Illegal mining in State ruined farming

Ajith athrady

NEW DELHI, DMNS: Rampant illegal iron ore mining in Chitrardurga and Tumkur districts has caused severe damage to agriculture and horticulture activities, as well as spreading of mining related diseases among the people of the region, a study has found.

The micro-level environmental impact assessment study conducted in the two districts by the Indian Council of Forestry Research and Education (ICFRE) also expressed concern over large-scale damages due to violations of environmental norms.

It recommended financial compensation from mine owners for the damage caused to the environment and stringent action against the guilty companies.

The study was conducted on the direction of the Supreme Court hearing cases of illegal mining in Karnataka. The ICFRE, an autonomous body under the Ministry of Environment and Forests, has already submitted its environmental study report on Bellary district.

"There has been a decline in productivity of agricultural crops up to 40 per cent in both Tumkur and Chitrardurga districts when mining areas are compared with the non-mining areas," the report says.

The study report, a copy of which is available with Deccan Herald, says unbridled mining has resulted in loss of around 8 sq km of forest in both the districts.
Iron ore export duty hike prudent, says Assocham

Press Trust of India

BANGALORE, 7 Jan: The government’s decision to hike duty on iron ore exports from five per cent to 50 per cent is a step in the right direction and promotes value addition within the country to meet growing demand for steel, industry body Associated Chambers of Commerce and Industry of India (Assocham) said today.

India exported iron ore worth $4.7 billion in 2010-11 and imported finished steel worth $11 billion, thus contributing negatively to the widening trade deficit and draining foreign exchange reserves.

"Conservation of iron ore is in the national interest as reserves may run out rapidly due to projected growth of the economy," the industry body said.

"We have always advocated a complete ban on iron ore exports. However, discouraging them through fiscal measures is an appropriate solution to utilise large mining, infrastructure and port capacities created for iron ore," Assocham secretary-general, Mr. DS Rawat said.

A nine per cent growth in GDP would create demand for 113 million tons of steel and 206 million tons of iron ore by 2016-17 as the country embarks on several infrastructure projects. Production of iron ore in the country currently stands at 208 million tons, of which 98 million tons are exported.

"It is imperative that India conserves its iron ore resources to safeguard long-term sustainability of the steel industry," said Mr. Rawat, adding that the crackdown on illegal mining by the Supreme Court has led to a severe shortage in availability of iron ore for the domestic steel industry.

China had imposed a duty of 40 per cent on exports of coal and coke for value addition within the country. This led to creation of the world’s largest steel manufacturing capacity and accelerated China’s GDP growth, he observed.
Odisha to renew ArcelorMittal MoU
BHUBANESWAR, 7 JAN: The Odisha government today said there was no difficulty in renewing its MoU with the world’s largest steel-maker, ArcelorMittal, which had proposed to set up a 12 million tons per annum steel facility in Keonjhar district at an investment of Rs 40,000 crore. “We are now working on renewing the MoU with ArcelorMittal. The MoU will remain effective for five years,” steel and mines minister, Mr Raghunath Mohanty told reporters. Stating that ‘gram sabha’ (public hearings) have been held in five villages so far, the minister said a notification for land acquisition had already been made. ArcelorMittal had signed an MoU with the state government on 2 December 2006, which expired on 22 December 2011. pTI
Are PSUs the govt's cash reserve?

The government's attempt to use PSU cash to fix its fiscal deficit has worrying implications for future disinvestment

NANDINI GUPTA

The recent move to make public sector units (PSUs) and financial institutions buy back public sector enterprise shares suggests a focus on the short term, plugging the hole in the budget deficit in this fiscal year — rather than on setting up a long-term disinvestment programme that increases the efficiency of public sector enterprises. Long-run privatisation plans continue to be difficult to implement — it is one of the most politically contested economic reforms, opposed at one time or another by most of the major political parties.

The government has not met its 2.8 per cent of its Rs 40,000-crore disinvestment target for the current fiscal year (by selling a 4.35 per cent stake in the Power Finance Corporation in October 2011). Now, scrapping the revenue target, and faced with a mounting deficit and high borrowing costs due to the financial crisis, the government has started eying the tens of thousands of crores of cash reserves held by profitable PSUs.

For example, Coal India stated — in response to a government query — that it will have Rs 60,000 crore in cash reserves by March 2012, while the National Mineral Development Corporation and Oil India had cash reserves of Rs 30,725 crore and Rs 3,869 crore, respectively, as of September 30, 2011. A share buyback by PSUs, or purchases of shares in other firms would allow some of this cash to revert to their largest shareholder — the government. However, while the share buyback scheme clearly serves the government's short-run purpose, it has long-run implications that need to be considered.

