depreciation in the rupee against the dollar," said Debasish Mishra, a senior director at Deloitte Touche Tohmatsu India Pvt. in Mumbai. "All three assumptions are unfounded."

Still, depending on state monopoly Coal India Ltd. for most supplies and filling in the balance with imports could be expensive and drive away potential customers, mostly state power retailers battling high debt and losses.

"It was like you were living in a house, and you were asked to win back the house in an auction or be forced to leave it," Manoj Gaur, chairman of Jaiprakash Power Ventures Ltd., said in a phone interview. "The choice before us was to take this risk or lock up our plant. We will see what happens in future."

Jaiprakash Power, Jindal Steel

Jaiprakash Power agreed to pay 712 rupees a ton for coal extracted from the Amelia North block in Madhya Pradesh to win back the mine that feed its Nigrie power plant in the same state.

The concern over costs was reflected in a almost 30 percent jump in the stock of Jindal Steel & Power Ltd. after the company won back its biggest mine by offering 108 rupees a ton, the lowest among all the six mines auctioned to power companies.

The stock surge was because winning back the mine ensures there won't be disruptions at its power plants, and for a "reasonable price," Jindal's Chief Financial Officer K. Rajagopal said Feb. 19.

Among the 12 mines offered to non-regulated sectors, such as steel, aluminum and cement, Hindalco Industries Ltd. won three blocks.

Hindalco

The Mumbai-based maker of aluminum products offered the highest price of 3,502 rupees a ton for the Gare Palma IV-5 mine in central state of Chhattisgarh. That compares with the 3,134 rupee-a-ton average price of coal sold by Coal India at market rates in the three months ended Dec. 31.

"The aggressive bids show how bad things are in terms of coal availability," said Neelkanth Mishra, an analyst at Credit Suisse Group AG in Mumbai. "At these costs, some companies like the ones in sponge iron will find it hard to make money."

Hindalco needs coal to produce electricity for its smelters in Madhya Pradesh, Uttar Pradesh and Jharkhand, states where moving coal from ports may not be readily feasible.

The next round of auctions will start on March 4 and end on March 8, Swarup said in a Tweet Tuesday, Feb. 24. Previously, the second round had been scheduled to begin on Feb. 25, according to the website of MSTC Ltd., which is conducting the electronic auctions.

INDIA TO MINE INDIAN OCEAN SEABED FOR GOLD, SILVER

According to a top scientist, the earth sciences ministry is finalising a contract with the International Seabed Authority (ISA) to formally enable India exploit 10,000 sq kms of the Indian Ocean seabed for minerals including gold, silver and platinum.

Director of the National Centre for Antarctic and Ocean Research (NCAOR) S Rajan, who attended a three-day Bharatiya Vigyan Sammelan at Panaji over the weekend, said the legal and technical commission to the Jamaica-based authority had also approved exploration plans submitted by India.

"Action has been initiated to formalise a contract with the ISA facilitating the initiation of a 15-year programme of mineral exploration in the allocated area," Rajan said.

The Goa-based NCAOR had been designated as the lead agency for this programme by the Union Earth Sciences ministry.

The scientist said mid-ocean ridges in the central and south western parts of the Indian Ocean were rich in metals like copper, lead, zinc as well as other noble metals like gold, silver, palladium and platinum.

"The deep ocean realm along the mid-ocean ridges has kindled a lot of interest, primarily on account of the high concentration of base metals and many noble metals in them," Rajan added.

TATA STEEL TO CASH OUT OF MOZAMBIQUE ASSET: TV NARENDRAN

Tata Steel Ltd has decided not to make further investments in its Benga coal asset in Mozambique and is looking to sell its 35% stake in the mine, the alloy producer's managing director for India and South-East Asia T.V. Narendran said. Last year, Tata Steel took a one-time impairment charge of Rs.1,577 crore on the Benga investment after the Rio Tinto Group sold its controlling stake in the mine at a huge loss to an Indian mining consortium led by Steel Authority of India Ltd (SAIL). "We don't want to spend more money on this asset," Narendran said in an interview, adding that Tata Steel has made its decision known to SAIL. "For them, there may be an upside because they got in cheap...whereas for us, it is only a commercial call (on when to exit)." Tata Steel's decision to exit the Benga coking coal project illustrates the difficulties that the company is facing in mining and evacuating coal from overseas mines for steel plants located in India and Europe. Instead, Narendran plans to focus on expanding Tata Steel's steel manufacturing and mining interests in India, given the Tata Group's position and brand equity in Asia's third-largest economy.

The Tata Steel management's focus now is to get the Kalinganagar plant in Odisha running. It has already spent Rs.25,000 crore on this yet-to-be commissioned unit, which is to be eventually scaled up to produce 6 million tonnes of steel—twice its initial capacity. The controversy over the project has taught Tata Steel many lessons. "You cannot take people's trust for granted despite your track record of working closely with tribal communities," said Narendran. The Kalinganagar project was mired in controversy after locals protesting against land acquisition were killed in police firing in 2006. Delayed by five years, the plant is set to start production this year. The company is now investing in building relationships with local communities in Chhattisgarh and Karnataka, which it sees as potential sites for expansion. And according to Narendran, this exercise shall go on for years before the company starts any kind of business development in these states. Edited excerpts: Commodity prices are weak across the world. Is it an opportunity to acquire raw material reserves?

