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HD **Aussie Assets Viable, Reiterates Lanco**

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Lanco Infratech believes that its Australian coal asset remains viable and will yield "reasonable returns" on investment although some analysts are questioning the viability of the project. Lanco's Griffin reported an operating loss of Aus $ 24.5 million in the first half of 2014, when output fell 9%. Although Australian government has extended support to the project, analysts are concerned about the fall in coal prices and the parent company's huge debt. However, Lanco believes the project will still give reasonable returns. "The price of coal has declined significantly since 2011 when Lanco acquired the asset. However, coal is projected to remain an important energy source and as per the medium to long price projection by various expert firms, the export project remains viable with reasonable return on the investment," a company spokesperson told ET.

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Lanco has recently said it may divest its Australian coal asset, but it may not be able to get very good valuation as the Australian benchmark thermal coal price has halved in the past three years, which analysts say has changed the economics of the mining project and the associated infrastructure. Australasia Institute for Energy Economics and Financial Analysis (IEEFA) said, in a report titled 'The Imminent Failure of Lanco Infratech's Investment in Griffin Coal', that the project is headed towards "insolvency". "IEEFA views Lanco Infratech's Australian Griffin Coal as a potentially stranded asset. Being overgeared and loss-making at the gross cash operating level, the current business viability is questionable," said Tim Buckley, director of energy finance studies, IEEFA. Lanco said the analyst had wrongly questioned the project's viability and had not verified facts with the company. "The question of insolvency referred in the IEEFA article is in the wake of last tranche of consideration payment to Seller of the asset which remains fully funded. Hence, the reference to insolvency possibility is hypothetical and was drawn based on assumptions without checking the facts with the company," Lanco said. Lanco also dismissed the report stating Buckley, the financial analyst, has financial interest in few renewable companies. Buckley said Lanco was "trying to distract from the key points"."We acquired the mine for Aus $750 million and with interest, it amounts to Aus $1 billion. Given that we plan to extract 400 million tonne from the mines, we will require $2.5 per tonne of margin to meet the acquisition cost and another $5-6 to meet capex cost. The report states that Griffin will face insolvency in 2015 based on the premise that it doesn't have resource to make payment of $150 million due, but that is not true as the payment is fully funded," Lanco's spokesperson said.

In 2011, Lanco Infra acquired the Griffin Coal in Collie, West Australia for Aus $750 million. Although the mine's operations and financials were in poor shape, Lanco believed that with an investment of Aus $1 billion, it could turn around the business and expand production from the mine which has reserves of 1.1 billion tonnes."Given the parent company's $6 billion of consolidated net debt, the corporate debt restructuring programme under way in India, plus the continued gross operating losses of Griffin Coal and the Aus $150 million final payment due to the Australian creditors in February 2015, it seems of questionable merit for directors to allow this group to continue to make such claims," Buckley said. However, Lanco said the payment of Aus $ 150 million that is due in February is fully funded. "The requirement for capex funding is still a little away (at least 18 months) which will be tied up at an appropriate time (as it is not required at this stage)," Lanco said. Analysts said the coal market was stressing many big players. "Because of China cutting down on imports, and alternative supplies available from North America, even the existing operating mines in Australia are feeling severe stress. Even large players like Glencore and BHP Billiton have cut down on operation and having production holidays" said Debasish Mishra, senior director-consulting at Deloitte Touche Tohmatsu India. Indian companies like Lanco, GMR and GVK acquired **coal** assets in Australia to plug the fuel gap. While Lanco is the only one with an operational projects, all three have faced resistance from local landowners and environment groups. Lanco even ran into trouble with its local contractor Carna, its supplier for workers and equipment, and has to terminate the pact leading to production coming to a standstill. Lanco said that it has now got transferred on the projects and work has resumed.

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