

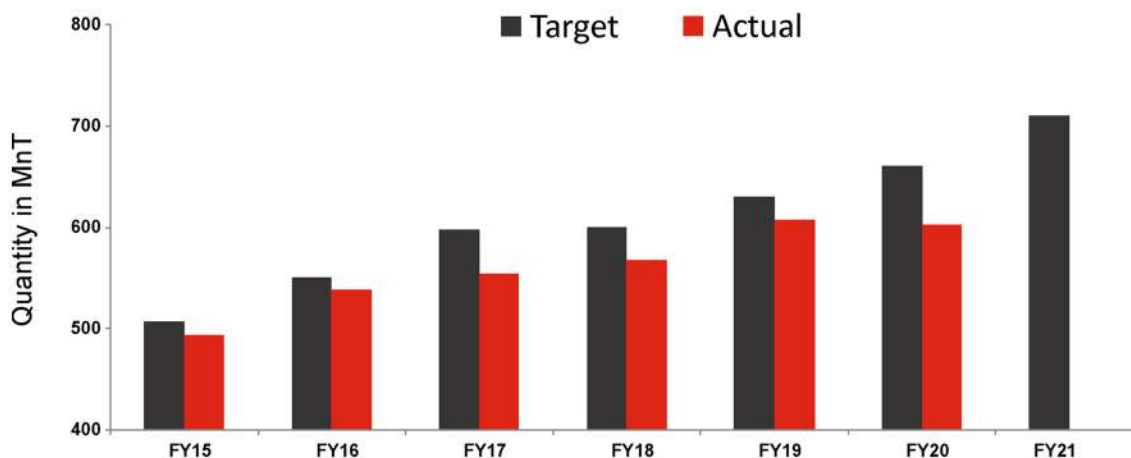
Commercial Coal Mining Reforms: Ticking All the Right Boxes?

Marking a historic shift in its approach to overhauling the mining sector in India and, in particular, maximising coal output to fulfil the energy needs of a growing economy, the government has introduced structural reforms in the auction process proposed under commercial mining.

The methodology would be implemented in the forthcoming auctions of mines/blocks for sale of coal under the Coal Mines (Special Provision) Act, 2015 and the Mines and Minerals (Development and Regulation) Act, 1957.

Aimed at encouraging maximum participation in order to utilise the existing coal reserves, the reforms are also intended to revive the domestic coal sector by minimising long-term dependence on Coal India Limited (CIL).