Mines are not going to be cheap unless they are in distress. People are not going to sell, at a loss, quality assets in which they have invested. It's a pity that India still has to import iron ore. We should ask ourselves, why should we import something we have in plenty? To my mind, acquiring iron ore assets overseas does not make sense. It makes more business sense to invest in coal mining, but investing in raw material reserves is more about laying railway tracks and building port connectivity. For mining, you need to work closely with the local government. We have not been successful in Africa. Given the Tata Group's brand equity in India, it is easier to work in India than in other countries. We have presence in Africa, too, but it's not the same as in India—you can't operate there as easily as in India though, in many ways, the difficulties are similar. But then, the question for me is, would you go through the difficulties of mining coal or rather buy it? You would go through the difficulties if you think there's going to be a shortage and the only way of securing coal is by owning mines. We are closely watching the situation in India. If India allows mining leases for coal, we will evaluate opportunities of investing in Indian coal assets, though the coal in India is of inferior quality. As the plant at Kalinganagar gets ready to be commissioned, is the ground situation there completely under control? It is not perfect, but far more peaceful than it was previously. We still have to bring under our control around 900 acres of the project site of 3,000 acres, but the ground situation is easing because people are beginning to see the changes that we have brought about in the region. We got off to a bad start, and that cost us five years. The key lesson from Kalinganagar is that if you are interested in a site, you need to start building trust there before you start building the factory walls. But typically, we do exactly the opposite: we start engaging with the community only after we have acquired the land and built the factory walls. But by then, people become suspicious. We have already started doing some work in Chhattisgarh and in Karnataka, seeing them as potential sites for expansion. Ideally, we should be doing it for a few years—connect with the people to build trust—before we start any business development at these sites. When you live and work in Jamshedpur, where you already have a healthy relationship with (Continued on page 5)...

the local community, you take people's trust for granted. You know the community, and the community knows you; you promise to do things, and the community believes you, but that happens here because you have kept your promises for 100 years. But it does not necessarily mean you are going to get the same treatment when you go to a new place. It takes a while to build trust. Also, we need to be sensitive to the fact that people do not always welcome change, more so in developing countries where people are transiting from an agrarian economy to an industrial economy. Have the two acquisitions in South-East Asia from a decade ago fulfilled Tata Steel's internal expectations? NatSteel was our first overseas acquisition, which we bought at a time when we were hungry for growth. Downstream products—fabricated steel cut and moulded to size as required at construction sites—are its core strength. It had, at that time, presence in six countries and a production capacity of two million tonnes. We bought the asset for around $300 million, which wasn't expensive. And within a few years, Tata Steel recovered the money it spent on acquiring NatSteel. But NatSteel operates on a thin scrap-rebar margin (because it produces everything out of scrap). Scrap accounts for almost 70% of its input costs and the company has traditionally had an operating profit margin of 5%. Running the battle between scrap and rebar prices wasn't seen to be going on forever because we had thought of supplying semi-finished steel to NatSteel from India. The story was the same with the Thailand acquisition as well. But what happened was demand in India started to firm up, and though we raised production capacity by 2-3 million tonnes in India, we found that it was more profitable to sell in the domestic market than to export semi-finished steel to South-East Asia. We could never build capacity in India fast enough to feed our operations in South-East Asia, so in that sense, could not support these operations in the manner we had originally envisaged. But having said that, NatSteel didn't make losses for years even after the 2008 collapse of Lehman Brothers when all other steel companies were struggling. Only in the last couple of years, we had a few challenges. We had grown quite fast in China, where we have a plant. We had some lease agreements with partners in China, and took a hit when our partners landed in financial difficulties. We were exposed and we had to take a write down in the December quarter. But by now, we have recovered some money that we had previously thought we had lost in China. Also, we have exited from the asset in Australia where we were losing money. If an opportunity like NatSteel were to arise again, will Tata Steel go for it? If such an opportunity is found in India, we will go for it, but may be not if it is outside India. What are your takeaways from heading NatSteel? When you work for a large enterprisesuch as Tata Steel, which operates on a healthy Ebitda margin of 40%, sometimes you don't appreciate what it is like to work in a company that routinely operates on a 5% margin.

I had only months earlier taken over as the CEO when, following the Lehman Brothers collapse, we had an overnight situation: we had inventory and the price had crashed. From a healthy situation, there was a complete reversal and the key concern immediately was how to pay our workers.

