Green light for SAIL’s Chiria mining

OUR SPECIAL CORRESPONDENT

New Delhi, Feb. 9: The central environment ministry today gave forest clearance to SAIL for mining iron ore from Chiria in Jharkhand.

While overturning the recommendations of its forest advisory committee, the Jairam Ramesh-led ministry has imposed 13 conditions on the company.

ROAD CLEAR

PSU. The forest panel had opposed mining at Chiria because it is in the Saranda forest, which is rich in sal trees.

“The approval is being given subject to the usual conditions governing forest clearance (like those relating to compensatory afforestation). There are 13 specific conditions that are being stipulated for this approval,” Ramesh said. SAIL had sought permission to mine on 585 hectares, about a quarter of Chiria, for 20 years. Chiria has reserves of 2 billion tonnes of high quality ore.

Ramesh said permission was given because Chiria was central to SAIL’s growth plans. Besides, the ministry had given forest clearances earlier, too, in July 1998 and October 1998 for two leases in Chiria. Over the next 50 years, around 40 per cent of the iron ore requirement of SAIL will be met from Chiria.

The ministry has only allowed mining and primary and secondary crushing in the forest area. Processing, beneficiation, blending, stockpiling, railway sidings, infrastructure and all township facilities should be 15km away in non-forest land.

SAIL must have a wildlife management team, make zero discharge into the Keona river, which flows through the forest, and spend at least 2 per cent of its net profit on welfare projects. SAIL officials said they already met some conditions such as the ones on welfare projects, and wildlife and environment maintenance.

“These conditions would not be any problem for us,” Ramesh said. His ministry also took note of Prime Minister Manmohan Singh’s letter to the then chief minister of Jharkhand, Madhu Koda, in August 2007 to renew leases in SAIL’s favour “in the broader national interest”.

“SAIL has a Rs 18,000-crore IPO on the anvil, 50 per cent of whose proceeds will accrue to the Government of India. Thus, an early decision has to be taken without waiting for perfect information,” the minister said.
Hindalco recovers half Novelis cost by making cash fungible

SHUBHASHISH & ARJIT BARMAN
Mumbai, 10 February

Four years after buying Novelis, a company three times its size, Hindalco is now banking on the Atlanta (US)-headquartered aluminium rolling and recycling major to fund its Rs23,000-crore expansion plan in India.

In one of the largest capital repatriations by an Indian company after a foreign acquisition, the Aditya Birla group flagship has initiated a programme to financially integrate the two companies — internally called Project Nalanda — and make cash fungible.

The strategy allows Hindalco to tap cash trapped in Novelis that could not be accessed so far due to restrictive loan covenants. The money is essential to bridge the project equity for Hindalco’s capex.

The repatriation means Hindalco has recovered half the $3.5 billion it spent to buy Novelis. “We own 100 per cent of Novelis for just $1.8 billion today. This return of capital represents almost 50 per cent of the initial acquisition cost, achieved within four years of the buyout,” Hindalco Managing Director Debashis Chatterjee said in an exclusive interview with Business Standard.

Hindalco acquired Novelis in 2007 for $6 billion by paying $3.5 billion in cash and taking on $2.5 billion of its debt, including $1 billion in term loans and $1.4 billion in high-yield bonds. But Hindalco did not raise debt on the Novelis balance sheet to fund the deal. It paid $3.1 billion through recourse financing on Hindalco’s own corporate guarantee and $450 million by liquidating treasury stocks.

“We decided not to put any new debt on the Novelis balance sheet because recapitalisation would have meant higher interest costs. Its bonds would then have been refinanced at 9-9.5 per cent. Since Hindalco had a stronger balance sheet, it got a more aggressive pricing of Libor+30 for the first 12 months and Libor+80 for the next six,” explained Sunirmal Talukdar, Group CFO.

To replace an 18-month bridge loan of $3.03 billion for the acquisition, Hindalco raised $1.25 billion via a rights issue and another $1 billion from 12 global banks as term debt that was routed back via Dutch investment arm AV Minerals (Netherlands). The remaining amount came from Hindalco’s internal accruals.

It has been a slow and painstaking limp back to recovery for Novelis. The global financial meltdown resulted in the company posting a negative $104 million of free cash flows and an adjusted Ebitda (earnings before depreciation, tax and amortisation) of just $349 million in FY07. Liquidity support of $100 million was accompanied by several measures to slash costs and shut unproductive and expensive operations.

All this led to Novelis’ equity value more than doubling to around $8 billion in 2010. Its enterprise value of $12 billion was twice that in 2007.

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Hindalco recovers...

