Sesa Goa target price cut to ₹270

We are lowering our FY12/13 earnings estimates for Sesa Goa by 29% to factor in today’s announcement of the increase in iron ore export duty to 80% from 65% and 25% cut in iron ore volume assumptions in FY13/14 due to longer-than-anticipated delays in the volume ramp-up and lower contribution from Cairn. We lower the target multiple for Sesa’s iron ore business to 3.4 from 4.6 to factor in multiple compression across global peers and continued regulatory risk. We cut our target price by 25% to ₹270 but maintain Buy on valuation.

Today’s increase in the iron ore export duty further validates our long-held view that the risks of policy risk in India continue to weigh against iron ore exports. The regulatory measures have resulted in a 64% YoY decline in iron ore exports in November 2011 and 38% YoY decline over April-November 2011. We believe the trend of YoY decline should continue to manifest itself in the ensuing quarters.

Despite the strong and rising regulatory resistance to iron ore exports, we believe a total ban on iron ore exports from India is unlikely given the adverse social implications of the ban. Instead, the Indian government is likely to use imports as the preferred policy tool to rein in iron ore exports. We believe the iron ore exports from India in FY12 should decline by 30% YoY to 60m tonnes given the current regulatory scenario. We also believe there is potential for Indian exports to further drop by 25% to ~55m tonnes annually over the medium to long term unless we see an improvement in the domestic regulatory environment.

Attractive valuations but lacking immediate triggers; maintaining Buy. We value Sesa Goa using SOTP methodology: Iron ore business, valued at 3.4x FY13E EV/Ebitda contributes ₹158/share; Cairn India stake, valued using DCF and a 15% holding company discount, contributes ₹115/share—leading to a target price of ₹270.

At the current stock price, Sesa’s iron ore business is available at a ~70% discount to global peers and is the key driver of our bullish view on the stock. Key risks are export regulation and proposed mining tax.

Deutsche Bank
Krishna faces fresh illegal mining heat

AN NGO has accused external affairs minister S.M. Krishna of abetting illegal mining in Karnataka when he was the CM (1999-2004). He already faces a Lokayukta probe in connection with illegal mining.

The National Committee for Protection of Natural Resources said Krishna did not cancel the lease of the private Deccan Mining Syndicate, which illegally extracted iron ore from the 20.7-acre plot allotted to the government-run National Mineral Development Corporation in Bellary district, despite the then MoS mines recommending it.  

Mail Today/Bangalore
Karnataka firm on no Western Ghats mining

KESTUR VASUKI ⏤ BANGALORE

The BJP Government in Karnataka is opposed to any sort of mining in the Western Ghats, one of the very few biodiversity hotspots in the world.

According to Karnataka Forest Minister CP Yogeshwar, the Government is firm and opposed to any intervention in the critical foliage of Western Ghats. The Minister also made it clear that the State Government would lodge a protest with the Centre in this regard.

Yogeshwar was responding to a report submitted to the Union Government by a committee headed by Steel Secretary PK Mishra, which has recommended resumption of iron ore mining in the ecosensitive Ghats. The committee was constituted to make recommendations on the steel sector for the 12th Five Year Plan.

Yogeshwar said, “The State Government opposes any such move and we will lodge our protests with the Union Ministry.”

A source in the Steel Ministry told The Pioneer that the report also notes that around 10 billion tonnes of magnetite or natural iron ore reserves are available in the Ghats, of which 8 billion tonnes are in the Karnataka Ghats alone.

The Supreme Court had banned iron ore mining in the Ghats in 2005 for environmental reasons in the case of Kudremukh Iron Ore Company.

The Western Ghats are a mountain range along the western edge of the Deccan Plateau, separating the plateau from a narrow coastal plain along the Arabian Sea. The Ghats block rainfall to the Deccan plateau.

The area is one of the world’s 10 biodiversity hotspots and has over 5,000 species of flowering plants, 139 mammals, 508 bird species, 179 amphibians and many undiscovered ones. At least 325 of them are globally threatened.
Goa mining industry ‘shocked’ at hike in iron ore export duty

Pioneer, Delhi
Thursday, 5th January 2012, Page: 7

The decision of the Union Finance Ministry to hike the duty on export of iron ore lumps has not gone down well with miners in India’s more lucrative mining export State. The Goa Mineral Ore Exporters Association (GMOEA), which represents iron ore miners and exporters, who account for nearly 60 per cent of the country’s iron ore export, and the Goa Chamber of Commerce & Industry (GCCI) have termed the decision as “shocking.”

“We are shocked by the decision taken by the Finance Ministry... Goa iron ore is low grade in nature with lesser Fe content and it is not used for internal consumption,” Secretary of the GMOEA Glenn Kalavampara said in a statement. “In other parts of the country where high grades (of ore) are produced, the mining industry is a small percentage of GDP of a State. While in Goa, it contributes to almost 35 per cent GDP, so the effect of reducing the turnover of the industry will hit hard the common man, who is an integral part of the Goa mining industry, unlike other States,” Kalavampara said.

Iron ore extracted in Goa is of a very low grade and hence cannot be processed within the country. It is, however, sold mainly to China where it is mixed with high grade Australian ore and then processed.

The GMOEA has called for “an urgent need to upgrade technology so that low content iron ore can be used for domestic consumption.” The Union Finance Ministry had hiked export duty on iron ore from 20 per cent to 30 per cent recently.

