

# Fuelling profit



## Gujarat's largest miner is taking all the necessary steps to pursue a sustainable path in the coming years

**A**head of its golden jubilee year, Gujarat Minerals Development Corporation is in a makeover mode. A look at the state PSU's portal provides a clear indication of its intention. There are ads for environment expert, power expert, silica sand expert, bauxite expert and cement expert. Currently, it draws income largely from lignite and, to some extent, bauxite, and power, both thermal and non-conventional. Incorporated as a state PSU in May 1963, GMDC is serious about flexing its muscles as the state's only mining and mineral company.

It wants to expand its lignite business, expand its footprint in other minerals and also explore opportunities to diversify into other related sectors as part of its aim to become a more meaningful player in mining and related areas. Currently a carbon emitter, pursuing non-lignite businesses will also help it in lowering its carbon footprint in the coming years.

A new leadership team has been put in place since June 2021, to take forward these initiatives. Rajiv Kumar Gupta IAS, 1986 batch, who is also the additional chief secretary, Industries and Mines Gujarat, was brought in as chairman. Roopwant Singh, IAS, 2003 batch, has been brought in as its managing director. Singh also serves as

Commissioner, Geology and Mining Department.

Amongst the several initiatives taken by the leadership team, has been the appointment of The Boston Consulting Group for developing its future strategy. Currently, the company is the largest merchant supplier of lignite in the country. The biggest, of course, is NLC (formerly Neyveli Lignite) but it is now more of a power company with lignite being used as a fuel. NLC has an installed capacity of 6,061 MW (as on 31 March, 2021) with a consolidated turnover of close to ₹10,000 crore.

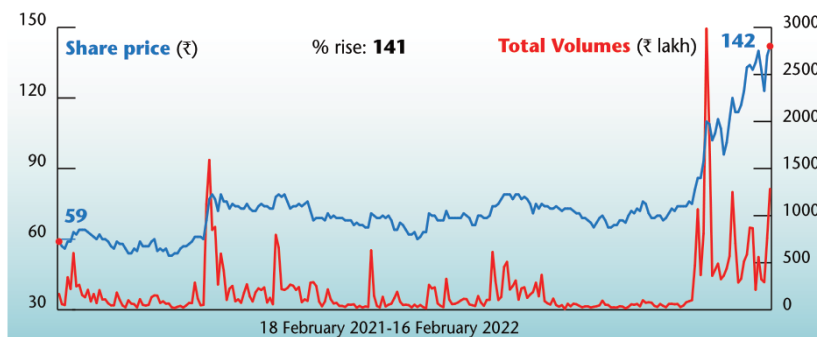
In 2005 GMDC had also ventured into setting up the Akrimota Thermal Power Station (2x125MW) in Kutch, using the its mined lignite as fuel. The units were commissioned in 2006 and

2007 respectively. However, the plant has been incurring losses and has been a drag on the company's profitability. In FY21, the plant operated at a capacity of under 20 per cent. The management, as a means of prudent accounting practice, in FY21 took a hit on its profitability by writing off ₹396 crore as an impairment loss. As a result, GMDC reported a loss, at least for the first time in the last two decades. Neither the thermal plant nor its wind farms with an installed capacity of 200 MW, yielded any appreciable returns. In FY21 the thermal plant was running with a PLF of 16 per cent and the 5 MW solar plant had a capacity utilisation of 14 per cent. Lignite was the only profitable sector. In FY21 it sold 60 lakh MT of lignite from its five mines. Sales of bauxite from its nine deposits in Kutch and Dwarka were 3.89 lakh tonnes.

### Change in performance

Given its mediocre working till recently, the company's shares were not fancied by the investors at large and were languishing between ₹50-70 over the last two years. A very small portion of its equity, 2.5 per cent, is held by FIIs. MFs hold 7.48 per cent while individuals have a little more than 10 per cent.

In the nine months of FY22, there was a noticeable change in the performance of GMDC. The total income, at ₹1,792 crore, was twice that earned in the corresponding nine-month period in 2020-21 and exceeded the income of a little under ₹1,500 crore earned in FY21. PBT was ₹312 crore as against ₹1 crore in 2020-21. PAT was ₹228 crore. EPS was ₹7.17 as against ₹4.57 in the nine-month period of the earlier year. The nine months' performance was, to a large extent aided by the performance in its third quarter which



## Looking beyond lignite

**Roopwant Singh**, IAS, MD, GMDC talks to **Daksesh Parikh** on the growth strategy and the diversification plans being put in place for the corporation

### What is the strategy that you plan to pursue for GMDC?

Our name is Gujarat Mineral Development Corporation. Over the years we have become Gujarat Lignite Development Corporation. We have to restore our status as Gujarat Mineral Development Corporation. We plan to do two things: one is to deepen lignite because that is an assured market as there is a thriving SME sector in Gujarat whose demand has to be met. The second is to look beyond lignite. To deepen lignite, we have five existing projects by which we are able to meet 25-30 per cent of the coal and lignite demand of Gujarat. We want to ramp up production and probably occupy 30-35 per cent market share with the existing projects. We have six allocated blocks of lignite which were languishing for the last five years; we want to get them into operation very quickly in the coming one to two years and then probably capture 50 per cent of the Gujarat market. As far as our plans of looking beyond lignite are concerned, we are looking at several other businesses and at least half of our revenues should come from non-lignite businesses. These are the two things that would drive us.