The dynamics of working for such a company are very different and they teach you to be far more alert than at large organizations. Tata Steel, too, has always been a very cost-conscious company, but at NatSteel, it was always a matter of life and death on a monthly basis. It is somewhat like coming from a wealthy family versus coming from an underprivileged one. We have seen how the closure of Tata Steel's mines impacted its earnings. What did it do to the organization? It taught us to encourage close collaboration between people. There are situations when people need to work as a team, irrespective of how good they are on their own. Tata Steel has always been a hierarchical organization—one where reporting structures are very clear. But there are times when you have to go beyond your brief for the sake of the organization. For the first time in 100 years, Tata Steel saw all its mines closed. But we managed to keep the steel plant running. At one point, we thought we will have to scale back production by 50%, but we ran the plant at 80-85% even when all our mines were closed. And logistically, we are not geared to work with imported raw material. There is hardly any port in eastern India designed for import of iron ore. There was a problem with the railways, too, because it could not decide tariff for imported iron ore. Even Dhamra port, which we had built, was intended for export of iron ore and import of coal—the conveyors there were not designed to receive iron ore from ships. Also, we are not geared to keep 10-15 days' stocks of iron ore—we typically keep stocks for 2-3 days. It was a nightmare from the operations point of view. But the team worked together beautifully to deal with the situation. Does it mean that you are better prepared to deal with such a situation if it were to arise again? What takes us to be competitive in the future is not necessarily what has kept us competitive in the past. I keep telling that because we have had our raw materials available from captive sources, we sometimes feel we are more competitive than we actually are. We were operating at 30% Ebitda margin when our mines were running full steam; but our Ebitda fell to 20% when we were forced to buy iron ore. Even with an Ebitda margin of 20%, we were among the top 2-3 steel producers in terms of profitability. So, we have said that over the next few years our aim is to have an Ebitda margin of 25% with raw materials at market prices. That's the goal that we have set for ourselves. We don't know yet how to get there. But unless we set that goal and work towards it, we can't be competitive 10 or 15 years from now. We started this a year ago, when our mines were still in operation. Some people initially thought that we were bracing for a hypothetical situation, but when our mines were shut, they realized it could someday become a reality, too.

AS INDIA OPENS UP COAL SECTOR, GLOBAL MINERS COOL ON INVESTING

India's plans to attract badly needed foreign investment and technology to its coal sector are getting a cool response from some miners and trading houses, even though the country is one of the few bright spots for global coal demand.

Seeking to curb a growing reliance on imports, Prime Minister Narendra Modi passed an order in December to allow private firms to mine and sell coal for the first time in more than 42 years.

But even with India on track to overtake the United States as the second-largest coal consumer after China this decade, executives at Japanese trading houses and some of the biggest global miners said they were currently not looking to invest.

Red tape, problems with land and environmental approvals, and the quality of its coal have been cited as issues deterring investment, while on top of this Asian coal prices are languishing near six-year lows.

Despite huge coal reserves, India's failure to modernise mining means it has become the world's third-biggest importer, shipping in coal from countries such as Australia and Indonesia.

Asked about progress attracting investors for auctions that may start later this year, Coal Secretary Anil Swarup told Reuters talks were going on with several global firms on upgrading mining technology, although nothing had been finalised.

"It is not just about mining on their own but also to provide technology to Coal India and Indian companies," he said.

Up to now only state firms have been allowed to mine coal, but the sector is being opened up to help meet surging demand for coal for power.

Indian conglomerates such as the Adani Group and GVK are expected to bid for coal blocks, but foreign firms will be harder to attract after previously facing obstacles to investing.

For example, global miner Rio Tinto has had to wait more than a decade to secure approvals to start mining iron ore in India.

Japanese trading firms have recently been increasing investments in coal, but executives at two firms said they did not intend to invest in India.

"We have no plan to consider joining coal mine projects in India even (as) it opens up, as there are other countries which we are focusing on and where it is easier to manage projects," said an official at a trading firm, declining to be identified.

Another senior executive at a rival firm said the quality of coal in India was not very high and the firm preferred to sell coal to the country rather than join in projects.

Among global miners, a spokesman for BHP Billiton, the world's biggest coking coal producer, declined to comment on India specifically but pointed to recent management statements that the miner planned no new coal investments.

Anglo American was also unlikely to be interested since it is focusing on divesting South African coal assets, said a source familiar with the miner's plans.

Rio Tinto Chief Executive Sam Walsh said the firm had not looked at Indian coal investments yet but was open to opportunities, while Peabody Energy said it would "evaluate investments to serve India's rising coal needs as appropriate".

India wants to more than double coal output to 1.5 billion tonnes by 2020, but its mining is deeply inefficient. Coal India, the world's largest coal miner, produces 1,100 tonnes of coal per employee a year, compared with 36,700 tonnes for Peabody Energy and 12,700 tonnes for China's Shenhua Energy.

Despite the lack of foreign interest in mining coal, both local and overseas investors flocked to a 10 percent stake sale of state-run Coal India that raised about $3.6 billion. However, this interest may also indicate how government firms will continue to have an edge in navigating India's maze of clearances.

WANT TO LEVERAGE THE WEAK MARKET, LOWER COST OF DRILLING WELLS: TOM ALBANESE, CHIEF EXECUTIVE, SESA STERLITE

Sesa Sterlite — the metals, mining and energy firm of the Anil Agarwal-led Vedanta Group — hopes to resume iron ore mining in Karnataka over the next couple of weeks and restart operations at its Goa iron ore mines before the next monsoon season, says its chief executive Tom Albanese.

In an interview with Aveek Datta, Albanese, who was appointed to the top job in March 2014, elaborates on how he plans to leverage the current weakness in the global oil market to permanently improve the cost economics of key projects being undertaken by Cairn India. Excerpts.

