Visa Steel promoters to sell stake to pare debt

Baiju Kalesh & Debabrata Das

Mumbai, June 10: Promoters of Visa Steel, part of the ₹5,000-crore Visa Group, are looking to shed part of their stake in the company to raise funds and pare down debt, two persons familiar with the development said.

Promoters own 74% stake in Visa Steel. “We have a large promoter stake in the company. So, there’s always an option to sell some stake,” said a senior official with the company. “We are monitoring the market conditions and when the time is right, a stake sale can happen.” He, however, did not specify the quantum of stake that will be offloaded.

“We had approached merchant bankers last year to sell some stake, but it did not work out,” said the company’s spokesperson, when contacted. “However, we were unable to get the buyers and, finally, we had to go for corporate debt restructuring.”

The company’s ₹3,000-crore debt was referred for corporate debt restructuring last week. The steelmaker, which has a 0.5 million tonne per annum integrated steel plant in Orissa, made a net loss of ₹118 crore in fiscal 2012 compared to a profit of ₹51 crore in the previous fiscal. It has a market valuation of ₹550 crore as per its last closing price of ₹50.

Vishambhar Saran, who worked with Tata Steel for 25 years, set up the Visa Group in 1994.

In 2010, Visa Steel announced plans to expand the Orissa plant’s capacity to 2.5 million tonne and, subsequently, to 4.86 million tonne by 2014. Apart from the Orissa plant, the steelmaker is also waiting for government approvals to start a 2.5 million tonne per annum steel plant in Chhattisgarh and a 1.25 million tonne per annum steel plant in Madhya Pradesh.

The company also has a joint venture with Chinese steelmaker Bao Steel called Visa Bao. The JV produces 100,000 tonnes of ferro-chrome alloy per year from its plant Kalinganagar in Orissa.

Visa Steel raw material supply chain has hit a roadblock. Supply from the company’s Gandhamaran and Daitari iron ore mines in Orissa were suspended in September 2011 after the Orissa Mining Corporation said that the mines were in a forest area and needed Forest Clearance. The company is also yet to receive approvals for its Horomoto mines in Orissa.

The constraints raised the company’s raw material costs for the 2012 fiscal by 30% to ₹1,038 crore from ₹800 crore last fiscal. Raw material costs account for nearly 75% of the company’s total revenues for the fiscal. Steelmakers like Tata Steel and SAIL spend around 25-30% of their annual revenues on raw materials. JSW Steel, which also faced raw material supply constraints in the 2012 fiscal, spent 65% of its annual revenues on raw materials.
Goa’s iron ore mining comes to a standstill

80% of business will be down due to onset of monsoon

Press Trust of India
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With the onset of monsoon, the iron ore mining business in Goa has come to a standstill, with only lumpy ore being transported from the sites to ports.

Industry players like Goa Mineral Ore Exporters Association (GMOEA) claim that 80 per cent of the business will be down, as fines (small particle ore) cannot be laden in trucks and transported to the jetties from where it is ferried to the port by small ships.

Only few mining companies extract the lumpy ore, while rest deal with fines which are low grade, GMOEA Executive Secretary, Mr. Swaminathan Sridhar, said.

Extraction and transportation of ore becomes difficult during rains due to logistic reasons, he said.

Goa is India’s largest exporter of iron ore, with majority of the extracted earth exported to China which has become a booming market since 2005.

The State has 90 operational mining leases.

The clampdown on the illegal mining activity has severely dented prospects of growing exports from the State.

From a record 54 million tonnes of export in 2010-11, before crackdown on the illegal iron ore, the exports had plummeted to 43 million tonnes in 2011-12.

“The indications are that the exports would further be down by 15 per cent for the current financial year,” GMOEA Secretary, Mr. Glenn Kalavampara, said, adding that the trends of exports in April-May this year were indicative of the downfall.

He said that 38 million tonnes mining export is projected for 2012-13.