### What are the plans for other minerals?

We plan to turn the cost centres at the other minerals being mined from negative to positive. We have auxiliary minerals, silica sand and limestone. We plan to enter into some value addition relationships and take this forward. There is decent money there. We are on-boarding experts and are building a new team to help us do this.

### Are you planning to get into cement also?

We have a resource. We would not be setting up a cement plant but we are open to partnering with someone who is and we can give an assured supply. That would be our plan. There is a locational advantage in dealing with someone who has both resources, fuel and limestone.

### Are there enough resources to meet the requirements of cement manufacturers?

Actually, in Kutch, we had an auction a few years ago. Four big parties are setting up a cement plant. Shree, JK, Adani – all of them are setting up plants in the same area and we have resources and locational advantage.

### What were the problems encountered in FY21?

### How did you effect a turnaround?

Last year, the management took an impairment loss on our power plant which was not running well and was burning cash every day. Production had slipped, Marketing was getting weak. We were not able to retain our relationships, so production at our auxiliary plants was also down. What we have done is to take a cost-centric approach and start improving slowly. We started checking up each cost centre. All our lignite projects which were found to be negative cost centres were made positive. Now, we are going to make metal (largely bauxite) as our centre and focus attention on it to make it positive.

### Your powerplant is a big drag on profitability. How do you plan to address this?

Our power plants are operating at low capacity. To address this, we are doing two to three things. We have on-boarded AT Kearney to help us in making strategic decisions for improving capacity utilisation and to stop haemorrhaging. In the past six months we have cut daily losses which were in the range of ₹18-20 lakhs a day. At the moment, we have taken the decision not to sell it. In case, we do have to sell it, we will improve the performance, turn it into a profitable asset and later take a strategic decision. We are the largest merchant sellers of lignite.



### What is the pricing strategy you follow for lignite? Do you fix it six to 12 months in advance?

For the past five months, we have adopted a dynamic strategy. Our location cycle is 15 days; so, every 15 days we take a look at how each project is doing, what is the demand for it, which customer categories are responding better. We have a dynamic pricing strategy. It may remain the same too.

### What is the problem with bauxite? Do you have two grades of bauxite?

Yes. Plant grade and non-plant grade. We were not able to sell our non-plant grade. We have a huge stock of 11 lakh tonnes, so what we have done in bauxite is to let marketing and sales drive the show. In lignite, production is driving the show. Our first priority is to slow down the mining pace but our priority is to offload existing stocks. We are working on getting our bauxite sales mechanism in place.

saw an all-time record high quarterly income and profit being posted.

One reason for the improved performance was the higher demand for lignite emanating from MSMEs, including ceramic manufacturers, foundries, textile processing units as also the large captive powerplants of some companies in Gujarat. The higher demand was also accentuated by the sharp rise in the prices of imported coal from Indonesia and Australia. The absence

of coal mines in Gujarat also makes getting domestic coal from other states a costly affair. Many SMEs which can use blended fuel find lignite a good substitute despite its lower calorific value ranging from 3200-3400 kcal/per kg which is more than 50 per cent lower than imported coal. As a result, more lignite is required to compensate generating the equivalent fuel from imported coal. Lignite is transported by road through trucks. GMDC sales

are direct sales and prices are declared every fortnight. "The company follows a dynamic pricing policy," points out Singh. There have been monthly price hikes since August. While sales in quantity during the third quarter have gone up by 72 per cent, the total income has gone up by 128 per cent, Roopwant Singh explained to analysts soon after the declaration of the quarterly numbers.