Many of the challenges faced by the sector seem to be getting

(Continued on page 7)...

GEMCO KATI

addressed. When do you expect to resume operations at your mines in Karnataka and Goa?

Karnataka and Goa present two different sets of issues. We will probably see an earlier resumption of mining activities in Karnataka. We hope to see mining begin in Karnataka in the next couple of weeks and, definitely, by the end of February.

The Goa government has renewed our mining leases but we are awaiting some environmental clearances from the Centre. Ideally, we should be in a position to begin mining in Goa before the monsoon season.

During the Goa ban, many key export markets have been occupied by producers from other countries. How do you plan to regain the lost market?

We lost a huge market share with the shutdown in Goa and that encouraged other entrants. that said, globally, there is still an increase in demand, albeit at a lower growth rate. I don't want to give up and not try to regain some of that market. We are working on finding ways to rebuild those export markets and our brand position there, and get back in touch with existing customers.

With prices falling drastically, would you look to sell Goan iron ore to Indian steelmakers with plants near the coast, for whom it is economically viable to do so?

I can tell you that a lot of Australian iron ore is being sold to those steel mills in India. Certainly, if we can sell at competitive terms to steel plants in coastal India, it would be a win-win for everyone. We'd like to be in a position to sell wherever we can.

While announcing your third quarter earnings, you mentioned that Sesa Sterlite will defer some of its investment plans in the wake of declining commodity prices. Can you elaborate?

We have flagged to the market that we are looking at what we can do to balance the need to keep production going while being sensible about the environment of weaker commodity prices, particularly at a time when crude oil prices are soft. We're working with our individual businesses on this and many of them have their joint venture partners and other stakeholders. We are not yet being prescriptive on a number (regarding reduction in capital expenditure), but there will be more clarity in coming months. What I can say at the moment is that it will be a very meaningful deferral in capital costs from what we would have otherwise expected to incur.

Also, in companies like Cairn India (Sesa Sterlite's oil and gas subsidiary), we are looking at ways to re-engineer processes and find more competitive service providers who can help reduce costs. I have myself joined the Cairn team in Calgary (Canada) and Houston (US) to find ways of reducing the costs of horizontal drilling and other technically complicated work that costs quite a bit more in India, sometimes 50-100% more.

When the crude market was strong, a lot of service providers in North America didn't even think of coming to India because they had all the work they wanted in their part of the world. But with a slump in the industry, a lot of them are quite receptive to the idea of working in India. We want to take advantage of these weak market conditions and permanently improve the cost basis of drilling oil and gas in India.

How much cost advantage do you expect to achieve at Cairn India through these steps?

I would love it if the cost of drilling a well in India comes down by half. If it costs twice as much to drill a well in India than in Oklahoma, I think achieving such a cost reduction is realistic.

With declining commodity prices, what is your outlook on Sesa Sterlite's earnings?

In our oil business, we want to be in a position where we can survive the trough in pricing and generate positive cash flows after capital expenditure even when oil is trading at around $40 a barrel. If we can stay resilient at these low prices, we will be well-positioned when prices rise again.

In the next couple of quarters, we expect to see robust growth in our aluminium business and the market sees it as a near-term catalyst for our volumes and earnings growth. So, if the London Metal Exchange price and physical premium on aluminium prices stay where they are, it will mitigate the impact of soft market conditions at some of our other verticals. We have also increased the production of zinc and the performance of this business is expected to be strong in the coming quarter. We are seeing higher zinc production in an environment of higher pricing.

What is the rationale for the merger of Sesa Sterlite, Hindustan Zinc and Cairn India, which is being contemplated? When is the blueprint likely to be ready?

People have been speculating on this for quite a while. It was a natural progression from the successful Sesa Sterlite merger that happened a couple of years ago. The government of India itself is saying that it is looking to do something with its stake in Hindustan Zinc. That itself has created a lot of speculation and people are pitching ideas on how to go about it. But,at this moment, it is strictly exploratory and speculative. The government hasn't yet said what they are going to do with their stake in Hindustan Zinc.

The Sesa Sterlite merger has helped us manage the company better by exploring synergies on the marketing and procurement side. We have seen tangible benefits. But as we meet prospective investors, they appear wary of investing in the company as the structure is too complicated. In that sense, to some extent, the complex structure has compartmentalised us away from some of the capital that would have been available to us. But that's not necessarily the immediate order of the day. The order is to increase production and get our investments on the ground, especially in sectors like aluminium.

ODISHA NIXES JVS WITH RIO TINTO, SESA STERLITE, HINDALCO

Dealing a body blow to the hopes of Rio Tinto, Vedanta Group firm Sesa Sterlite and Aditya Birla Group's HindalcoIndustries, the Odisha government has decided to scrap joint ventures (JV) formed by these firms with its Odisha MiningCorporation (OMC), for iron ore and bauxite. The government's decision to wind up the three JVs is set to have wide ramifications across the mining spectrum and upset the equations of companies which had banked on assured raw material supply to run end-use plants, where they've committed big investment.

