SAIL-led group to invest ₹1,500 cr in first phase of Hajigak exploration

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THE SAILED consortium is planning to invest Rs 1,500 crore on its own in funding the first phase of exploration activities in the Hajigak iron ore mines in Afghanistan. The consortium, Afghan Iron and Steel Company (AFISCO), is likely to commence exploration from July this year.

It had, in last November, bagged the bid for mining three iron ore blocks located in the Bamiyan province, 130 km west of Kabul, which together hold an estimated 1.28 billion tonnes of high grade iron ore reserves. SAIL has 20 per cent stake in AFISCO, while NMDC and RINL each hold a stake of 18 per cent. JSW Steel and JSPL hold 16 per cent each, while JSW Ispat and Monnet Ispat & Energy hold 8 per cent and 4 per cent respectively.

“We have already held several rounds of discussions with the Afghan mines ministry and intend to conclude talks by March. We plan to invest Rs 1,500 crore on our own to begin the initial exploration activities in the first phase by July. We have indicated our need for financial support to the government as it is crucial for the project. But one thing must be clear that if we have to proceed ahead with the proposed steel plant, we will definitely need financial support,” the consortium chief and SAIL Chairman C S Verma told The Indian Express.

In a recent letter Verma has asked the steel ministry to apprise the Prime Minister’s Office of the need for monetary assistance. The syndicate will have to spend nearly Rs 50,000 crore for exploring the mine and developing the evacuation infrastructure. The ministry is understood to have conveyed the consortium’s fiscal constraints to the finance and external affairs ministries, but as of now there is no assurance from any quarters in this connection.

Earlier during the course of a high-level meeting, external affairs ministry officials had indicated that the government can consider dipping into 15 per cent of the Rs 5,850 crore corpus set aside for executing developmental projects in Afghanistan. The consortium’s concerns have compounded as Afghanistan is said to be in the negative list of the multilateral funding agencies. The Centre is also exploring the possibility of extending a credit line for the project, sources said.
Power Grid Corp in talks with Nalco, RINL for joint ventures

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Mumbai

Power transmission utility Power Grid Corp. of India Ltd (PGCIL) is in talks with other state-controlled companies, including National Aluminium Co. Ltd (Nalco) and Rashtriya Ispat Nigam Ltd (RINL), to form joint ventures (JVs) to make conductors and towers.

PGCIL is also exploring the possibility of setting up JVs for important equipment such as transformers, reactors and insulators, R.N. Nayak, chairman and managing director, said in an interview on Friday on the sidelines of a press conference to report the company’s third-quarter earnings.

“Many equipment manufacturers are entering the transmission line construction business, and on the basis of their inherent strength in manufacturing, they are bidding aggressively to bag projects in a bid to remain competitive,” Nayak said. “In such a scenario, we also need to create our own manufacturing base.”

He declined to give details, saying “things are still at a preliminary stage”.

PGCIL lost its monopoly in January last year for inter-state power transmission projects after the power ministry changed the rules for such projects and made it mandatory to award them only on tariff-based bidding to attract private investment.

The power ministry plans to award six so-called ultra-mega transmission projects. So far, three such projects have been awarded, out of which two were won by Anil Ambani-controlled Reliance Infrastructure Ltd and Sterlite Technologies Ltd.

These projects are auctioned on the so-called built, operate and transfer basis, and the bidder quoting the lowest tariff for transmitting the power gets the rights to develop a particular transmission corridor.

PGCIL’s plans to enter the equipment manufacturing business through JVs with equipment manufacturers will help it become more competitive against private sector companies that are bidding aggressively for transmission projects in the country, analysts say.

Kameswara Rao, executive director and leader of utility, mining and infrastructure practice at consulting firm PricewaterhouseCoopers Pvt. Ltd, said, “PGCIL is a bit slow in exploring possibilities of JVs as the government made tariff-based bidding mandatory last year, but considering it is a public sector company and the constraints under which such companies operate, it is understandable. But such JVs will definitely help PGCIL offer competitive tariffs and win projects as PGCIL has its own strengths like a vast pool of technically qualified human resources.”

Ramesh Chandak, chief executive and managing director of KEC International Ltd, an equipment manufacturer and turnkey contractor for the transmission and distribution sector, said, “PGCIL’s step is in the right direction, but it should go for JVs only where the products are proprietary in nature and can’t be easily outsourced.”
NMDC may seek extension of pact

New Delhi: NMDC Ltd is likely to seek an extension of its exclusivity agreement with Australia’s Minemakers Ltd to acquire a 50% stake in the latter’s Wonarah phosphate deposits by another two-three months.

“The due diligence is not yet complete, so NMDC is looking to seek an extension of the exclusivity period by another two-three months. A formal proposal (for extension of the dates) is likely to be sent this week,” a source close to the development said.