“But it may be too early to predict,” he added. The statistics available with the GMOEA indicate that export was around 8-9 million tonnes for April-May 2012, which is less in comparison to corresponding period last year.
‘Ore prices to remain subdued on low Chinese demand’

Mumbai, June 10

Iron ore prices in international markets are likely to remain subdued in the next three months due to slowing Chinese demand, Goa Mineral Ore Exporters Association has said. The Federation of Indian Mineral Industries (FIMI) also said prices are likely to be steady in the next three months. “Iron ore prices have already dropped by nearly 20 per cent in the last one month. Going ahead, this is likely to remain subdued on the back of slowing Chinese demand,” the Goa Mineral Ore Exporters Association Secretary, Mr Glenn Kalavampara, told PTI over phone from Panajim. He, however, said a fall in prices is a cyclical phenomenon for the industry. – PTI
Gold falters; outlook for base metals, crude oil bearish

G. Chandra Sekhar
Mumbai, June 10

Monetary policy was at the core of last week's global commodity market price movements. Unexpectedly, China loosened its policy with a symmetric 25bp cut to the benchmark lending and deposit rates, while the ECB and Bank of England left the policy rates unchanged. More important was the balanced tone of the US Fed Chairman who did not promise any further accommodation, but did not rule it out either. In the backdrop of apprehensions over global growth prospects and attitude to risk, global commodity markets reacted to external stimuli as experts pointed out. Prices traded in a wide range and markets were choppy.

While news from China boosted the sentiment for a short period of time, prices fell after prospects for an immediate quantitative easing (QE) in the US diminished. It is of course increasingly clear that the Chinese authorities are now concerned over slowing growth — evidenced by April data — and want to accelerate the pace of growth. More monetary loosening cannot be ruled out.

Week on week, gold was down (1.8 per cent), but other precious metals were up with silver rising by 2.9 per cent. Among base metals, copper and zinc were down each by 1.2 per cent, and crude was under pressure. With continued uncertainty dogging the Eurozone, the US dollar stayed firm, exerting pressure on commodity prices.

Going forward, several meetings of policymakers in June and their outcome will have a bearing on the market. It is a period to be cautious. Many believe, the second half of the year will be better than the first half in terms of macro data and demand conditions; but until sustained evidence is available global commodity markets will continue to be edgy. In cases such as crude, the fundamentals are constructive, but the sentiment is so weak that prices are unduly pressured.

Gold: On Friday in London, all precious metals were down. Gold PM Fix was $1,577 an ounce, down from the previous day’s $1,606/oz, while silver followed suit with Friday AM Fix at $28.17/oz versus previous day’s $29.28/oz. Gold prices— which had been lifted by expectation of further quantitative easing following weaker than expected US non-farm payroll data — rolled back in disappointment.

While a strong dollar continues to pressure gold prices down, the physical market remains weak. Inflows into India and domestic sales have slowed down, while Chinese market conditions are not healthy either. With domestic prices at near-record levels, scrap sales in India are picking up. Globally, the metal is actually struggling to reassert its safe haven status; but is increasingly behaving like a risky asset. ETF holding are a matter of consolation.

What is holding up gold prices is the continued expectation of QE3 which some say may be on the way. Maco data in the US will have to get worse from the current levels for QE3 to happen. So, there is just about a 50 per cent chance that the Fed will ease at the next FOMC meeting. Until then one must be ready to bear with choppy conditions in the market.

According to technical analysts, as expectations of another round of QE were dashed crushing the nascent rally in gold prices, they have reverted to a neutral view 1,530-1,630. Silver is ranging 27-30. The medium-term outlook is neutral.

Base metals: For a market buffeted by growth concerns — economic crisis in Europe and slowdown in China — the rate cut announced by China last week was a sentiment booster the market has been waiting for some time. The rate cut supports expectations of more robust Chinese demand for base metals in the next two quarters.

From a desperate situation, there is now a sense of caution optimism about the second half of the year generated by hope that there could be further loosening of monetary policy. While China’s macro and trade data have to be watched carefully in the coming months, experts assert that zinc, lead, nickel and aluminium prices have the least downside from the current levels.

Copper prices will continue to be impacted by net imports into China. On Friday, LME cash copper was $7,283 a tonne and zinc $1,863/t. For the base metals complex to gain, the world needs to see sustained flow of positive macro data, especially focusing on China.

Technical analysts point out that the short-term copper trend is bearish and the next target is 7,090. For lead, nickel and aluminium, closed below trigger points at 1877, 1586 and 1955 respectively would suggest more aggressive bearishness. The medium-term outlook is bearish.

Crude: The sentiment is fragile even as macroeconomic concerns have driven tight fundamentals in the backseat. Questions are being raised whether crude prices have overshot to the downside; but for importing countries recent price declines have provided a breather.

Charts see the corrective crude rally faltering. If Brent does not recover above 105 and WTI 90, they recommend sell on rallies as demand weakness is likely to persist. The medium-term outlook is bearish.
Royalty rates for major minerals
The government is likely to come up with new royalty rates for major minerals by month-end, which will boost its revenue significantly.