In the standalone mining space, the government has scrapped OMC's JV with Anglo Australian mining major Rio Tinto. This comes more than two years after the state-run miner announced its intent not to pursue the JV project, in September 2012. Now, the state government has sealed the fate of the $1-billion project, billed as one of the biggest bits of foreign direct investment in the sector.

OMC's reluctance to revive the JV project stemmed from the changed dynamics in iron ore mining. When the JV was signed in 1995, the demand for ore in the domestic market was tepid and OMC was a cash-strapped undertaking. This has changed, with OMC in possession of a cash surplus of around Rs 5,000 crore. Also, with growing demand for iron ore within the country, OMC is being envisioned as a long-term supplier.

Rio Tinto had entered into a JV with OMC on February 24, 1995, to develop the Gandhamardhan and Malangtoli iron ore deposits in Keonjhar and Sundergarh districts, with a mining capacity of 25 million tonnes per annum.

However, the project hardly showed any sign of taking off the ground. It ran into rough weather due to intractable differences between the partners. Rio Tinto was keen to export half the ore mined, while OMC emphasised on meeting the raw material needs of local industries.

This led OMC to later seek an end to the JV, as advised by the Solicitor General of India, sparking a legal battle. OMC had filed a case at the high court here in 2003, to end the agreement. Rio Tinto had approached the Company Law Board to contest this.

OMC has also initiated the process to annul JVs with Sesa Sterlite and Hindalco. “We have sent showcause notices. They have been asked to send their replies within two weeks,” said Girish S N, managing director of OMC. Notices were sent to the two firms earlier this month. OMC had formed South West Bauxite Mining Company (Pvt) Ltd, a JV with 26 per cent equity of Sterlite Industries India Ltd in 2009 for supply of bauxite from deposits in Kalahandi and Rayagada districts to feed the aluminium refinery of Vedanta Aluminium (now Sesa Sterlite).

Similarly, East Coast Bauxite Mining Company (Pvt) Ltd was formed in 2005 with 26:74 equity holding between OMC and Hindalco Industries. It was for development of the Kodingamali bauxite mines (estimated reserve of 85 million tonnes) in Koraput district and supplying it to the alumina refinery of Hindalco.

Both the bauxite JV projects failed to take off due to stiff protests from locals. Sesa Sterlite has invested about Rs 50,000 crore on its projects and Hindalco’s investments in the state are pegged at Rs 21,000 crore.

COAL BLOCK AUCTIONS WILL LEAD TO LEVEL PLAYING FIELD FOR ALL: CS VERMA, SAIL

Chandra Shekhar Verma, chairman and managing director, Steel Authority of India (SAIL), talks about steering the company in the current tough times, when local as well as global demand is depressed. He shares his action plan for the next 10 years and talks about his five years at the helm. Excerpts:

SAIL has been battling stagnant domestic demand in recent years. How does the year ahead look?

Globally, steel production growth has been tepid with only 2% increase in the calendar year against 3.5% in the corresponding period a year ago. There is surplus capacity of about 23-24% as utilisation is low. Demand in India is better than what it is globally. In April-December, production has grown at 5.3%. However, there has been a surge in imports — to 7.4 million tonne (mt) from 4.6 mt in the first three quarters of the current fiscal. Due to the SIPA agreement, there is a lot of import from Japan and Korea.

After consumption peaked in China, the country has been exporting steel to India as well. The depreciation in the rouble has also led to greater imports.

The demand situation should settle down and it is not a great cause of worry. However, companies importing to India have to bear freight and logistical costs also and, hence, the surge in imports should be temporary. The demand scenario in India is likely to improve as the country and the emerging markets as a whole remain the demand centre. Our per capita steel consumption is abysmally low at 55 kg per annum against the global average of kg p.a., which will only improve as we catch up and urbanise more. Further, a number of new initiatives by the government will gradually boost demand. We have also taken steps to multiply capacity.

The government has decided to auction both iron ore and coal mines, but SAIL, being a PSU, would get the resources through nomination. Will the introduction of a reserve price impact SAIL in terms of production cost?

We are the sole bidder for the block reserved for steel sector among the mines earmarked for PSUs. We will also be taking part in the next round of auctions to procure more coal blocks. These auctions will provide a level playing field for all

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companies and facilitate faster development of coal blocks. We will be able to take the advantage of our own coal blocks as we have enough knowhow in the mining. Today, we are operating four coal mines and, along with the Mozambique mine, we are mining 30 mt coal on our own.

How much are you producing from the Mozambique mines? Are there plans for more overseas acquisitions?

We are not averse to acquiring global assets, but we have to keep an eye on location and market situation domestically as well as globally. We are getting 3-4 shipments of more than 1 lakh tonne currently from Mozambique and also working out the logistical issues, which will enable us to bring more coal from there.

How are the modernisation and upgrade plans coming along? What would be your capex for the next fiscal?

We have a planned expenditure of Rs 72,000 crore. Capex for the individual year has been Rs 8,000-10,000 crore per year and, this year, it will be about Rs 9,000 crore.

We have prepared vision 2025 to enhance capacity to 50 mt from 23.46 mt, which will involve a total capex of Rs 1,50,000 crore.

funds will come through debt and equity in equal proportion as opposed to our current expansion plan, which is being funded with two-third equity and one-third debt.

