# **Black is Back**

# **Deciphering the Coal Block Auction**

Assessment of coal block auction process and its impact on revenue to exchequer & power tariffs



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### Preface

To mop up the fracas created by the self unscrupulous & discretionary distribution of coal blocks, by the Central Government & the Screening Committee alike, the Hon'ble Supreme Court of India had de-allocated the 204 coal blocks allocated over the years to various This beneficiaries. prompted the Government to swiftly notify interested parties through 'The Coal Mines (Special Provisions) Ordinance, 2014. Thereafter, the GoI had notified the various rules for auction well as methodology for fixing as floor/reserve price in auction/allotment of coal blocks on December 11, 2014 & December 26, 2014 respectively in line with the provisions under the Coal Mines (Special

Provisions) Ordinance 2014. All allocation of Schedule I & II mines are to completed by 31st March, 2015 to ensure no bottlenecks or logjam in the supply of coal to its consumers. One of the rules was that blocks/mines are to be allocated on the basis of the end use of such coal, ala regulated & non-regulated. Regulated being the power sector, and unregulated being cement, aluminum & steel. The government has introduced the method of auctioneering to obtain such blocks for coal mining to achieve its target of revenue maximization. The process of auctioneering designed by the government is, in the case of the regulated sector where it follows the model of Reverse Bidding. Whereas, for the non-regulated sector, the

#### model followed is of Forward Bidding.

The Government has generated a process which is essentially, a two stage process comprising technical & financial bid. The technical bid is designed to disqualify those parties which are not technically competent to procure & optimally utilize such coal block reserves. The financial bidding stage is more akin to a traditional auction, where the highest or the lowest bid (incase of reverse bidding) is the winning bid & the party making such bid emerges victorious. The first round of auctions have been completed with outrageous results. Other blocks allocated to different schedules are to come up for auction.



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### Introduction-Coal Production in India

India is one of the largest coal producers in the world. India produced 588 Mt of coal in 2011 making it third largest coal producer in the world. As per International Energy Agency Report, Nearly 68% of the India's total energy requirement is met from Coal which is much higher than global average of 41%. Apart from Electricity, coal is used extensively in Steel and Cement Industry.



#### Production of Coal in 2011 (in Mt)

Source: International Energy Agency 2012

As per a report by Geological Survey of India (GSI), the estimated coal reserves as on 1st April, 2014 amounted to 301.56 billion tonnes. Following are the category of reserves:



Type of Coal	Reserves (Bn. Tons)	
Coking Coal	5.3	
Medium & Semi- Coking Coal	28.77	
Non- Coking Coal	266	
Tertiary Coal	1.49	
Total	301.56	

Source: Geological Survey of India (GSI) and Central Mine Planning & Design Institute Limited (CMPDI)



### Introduction - Coal Mining in India - Key Events

Pre 1971	<ul> <li>Pre nationalization era of coal Industry.</li> <li>Private participation in coal mining was allowed.</li> </ul>
1971-1972	<ul> <li>Nationalization of coking coal mines.</li> <li>Enactment of Coking Coal Mines (Nationalization) Act, 1972</li> </ul>
1973	<ul> <li>Nationalization of non coking coal mines.</li> <li>Enactment of Coal Mines (Nationalization) Act, 1973.</li> </ul>
1993	•The Coal Mines (Nationalization) Amendment Act,1993 was passed which allowed Indian Companies to carry out coal mining for their captive use.
1993-2009	•The allocation of coal blocks was made by Ministry of Coal based on either the recommendations of Screening Committee under the chairmanship of Secretary (Coal) or through direct allocation
March 2014	•Comptroller and Auditor General of India (CAG) office accused the Government of India of allocating coal blocks in an inefficient manner during the period 2004 –2009.
24 <sup>th</sup> September 2014	•The Supreme Court of India through its judgment cancelled allotment of 204 coal blocks.
Dec 2014	•Subsequent to the Supreme Court Judgment, the Ordinance was enacted and the Rules were framed for auction and allotment of all blocks.
Jan 2015	•Commencement of E-Auction of Coal Mines

On September 24th 2014, the Hon'ble Supreme Court of India (SC) de-allocated 204 of the 218 coal blocks allocated earlier through the Screening Committee/Government dispensation routes. Subsequent to the de-allocation of the 204 coal blocks by the Supreme Court (SC) of India in September 2014, the Government of India (Government of India) has notified "The Coal Mines (Special Provisions) Ordinance, 2014" on October 21, 2014 with an objective of providing guidelines for allocation of coal blocks as well as ensuring continuity in coal mining operations & production of coal from the affected blocks.

