NMDC INCORPORATES SPV COMPANY

New Delhi: The country’s top iron ore miner National Mineral Development Corporation (NMDC) said it has incorporated a special purpose vehicle company for setting up a power plant in Chhattisgarh for captive supply to its under-construction steel plant in the state.
Mining ban dents railway income

DISHA KANWAR & SUDHEER PAL SINGH
New Delhi, 12 January

The ongoing mining crisis in Karnataka has now started eating into the freight earnings of Indian Railways, the national transporter that is already struggling to survive amid a fast eroding surplus. With this, the adverse ripple effects of the iron ore mining ban have extended beyond the steel sector’s output and the government’s multi-billion dollar foreign exchange earnings from iron ore exports.

Iron ore loading accounts for 15 per cent of railways’ freight earnings. Freight, in turn, contributes 70 per cent of the overall revenues.

Between April and November this year, the railways’ earnings from iron ore segment dipped 7.1 per cent to ₹5,238 crore, according to fresh data released by the rail ministry. Last year, iron ore earnings had increased 2.6 per cent to ₹5,640 crore from ₹5,494 crore in the same period of the previous fiscal.

The current year’s dip in earnings from iron ore loading began in August, the month Supreme Court imposed a ban on mining and exports of the commodity from Karnataka, the principal iron ore producing state in India. The dip only got worse in subsequent months as November recorded ₹459 crore, lowest in the past three years.

Despite the hit to iron ore loading this year, the railways’ overall freight earnings have increased 9.2 per cent to ₹43,106 crore in the eight months period ended November, at the back of increased earnings from transport of coal that alone accounts for more than a half of the overall freight revenues.

The railways also had a mid-year increase in the busy season charge and development surcharge without any tinkering in the base freight rates, that allowed the national transporter to garner additional around ₹1,000 crore.

Normal tariff rate is composed of base freight rate along with demand management charges like busy season charge, congestion charge and supplementary charges.

The development surcharge is levied on the net tariff rate.

The rates at which busy season charge and Development Surcharge are levied have been enhanced with effect from October 15, 2011.

The rate circular of ministry of railways said, “Busy Season charge in case of Coal and Coke stands revised from 5 per cent to 10 per cent and in case of all other commodities, from seven per cent to 10 per cent. The rate, at which Development Surcharge is levied, has been revised from two per cent to five per cent.”

With no signs of abatement of the mining crisis soon, experts believe iron ore loading could come under further pressure taking a toll on railways’ revenues.

Overall exports of the mineral were already projected to come down to 65 million tonne (mt) this fiscal owing to the mining ban as compared to 97 mt last year. With the government’s latest decision to impose a 30 per cent export duty — a six-fold jump over the last year’s level — miners have now slashed exports forecast further down to 50 mt.
Hive off CIL subsidiaries, bring competition in coal mining: PMO

PRIYADARSHI SIDDHANTA
NEW DELHI, JANUARY 12

In a move that could end state-run behemoth’s Coal India Limited’s (CIL) monopoly as a state-run miner, the Prime Minister’s Office (PMO) has proposed hive-off the subsidiaries of Coal India (CIL) into independent entities in order to tide over the 142 million tonne (MT) demand-supply gap in coal production.

While the objective behind the proposal is to promote competition in production of the fuel, but the underlying concern of the PMO is that CIL has been unable to meet the growing domestic demand. This proposal comes on the heels of a similar proposal by the Working Group on the steel sector for 12th Plan period that favoured de-merger of Bharat Coking Coal (BCCL) from CIL to augment output of coking coal, a key input for the steel industry.

At a meeting convened on Tuesday, PMO top brass led by Principal Secretary Pulok Chatterji expressed concern on the state of coal production. Even as the assessed demand for coal in 2011-12 is 696 MT, the targeted domestic production is 554 MT leaving a gap of 142 MT that has to be met through imports.

“The subsidiaries of CIL can be made independent companies. The Shankar Committee report on coal sector reforms in 2007 recommended that CIL’s subsidiaries should be given independence. This recommendation could be re-opened for examination with a view to implementing them and encouraging competition in coal production at least within the public sector,” they said.