What hurdles are you likely to face in achieving the 50-mt target by 2025?

The Rourkela and Burnpur plants have started producing. In conjunction with Bhilai, production will reach 23.46 mt per annum next year. Demand in India is not likely to slump in the foreseeable future — cement-steel mixing ratio is not adequate here as for every tonne of cement used in construction, only 0.3 tonne steel is used. In developed economies, the ratio is 1:1. India is slowly becoming quality conscious and there is a preference for pre-fabricated steel and cement structure. Considering that 50-60% of steel is used in the infrastructure and construction sector, as we move to more qualitative products, steel demand will only go up.

LEAVING PEOPLE OUT OF DEVELOPMENT

For some years now, the Ministry of Environment and Forests (MoEF)has been perceived as a roadblock to development or a facilitator for the industry depending on which side you are on. Former Union Environment Minister Jayanthi Natarajan's recent letter to Sonia Gandhi also alludes to the conflict in the Ministry.

The Ministry had humble beginnings: it began as a department in 1980 and was set up as a Ministry in 1985 after India's participation in the United Nations Conference on the Human Environment in Stockholm. It was in many ways Prime Minister Indira Gandhi's leadership and participation in Stockholm which prompted the Ministry's inception. Now, India has a plethora of laws which relate to the environment and its regulation.

Over time, even as many notifications have come into force after Supreme Court orders, the National Green Tribunal (NGT) was set up in 2010 — infinitely more effective than the earlier National Environment Appellate Authority. However, enforcement is far from satisfactory.

The raging debate between environment and development is even more intense now as the country is on an ambitious growth path and there is scant regard for people's rights or natural resources. Union Minister of State for Environment, Forest and Climate Change Prakash Javadekar has repeatedly said there will be no destructive development. Yet, ordinances on the proposed changes to the Land Acquisition Act and on mines and minerals have led to fears that amendments to environmental laws will be brought in through ordinances.

All over the country there are struggles against projects which threaten to displace people, deprive them of land and livelihoods and give them no decent alternatives. Northeast India, ignored by policymakers for long, has become the new battleground against massive hydel projects. In this scenario, protection of the environment and people's livelihoods are pitted against the powerful industry lobby and there are no prizes for guessing who is winning. The recent ordinances on land acquisition and mining leave no room for doubt that business interests have prevailed.

Reviewing laws

There are also threats to dilute the Forest Rights Act (FRA). Last August, the MoEF decided to appoint a High-Level Committee (HLC) headed by a former Cabinet Secretary to review six environmental laws. As the committee's report created disquiet, it is now being reviewed by the Parliamentary Standing Committee on Environment which has already heard one round of criticism from leading environmentalists in the country.

The HLC went straight for the jugular and targeted the regulatory mechanism. The only reasoned suggestion it seems to have made is on genetically modified (GM) crops where it advocates caution.

Besides that, that it has proposed a new Environment Law (Management) Act under which new offences are prescribed, applicants who want environmental clearances for projects are expected to be honest and truthful, and the concept of 'utmost good faith' is statutorily introduced. The HLC dilutes the role of the NGT; the Tribunal will only be able to judicially review the decision of Appellate Boards. It introduces special environment courts and proposes new agencies — the National Environment Management Authority at the national level and the State Environment Management Authority to replace the Central Pollution Control Board and State Pollution Control Boards, both of which are notorious for their inaction and corruption. Replacing them with a new set of committees is not going to improve efficiency

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or honesty. Little wonder then that the report of the HLC has sparked nationwide outrage.

While Mr. Javadekar said the report was a historic achievement that would strengthen processes to balance developmental commitments and environment protection, the criticism is that it seeks to dismantle the basic structure of India's environmental law. The report violates Article 21 of the Constitution since interests of industry have been given importance, and overrides the right to clean air, water and a balanced ecosystem, said a critique titled "A Recipe for Climate Disaster and Silencing People's Voice" by environmental lawyer Ritwick Dutta, and activists Himanshu Thakkar and Manoj Mishra and Debi Goenka. The critique notes that recommendations of the HLC suggest dispensing with public hearings in projects of "strategic" and "national importance" and dispensing with public hearings in most regions that are already severely polluted. This is based on the theory that there is no need to hear the affected public since the situation cannot possibly get worse. The power sector and coal mining projects undefined 'fast track treatment' through 'Special Procedure' that appear likely to short-circuit or eliminate public hearings and gram sabha approval. The way in which the revised procedure is recommended, approval will be a matter of right, the critique says.

Further, in the 113-page report, the word "speed" in the context of speedy clearances is mentioned 13 times, the critique added. The emphasis swiftly shifts from concern for the environment to "time-consuming clearance processes." In addition to exempting the public from hearing these projects, the committee has also made recommendations on who can participate in the public hearing and what issues can be raised. For instance, only environmental, rehabilitation and resettlement issues can be heard by the public, though the present Environment Impact Assessment (EIA) notification 2006 allows all persons to participate in the public consultation process.

In addition, the report enforces the stereotype that environmentalists obstruct development. It refers to "genuine public participation" as though public hearings are not genuine otherwise.

