

SE Companies
HD **Falling Coal Prices may Hit Adani, GVK's Australian Projects**
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Coal demand also hit as US opts for shale gas and **China** moves towards renewable **energy**

Multi-**billion** dollar investment by Adani Power and GVK Power in Australian mines could hit a dead end and may force the companies to consider distress sales as global **coal** prices and demand have fallen, analysts said although the companies say their projects can withstand turbulence.

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Coal is being replaced by shale gas in the US and is likely to lose out to renewable **energy** in **China**.

In India, the Narendra Modi government is keen to accelerate **mining** to unlock indigenous **coal** reserves of 200 **billion** metric tonnes.

Another dampener for demand outlook is the possibility that Japan may consider restarting nuclear reactors that were shut down after the accident at its nuclear plant.

All this has significantly changed the logic of developing mines abroad, industry experts said. "These mine acquisitions were made when **coal** prices were high there has been a secular decline in international **coal** prices since then.

The prices will remain under pressure due to ramp up in shale gas production in US, Japan re-starting its nuclear plants and major importers like **China** and India focusing on improving domestic production," said Debasish Mishra, senior director, Deloitte Touche Tohmatsu India. "At the prevailing **coal** prices, these projects will find it difficult to achieve financial closure, where nearly \$5 to \$8 **billion** of debt will be needed in each one.

Some promoters may decide to exit these investments even booking losses," he added.

These projects lack critical environmental approvals.

Last week, Deutsche Bank said it will not fund Adani's **coal** project in Australia because there was no consensus between the Australian government and UNESCO over the environmental impact.

The projects in question are the Adani group's **coal** and rail project in the untapped Galilee Basin in the Australian state of Queensland, which it acquired from Linc **Energy** in 2010 for close to \$3 **billion**.

The GVK group which is in a joint venture with **iron ore billionaire** Gina Rinehart's Hancock Prospecting is also active in this area and wants to ship out **millions** of tonnes of thermal **coal** from a planned new complex of mines in the Galilee Basin.

GVK had acquired Hancock **Coal** for \$1.26 **billion** in 2011 in a deal which offered the Hyderabad-based **energy** major up to 20 **million** tonnes of **coal** every year.

A GVK spokesperson said: "The **mining** techniques available to us as a result of the large, shallow and very flat delineation of our **coal** assets deliver a free-on-board price that ensures our mine is comparatively immune to the volatility of cyclical **coal** prices." "But, even in the current market conditions, our Galilee Basin **coal** assets are differentiated from other mines due to their projected low production costs, sought-after **coal** quality, we are continuing to take our projects to a point where

construction can commence and we wouldn't be doing that if we thought the projects weren't viable," the spokesperson added.

Tim Buckley Director of **Energy** Finance Studies, Australasia, Institute for **Energy** Economics and Financial Analysis disagrees."It will be hard for Adani and GVK to go to their shareholders to ask for a massive injection of additional **equity** capital to fund these high risk greenfield developments as these projects are uncommercial given the already oversupplied nature of the seaborne thermal **coal** market." shuchi.srivastava@timesgroup.com

CO adnpwl : Adani Power Limited | gvkpoi : GVK Power & Infrastructure Ltd | adexns : Adani Enterprises Ltd

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