The PMO also suggested that production could be increased by inducting more state-run firms into the business of coal mining. The PMO officials said that a significant number among the 42 coal blocks are yet to get green clearances. Until these clearances were in place, the production capacity could be utilised till the blocks achieved their peak capacity, the officials said.

“Arrangements could be worked out with these PSUs making it mandatory for them to supply coal to CIL at pre-determined prices for a specified period and penalising them if they fail to do so,” they are understood to have observed. Coal ministry officials maintained that the recent tug-of-war between coal and environment ministries over ‘no-go’ areas has pushed behind the CIL’s production pace by years.

“Ticklish land acquisition issues, relief and rehabilitation constraints and difficult system of securing green clearances has wreaked havoc on CIL’s production abilities. It will be unfair to attribute all the problems to the company,” a senior coal ministry official contended.
Govt Mulls Life Ban on Illegal Miners

MEERA MOHANTY
NEW DELHI

The government plans to blacklist errant miners, signalling hardening of stance against rampant illegal mining. The mines ministry has initiated steps to frame new rules and regulations that will empower the Centre to bar those found mining illegally from securing any government contract, a senior official told ET.

The proposal for a life ban on defaulting miners was moved by the Shah Commission, investigating illegal mining across Karnataka, Goa and Odisha. "We have accepted the commission's recommendation and taken immediate steps in that direction," G Srinivas, joint secretary in the mines ministry told ET.

This will be the harshest measure against defaulting mining firms who were until recently required to just pay a fine to continue mining. Companies belonging to some of India's largest business groups have been involved in mining operations in these states.

The government has already accepted Shah Commission's other recommendation of restricting ore exports. A 30% duty has been imposed on iron exports with effect from January 1 to make illegal mining less attractive and to improve availability of the ore for local steelmakers.

According to a note prepared by the ministry, the government has begun the process of amending Rule 27 of the Mineral Concession Rules, 1960. The section lists conditions under which the government could refuse to grant or renew a mining lease.

"The amended Rule 27 would be notified after following due process of vetting of the draft amendment by the ministry of law and justice," the ministry note said.

The Mines and Minerals (Development and Regulation) Bill, 2011, also proposes strict action, such as imprisonment and fines up to ₹15 lakh, against illegal miners.

In July 2011, the Karnataka Lokayukta had named subsidiaries of Adani Enterprises, JSW Steel, Steel Gosa and state-owned National Mineral Development Corporation for flouting mining norms. Later the Supreme Court, acting on an interim report of the Central Empowered Committee, suspended all mining leases in Karnataka and imposed a temporary ban on extraction of ore.

The CEC, which has just concluded the hearing of all mine lessees, will present its final report to the Supreme Court next week. Its investigations have absolved only 26 of the state's 124 mines.

Analysts say the ban on mining has impacted steel companies who source iron ore from Karnataka.

"Although, the companies have been able to buy minerals from the e-auction in Karnataka, fast depleting stocks will put the pressure on NMDC," said Ashish Upadhyay of Fitch Ratings, which on Thursday released an outlook for Indian steel companies.
Growth is Alive

Quality of data notwithstanding, industry seems to have resumed growth

Quick estimates of the index of industrial production for November at 5.9%, over the like period last fiscal, point to revival of growth, after posting negative figures for the previous month. Much of the increase appears to be due to a surge in consumer goods output (almost 30% weight in the index). The yo-yoing numbers also suggest bunching of orders for long-gestation capital goods items in the past one year, and a slowdown since. The Central Statistics Office figures, in fact, corroborate leading indicators like the Purchasing Managers’ Index, which, in December, did point at a handsome uptick in production. Given the recurring volatility in the industrial index, the Centre surely needs to have its own set of leading and lagging indicators, to keep closer tab on output and firm up proactive policy initiatives. Disaggregated figures show that manufactures, which have over 75% weight in the industry index, have notched up a credible 6.6% growth. Mining continues to be in the doldrums, and has had negative growth yet again, but pragmatic policy is clearly required without further delay, as a firm response to grave allegations of illegality in Bellary and elsewhere, rather than clampdowns and outright bans. As for electricity (over 10% weight), generation has zoomed 14.6%, but the rise is on a low base of 4.6% seen in the same period last year. Still, an average of near-double-digit growth implies sustained capacity addition of late, and which would be quite unsustainable without plugging runaway revenue leakage in distribution and improving finances of the state power utilities.