Of the 204 de-allocated blocks, the immediate task at hand for the Government remains the re-distribution, through auctioning or allocation, of the 42 operational blocks before March 31, 2015, after which mining would not be allowed by the prior allottees. With these 42 blocks having a rated mine capacity of 80.9 million tonne per annum (MTPA) (~11% of current domestic coal demand), any delay in the auctioning or allocation process would exacerbate the already tight domestic coal availability scenario in the near to medium term.

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# Introduction - Classification of Coal Mines

#### Allotment of Mines:

The Coal Ministry aimed to auction or allot 110 coal mines. Of these, 65 will be auctioned and 45 allotted to state-owned firms in a process to be completed before the end of the current fiscal year. The 110 mines up for grabs have around 350 million tonnes of reserves. Of these, 42 blocks with a production capacity of 90 million tonnes (mt) are operational.

#### **Bifurcation of Mines:**

#### Schedule II coal mines:

Schedule II coal mines (42 blocks) are those that were operational at the time when the allocations were cancelled and the Supreme Court had permitted the continuation of their operations by the Allottees up to 31 March, 2015.

#### Schedule III mines:

Schedule III mines (32 other mines) are those that were nearly operational when the allocations were cancelled.

Companies were allowed to bid for Schedule II mines (i.e. operational coal mines) where the bidder had incurred an expenditure of not less than 80 percent of the Total Project Cost of the unit or phase of the specified end-use plant for which the company is bidding.



Classification of 110 Mines with reserves of 350 million tonnes

# Whereas bid for Schedule III mines were allowed where the bidder had incurred an expenditure of not less than 60 per cent of the Total **Project Cost** of the unit of the specified end-use plant.



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### Auction Methodologies

Government has adopted twin methods of bidding, Forward bidding in case of end user are into production of Iron & Steel, Cement and Captive power. Reverse bidding where end user is into power generation.

#### Forward Bidding:

In case of non-regulated sectors(Iron & Steel, Cement and Captive Power), the forward bidding methodology is proposed where in bidders have to quote the bid price above the floor price. The bid price would be considered as base for the year of bidding and would be escalated linked to a reference index. Forward bidding process is design to maximize the revenue for government.

#### **Reverse Bidding**:

Under the reverse bidding process approved for power sector, bidders are required to quote bid price which is at a discount to the ceiling price and the bidder with the lowest bid price shall be the winner. The ceiling price is fixed at the notified price for equivalent grade coal by Coal India Ltd. Purpose of reverse bidding is to cap the power tariff and pass the benefit to end consumers.





### Tender Process – Brief Overview



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### Tender Process – Brief Overview

**E-Tender Application**: In order to participate in the tender process, each Bidder shall be required to make a non-refundable payment of INR 5, 00,000 per e-tender application to MSTC Ltd (A Government of India Enterprise, handling ongoing Coal Mine Auction Process). Upon payment of the nonrefundable fee, the Bidder shall be eligible to participate in technical bidding stage.

**Technical Bidding Stage**: During Technical Biding stage, Bidders would be required to provide details regarding compliance with the eligibility conditions. Bidders would also be required to pay refundable bid security which is 2% of NPV of coal mine. Nominated authority will evaluate the technical bids submitted by the applicants against the eligibility conditions. The applicants who satisfy the eligibility conditions will be shortlisted for financial bidding stage. There should be at least two qualified bidders at the end of Technical evaluation stage, else the entire bidding process will be cancelled.