Curbing laws

The government's decisions to block funding for Greenpeace and other environment NGOs and not allow a campaigner to go abroad to speak on coal mining in Mahan are clear indications that dissent is not going to be tolerated. Last year's Intelligence Bureau report on NGOs explicitly sets out an agenda to curb movements which question the current development path. In Gujarat the fisherfolk of Mundra who have been displaced by a major power plant have not been given project-affected status; in Odisha, gram sabhas' opposition to coal mining has been disregarded. People fighting battles for survival have only one option: to approach the courts or the NGT. Sometimes, even court orders are not obeyed.

The Ministry of Tribal Affairs, the nodal agency for the FRA, has been writing stern letters to the Environment Ministry emphasising the fact that the FRA is not delaying project clearances. The multilayered approach for project clearances is time-consuming. While appreciating the need for speedy approvals, public participation must not be lost sight of.

India is rife with examples of development refugees — farmers have been displaced by the Bargi dam in Madhya Pradesh, the Baiga are being evicted from forests where they once thrived, fisherfolk are struggling for survival, among other examples. To add to this, there is a new genre of climate refugees who are affected by the rise in sea levels, changes in cropping patterns and other climate change impacts.

Sustainable development needs serious commitment, capacity building at the local level and urgent action. Science has clearly underscored the need for urgent action if the world has to be saved from the irreversible impacts of climate change. The HLC is silent on climate change for the most part and it will be astounding if India, poised to grow more, doesn't factor in climate change while "streamlining" its environmental laws. In the urgency to grant industry its due with promises of 'Make in India,' those already in India, especially the marginalised, cannot continue to be victims of grave policy neglect and continuing alienation.

COAL INDIA BOARD CLEARS PLAN TO RAMP UP OUTPUT TO 1 B TONNES A YEAR

Coal India Ltd will will spend 6,000 crore as capital expenditure on mine development from 2015-16, as its board has approved a road map for achieving 1 billion tonne annual production by 2020.

Chairman and Managing Director S Bhattacharya said on Friday the company will earmark another 6,000 crore for investment into special purpose vehicles (SPVs) that it intends to form with State Governments and the Indian Railways for coal evacuation from its mines.

"We have prepared a mine-wise plan to achieve 908 million tonnes (mt) annual production for the fiscal year-ending March 2020. We are also in the process of preparing a plan for the remaining 92 mt," said Bhattacharya.

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To achieve the target, the miner would need a compounded annual growth rate of 12 per cent a year in production from 2015-16, he added.

"Two subsidiaries – Mahanadi Coalfields Ltd and South Eastern Coalfields Ltd – will play a vital role in achieving the plan as most virgin mines are with them," said Bhattacharya.

According to the production ramp-up plan, Mahanadi Coalfields' annual output in 2020 will be 250 mt and South Eastern Coalfields' will be 240 mt.

The planned SPVs with the Railways and State Governments will help in evacuation of the increased coal production, said the Chairman

"The SPV will be an independent company and the financial returns from it will accrue to the State. We are talking to Odisha, Chhattisgarh and Jharkhand. We may also require West Bengal and Uttar Pradesh," he added.

Already, South Eastern Coalfields Ltd has formed two SPVs with Chhattisgarh and involved the Railways.

The company will also focus on improvement in technology upgrade in existing mines.

FIS LENDERS HELPING DEVELOPERS IN COAL AUCTIONS TO AVOID BAD ASSETS

In an interesting turn of events, banks and financial institutions (FIs) that have funded stranded power plants are helping developers to participate in the auction of coal fields to avoid these projects from turning into non-performing assets (NPAs).

Many power project developers can't afford to participate in the auctions, with their projects having run into delays, cost over-runs and fuel shortages. They also owe money in interest payments on loans taken earlier. Firms such as state-owned Power Finance Corp. Ltd (PFC) and Rural Electrification Corp. Ltd (REC), which are India's largest power sector lenders, have hit upon the idea of funding their purchase of coal mines to recoup loans to these projects once they begin operations.

A PFC executive said, requesting anonymity "We are planning to bring out some product where we will be considering the request of project developers to help them with the coal block auctions for extending financial support."

Projects with a capacity of about 69,842MW have been stranded in the country at various stages of development; capacity totalling 45,634MW is stalled because of insufficient coal supply. Construction has been completed on projects with a capacity to generate around 28,000MW, but these haven't been commissioned yet.

Banks' exposure to the capital-intensive power sector is estimated at INR 3 trillion, more than the total amount of gross NPAs in the banking system. Lack of fuel supplies and absence of power purchase agreements with state-run utilities have been blamed for stranded power plants. Some project developers have not been commissioning constructed power plants because once they start production, they would have to start repaying their creditors.

Confirming the trend, an REC executive who also didn't wished to be identified, said that "A lot of people have approached us for providing them with financial support for the coal block auctions. This route is being explored to protect the loans already given out to these developers. Since it will have to be a new product we will be appointing a consultant to explore this option."

For their part, banks and financial institutions that have funded these projects are not insisting that the developers set a date for the start of commercial operations.

In the event that the developers default, the loans would be counted as NPAs, requiring the lenders to make additional provisions, adding to the pile-up of bad loans and denting their profitability.