Will the buyback plan benefit public sector firms and minority investors? The first issue is whether reducing cash reserves may affect the long-run value of these PSUs. In the current uncertain financial environment, where the euro crisis has increased borrowing costs particularly for emerging-market firms — it may not be prudent to deplete internal cash reserves. Companies may be willing for the economy to improve, or for asset prices to fall further, before committing funds for long-term investments. In this case, positive cash reserves do not necessarily imply an absence of investment opportunities; they may actually provide a buffer for financially constrained companies. Another potential effect is that disinvestment by selling cash from reserves in the future, leading to less efficient investment decisions as firms seek to tie up funds to foist such moves on the government.

A second issue is whether the share buyback scheme provides any benefits other than letting the government cash out its ownership stakes. Research suggests that disinvestment through long-term equity sales has led to a significant improvement in the average sales and profitability of Indian PSUs. Comparing disinvested firms to enterprises that have been selected for privatisation but have not yet sold any equity, a 10 per cent increase in the level of private equity is shown to increase average annual sales by 3.3 per cent and returns to sales by 3.8 per cent, without offsetting employment or reducing wage compensation.

The improvements in financial performance following the sale of minority stakes is related to the market discipline imposed by improved monitoring by investors in disinvested firms. One potential advantage of the share buyback scheme is that it will lower the government's stake, thereby reducing the potential for future interference, and increasing the relative ownership stakes of minority investors.

However, considering the consequences, the relaxation of rules by the securities regulator and the pressure on firms and financial institutions to undertake this buyback just underscores the lack of autonomy of PSUs from government interference. It suggests that the government as a majority investor may exert an undue amount of influence to benefit itself, potentially at the expense of minority investors. Minority investors in smaller companies controlled by a majority investor whose objectives are not consistent with shareholder value maximisation.

This may not bode well for the future. If and when the government resumes its disinvestment programme through public offerings on the stock market, minority investors will be wary of investing in companies when the government is likely to intervene whenever it is in need of cash. The returns reaped from minority equity sales will be less than the true value of the shares. Given that disinvestment has stalled because of low valuations in the current economic climate, the government should be acting to reassure investors, not to scare them away.

Recent evidence suggests that the positive effects of privatisation on firm performance are even larger when privatisation involves the sale of majority equity stakes and the transfer of management control to private investors. Moreover, employment increases significantly following minority privatisation, perhaps in response to the increase in profitability and expansion of output. Thus, the government should focus on selling majority stakes in companies like Air India, which is bleeding cash (to the tune of Rs 7,000 crore in the last fiscal year alone).

Privatisation, however, remains a game of political ping-pong. Recent research suggests that since 1991, successive governments have delayed the privatisation of firms located in politically competitive districts and in the home state of Cabinet ministers, suggesting that all political parties when in opposition use privatisation as a cudgel to beat the party in power at election time. For example, although it was the Congress government that initiated the privatisation programme in 1991, securing a public backlash against the NDA's reform programme, the UPA coalition ran on a platform of limited privatisation in 2004. Given the stalemate in Parliament and political opposition to privatisation, perhaps the only way the government can undertake disinvestment is by asserting that it needs the cash. In which case, something may be better than nothing.

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Hindustan Copper (Rs 291.7)

Hindustan Copper skyrocketed 56 per cent accompanied by extraordinary volume in the previous week. While trending higher, the stock emphatically broke through its key resistance at Rs 250 and also its 200-day moving average. Moreover, in the last week, the stock has conclusively penetrated its long-term down trend-line that was in place since its January 2010 peak of Rs 656. Strong move above Rs 300 will take the stock higher to Rs 350 or to Rs 400 in the medium-term. Nevertheless, it currently faces resistance at Rs 300. The stock’s daily indicators and oscillator have reached overbought levels, signalling that the stock can witness a corrective decline to Rs 270 or Rs 250 in the near-term. Next support for the stock is at Rs 200.
GMDC’s power is in mines

Exclusive mining rights, low operating cost and captive market are GMDC’s strengths.

Adarsh Gopalakrishnan
Low-cost lignite operations, a steady expansion track record and healthy growing captive market in the form of Gujarat make Gujarat Mineral Development Corporation a good bet in the mining space.

The company’s enterprise value/Ebitda value of seven times is lower than that of Coal India and Neyveli Lignite Corporation. This seems incongruous, given that GMDC has delivered volume and profit growth, which outpaces its larger peers.