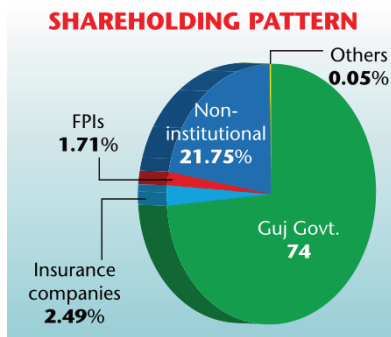
The company has added 600 new

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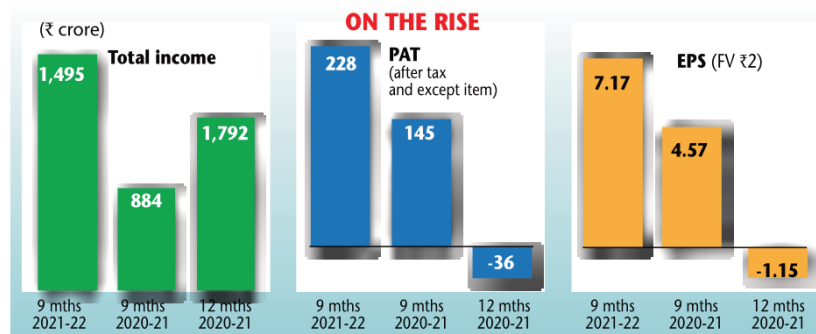
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customers to its existing 600 customers and it was able to raise output from its open cast lignite mines as also from the six new blocks which were brought into operation. Captive powerplants are the biggest consumers of GMDC's lignite. Sanghi Cement, which is next to GMDC's mines in Kutch, is the biggest. Other consumers in this area include UltraTech, Ambuja and Atul in South Gujarat. Brick manufacturers also use lignite to fire their kilns.

The six new blocks would require



(Insurance co includes LIC holding 1.71%)



an initial capital outlay of ₹250 crore per block for development. Singh says: "Our strategy is to deepen the existing business of lignite and over a period of time look beyond lignite so as to build at least 50 per cent income from non-lignite businesses. To deepen lignite, we have five existing projects which are able to cater to 25-30 per cent demand of the state. We want to ramp up production to occupy 30-35 per cent market space with the existing projects. We also have six allocated blocks which were languishing. We want to get these into operation very quickly in the coming one to two years progressively and capture 50 per cent of the Gujarat market."

"The lignite miner is currently focussing on six new lignite projects and is leveraging the buoyancy seen in lignite prices this fiscal as several new and old customers source lignite from GMDC," says S Ranganathan, Head, Research, LKP Securities. "Environment clearance for Tadkeshwar mines (near Surat) will help the miner increase the output substantially, going forward. A day before going to press, it was learnt that the Union Ministry of Environment and Forests, has given permission to GMDC to

mine upto 135 metres from the surface as against the earlier permission of 94 metres. The South Gujarat Textile Processing Association, one of the large consumers of lignite, welcomed the decision. A major proportion of customers are based in and around Surat in South Gujarat.

### Upward spiral

The market seems to have taken cognisance of the work in progress at GMDC. The shares, which were languishing in the range of ₹55-75 during the first part of the year have been on an upward spiral since December 2021. From the 70s level in December, it has doubled to record a 52-week high of ₹152 on 16 February. The market cap has likewise doubled to ₹4,300 crore.

It is not just the current performance which has seen the stock being rerated. The appointment of an advisor for the powerplant has enthused investors. "The powerplant can certainly be turned around," says Nitin Shukla, independent director on GMDC's board. Shukla had earlier worked with Shell in developing the LNG led port at Hazira, Nirma, and Torrent Power. While AT Kearney has

yet to give its decision, other experts also feel that the powerplant assets can be utilised better if renegotiations are entered into with the state power and transmission utility on the power purchase agreement. Power players, including Tatas and Adani have been allowed and there is no reason for the same government arm not to renegotiate the PPA with GMDC.

The turnaround of the power plant will be a big plus for GMDC even if some investments are required to make it future-ready. Investments in wind farms and solar will help GMDC generate a substantial income stream. While Singh does not want to second guess BCG's strategy, he feels that GMDC can aid in mining rare earth in the state. It is also planning to expand its presence in the silica sand business, which was incidentally the first business embarked on by GMDC when it was started. Given the huge amount of limestone deposits in its mining area, GMDC is open to partnering with companies to look at getting more value-added products. While not getting into the production of cement, it is open to tying up with cement companies. Given the huge limestone resources and easy availability of fuel in the form of lignite, GMDC is hopeful of getting a few large cement manufacturers interested. Kutch, incidentally, has a high amount of limestone. Other metals which it plans to explore and mine are magnesium as also copper and zinc, near Ambaji. GMDC is also looking at pursuing rare metals and making Gujarat the rare earth capital of India.

Singh does not want to commit any numbers ahead of getting BCG's report. However, he is hopeful of taking GMDC on a sustainable growth path. The Gujarat government has given its IAS officers in charge of running its state PSUs considerable autonomy; empowerment with accountability. And that is the reason for its state PSUs competing with the best. Progressive political will and empowered administrators' policy set during PM Narendra Modi's time, when he was the chief minister, has worked well for PSUs. GMDC will hopefully also benefit from the new leadership team put in place. ♦

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