Mr Debasish Mishra, senior director, consulting, Deloitte Touche Tohmatsu India Pvt. Ltd, said that "With delayed commissioning, cost over-runs and accumulating interest during construction—many of the promoters do not have the funds to even participate in the coal auction process. Lead lenders, in some cases, are willing to fund it, provided there is a change of ownership post allocation of the coal block."

The National Democratic Alliance (NDA) government has received 176 bids for the 21 operational coal mines that will be put on the block in the first round of the landmark auction that will begin this month.

In September, the Supreme Court cancelled the allocation of more than 200 coal mines allocated by the government between 1993 and 2010, a month after ruling that the allotments had been illegal and arbitrary and resulted in the "unfair distribution of national wealth". The government is preparing to auction or allocate 101 coal mines.

Of these, 65 will be auctioned and 36 allotted to state entities in a process to be completed before the end of the current fiscal year. The Narendra Modi government has expressed concern about the way in which loans were given to power projects totalling around 28,000 MW during the tenure of the previous government without fuel supply tie-ups and power purchase agreements, rendering them unviable. Of India's installed power generation capacity of 255,681.46 MW, around 60%, or 154,170.89 MW, is coal-based.

Growth in the production of coal has been unable to match the demand for fuel in a country where the power sector consumes nearly 78% of the domestic output of the mineral.

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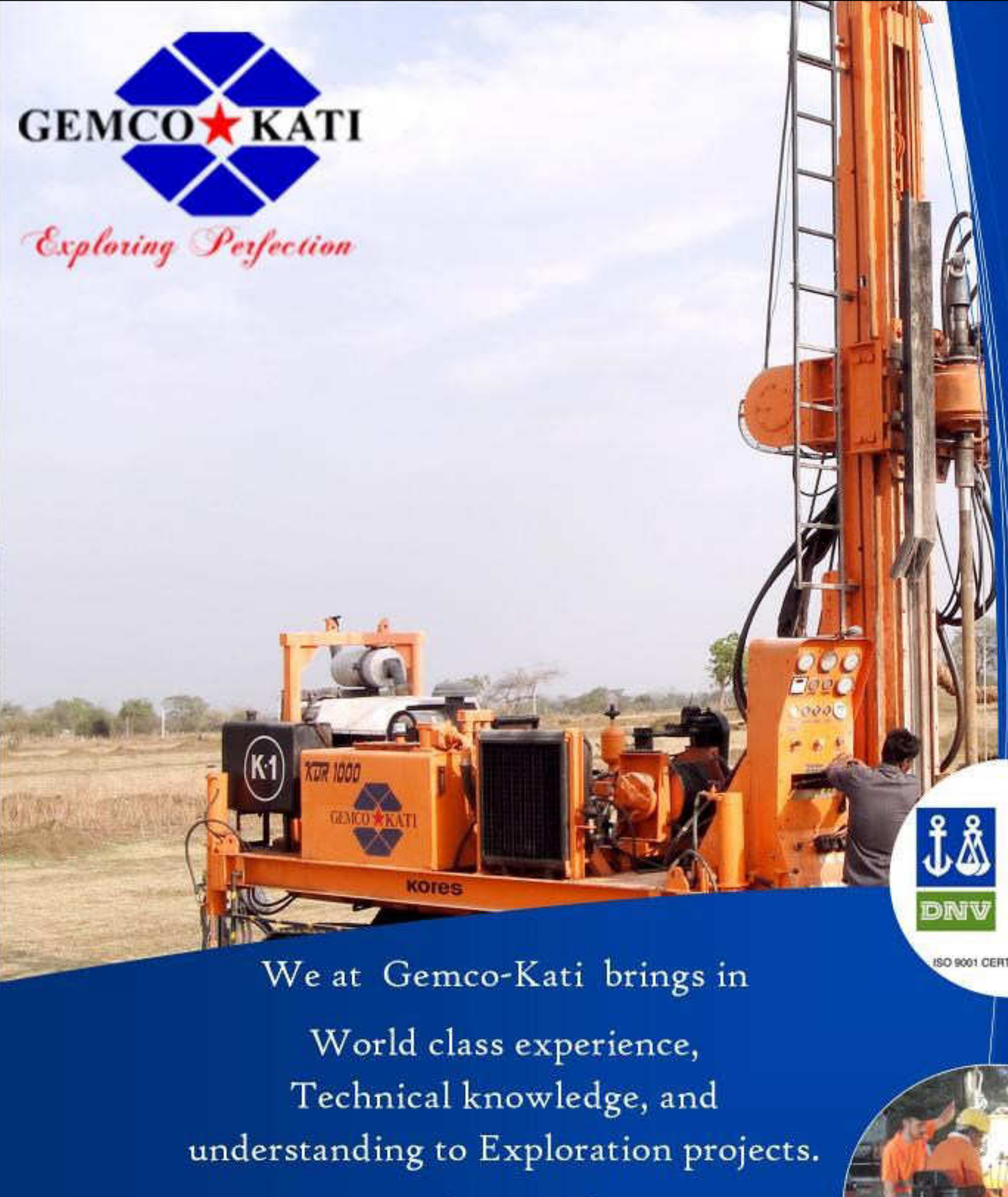

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