WITH NOVELIS finally standing on its own two feet, with over $1 billion in adjusted Ebitda for the previous four quarters, mid-December 2010 saw Hindalco recapitalising Novelis with $4.8 billion in debt. This refinancing had a $2.5-billion component of senior unsecured loans and a $1.5-billion term loan with maturities of 7-10 years. Another $800 million was a working capital loan.

"With the stable earning profile, we were able to lever up Novelis at four times debt/Ebitda for a higher-upfront return of capital for Hindalco," said Talukdar.

Novelis bond holders and
bankers also agreed to a net debt-to-Ebitda covenant of three times. This relaxation removed the restriction of capital deployment and actually made cash fungible between the two companies. Novelis could then repatriate $1.7 billion to the parent.

"But it's not just a one-time windfall. As Novelis' financials continue to improve, more remittances to Hindalco will be possible. From the capital returned, Hindalco is planning to repay the $1-billion debt taken to pay off the bridge loan and the rest will be used for upcoming expansion plans in India. It has an extra $700 million of seed capital for its Aditya alumina refinery and Jharkhand smelter projects.

"Hindalco is today 50 per cent of the Aditya Birla group. Our chairman has a target of $65 billion in group turnover by 2015 from the current $30 billion. We believe Project Nalanda helps pave the way to take the group to that target," concluded Bhattacharya.
### Price Card

<table>
<thead>
<tr>
<th>METALS (Rs/tonne)</th>
<th>International</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminium</td>
<td>2,538.00</td>
<td>2,952.11</td>
</tr>
<tr>
<td>Copper</td>
<td>10,000.00</td>
<td>10,933.74</td>
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<tr>
<td>Nickel</td>
<td>28,260.00</td>
<td>29,849.11</td>
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<tr>
<td>Lead</td>
<td>2,575.00</td>
<td>2,580.36</td>
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<tr>
<td>Tin</td>
<td>31,495.00</td>
<td>36,846.71</td>
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<tr>
<td>Zinc</td>
<td>2,454.00</td>
<td>2,908.38</td>
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<tr>
<td>Steel-HRC</td>
<td>705.00</td>
<td>891.05</td>
</tr>
<tr>
<td>Gold ($/ounce)</td>
<td>1,348.85*</td>
<td>1,375.94</td>
</tr>
<tr>
<td>Silver ($/ounce)</td>
<td>29.14*</td>
<td>31.27</td>
</tr>
</tbody>
</table>

**Natural Gas** ($/mmBtu)
- 4.03*
- 4.05

### Agri Commodities (Rs/tonne)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>International</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>329.48</td>
<td>296.96</td>
</tr>
<tr>
<td>Maize</td>
<td>322.17*</td>
<td>243.28</td>
</tr>
<tr>
<td>Sugar</td>
<td>794.40*</td>
<td>624.54</td>
</tr>
<tr>
<td>Palm oil</td>
<td>1,277.50</td>
<td>1,392.08</td>
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<tr>
<td>Rubber</td>
<td>6,117.89*</td>
<td>5,177.13</td>
</tr>
<tr>
<td>Coffee Robusta</td>
<td>2,207.00*</td>
<td>1,913.40</td>
</tr>
<tr>
<td>Cotton</td>
<td>4075.47*</td>
<td>3,689.68</td>
</tr>
</tbody>
</table>

Conversion rates: 1) 1 ounce = 31.1032616 gm
2) 1 US dollar = 60.72

* As on Feb 10, 1800 hrs IST

Note:
1) International prices are from LME. Spot prices and local market prices are Mumbai's spot prices except for Steel.
2) International Natural gas is Nymex near month future & domestic natural gas is MCX near month future.
4) International Maize is MATIF near month future, Rubber is Tokyo-TOCOM near month future and Palm oil is Malaysia FOB spot price.
5) Domestic Wheat & Maize are NCDEX futures prices of near month contract, Palm oil & Rubber are NCDEX spot prices.
6) Domestic Coffee is Karnataka robusta and Sugar is M30 Mumbai local spot price.
7) International cotton is Cotton no.2-NAIBOT near month future & domestic cotton is NCDEX spot prices.
8) International metals, Indian basket crude oil, Malaysia Palm oil, Wheat Liffe and Coffee Karnataka robusta prices are previous day's prices.

Source: Bloomberg
Compiled by BS Research Bureau
Nod to mining in ‘No Go areas’

RASHME SEHGALE
NEW DELHI

Feb. 10: Minister of coal Sriprakash Jaiswal has scored a major victory over environment minister Jairam Ramesh by forcing him to agree to allow mining in the heavily forested ‘No Go areas’.