**Financial Bidding Stage:** Technically qualified bidders will be asked to participate in financial bidding process where they will submit Initial Price offer (IPO). There are two bidding mechanism in financial bidding process: Reverse bidding for Power Sector and Forward mechanism for non-power sector. The IPOs will be ranked on the basis of decreasing/increasing price in forward/reverse bidding mechanism. Top 50% bidders shortlisted in IPO shall be allowed to participate in Final Price Offer (FPO) stage. The applicable floor or ceiling price for FPO stage shall be highest/lowest IPO quote in forward/reverse mechanism. The Qualified Bidder that submits the highest/lowest Price (Forward/Reverse Mechanism) Offer during the electronic auction process shall be declared as the "**Preferred Bidder**".

The Nominated Authority shall recommend the name of the Preferred Bidder to the Central Government. Upon receipt of an approval from the Central Government, the Preferred Bidder shall be declared as the "Successful Bidder". In the event that the Nominated Authority or the Central Government determines that a Preferred Bidder should not be declared the Successful Bidder on account of any reason whatsoever, including without limitation the withdrawal of the Preferred Bidder from the auction process for the Coal Mine or the Preferred Bidder ceasing to comply with the Eligibility Conditions, then the Coal Mine may be subjected to re-auction or being granted to the custody of a Designated Custodian, and this tender process may be annulled.

Upon receipt of Performance Security and fixed amount the **Vesting Order** shall be

issued by the Nominated Authority to the Successful Bidder. Fixed amount consist of value of Land and Mine Infrastructure, cost of preparation of geological report borne by the Prior Allottee, cost of obtaining all statutory

licenses, permits, permissions, approvals, cle arances or consents relevant to the mining operations, borne by the Prior Allottee, and the Transaction Expense. Upfront amount for non-power applicant is 10% of NPV calculated from DCF method using CIL notified price for coal and for power sector applicant is 10% of the higher of NPV calculated from DCF method using CIL notified price for coal or NPV calculated from DCF method using reserve price of coal. During the operational period, coal operator will have to make periodic payment and royalty payment to the government. Nonpower mine operator shall be liable to pay winning bid quote per tonne of coal mined. Power mine operator shall be liable to pay (100+Winning Bid quote) per tonne of coal mined. These Coal charges will be revised every year based on WPI Inflation data. Along with periodic payment mine operator will pay royalty at 14% ad-valorem to state government.



# Financial Bidding – Forward Mechanism (Non-Regulated Sector)

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# Case Study – Forward Bidding (Non-Regulated Sector)

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### Tender Process-Forward Mechanism and Case Study

# Forward Bidding Mechanism (For Non Power Sector Applicants)

Forward bidding mechanism will be used in non regulated sectors. Bidders who qualifies in technically stage will be asked to participate in financial bidding process. Financial Bidding process will comprise of two rounds. In the first round the Initial Price Offer (IPO) of the Technically Qualified Bidders would be opened ranked on the basis of the descending order. Based on such ranking, the Technically Qualified Bidders, holding first fifty per cent of the ranks or five Technically Qualified Bidders, whichever is higher, shall be considered to be the gualified for participating in the electronic auction(FPO stage).

Provided however that:

(i) In the event that the total number of Technically Qualified Bidders is less than three then no Technically Qualified Bidder shall be considered to be Qualified Bidder(s). (ii) In the event the number of Technically Qualified Bidders is between three and five, then each of the Technically Qualified Bidders shall be considered to be the Qualified Bidders.

The Applicable Floor Price for **Final Price Offer (FPO)** stage shall be the highest Initial Price Offer received from the Technically Qualified Bidders. The Qualified Bidders



"Reliance Cement bags coal block at eauction, Birlas lose theirs to GMR"

- Business Standard - Feb 14, 2015

shall be permitted to place their Final Price Offer on the electronic auction platform, which is higher than the Applicable Floor Price. The Qualified Bidder that submits the highest Price Offer during the electronic auction process shall be declared as the "Preferred Bidder".