CIL Annual Coal Production

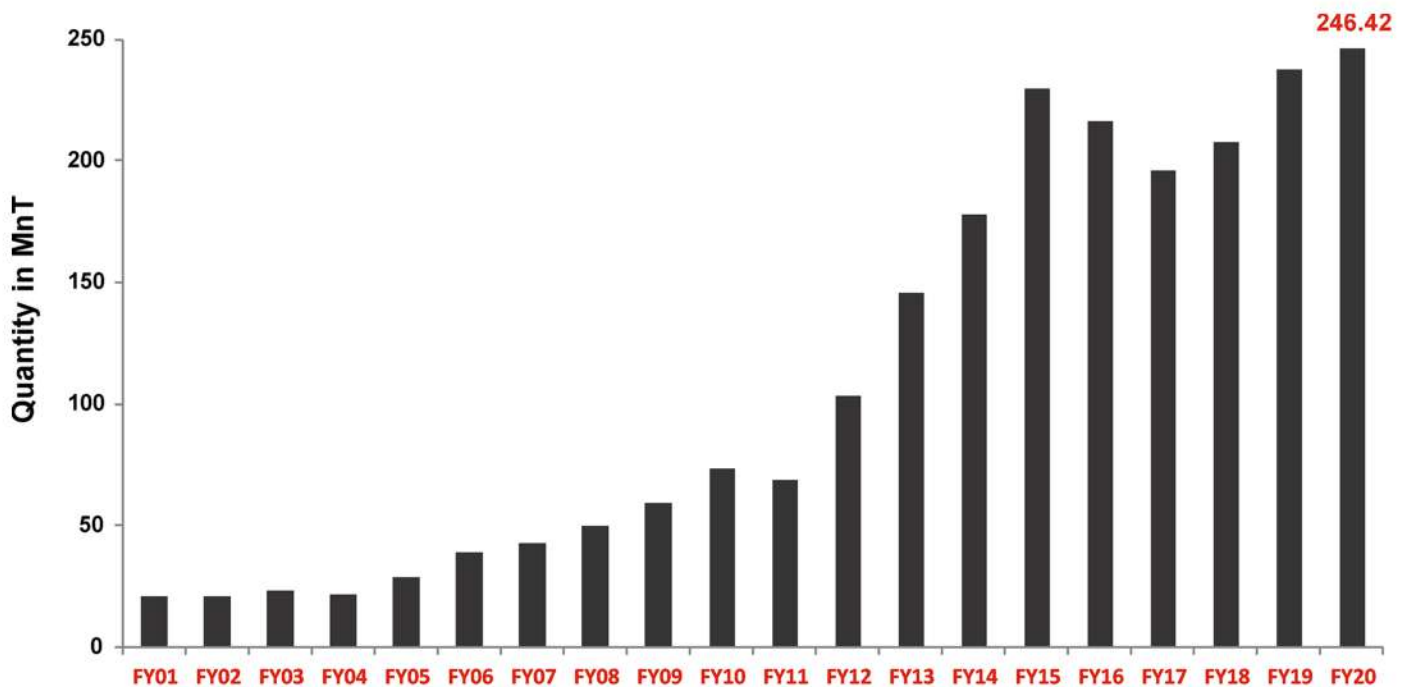


Rising Imports, Forex Outgo

CIL reserves got a boost of 8.3 billion tonnes (BnT) after the MaharatnaPSU was allocated 16 new blocks in January 2020. With resources of over 172 BnT, it accounts for around 54% of the country’s total coal resources. However, domestic demand far outstrips supply resulting in steady rise in imports – an all-time high of 246.42 million tonnes (MnT) of coal imports was recorded in FY20.

And despite best efforts to develop renewables, experts predict India would likely remain dependent on coal for the foreseeable future.

Indian Coal Imports



Source: CoalMint Research, CCO

*Excluding data for Coke and other coal products

Ringling in Reforms

Besides scrapping the erstwhile rupee per tonne regime in favour of a more specific revenue sharing methodology for the forthcoming auctions, the government has incorporated provisions to benefit the bidders through incentives paid under various operating circumstances, removal of end-user restriction and inclusion of partially explored blocks for auction.

1. Bid parameters

The sale of mines/blocks will be carried out through the ascending forward auction process on an electronic platform.

(a) Bidders would be required to bid for a percentage share of revenue payable to the government. Bids will be accepted in multiples of 1% of the revenue share till it climbs to 10% and thereafter bids will be incremented in multiples of 0.5%.

(b) The floor price has been fixed at 4% of the revenue share.

2. Payments Terms

While the government has attempted to keep the entry norms liberal by omitting eligibility conditions, the latest reforms have brought in changes in terms of coal value:

a) Monthly payment

The successful bidder has to make monthly payments with respect to the coal produced from the mine on the basis of the percentage revenue share quoted and total revenue.

The revenue share for this purpose would be determined as product of: (i) Final Price Offer (FPO) (ii) quantity of coal produced during the month and (iii) price of relevant grade(s) of coal.

Earlier, the successful bidder had to make monthly payments for the extracted coal on the basis of FPO pursuant to which the mine was secured.

Illustration: Assuming that the winning bidder has quoted a revenue share of 10%, the monthly revenue share payable to the government would be estimated in the following manner:

Grade of Coal	Monthly Coal Production (x)	Coal Price (y)	Total Revenue (x*y)	Monthly Revenue Share (10% of z)
G11	0.5	1145	57.25	5.73
G12	0.7	1063	74.41	7.44
G13	0.6	980	58.8	5.88

Production in MnT

Coal Price in INR/MT

Revenue in INR Crore

Royalty and other taxes under applicable laws shall be payable additionally.