“We have abolished all No Go areas,” Jaiswal declared after a lengthy meeting with Mr Ramesh held on Thursday to resolve the contentious issue which had forced the intervention of Prime Minister Manmohan Singh, who had directed Mr Ramesh last week to allow coal mining in the Eastern Coal Fields and in the Mahanadi area of Orissa.

Mr Ramesh had in 2010 listed out 35 per cent of forest area in 17 mining zones as No Go for mining but the ministry of coal had recently circulated a Cabinet note demanding the area be reduced to 10 per cent. The coal ministry had bolstered its position by stating that the area of nine coal fields which had not received clearance had a potential of generating 1,43,999 MW of power.

This climbdown by Mr Ramesh implies that 17 major projects of Coal India will now get environmental clearance. Under this new compromise, Coal India will receive conditional clearance which in turn will take additional steps to minimise impact of mining in the local environment.

Some of these ultra mega projects include Ultra Tech, Hindustan Zinc and Essar will also receive a fast track clearance.

MoEF sources point out that already 400 blocks have received environmental clearance but these large corporates have been pressuring the PMO to allow these projects to go through.

“Large corporate houses had assumed in the past that they would receive automatic environmental clearance. MoEF’s Forest Advisory Committee had cautioned against such a decision, especially since past experience shows much of this land gets usurped for real estate purposes,” the source added. The group of ministers will also take up this issue next week.
Rio Tinto results top estimates

RIO TINTO surprised investors by more than doubling its full-year dividend and promising to return $5 billion to shareholders over the next two years to soak up bumper cashflows after it reported a record second-half profit. The size of the buyback and the target for completing it by 2012 was not good enough for some investors, who were hoping for more cash up front and sent Rio’s shares 1 per cent lower in early London trade. After whittling down a $40 billion mountain of debt the No.3 global miner said it was in shape to take advantage of any other opportunities that might arise, even after returning cash to shareholders.
Illegal mining: Forest officer roughed up

JAIPUR: A recently deputed Indian Forest Service (IFS) officer in Alwar was driven off by a mob when he stumbled upon an alleged case of illegal mining while conducting a survey in the area. The mob also allegedly roughed up some homeguards deployed to prevent illegal mining. The IFS office has lodged a complaint about the incident, but the Alwar police insist that they were injured by a Forest department jeep.

On Tuesday evening, newly appointed Alwar Deputy Conservator of Forests (DCF; Territorial) M V Murthy was scouting his area. "We were surveying the area when more than 200 people surrounded us and began shouting. We were manhandled and verbally abused for a while before we managed to get into our vehicle and escape," Murthy told The Indian Express. APURVA
Iron ore upswing may not last as China mulls raise in output

IRON ore prices, which have been steadily climbing to touch $200 per tonne, may cool off in the long run as China is all set to increase iron ore production. The Dragon has just identified 4.5 billion tonne iron ore mines near Mongolia and this may impact their buying pattern in the global market.

Banarjee Pradhan, MD of Mineral Enterprises, said: “The current upswing may not continue for long as China is trying to bring new mines into production. Since China is the largest producer of steel and is a large buyer of iron ore from the global market, the new development is expected to influence their purchases. Since they buy a substantial quantity of iron ore from India, a drop in their offtake could have a bearish effect on Indian exports.”

A similar view was expressed by RK Sharma, secretary general of Federation of Indian Mineral Industries, who added that China will continue to play a big role in influencing global raw material prices. “Globally, there is a supply crunch of iron ore. This is expected to drive prices up further in the coming days. The Chinese have, so far, not been active in the global market due to the New Year-related activities,” Sharma said. In the next few months, the outlook on prices is expected to remain bullish as the global steel industry is led by the revival in demand from the Chinese steel makers.

H. Noor Ahmed, partner of Trident Minerals, said that the current upward price movement is a “momentary phenomenon” and is largely expected to be led by China. “However, we are now disturbed with the closure of iron ore mines in Karnataka which is affecting domestic supplies,” he added.

The trading community expects prices to remain firm in the next few months. “We are noticing a general uptrend in steel input prices due to the recovery in Europe and the US. China, the world’s largest steel producer, too is expected to continue its growth. This is likely to firm up prices in next few months. For Indian steel companies that rely on the market to get ore, this implies a hike in production costs,” said an official of the Indian arm of a leading global trading firm.
How Posco got the green nod & Vedanta got stuck
Court And Government Overstepped Limits, Helping Secure Provisional Nod For One Project And Nixing The Other

POWER STRAYS
Vedanta | Under the Forest Conservation Act, the govt is the competent authority to allow diversion of forest land for non-forest purposes. The Supreme Court granted forest clearance to the bauxite mining project in August 2008. Exercising his statutory power, environment minister Jairam Ramesh overruled the SC two years later.