#### Forward Bidding Case : Reliance Cement

Let us take the case of Reliance Cement, which has successfully won the Sial Ghogri coal mine in Madhya Pradesh at a bid price of Rs. 1402/ton on 14th February, 2015. Sial Ghogri is a coal block for the unregulated sector, having geological reserves of 29.38 million tonnes. For the regulated sector, a policy of forward bidding/auction i.e. the highest bid wins, is to be followed as per the guidelines of the Government of India. There were three technically qualified bidders namely Reliance Cement, Hindustan zinc and OCL Iron & Steel. Among these qualified bidders, Reliance Cement made the highest quote of INR 1402/ton.

During the operational period, Reliance power shall pay periodic payment of INR 1402/ton of coal extracted. Along with this periodic payment, Reliance Cement will have to pay royalty at 14% ad-valorem.



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# Financial Bidding - Reverse Mechanism (Power Sector)



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# Energy Charge in Tariff and P&L (A Hypothetical Case)

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	in INR/Ton
Hypothetical CIL Notified Price	1000
Hypothetical Winning Bid Quote	300

Particulars	Energy charge in PPA (Per ton)	Actual Cost in P&L (Per Ton)
Winning Bid Quote	300	300
Cost of Mining	600	600
Reserve Price	100	100
Royalty @14 of CIL Price	140	140
Clean Coal Cess and Others	125	125
Transport Cost	200	200
Total	1465	1465
Difference in Energy Charge in PPA and Actual Cost in P&L	0	

	in INR
Energy Charge in PPA	Actual Cost in P&L
2.1	2.1
0.97	0.97
3.07	3.07
in INR	
0.00	
872.496	
0	
	Energy Charge in PPA 2.1 0.97 <b>3.07</b> in INR 0.00 872.496 <b>0</b>

We have taken a hypothetical case to demonstrate effect of reverse bidding on energy charge in tariff and P&L.

Case assumes CIL notified coal price at INR 1000/tonne and lowest bidder winning the mine by quoting lowest bid at INR 300/tonne.

In Reverse only auction process, coal charge at INR 300/tonne will be paid to state government (part of P&L) as well it will be part of energy charge in tariff calculation as per CERC guidelines. All other coal related charges like cost of mining, reserve price, royalty, cess and transport cost will be part of both P&L and tariff calculation.

In this type of auction method, there would be no under recovery as power producer would be able to pass all coal related cost to consumer.



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# Financial Bidding - Reverse + Forward Mechanism (Power Sector)

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#### Tender Process-Reverse + Forward Mechanism

Reverse and then Forward Bidding Mechanism (For Power Sector Applicants) Technically gualified bidders will be asked to participate in financial bidding process. Financial Bidding process will comprise of two rounds. In the first round the Initial Price Offer (IPO) of the Technically Qualified Bidders would be opened ranked on the basis of the ascending order. Based on such ranking, the Technically Qualified Bidders, holding first fifty per cent of the ranks or five Technically Qualified Bidders, whichever is higher, shall be considered to be the qualified for participating in the electronic auction(FPO stage).

Provided however that:(i) In the event that the total number of Technically Qualified Bidders is less than three then no Technically Qualified Bidder shall be considered to be Qualified Bidder(s).(ii) In the event the number of Technically Qualified Bidders is between three and five, then each of the Technically Qualified Bidders shall be considered to be the Qualified Bidders.

The Applicable Floor Price for **Final Price Offer (FPO)** stage shall be the lowest Initial Price Offer received from the Technically Qualified Bidders. The Qualified Bidders shall be permitted to place their Final Price Offer on the electronic auction platform, which is lower than the Applicable Floor Price. The Qualified Bidder that submits the Lowest Final Price Offer during the electronic auction process shall be declared as the "Preferred Bidder".

However, it is possible that there could be more than one bidder placing bids at INR 0/ton. To break this stalemate, forward bidding/auction methodology is adapted to ensure fair disposal of the country's resources. It is imperative to know that even though a forward bidding/auction process is undertaken, the energy charge that can be passed onto the end user is still at the lowest bid price in the reverse auction i.e. INR 0.In forward bidding process, the bidder who put the highest bid is declared as the "Preferred Bidder". Preferred bidder will pay periodic payment to state government based on winning quote but he will passed INR 0/ton as energy charge in tariff calculation.