(b) Upfront Amount

The amount levied at 0.25% of the value of estimated geological reserves of the coal mine has to be paid in four equal instalments.

Value of estimated resources determined as per the product of (i) mineral resources in the coal mine, and (ii) applicable price based on coal index.

However, actual payment would be finalized based on above calculation or as per ceiling mentioned below, whichever is lower:-

Geological Reserves of Mine (in MnT)	Upper Ceiling of Upfront Amount (in INR crore)
Up to 200	100
Above 200	500

Additionally, the successful bidder will have the option to get the upfront amount adjusted subject to the condition that such adjustment should not exceed 50% of the revenue share payable in a year.

Revenue Share: Incentivising Mining

Additionally, the successful bidder will have the option to get the upfront amount adjusted subject to the condition that such adjustment should not exceed 50% of the revenue share payable in a year.

In order to boost production, the reforms include the provision of the following incentives:

a) Early production: The successful bidder would be incentivised through rebate in revenue share for commencing coal production from the mine earlier than the scheduled commencement.

- In case of fully explored blocks, a rebate of 50% on the quoted revenue share would be allowed, till the actual commencement highlighted in the production schedule of tender document.

- For partially explored blocks, the same rebate would be allowed till commencement of production as stated in the mining plan.

(b) Gasification/Liquefaction of coal: The bidder would be further incentivised if the produced coal is consumed or sold for gasification/liquefaction. A rebate of 20% on the revenue share would be allowed on total quantity on a yearly basis, subject to the following conditions:

- At least 10% of the scheduled production as per mining plan should be consumed or sold for the intended purpose.
- Certification by coal controllers for the by-product.s

Other Highlights

(a) While the government has highlighted there would be no end-user compulsion for participating in the forthcoming block auctions there would be no restrictions on the sale and/or utilisation of coal. The successful bidder can sell coal in any manner including internal sale to affiliates and related parties or may also utilise coal for captive consumption and exports.

(b) To facilitate hassle-free evacuation, the government has mandated that the successful bidder should produce coal up to 65% of the scheduled programme in a year subject to the condition that the total production should not be lesser than 75% for a period of three years.

However, in case of shortfall, the bidder would have to bear the revenue share payable for the deficit quantity computed on the basis of national coal price.

(c) There is also a provision pertaining to commercial exploitation of Coal Bed Methane (CBM) present in the mining lease area.

Expert's Take

In conversation with Mr. Harsh Sachdev, who is the Managing Director of S & T Mining and also serves as the Chairman of Standing Committee on Coal, FIMI, we learned about the various aspects of commercial mining, as our expert highlighted some of the key issues which should be kept in mind in order to improve the guidelines.

Immediate impact on coal production:

Mr. Sachdev said that there would be no substantial increase in total coal production immediately, referring to the fact that the start-up of new mines would require anywhere around 45-66 months for attaining various clearances and -approvals, as highlighted in the efficiency parameters of the guidelines.

In 2014 the Supreme court had de-allocated 214 out of 218 coal blocks, and laid the foundation of reallocating the same. However, coal production from the non state owned companies had not shown a substantial increase despite a transparent auction process.

However, he opines that commercial mining is an absolute step in the right direction, where with an increase in production, import dependency will reduce- as more and more companies specially the power companies stations can secure coal internally.