Posco | In case of Posco’s iron ore mining project, Ramesh strayed into the domain of tribal affairs minister Kanti Lal Bhunna on January 31 when he ordered, among other things, on the compliance of the Forest Rights Act.

THE HEAVY METAL TEST

<table>
<thead>
<tr>
<th>POSCO</th>
<th>VEDANTA</th>
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<tbody>
<tr>
<td>South Korean steelmaker</td>
<td>UK-based mining major owned by Anil Agarwal</td>
</tr>
<tr>
<td>Pohang Steel Company</td>
<td></td>
</tr>
<tr>
<td>FDI worth $12 billion, India’s largest</td>
<td>FDI worth $1.7 billion</td>
</tr>
<tr>
<td>Initial steel production capacity: 4 mlt onne</td>
<td></td>
</tr>
<tr>
<td>Status: Conditional clearance granted</td>
<td>Project to mine bauxite in Niyamgiri Hills</td>
</tr>
<tr>
<td>Posco has backing of the South Korean government</td>
<td>Status: Green ministry has stalled project</td>
</tr>
<tr>
<td>Has not attracted harsh international criticism</td>
<td>UK found Vedanta violating tribal rights</td>
</tr>
<tr>
<td>Project Phase-3 to employ about 7,000</td>
<td>Norway excluded it from the investment portfolio of govt pension fund</td>
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</table>

I told the PM about the importance of Posco for Orissa and the entire country. The PM assured that the project will be expedited.

On Vedanta, the PM told me to talk to the environment minister

Naveen Patnaik | ORISSA CM

B oth are mining projects in Orissa and both involve diversion of forest land for non-forest purposes. So how could environment and forest minister Jairam Ramesh allow forest diversion in Posco’s case last fortnight after he had done just the opposite in Vedanta’s five months earlier?

The contrast has a lot to do with jurisdictional violations where one entitlement led to the other, and another for clearing the mining projects.

In Vedanta’s case, the trespasser was the Supreme Court itself. While dealing with a challenge to the alumina refinery set up by the UK-based company in Lanjigarh, the Supreme Court granted forest clearance to the bauxite mining project on the nearby Niyamgiri hills from where the refinery was proposed to get its raw material.

The Supreme Court’s order flew in the face of the Forest Conservation Act, under which it was the Central government alone that was competent to assess the merits of the proposal to divert forest land for non-forest purpose and decide whether to grant clearance for the project concerned.

The Supreme Court, strictly speaking, could have intervened only after the government had exercised its discretion one way or the other, that too in the event of a challenge to the executive decision. But since the apex court jumped the gun in the Vedanta case, it resulted in the unusual situation in which the government actually overruled the Supreme Court’s clearance.

Before crossing the Rubicon, Jairam Ramesh had consulted attorney-general Goelam R Vahvanwati who was reduced to saying that the Supreme Court’s clearance did not get in the way of the government’s statutory power to take a call on the Vedanta project. Accordingly, Ramesh refused forest clearance on Niyamgiri in August 2010 on the basis of a range of violations found by an expert committee headed by N C Saxena. A crucial part of the evidence considered against the bauxite mining project was the adverse effect it would have had on the only habitat of Dongria Kondhs, who are officially classified as a “primitive tribal group”. Across the world, protests were held against the sacrilege on the “mystical” mountain worshipped as a deity by the tribes.

There is no such tribal angle to the Posco proposal of diverting 1,253 hectares of forest land for the purpose of mining iron ore as part of an integrated steel plant, which is hailed as the largest foreign direct investment (FDI) anywhere in the country. This is despite the fact that the Meena Gupta Committee set up by Ramesh to examine all issues related to the diversion of forest for Posco came up with conflicting findings on whether it violated the statutory rights of forest dwellers.

The issue in contention was not whether any tribal groups resided in the Posco-acquired forest land and therefore came under the protection of the Forest Rights Act (FRA). Rather, it was about another category of people protected by FRA called “other traditional forest dwellers” (OTFD).

The Gupta Committee was divided on whether any of the non-tribal residents of the affected forest qualified to fall in the category of OTFD. Anybody claiming to belong to the OTFD category will have to fulfill three prescribed criteria:

1. They should have primarily resided in the forest for at least 50 years prior to December 2005.
2. They should be present and dependent on the forest or forest land for bona fide livelihood needs.
3. They should have been in occupation of forest land in December 2005.

So, when Ramesh granted clearance to Posco on January 31, it was subject, among other conditions, to a “categorical assurance” from the Orissa government that at least one of the three criteria was not fulfilled by those claiming to be dependent on the land in the project area.

