

The Gold Rush

International mining majors are showing renewed interest in prospecting for gold and diamonds in India, as the government formulates a new mining policy to attract investments. A report by **Rajeshwari Adappa Thakur**.



ILLUSTRATION: FARZANA COOPER

INDIA, the fabled land of gold and diamonds, is all set to reclaim its position as the leading producer of precious stones in the world, thanks to the renewed focus on gold and diamond mining.

There is growing interest in gold and diamond exploration after the changes envisaged in the mining policy. The New Mining Policy is expected to result in the entry of several private domestic and international players into the gold and diamond mining business.

Upbeat about discovering significant gold and diamond deposits in the country, a number of domestic and international companies are aggressively exploring the sub-continent. According to estimates, the country could see annual foreign direct investment (FDI) inflows of \$250 million over the next five years in gold and diamond mining.

International mining giants such as De Beers, Rio Tinto, BHP Billiton, Phelps Dodge and Australian Indian Resources, among others, are currently prospecting in the country. Besides, Indian groups like the Jindals and Vedanta too have shown interest in this sector. Companies are on an investment binge and have poured in huge sums for exploration.

The interest in India is not unfounded. Once upon a time, India was the sole source of diamonds, much before Brazil and South Africa came into the picture. Some of the most famous diamonds of the world including the Kohinoor, the Great Moghul, the Regent and the Orloff, have been mined in India.

India could literally be sitting on a gold mine as, according to estimates, only five per cent of the 1.87 million sq km of the country's mineral area has been exploited so far. According to estimates, the country's gold reserves are worth \$150 billion and diamonds to the tune of 475 million carats.

Gold ore has been found in the western state of Rajasthan and southern states of Andhra Pradesh and Karnataka in the last three years. At present, however, India produces just three tonnes of gold, as against an annual domestic demand of 800 tonnes of the yellow metal.

In Karnataka, gold is mined by the state-owned firm, Hutti Gold Mines Ltd. Mining gold since 1948, Hutti is the



DIAMONDS ARE FOREVER: Some of the most famous diamonds have been mined in India

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only producer of primary gold in India from its mines in Raichur. Secondary gold is produced by copper miners like Hindustan Copper Ltd as a by-product of mining copper.

"Hutti Gold Mines has reported record profit of \$33 million on a turnover of \$69.63 million because of increased production and rates going through the roof post-September 2007," says Rakesh Singh, managing director, Hutti Gold Mines.

Considering that the demand for gold in India is expected to go up to 1,200 tonnes per annum, there is an urgent need to increase investments in gold mining.

According to Sandeep Lakhwara, managing director, Deccan Gold Mines Ltd and Australian Indian Resources Pvt Ltd, "Gold mining has become attractive in an environment where the price of gold is scaling new heights – and by all accounts will continue to do so – supplies from new discoveries is dwindling and demand

continues to outstrip mine supply."

Deccan Gold is the first private sector gold exploration company in India to be listed on the Mumbai Stock Exchange. It commenced mineral exploration activities in India in 2004, but is yet to commence commercial mining operations. The applications of the company for reconnaissance permits (RPs), prospecting licence (PL) and mining licence (ML) are at various stages of processing by central and state governments.

"The company has invested about a million dollars in mineral exploration activities till the end of 2007," says Lakhwara. While it is early to say if the many kimberlite pipes discovered so far will result in significant finds of diamonds, hopes are high as certain areas have yielded diamonds.

The principal historical diamond fields in India are in the states of Andhra Pradesh, Chhattisgarh, Madhya Pradesh and Orissa. Chhattisgarh, which boasts of being India's richest region in terms of its mineral wealth including diamonds, has the potential to emerge as the region's diamond bowl.

Although about 80 per cent of the world's diamonds are cut and polished in India, the country is not a significant diamond producer. The National Mineral Development Corporation (NMDC), a public sector undertaking, was producing more than 80,000 carats of diamond till the end of 2005. But mining activity is closed now.

Incidentally, the mine at Majhgawan



EXQUISITE SKILLS: About 80 per cent of the world's diamonds are cut and polished in India

in Panna district of Madhya Pradesh is the only mechanised mine in Asia.

Diamond mining is a high-risk, high-return game and many companies have invested huge sums of money on exploration. Says Rajiv Bhandari, chairman and managing director, De Beers India: "We are committed to our projects in India and are looking forward to the discovery of a viable pipe. And towards that end, De Beers India has already incurred an expenditure of over \$25 million in the last five years."

According to Bhandari, "Diamond mining is an extremely risky business because investments are so large and results are not guaranteed. But De Beers has access to the best technology and we believe we have the best people."