### Case study – Essar Power M.P. Ltd.

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#### Case study – Reverse + Forward Mechanism (Essar Power M.P. Ltd)

Let us take the case of Essar Power Ltd. ("EPL"), which has successfully won the Tokisud North coal mine in Jharkand at a bid price of Rs. 1,110 on 17<sup>th</sup> February, 2015. Tokisud North is a coal block for the regulated power sector, having reserves of 103.24 million tonnes. For the regulated sector, a policy of reverse bidding/auction i.e. the lowest

bid wins, is to be followed as per the guidelines of the Government of India. However, it was observed that there was a stalemate at INR 0 per tonne during the reverse auction. This means that the entity bidding for such block would theoretically get the block at a price of INR 0, which would result in a greatly reduced power tariff for end users, as the tariff is greatly regulated by the CERC.To break this stalemate, forward bidding/auction methodology is adapted to ensure fair

disposal of the country's resource.



"Essar bags Tokisud North coal block for record Rs 1110/tn "

- Moneycontrol.com-18-Feb-

2015

It is imperative to know that even though a forward bidding/auction process is undertaken, the energy charge that can be passed onto the end user is still at the lowest bid price in the reverse auction i.e. INR 0

This ensures rationalisation of tariffs all over the country. Also, another great advantage of this is the reduction of power subsidies by avoiding a nominal money trail between the Government, Power companies & the end users.

Essar Power won the coal block by quoting the highest quote at INR 1110/ton. Now Essar Power will have to pay INR (1110+100)/ton to state government for amount of coal it extracts from mine but will charge only INR 100/ton in tariff calculation.

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#### Reverse + Forward Bidding Process-Energy Charge in Tariff and P&L (A Hypothetical Case)

	in INR/To	on	
Hypothetical CIL Notified Price	1000		
Hypothetical Winning Bid Quote	-80	0	
		in INR/Ton	
Particulars	Energy charge in PPA (Per ton)	Actual Cost in P&L (Per Ton)	
Winning Bid Quote	0	800	
Cost of Mining	600	600	
Reserve Price	100	100	
Royalty @14 of CIL Price	140	140	
Clean Coal Cess and Others	125	125	
Transport Cost	200	200	
Total	1165	1965	
Difference in Energy Charge in PPA and Actual Cost in P&L	-800		
		in INR	
Tariff Per Unit	Energy Charge in PPA	Actual Cost in P&L	
Fixed Cost	2.1	2.1	
Variable Cost	0.78	1.29	
Tariff Per Unit	2.88	3.39	

We have taken a hypothetical case to demonstrate effect of reverse bidding turning into forward bidding on energy charge in tariff and P&L.

Case assumes CIL notified coal price at INR 1000/tonne and lowest bidder winning the mine by quoting highest forward bid at INR 800/tonne.

In Reverse then forward auction process, coal charge at INR 300/tonne will be paid to state government (part of P&L) but will not be part of energy charge in tariff calculation as per CERC guidelines. All other coal related charges like cost of mining, reserve price, royalty, cess and transport cost will be part of both P&L and tariff calculation.

In this type of auction method, there would be under recovery as power producer would be not able to pass all coal related cost to consumer.



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Power Generation of 1200 MW Power Plant with PLF of 83% (in Cr units)	
Annual Under Recovery (in INR Cr)	

872.50 446.72

in INR

0.51

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Under Recovery (Per Unit)

Annual Under Recovery

### Analysis & Comments – Overview

The government through the bidding process is likely to achieve its twin objectives of revenue maximization and power tariff rationalization.

- The outcome *questions the rationale* behind the government's decision not to exploit these mines and allocate it instead to the private sector on the grounds that it is not in a position to undertake the investments needed to extract the coal.
- The failure of government was the reason of the growing import dependence resulting in the outflow of foreign exchange on account of coal import despite the availability of domestic reserves. What emerges now is that coal

extraction is an extremely lucrative activity. The government could have *stuck to expanding public sector coal* production and garnered the resulting profits, without handing it over to the private sector.