Capital goods grew at negative 4.6% in November. But that came on top of a high 25.7% increase in the like period last year. It is possible that a bunching of orders for power turbines, boilers, etc, adds to the volatility. Electrical machinery has, indeed, contracted by as much as 38.7%. Smoothening investment clearances would help. Meanwhile, consumer goods, with over 21% weight in the industrial index, have gone up smartly, especially non-durables. As an indicator of output, the index does not quite measure value-added, unlike the gross domestic product measure. But it points to continued growth.
Plan Panel Dissent May Kill PSU Share Buyback Plan

DEEPSHINKA SIWARKAR
NEW DELHI

The finance ministry’s plan to use share buybacks by state-run companies to boost disinvestment proceeds is likely to fizzle out with the Planning Commission raising strong objections to the idea.

The Commission feels investment plans of the state-run companies will serve as a big stimulus in the next year, the effectiveness of which should not be undermined for dressing up the fiscal deficit.

"PSUs have investment plans and it does not make sense for them to buyback equity," said an official with the Commission.

The proposal came up for the consideration of the union cabinet last week but had to dropped following strong opposition from the administrative ministries, including power and petroleum.

Union Home Minister P Chidambaram, however said on Thursday that the proposal was withdrawn at the behest of the concerned ministry as it was still looking at various options.

The department of public enterprises, the nodal department for 246 PSUs, had said the decision to buyback should be left to the companies’ boards.

Another government official said the proposal could be tweaked to make it palatable to all stakeholders.

Finance Minister Pranab Mukherjee said on Wednesday that the fiscal deficit target of 4.6% will be difficult to meet but the government will strive to keep the breach as low as possible.

The ministry has managed to rein in expenditure, but its revenue projections are under threat with a possible shortfall in direct tax collections and massive drop in non-tax collections.

The North Block has already announced extra borrowing of ₹15,000 crore, part of it to meet the shortfall in small savings, but may have to tap the market for more if disinvestment proceeds fall short of budgeted ₹14,000 crore.

"The market knows the hollowness of using these (buyback) means to bridge the deficit, then why do it," said the commission official.

The finance ministry has already asked cash-rich PSUs such as Oil and Natural Gas Corp to consider special dividend over and above the 30% interim dividend they have to pay.

As per norms, all profit-making state-owned firms are required to declare a minimum 20% dividend on equity or a minimum dividend payout of 20% of post-tax profits, whichever is higher. The ministry had in October written to nodal ministries of these PSEs to declare dividends.

The planning commission could also be concerned over the implications of the central plan. The spending of state-run companies makes up nearly 50% of the central plan, the balance comes from budget. Using their funds for meeting fiscal needs could affect the plan size.

The idea of buyback also runs contrary to the rising consensus among the policymakers that in absence of fiscal room with the government, spending by the state-run companies will provide stimulus to the economy.

The central public sector undertakings are sitting on a cash pile of over ₹1.6 lakh crore.

The Prime Minister’s Economic Advisory council has also suggested to the government that investments by public sector units would provide the much-needed stimulus to the economy especially since the government itself did not have fiscal space to do so.

“I personally think that the output and investment targets set for the various public sectors must be fulfilled. That it itself will act as driver of economic growth,” C Rangarajan, chairman Prime Minister’s Economic Advisory Council had told ET in an interview.

The prime minister’s office has already said it will monitor the progress on investments by the state-run companies every quarter to ensure that they meet their commitments.
Copper at month’s high on Spanish debt sale

Bloomberg
Jan. 12
Copper rose for a third day in New York after Spain sold twice as much debt as planned and Italy’s borrowing costs fell, easing concern that Euro-region governments might struggle to fund their debts.

Spain sold 10 billion euros ($13 billion) of bonds, and Italy paid less than half the prior interest rate in a sale of one-year Treasury bills. Speculation that the euro-area sovereign-debt crisis might worsen contributed to coppers 23 per cent drop in New York trading last year. Prices also gained today as Chinese inflation slowed to a 15-month low.

Copper for March delivery advanced 1.9 per cent to $3.6135 a pound by 7:57 a.m. on the COMEX in New York. A close at that price would be the highest since Dec. 5. Copper for delivery in three months rose 2.2 per cent to $7,950 a tonne on the London Metal Exchange.