The number is on a par with global peers. But with advantages such as exclusive mining rights, low-operating cost and captive market, the company is more likely to recover on its premium. Despite gaining 29 per cent over the last one year, GMDC’s shares at Rs 168 makes for a compelling buy for investors with a long-term horizon.


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Why Buy

- Exclusive rights to develop lignite mines in Gujarat.
- Increasing sales to industry at lesser regulated prices.
- Solid track record in mine openings and expansion.
- Growing revenue streams such as bauxite.

Lignite accounted for more than half of the company’s overall sales in 2010-11.

Lignite scores

- The cost of generating power from lignite is lower than the cost of generating power from expensive coal.
- This could make lignite the preferred fuel for Gujarat-based industrial producers setting up captive power capacity.
- With the current supply-side restrictions on coal supply due to regulatory concerns and infrastructure bottlenecks, coal is neither cheap nor readily available, while lignite for power producers fits the bill.
- The risk for GMDC is the enforcement of price controls in the event of higher power prices.
- The high exposure to Gujarat poses a concentration risk. While at this point, the State seems to have monitored GDP growth parameters, lignite prices will be among the target group in a downturn.
India can achieve 9% growth

Bhubaneswar, Jan 6

India can achieve nine per cent growth in 12th Five-Year Plan if scarcity in the key sectors of infrastructure and energy is addressed through big investment, the Planning Commission Deputy Chairman, Mr Montek Singh Ahluwalia, said today. He said the economic downturn is expected to be over, and inflation brought under control, in about three months, and added, “Nine per cent economic growth target is very much achievable during the 12th Plan if these challenges are addressed.”

“There is nothing to suggest that 9 per cent GDP growth is not achievable if we do what is necessary. We need to do a lot to raise productivity and remove impediments and constraints,” he said, while delivering Foundation Day Lecture of aluminium giant NALCO here.

Describing infrastructure as key to spurring the economy, Mr Ahluwalia said both Central and State governments need to take concrete steps to strengthen roads, transport and energy sectors which still remain considerably weak. Stating that infrastructure requires huge funds, he said that substantial investment could be ensured through PPP projects. “India has the second largest number of PPP projects as per a data,” he said. To achieve nine per cent growth, India must attain 6.5 per cent growth in total energy, Mr Ahluwalia said, adding that to boost growth, power demands would rise further. — PTI
Centre taking mining lobby's side on MRRT: accuses Orissa

Bhubaneswar, Jan 7: Annoyed over the Centre's views on Orissa's demand for imposition of Mineral Resource Rent Tax (MRRT) on mine owners, the state government on Saturday said the view of the Centre on the issue was a "version of the mining lobby."

"The reply of the minister (Union minister of state for mines Dinsha Patel) is nothing but a version of the mining lobby," CM Naveen Patnaik said. Patnaik's reaction came four days after Patel virtually rejected the state government's demand for imposing MRRT on mine owners, who according to the CM were making "super normal profit". 

PTI
Mining rehabilitation model plan for Bellary district soon

Bangalore, Jan 7: Indian Council of Forestry Research and Education (ICFRE) will submit a model plan on mining rehabilitation and reclamation for Bellary, Chitradurga and Tumkur districts to the Supreme Court and the state government by January 20, according to ICFRE director general VK Bahuguna said on Saturday. "ICFRE has already submitted its report on macro level environment impact assessment of iron ore mining areas of these three districts to the Supreme Court as per its directions and will submit a model plan on mining rehabilitation and reclamation to the apex court and the state government by January 20," he said.

The plan will also focus on sustainable mining. He said the advanced centre for mining rehabilitation, set up in October 2011, would take up scientific studies to develop environment management plan to rehabilitate degraded mining areas in the state.

Bahuguna added that the ICFRE has suggested a feasibility study for underground mining as done in Stockholm in Sweden. Highlighting the need to increase investment in forestry and forest management, he stated that Joint Forest Management (JFM) Programmes have already been taken up in 29 states, representing 1,18,213 JFM committees protecting about 22.93 million hectares forests. He added that JFM has increased availability of forest resources, created employment opportunity and bettered the flow of ecosystem services. Bahuguna said agroforestry is a land-use system integrating agriculture, trees, people and animals in the same space, resulting in improved soil quality, higher yields and improved standards of living.

Eight lakh hectares out of 38 lakh hectares of the total forest area in Karnataka is under JFM with 3,848 JFM committees working in the state.

"The annual benefit to the state from JFM is estimated to be Rs 3,144 lakh. Karnataka ranks seventh in the country in JFM," he said.  

PTI