- The government through the bidding process is likely to achieve its twin objectives of revenue maximization and power tariff rationalization.
- Aggressive bidding has led to the view that the outcome was partly the result of excessive competition and a degree of irrational exuberance, and also reflective of the inclination of firms to ensure secure supplies of the raw material, even if that resulted in much lower profits.
- The basis for that reasoning is weak, and it seems to be a way of concealing the fact that private sector operators who

were allocated captive coal blocks had made huge gains.

The table below enumerates the total proceeds, which the host state will stand to receive over the life of the mine (E).

State	e-Auction Proceeds*	Royalty to State*	
Odisha	516	92	
ΜP	26,843	3,779	
West Bengal	11,203	2,008	
Maharashtra	1,602	218	
Jharkand	6,853	1,171	
Chattisgarh	5,593	489	
Total	52,611	7,756	

\*17<sup>th</sup> February

Source : Ministry of Coal



### Analysis & Comments - Topographical

We have segregated the pool of coal blocks available for bidding in round into key clusters, based on the location of the end-use plants and concentration of coalfields.

These clusters are:

Cluster A: Chattisgarh/Odisha adjoining border

**Cluster B:** Madhya Pradesh, Uttar Pradesh, Jharkhand, and Chattisgarh **Cluster C:** Odisha Central

Cluster D: Madhya Pradesh and Maharashtra

Cluster E: Others



Source : Coal Ministry

The segregation would help gauge the distance advantage available to end-use projects in the vicinity of the blocks, and thus, the economic advantage in bidding for a block. The classification also provides a good sense of likely demand vis-à-vis resource availability for major categories of end-use sectors like Power and Sponge Iron. Table 5.1, shows the existing & developing power plants. Table 5.2 shows the existing mismatch between demand & availability

<b>Power Plants</b>	Schedule II	Schedule III	Total
Cluster A	8	17	25
Cluster B	3	19	22
Cluster C	0	15	15
Cluster D	3	0	3
Cluster E	0	N.A	0
	Ta	ble 5.1	

Particulars	s Demand Availabili		Availability as a percent of Demand
Cluster A	142	40	28%
Cluster B	50	38	76%
Cluster C	56	19	34%
Cluster D	66	15	23%
Cluster E	44	3.4	8%
Total	358	115.4	32%

Table 5.2



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#### Analysis & Comments – Determinants of Auction pricing

# Logistics cost, operational difficult key constraints

Logistics distance and cost would play a crucial role in bidding. Transmission of power is more economical and less strenuous than transportation of coal. This may make enduse projects in far-off areas less attractive. Also, there is ample capacity in the region/cluster and cap on coal blocks too may not be a constraining factor. The probability of far-off projects being successful in bidding is low. While cost is one factor, putting up evacuation infrastructure is another key criterion

# Adverse demand-supply coal scenario will lead to aggressive bids

From the power sector mines to be auctioned only ~19mtpa is currently being produced. Further, ~46mtpa is set to get operational over the next 1-3 years and ~54mtpa will commence production 3 years hence. The incremental requirement of at least ~170mtpa of coal for ~60GW of projects indicates an adverse demand-supply situation. This, coupled with an option to bid up to 150% of a power projects' requirement is expected to result in widespread participation by the developers in the auction. Even on price bids, uncertainty of sourcing cheap domestic coal beyond these auctions and PPA tariffs will see aggressive bidding.

# Cap on coal block entitlement – fine print holds the key

Another factor that may have a bearing on the auction process in the longer run is possible cap on the number of blocks that a developer can take. The cap could be driven by the idea of wider participation of developers/end-use projects and group exposure norms by lenders not impacting project progress.

# Qualitative and quantitative factors to influence bids

The reverse auction process adopted for the power sector will ensure that the successful bidders will mine the coal efficiently and pass on the benefits. However, developers with weak cash flows and unable to withstand losses over the next couple years will resort to under-cutting to minimize their losses.