Aluminium for three-month delivery on the LME rose 1.2 per cent to $2,191 a tonne.

Lead, nickel, zinc and tin gained in London. Lead climbed 0.9 per cent to $2,008 a tonne and nickel advanced 0.2 per cent to $19,480 a tonne. Zinc increased 0.3 per cent to $1,942.50 a tonne and tin gained 0.6 per cent to $20,601 a tonne.
Factory output surges to five-month high in November at 5.9%  
Rebound raises hopes for easing of tight monetary policy

Our Bureau  
New Delhi, Jan. 12

Reversing the negative growth seen in the previous month, India's factory output bounced back in November 2011 to register growth of 5.9 per cent, a five-month high. The index of industrial production (IIP) recorded 6.4 per cent growth in November 2010 on a year-on-year basis.

This smart rebound in November 2011 has raised expectations that the Reserve Bank of India may begin reversing its tight money policy stance.

Much would depend on the wholesale price index (WPI) based inflation for December, slated to be announced on Monday next, say analysts and economists.

Indications are that the RBI will continue with its pause stance at its January 24 review.

The rebound in IIP for November 2011 has been largely led by a sharp growth in consumer goods output, which recorded 13.1 per cent growth as against 0.7 per cent in November 2010.

The manufacturing sector, which accounts for 75 per cent of the IIP, recorded 6.6 per cent growth in November 2011 against 6.5 per cent in the same month in the previous year.

In October 2011, the manufacturing sector had recorded negative growth of 6 per cent.

Meanwhile, capital goods (a proxy for investment activity in the economy) output fell 4.6 per cent in November on a year-on-year basis. Production of capital goods fell 25.5 per cent in October 2011.

With capital goods continuing to be an area of concern, the Finance Minister, Mr Pranab Mukherjee, today indicated that policy adjustments would be made to prop up the sector.

He stressed the need for a better performance in the capital goods sector for the overall growth momentum to recover in the remaining months of this fiscal.

Basic goods production recorded 6.3 per cent growth in November 2011 against a growth of 5.7 per cent in the same month last year.

The production of intermediate goods increased marginally by 0.2 per cent (4.3 per cent).

Electricity generation recorded 14.6 per cent growth in November 2011 as compared to 4.6 per cent in the same month last year.

For the nine-month period April-December 2011, factory output grew 3.8 per cent, lower than the 8.4 per cent growth seen in the same period in the previous year.

In the consumer goods space, consumer durables registered growth of 11.2 per cent (7.2 per cent). Consumer non-durables registered 14.6 per cent growth in November 2011 as against a decline of 4.4 per cent in the same month in the previous year.

The October 2011 IIP data has now been revised to a contraction of 4.74 per cent against a negative growth of 5.1 per cent estimated earlier.

krsrivats@thehindu.co.in
India, China trade spurs $115-bn Australian infrastructure boom

Nation’s projects will near-double global coal trade, add 57% to market for seaweaborn iron ore

A USTRALIA is set for an A$112-billion ($115-billion) infrastructure boom as the nation adds ports and railways to feed China and India’s appetite for coal and iron ore.

The largest exporter of the key steelmaking materials will build enough railroads to stretch from Washington DC to Los Angeles over the next decade, as well as a new port on the Great Barrier Reef coast that will dwarf the world’s biggest bulk harbour. The projects will near-double global coal trade, and add 57% to the market for seaweaborn iron ore.

“There is so much opportunity here,” said Philippe Bouquet, Australia construction head at French builder Bouygues. “People in Paris are very impressed. They say ‘25 million people? How can they do so much?’”

Leighton Holdings, Australia’s biggest builder, Bechtel Group and train maker General Electric are among companies winning deals as Australia adds transport links to support A$333-billion of mineral and energy projects. The demand, coupled with economic slowdowns in the US and Europe, has helped make Australia the developed world’s fastest-growing construction market.

“This isn’t a short-term phenomenon,” said Hamish Tyrwhitt, chief executive officer of Sydney-based Leighton. “This is about the urbanisation of India and China, and the economic prosperity of the region.”