Whether such an assurance from Orissa can be rolled upon or not, Ramesh himself is vulnerable to the charge of usurping the authority of the relatively low profile ministry of tribal affairs. Since it is the nodal agency for FRA, Ramesh should have left the issue of enforcement of that law to the tribal affairs ministry. He had empowered himself to monitor the compliance of FRA by issuing a self-serving circular in July 2009. Thus, if the Supreme Court had overreached itself in the Vedanta case, the environment ministry committed the same jurisdictional lapse in the Posco case.
GMDC profit up 42% in Q3

Ahmedabad, Feb 10

The net profit of State-promoted Gujarat Mineral Development Corporation Ltd (GMDC) in the third quarter of 2010-11, ended December 31, 2010, increased by 42 per cent, while its turnover went up by 33 per cent compared with the corresponding period last fiscal, the company said today.

On Thursday, the share price of GMDC on the BSE closed 5.26 per cent up at Rs 110.10. Capitalising on its core competence of mineral exploration and extraction, GMDC’s turnover stood at Rs 360 crore (Rs 270 crore) in the said quarter, while its net profit was Rs 101 crore (Rs 71 crore), Mr V S Gadvi, Managing Director, said here.

By ensuring strategic mining operations across the board, GMDC could achieve the highest-ever quarterly turnover and net profit, he added. During the third quarter, GMDC’s lignite production was 24.80 lakh mt, which was 16 per cent higher over the previous comparative quarter. GMDC plans to set up a pyrite removal plant of 1.5 mtpa capacity at its Bhavnagar mines to enhance the lignite quality and sales. It is also proposing to set up a lime-crushing plant of 2 lakh mtpa capacity at its Panandhro lignite mines, which would enhance the quality of limestone for cement industry and power plant. On the bauxite front, there was a surge of 200 per cent over the previous quarter’s sales. Responding to the State Government’s move to reserve manganese bearing areas, GMDC has embarked upon an exploration drive for manganese in two districts in 960 hectare area. The company’s power segment, which generated 317 million units (317 MUs), booked a net profit of Rs 35 crore.
Novelis to debottleneck, expand across globe

Will also increase recycling capacity by a third to 200,000 tonne

Promit Mukherjee

Novelis Inc, the aluminium rolling giant that's part of the Aditya Birla Group, has chalked out ambitious expansion and debottlenecking plans across the globe.

The company will also increase recycling capabilities by a third to 200,000 metric tonne per annum.

Philip Martens, president and chief executive officer, Novelis, said $80 million will be spent in a debottlenecking exercise across the globe, "which will lead to substantial capacity release in a few years".

He was addressing investors at a conference call on Tuesday evening after announcing the company's results.

Kumar Mangalam Birla, who chairs Novelis, said 3.4% of capacity will get released every year through debottlenecking from the current fiscal through 2014.

The exercise, Martens said, will increase the company's Ebitda by around $30 million annually.

The maximum debottlenecking will happen in Europe, followed by Asia, United States and South America.

And recycling, Martens said, "throws up a lot of benefits".

"By enhancing recycling ability the company gets access to more clients, and has a low-cost alternative as well; it is the apt answer from a sustainability perspective," he said.

The recycling project will be through an investment of $50 million.

Martens said Novelis is also keen on strategic initiatives, which includes expansion of its Brazil mill, which is on time and within cost. It is also aggressively exploring growth in Asia.

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Novelis to expand across globe

For the quarter ended December 2010, the company reported a net loss of $46 million as against a net profit of $68 million for the corresponding period last year.

This was mainly because of a charge of $74 million for refinancing of debt and $20 million for restructuring activities.

"With a strong global market demand across all the four regions, and with good numbers in this quarter, we expect to cross $1 billion of adjusted Ebitda for financial year 2011," the Novelis CEO said.
SAIL’s Chiria plan
NEW DELHI, 10 FEB: Grant of forest clearance by the ministry of environment & forests (MoEF) for Ajitaburu, Budhaburu and Sukri-Latur leases of Chiria iron ore mines in Jharkhand has given a boost to the efforts of SAIL towards strengthening raw material security. Responding to the MoEF’s order, SAIL chairman Mr CS Verma, said: “This is a landmark in our persistent efforts to obtain security of raw material supplies. A wave of relief has swept through the company and employees are jubilant that a major concern has been settled. We will leave no stone unturned to ensure that mining in Chiria leaves no mark on the environment and that truly sustainable development of the area is possible.” The estimated cost for development of the Chiria mines is about Rs 5,000 crore, it said. sns