

HD Australia project: Adani, GVK expect financial closure by 2015

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GVK Group and Adani Enterprises Ltd expect to tie up funds for their showcase **coal** and infrastructure projects in Australia this year or early next year, the two companies said, amid scepticism that these projects would take off in the face of weak markets and high debt.

The GVK and Adani groups are engaged in ambitious projects in Queensland where they plan to develop **coal** mines in the Galilee Basin and build a rail link to connect it to Abbot Point port where they plan to build terminals. The cost of GVK's project alone is estimated at \$10 **billion** in the first phase.

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"We expect the financial closure to happen in stages but the critical stage of closure should be in first half of (calendar) 2015," said a spokesperson for the Adani group in an email.

GVK's spokesperson said in an email that it expects financial closure coming in fiscal 2014-15 with the project construction expected to begin in 2015 and **coal** production two-and-a-half years later.

GVK and Adani are standing by these projects at a time when several others have scaled down exposure because of oversupply in the global **coal** market, where producers overestimated **China** and India's appetite for importing the fuel.

In a report titled 'GVK, Adani last men standing for Australian **coal** port expansion,' Bloomberg noted that Anglo American Plc, the world's fourth-biggest miner by market value, had followed other large miners such as BHP Billiton Ltd and Rio Tinto Plc in pulling out of Abbot Point.

An analyst said GVK and Adani Enterprises may see mixed results in Australia.

"Based on the strength of the existing balance sheet, the ability to find partners looks possible in Adani's case," said Dhananjay Sinha, head of research-institutional equities at Emkay Global Financial Services. "It is said that they are in talks with 2-3 **Chinese** companies and may close the deal soon."

"But GVK may be unable to take on its Australian mandate," Sinha said, adding it was possible that Adani could indeed attain financial closure by early 2015, but GVK may sell a major **stake** while still remaining attached to the Australian project.

Net debt of Adani Enterprises was Rs.64,404.82 crore at the end of the September, down from Rs.66,839.27 crore in March 2013. Despite the fall, the net debt is high when seen in the light of the market value of the **company** at Rs.40,555 crore. Adani's net worth is Rs.21,159.21 crore.

GVK Power and Infrastructure Ltd had net debt of Rs.17,834.21 crore as of September, higher than Rs.16,684.08 crore at the end of March last year. Its market capital stood at Rs.1,743 crore and its net worth at Rs.3,062.06 crore.

Another analyst said lenders or potential joint venture partners may be deterred by the likelihood of a subdued **coal** market.

"**China**'s total **coal** consumption (is) forecast to peak by 2016...it raises the question of why **China** would look to flood the market with **coal** when they are moving to sufficiency and reduced **coal** demand as a nation," said Tim Buckley, director of **energy** finance studies, Australasia, at the Institute of **Energy** Economics and Financial Analysis, a think tank in Australia.

"If the project economics don't stack up at US\$75/t for thermal **coal**, they will only look worse at say US\$60/t if the Galilee is opened up."

The two companies said they were optimistic about the long-term demand for **coal**.

"While margins may be under pressure, as long as there is a positive margin, volume growth coupled with positive margins will boost overall profitability," the Adani spokesperson said. "This is reflected in the fact that in calendar year 2013 there was a growth of seaborne trading volume of about 7% (coking and thermal **coal** combined) compared to 2012."

Shares of Adani Enterprises lost 4.24% on the BSE to close at Rs.353.10 on Tuesday, but were up 70.74% from a year ago. GVK Power closed at Rs.11.59 per share on Tuesday, up 4.98% from Monday and up 18.75% from a year ago.

BSE's benchmark Sensex closed at 22,446.44 points on Tuesday, up 0.27% from the previous day and up 18.99% from a year ago.

CO adexns : Adani Enterprises Ltd

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RE austr : Australia | queensl : Queensland | apacz : Asia Pacific | ausnz : Australia/Oceania

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