Meanwhile, in a letter to Union Finance Minister Pranab Mukherjee, the GCCI has sought explanation on the second hike in export duty within a span of one year. “The low grade ore in Goa is unsuitable and uneconomical for domestic steel manufacturers and will not benefit the domestic steel industry in any way. The lumpy quality is of too low a grade to be used in Indian steel mills, because of their location in India and the cost to transport it overland to the mills, who have access to far higher grades of lumps, which are more cost effective,” GCCI president Mangurirish Pai Raikar has said in his letter to Mukherjee.

“If Goa iron ore is not exported (and converted to foreign exchange, after undergoing the process of generating employment and tax revenues) and is not consumed in India, it ceases to become a strategic natural resource and loses all economic relevance, and the low grade generated in the course of mining will have to be treated as waste causing environmental concerns to a tourist paradise,” it added.

The mining industry in the State exported more than 50 million tons of iron ore last year. This year, however, they do not expect to meet their target, after a probe by the Central Government commission Chief Minister Mohan Parrikar has already resulted in the closure of nearly 30 of the 90 operating mines.

The Commission during its various visits to the State has pointed out several large scale irregularities in the mining sector committed by both longstanding mining operators as well as fly-by-night mining traders.

The Opposition has already pegged the mining scam in Goa at ₹25,000 crore and has accused the ruling Government of being a part of the scam.
Aditya Birla Group Keen to Bid for Coal Miner PT Bumi in Indonesia

Co weighs option to bid for 10-15% stake in coal miner, along with an offtake pact.

M V RAMSUBY
Mumbai

The Aditya Birla Group will pitch for a strategic stake in Indonesian coal miner PT Bumi Resources to secure assured coal supplies for its expanding cement and aluminium smelter operations.

People close to the development said that senior executives from the Birla group are evaluating the option to bid for about 10-15% of the equity of PT Bumi along with an offtake arrangement. The transaction could be valued at over $1 billion.

The Jakarta-based PT Bumi, the world's largest exporter of thermal grade coal, has been talking to interested companies to offload its equity and raise funds for repaying debt. The group, owned by the Bakrie family, one of Indonesia's largest business houses, had recently agreed to sell 47% in BumiPlc, one of its subsidiaries, for about $1 billion.

"It is an option we are looking at," said a senior executive from the Aditya Birla Group. "We wouldn't say we've made up our mind, but to have a share in one of the world's largest coal companies would be an attractive option," he added.

The group would look for a position on the board but not be directly involved in the day-to-day running of the company, the executive said.

A Birla group spokesperson did not comment on the issue.

A bid by the group would be interesting as it would run counter to the general unease among foreign companies over investing in Indonesian coal mines. A recent government decision to impose tax on coal exports has unsettled foreign companies. Power projects, dependant on Indonesian coal, have suddenly seen their costs shoot up, ruining profit projections.

But demand for thermal coal from India and China continues to be strong, with Indonesia accounting for 65% of India's coal imports. PT Bumi Resources, which has reserves of about 9.22 billion tonnes of prime thermal coal, is targeting a 14% increase in production based on the demand pull from India.

Queries emailed to Bumi were not answered. However, Bumi director Dilip Srivastava had said last week that the company was open to the idea of bringing a strategic partner.

"Having a minority or strategic stake with an assured supply would be crucial in the current environment," said Ahmed Buki, founder of Coal & Oil, which owns coal mines in Indonesia and supplies 6 million tonnes of coal to Indian companies annually. "If the government allows for a pass-through (a review of power purchase agreements with consumers) then a high export tax on Indonesian coal will not be a deterrent," he added.

According to Anjani Agarwal, energy leader at Ernst & Young, having equity will ensure that the cost of offtake will not attract any premium over the market price. "If you are an owner and the offtake is from a group company, then the cost will be relatively lower than when you are just a buyer," he added.

Indonesia has been considering a tax on mineral exports, especially on thermal coal. The move has drawn mixed reviews from local businessmen, while foreign companies, mainly Indian power producers, are concerned on the impact on power sale agreements.
Demand outlook worry drags copper

Reuters
London, Jan. 4

Copper prices fell on Wednesday, with a rally from the previous session dissipating as concerns about the Eurozone debt crisis eroded confidence and prompted worries about the demand outlook for industrial metals.

Three-month copper on the London Metal Exchange (LME) slipped to $7,665 a tonne in official rings, down from a close of $7,790 in the previous session when it hit a three-week high.

The outlook for the market remained shaky due to worries about the Eurozone debt crisis, with a round of bond auctions likely to be closely watched by investors.

Copper posted its first annual decline in three years in 2011 when it lost a fifth of its value on fears related to the Eurozone debt crisis and the global economic slowdown.

In other metals, aluminium slipped to $2,068.50 in official rings, from Tuesday's close of $2,076 a tonne, while battery material lead slipped to $2,068 from $2,100 a tonne.

Aluminium stocks in LME-registered warehouses rose by 4,425 tonnes to a fresh record high of 4,983,175 tonnes, data showed.

Nickel was untraded in rings, but bid at $19,700 from $19,995, while zinc was also untraded in rings, but bid at $1,862 from $1,878. Nickel was untraded, but bid at $18,675 fell from Tuesday's close of $18,900.