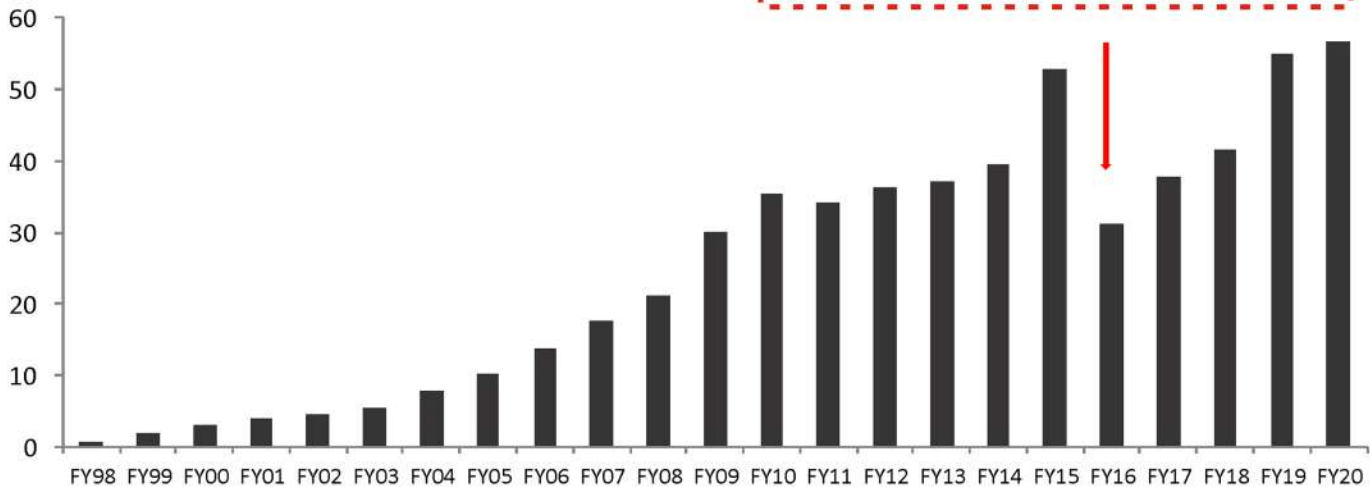
India: Captive Coal Production

Taking a leap towards boosting domestic production, Government has announced various reforms under commercial mining.

Initiated during the 90's, captive coal production has failed to provide a noteworthy contribution.

Relaxation from Supreme Court allowed cancelled coal blocks to function till Mar'15; consequently, higher production was noted in FY15.

However, post-reallocation, production from plunged headlong due to operational delays.



Source: CCO | Quantity in Mnt

Hurdles in Coal Mining:

Highlighting the various reforms made in the commercial coal mining, Mr. Sachdev said there was lot of flexibility in the new process, as compared to the past, but he anticipated the norms could be improved further.

The first thing that he mentioned was the higher payment made towards bid security and upfront amount, which should be relaxed for a successful bidder who has to initially invest for the first 2-3 years before generating an adequate revenue.

Secondly, he made a point that since most of the time would be spent on getting clearances and land acquisition for mining- which may be delayed for factors beyond the successful bidder's control, issues related to the same need to be tackled to improve the attractiveness of coal mining business. He added that the pre-embedded clearance which has been provisioned for iron ore blocks, should also be implemented for coal blocks in order to ease the business.

Moreover, raising his concern against the penalty in case of lower production than scheduled target, he stated that, *" the bidder who has invested long-term in acquiring the block should have the flexibility in moving the production up and down depending on the imperatives of the business environment related to the same "*.

Participation of Global Miners

Enlightening his views on the matter, Mr. Sachdev said that the presence of foreign participation was left wide open and can be grown if provisioned attractively. There was enough talent within India and the policies need to be compared with those countries which had made a success of profitable and efficient mining, generating jobs and wealth for their nations. A leaf from their book needed to be taken out to become more attractive to global companies, which had global options.

CoalMint's Opinion:

Efforts have been made to build an attractive sale of coal blocks by providing measures which would maximize the profit earning of the participants especially the industries which are dealing with financial hardships.


Apparently, auctions conducted for coal block sale have fetched subdued response of late, which were ultimately terminated due to lesser participation. As a matter of fact, the allotment of five coal blocks finalized under the recent tranche of auction was seen after a gap of four years, where a total of 27 blocks were offered for sale.


While our expert Mr. Sachdev has rightly highlighted few of the short comes in that are to be addressed to make the auction process more convenient.

We consider relinquishment of coal blocks should also be swiftly handled so that its existing reserves are not held idle too long.

The resounding response seen in iron ore auctions has raised hopes for active participation in coal block as well, provided the quality standard are met by the prospective owner in order to reduce the tendency for imports.

Keeping in view the preferences received from prospective bidders, the government is set to kick-start the commercial auction on 18 Jun'2020.



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