

# Coal India to keep prices lower than pvt miners under coal liberalisation

Preparing for a liberalised coal mining regime when private companies will be allowed to commercially mine and sell coal, state-run Coal India is looking at keeping its prices lower than the former by effectively decreasing production costs and attaining higher economies of scale.

According to Gopal Singh, chairman and managing director, Coal India has already been able to decrease production costs by Rs 53 a tonne by increasing the shifts in mines that has reduced a higher proportion of costs as a result of increased production.

"We are preparing ourselves to compete with the best of the world. We would avoid wastage and control controllable costs," Singh said, adding with the existing talent pool, Coal India is in a much better position to take on competition.

The current production cost for Coal India is about Rs 1,000 a tonne and analysts expect the cost of production for private miners to hover around Rs 800 a tonne.

Singh said Coal India's biggest advantage is higher economies of scale, which private miners or the new entrants will not have.

It has also opted for an enterprise resource planning (ERP) and would be placing an order for its implementation by this month-end. An integrated ERP deployment would help the world's largest miner monitor every aspect of input costs and provide information on production, logistics and coal movement on a real-time basis.

The top official claims Coal India prices are the cheapest in the world. "Even after revision, our ex-mine prices are lower by 42-64 per cent than the ex-port price of imported coal," he said.

On the other hand, the coal monolith has also recently got various environmental and forest clearances, pending since months. It received 14 clearances in the fourth quarter of the current financial year which is poised to add 48.3 million tonnes (mt) every year to its production capability.

Additionally, it has also received 2,312 hectares of forest land clearance.

"The results of these clearances will start reflecting Q1 of the next fiscal year onwards," Singh added.

Sector analysts said for any new entrant in commercial coal mining, it will take at least five to six years to operationalise in the first place and then another three years to run the mine under full capacity and attain economies of scale.

"Given such a timeframe, Coal India is expected to continue its dominance during these years. Such a huge timeframe will also allow this company to adjust itself fast to market dynamics. At least for the first three-four years after private companies start selling coal, Coal India prices will be the benchmark," an analyst with brokerage Motilal Oswal said.

Typically, it is estimated the auction process would take a year to conclude, land acquisition process for a mine will take another three years and setting up the infrastructure for mining will take another year.

"Coal India caters to nearly 80 per cent of the country's energy needs and hence enjoys a near-monopolistic status. It will be extremely hard for the new entrants to substantially challenge that monopolistic status with pricing," a sector expert said.