# Bid at import parity: Mantra of non-power developers

Similar to the aggression shown by the power companies, non-power companies also witnessed stiff competition in the first round of the coal block auctions to secure coal for their existing end-use plants. Most of the blocks got auctioned at prices much higher than expected with few blocks getting auctioned almost at par with the landed cost of imported coal. Key reasons for bids: 1) to hedge themselves from the risks of future rise in international coal prices; 2) secure fuel supply for thirty years at a price lower/at par than the landed price of currently subdued international coal prices; and 3) greater control in operating the end use plant.

#### **Operational lifespan of mine**

With aggressive bidding, these companies are freezing their coal supply for thirty years at a price lower than the landed price of currently subdued international coal prices. In addition, with their own mines, companies will have control over costs. Hence, we believe companies are being rational even at such high bids.

#### **Company-specific Strategies**

Given that each project/developer profile is unique, the bidding strategies will also depend on how distressed some of the projects are and how comfortable are the sponsor companies placed to sustain losses over a period of time if need be. The bidders would consider the financial condition of competitors in the fray and their respective project dynamics before strategizing on their own bids.



# Analysis & Comments – Auction Results

Given below is the result of the coal block auction of the Schedule II mines;

Sr. No.	Coal Mine	Successful Bidder	Cluster	Bid Amount	Previous Allottees	PRC	Reserves
1	Amelia North	Jaiprakash Power	В	INR 712	MPSMC	2.8	120
2	Sarisatolli	CESC Limited	А	INR 470	CESC	3.5	140
3	Talabira-I	GMR	А	INR 478	Hindalco Industries	3	23
4	Tokisud North	Essar Power	В	INR 1110	GVK Power	2	93
5	Trans Damodar	The Durgapur Projects	A	INR 940	WB Mineral	1	62
					Development		
6	Gare Palma IV/ 2 & 3*	Jindal Power	А	INR 108	Jindal Steel & Power	6.3	286

\*Jindal Power's successful bid for Gare Palma IV/ 2 & 3 has been suspended by the Government on account of distorted bidding & a low final bid price.



#### Conclusion

The financial year 2014-15 has been a year of immense significance for the domestic coal sector. The Government's immediate focus seems to be the power sector, which is reflected by the increase in the share of blocks allocated to the sector in the first round, as compared to its original allocation. Additionally, the reverse auction process will put a cap on power tariff, which is a move that would benefit power-intensive industries. However, the "non-regulated" sectors have been given lower allocation in coal reserves to be auctioned in the first round, which will increase their dependence on costlier outside coal. Moreover, with iron

& steel, cement and captive power units being clubbed under one group, the level of competition among these companies in the upcoming auctions is expected to be high. Going forward, even if allocations to these "non-regulated" sectors are increased from the current level in subsequent auctions, since the progress made by the remaining mines is lower than the mines being auctioned in the first round, "non-regulated" sectors will continue to be at a disadvantage in the medium term.

The impact on the winner's profitability, again, depends on a number of factors. For instance, power plants which are located next to the coal blocks will be better off since they will save on transportation costs. Plants which have already recovered their investments or have low debt are better off. Once all the auctions are complete, a better picture should emerge. Firms will also be questioned by investors on the logic of their bids. Their answers will be judged and, as time passes, their wisdom, or the lack of it, will become evident. A happy outcome will be if coal prices rise sharply from their current levels and if demand for power zooms as the economy grows.

"20 coal blocks out of 204 have been auctioned so far and we received more than Rs 2 lakh crore from them." - Narendra Modi, PM, India



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The purpose of this Document is to provide interested parties with information that may be useful to them in understanding the on going coal auction process. This Document includes statements which reflect various assumptions and assessments arrived at by the RBSA Analysts in relation to the Coal Mine. Such assumptions, assessments and statements do not purport to contain all the information that each interested party may require. This Document may not be appropriate for all Persons, and it is not possible for the RBSA, its employees or advisors to consider the investment objectives, financial situation and particular needs of each party who reads or uses this Document.

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