The company, which got its first RP in 2000, is today active across several states in India including Karnataka, Chattisgarh, Andhra Pradesh and Orissa.

The jump in investments in the sector augurs well for the industry. Until now, the investment in gold and diamond mining and exploration has been limited to a few private companies and public sector undertakings, besides organisations like the Geological Survey of India

The future potential of gold discoveries in India is high, provided adequate quantum of funds are expended on exploration.

(GSI) and Mineral Exploration Corporation Ltd (MECL).

According to Lakhwara of Deccan Gold, expenditure on exploration of precious metals (including gold) in India is below \$50 million per annum, whereas countries like Australia and Canada spend several hundred million dollars on exploration.

"The future potential of gold discoveries in India is high, provided adequate

quantum of funds are expended on exploration, and that to a large extent will be dictated by how good the new proposed regulatory regime will turn out to be," adds Lakhwara.

Indian companies have started sprucing up their act. NMDC plans to expand into diamond as well as gold mining and is even open to spreading its wings globally. The move is expected to facilitate the induction of modern mining technologies and reduce the dependence of a thriving gems and jewellery industry on imported roughs.

Hutti is also looking at overseas exploration in countries like Congo and Kazakhstan. It has been approached by several international companies for joint ventures in gold mining. While the investor would bring in the required capital, Hutti will provide it with manpower, expertise and other skills that it has gained over the years.

Hutti's new mines are located in a place where the development work was on for the last 10 years. Besides, it also mines gold and copper at other places in Karnataka.

India imports gold and diamond worth about \$35 billion, of which diamonds

account for \$18.8 billion. "The increased focus on gold mining by the Government of India is probably aimed at reducing the dependence on imported gold," says Keyur Shah, associate director, World Gold Council.

The geological terrain that India offers for exploration is very similar to that of other continents and countries such as Australia, Africa, and Canada, where large gold discoveries have been made and production of the yellow metal runs into several hundred tonnes per annum.

The government is hopeful that once the New Mineral Policy becomes effective, the country will attract several billion dollars of FDI in exploration and mining of gold, diamonds and other minerals including iron ore, coal and bauxite.

Interestingly, the new policy is being implemented at a time when commodity prices are heading northwards.

India can capitalise on the opportunities, especially as several existing mines across the world are said to be at the end of their life and new mine exploration has not picked up.

"Besides, it takes many years to operationalise a new mine, by which time, demand would have increased even further," points out Shah of the



GLITTERING FUTURE: India is one of the largest markets for gold and diamond jewellery

The focus on gold mining will help reduce the dependence on imports.

World Gold Council. India needs to attract several hundred companies to harness its full potential.

Mineral discoveries are made only after intensive exploration. In a rising commodity prices market, a conducive environment for exploration makes the sector attractive to the leading players. India currently stands at the crossroads where the odds are in its favour. If it makes the right moves, it could very well end up striking gold, literally.

PROSPECT, EXPLORE AND MINE

THE National Mineral Policy 2008, recently introduced by the Indian government in the Parliament, is expected to open the floodgates of foreign direct investment (FDI) and also attract new technologies into the mining sector.

Fourteen companies from Australia, Canada and South Africa have evinced interest in deploying their technical expertise for identifying the potential of mining blocks. India has a mineral area of 1.85 million sq km, but lacks the technology and capital to exploit this.

The mining sector requires huge amounts of high-risk capital. Entrepreneurs who invest capital in exploration of mines will automatically get the mining lease under the new policy, to ensure protection of their

capital. The new policy, which was approved by the Union Cabinet in March this year, will shorten the time taken for new mining leases to be granted by both the central and state governments to about six months to a year.

After this period, applications will be automatically referred to a tribunal. Under the new guidelines, foreign and domestic firms should find it easier to invest in the exploration and mining of gold, diamonds and metals like copper and zinc, and prospecting companies will automatically obtain a mining licence. Besides, the policy also addresses other important issues like royalty.

At present, companies that obtain the first stage of licence, called Reconnaissance Permits, need to get the Prospecting Licence, which enables

them to undertake detailed drilling and engage in feasibility studies to ascertain the economic viability.

The mining policy has seen several changes over the years. In 1993, the sector was opened to private players. Companies were allowed to mine 13 minerals, including gold, diamond and platinum. In 1999, overseas players too were allowed to enter the sector.

"The (new mining) policy aims to spur interest from foreign and domestic companies," says Keyur Shah of the World Gold Council.

India produces 89 minerals, out of which 11 are metallic and 52 non-metallic. The country is estimated to have 2.92 billion tonnes of bauxite, representing 10 per cent of the world's reserves, and 276 billion tonnes of coal.