Australian plans include building port terminals with capacity of almost 1.5 billion tonnes a year by 2022, and laying as much as 3,700 kilometres of rail track.

One of the main sites is Abbot Point, a small coal port sandwiched between a salt marsh and the lagoon of the Great Barrier Reef. Queensland’s state government wants to boost capacity 3 to 385 million tonnes under a construction plan due to begin in 2014. That would surpass by almost 40% the 2011 volumes at China’s Qinhuangdao port, the world’s biggest dry-bulk harbour.

In the Pilbara iron ore-producing region on Australia’s northwest coast, BHP Billiton and Rio Tinto Group are leading plans to raise ore exports by 338 million tonnes over the next five years. That will more than double output from an area that already accounts for about 40% of the iron ore shipped by sea each year.

Port Hedland, the Pilbara’s biggest harbour, plans to add 390 million tonnes of annual capacity by 2016 to support the expansion push. It exported 199 million tonnes of cargo in year ended June.

GE, which supplies 70% of the locomotives for mines in the Pilbara and Queensland’s Bowen Basin coal district, plans to double its business in Australia by 2014, spokeswoman Joanne Woo said.

Bouygues, Europe’s second-largest listed builder, aims to win two to three new construction deals in Australia each year, Bouquet said. The company has only done three projects in the country since 1996, he said.

Bechtel is building a $2.8-billion expanded coal port for BHP on the Barrier Reef coast and extending four BHP mines in the Bowen Basin. In Western Australia, Irving, Texas-based Fluor is leading the $3.9-billion expansion of BHP’s iron ore terminal at Port Hedland.

Still, overseas companies can meet difficulties establishing reliable workforces and setting up supply chains, which may cause them to focus on partnerships with local contractors, according to Steve Gatt, KPMG’s Sydney-based lead construction partner.
Output on, OMDC seeks buyers for its ore

Promit Mukherjee • MUMBAI

Sleepy iron ore mines in the wilderness of Barbil in Orissa are slowly roaring back to life with the first despatch only months away. And Orissa Minerals Development Company (OMDC), the beleaguered company that owns these mines, is making sure it gets its act right this time. The Kolkata-based company, which was out of action for over three years when its mining leases in Orissa expired and approvals lapsed, announced on December 29 that it has started operations from Kolha Routa iron ore and Dalki manganese mines and shortly thereafter sought expression of interest (EoI) from players looking to purchase iron ore from the company.

Leases for other mines are at different stages of approval. The company has put in some strict caveats in the EoI, making sure only serious long-term buyers purchase the ore and the trading community is kept at bay. Under the terms, it would give priority to the prospective buyers if they are from the public sector, followed by plants located in Orissa and then those located outside the state. Preference would be given to companies which do not have access to iron ore mining lease and have no backward integration.

"Going by these conditions, the biggest beneficiary of this would be Rashtriya Ispat Nigam Ltd (RINL), a navratna PSU with no backward integration," said an analyst tracking the company for the last two years.

OMDC, incidentally, is a subsidiary of RINL and is also under the Ministry of Steel.
OMDC...

The analyst said the riders also quash concerns that OMDC being a subsidiary of RINL will eventually be reduced to a status of offering captive iron ore to RINL. OMDC said in the EoI that it will fix an annual base price for the ore for the whole financial year, subject to quarterly review on the basis of price declared by Orissa Mining Corporation.

"This ensures that the price of its ore will be at par with NMDC, the only variable factor being the ore content," said the analyst.

OMDC currently has 206 million tonne of iron ore reserves and 44 million tonne of manganese ore reserves. The company has mining lease area aggregating 4365.262 hectares covering six mining leases in Barbil in the Keonjhar district.

In its heydays, OMDC was producing 3 million tonne per annum of iron ore with all its six mines fully operational.

Though largely quoted in media, the company, with a current share price of around ₹36,000 apiece, is technically not the costliest company in the Bombay Stock Exchange as its share capital is a mere ₹50 lakh against a face value of ₹10, while its counterpart NMDC Ltd has a share capital of ₹400 crore against a face value of ₹1 per share.

At ₹50, OMDC’s enterprise value per tonne too is much less than NMDC’s ₹200.

Due to dampened market sentiments, especially towards the mining sector, shares of both these companies have corrected over 50% in the last 10 months.