The exclusivity agreement is slated to end mid-February, Minemakers had said on 31 January, while noting that “negotiations with NMDC on forming a joint venture to develop Wonarah deposits have proceeded more slowly than had been anticipated.” PTI
एनएमडीएसी बढ़ाएगी करार अवधि

नई दिल्ली — एनएमडीएसी ऑस्ट्रेलिया की माहनेकर्स के साथ अपने विश्वस्त समस्तीयों में दो से तीन महीनों के और विस्तार की मांग कर सकती है। कंपनी ने माहनेकर्स के बॉम्बाय फार्मेट फिल्म्स में 50 पोस्टर हिस्सेदारी खरीदने के लिए यह करना कर रखा है। इस घटनाक्रम से बढ़े एक सूत्र ने कहा कि अभी तक विवाद नहीं हुआ है, इसलिए एनएमडीएसी अपनी विश्वस्त अथवा बॉम्बे में दो से तीन महीनों के और विस्तार की मांग करने पर विचार कर रही है। तरीके के विस्तार के बारे में एक लोगों की दोहरी समीक्षा गई जाने की आवश्यकता है। माहनेकर्स ने 31 जनवरी को कहा था कि विश्वस्त समस्तीयों का फर्स्टर के मामला तक रहा जाएगा निर्णयात्मक है। (ब्लूरो/प्रेट)
Another 2G, in mining?

Power projects should not be exempted from coal auctions

As the Supreme Court judgment on February 2 cancelling the issue of 2G licences in 2008 reiterated, auctions are the preferred method of handing over natural resources to the private sector for exploitation. Properly designed and implemented, they are useful methods to discover the true price of the resource being allocated. In addition, they have the benefit of being transparent and accountable, at a time when close scrutiny, concerns about ex-post investigation and perceptions of corruption are slowing down discretionary allotments. In this context, the recent rules promulgated by the coal ministry for the allocation of coal mines display steps in the right direction. The Auction by Competitive Bidding of Coal Mines Rules, 2012, lays out a process by which mines will be handed out on the basis of competitive bidding, subject to all bids being above a mandated floor price. The notification for the Rules, however, makes the mistake of specifically exempting the power industry from competitive auction. The government should rethink this poorly conceived loophole.

While there is little doubt that India’s power sector is short of capacity and resources, causing it to be unable to meet the demands of a fast-growing economy, this is a questionable way to stimulate investment and growth in power generation. The argument used in defence of the government’s move runs as follows: power companies already bid on tariffs. They should not be expected also to bid on inputs — the coal blocks that they deem necessary to feed their plants. Thus, low bidders in the power sector will be allotted coal blocks, at the reserve price the Centre fixes as a floor for competitive bidding in other sectors. This argument rests on the government’s continuing unwillingness to allow end-users to pay a rational, input-based cost for their power. That is a principle that cannot endure for too long, as it leads to uneconomic excesses. In the long term, India must expect tariffs to respond to input prices. If the price of coal goes up worldwide, the cost of power made from that coal must go up. The government cannot continually insulate industry and end-users of power from an increase in coal prices.

Even in the medium term, basic economic principles will be violated by this exemption of power companies from competitive bidding. For one, it gives a clear incentive to those bidding on tariffs to quote unrealistically low figures. Successful bidders with political clout, once investment has been made and coal blocks claimed, can then attempt to have their winning bid changed — citing the fact that the tariffs they committed to are too low to be profitable. Second, it is a violation of the reasonable principle laid down in the telecom sector, in which licensing has been delinked from the allocation of spectrum. Here too, access to coal at non-market prices should be delinked from the winning of a power project. Instead of seizing this opportunity to extend transparency across all sectors dependent on natural resources, the government has opened itself up to continual questions about the amount of revenue lost in handing out coal blocks to this or that power company. Market-determined power tariffs are a small price to pay in comparison to the costs, political and economic, of another messy, long-drawn-out 2G-like saga in which allegations of favouritism, revenue loss and corruption are thrown around.
Delay in arbitration award

The Delhi High Court last week dismissed the appeal of Peak Chemical Corporation Inc of US against the award of the arbitrator in its dispute with public sector National Aluminium Co Ltd (Nalco). In the award, most of the claims of Nalco against the US corporation were allowed and the counter-claims were rejected. The dispute between the parties concerned the supplies of caustic soda lye by Peak to Nalco.

One of the arguments of Peak was that there was an extraordinary delay of five years by the arbitrator in rendering the final award after closing the proceedings. This was “in conflict with the public policy of India” as mentioned in the Arbitration and Conciliation Act. The high court rejected this contention and stated that “The dispute between the parties has been pending since 1996. It would not be in the interests of justice to set aside the award only on the ground of delay and remand it for fresh determination. The arbitrator (a former chief justice) has since died. A fresh arbitration would not be justified considering the time and money already spent in the arbitral proceedings thus far,” the high court said.
Study team calls for curbs on mining

Ensure lease holders in Karnataka do not flout rules, report tells government

NEW DELHI: To prevent further destruction of environment due to rampant illegal mining in Karnataka, a high-level study team has suggested that to ensure lease holders do not flout rules, the government should constitute an expert committee to monitor mining areas.

The expert committee from the Indian Council for Forestry Research and Education (ICFRE), an autonomous institution under the Union Ministry of Environment and Forests, in its reportReclamation and Rehabilitation of Mines submitted to the Supreme Court suggested that all the mining leases should be monitored regularly to ensure lease holders adheres to environment norms.

The report, which was also given to the Karnataka government, was prepared after studying Sankalapuram Mines in the Hospet taluk of Bellary district. Though the R&R study was conducted in only one mining area, the report was applicable to all the iron ore mines in Karnataka.

**Hearing**

The R&R report was prepared on the behest of the apex court which is hearing the cases pertaining to illegal mining in Karnataka. The panel, in its report, said monitoring of mining sites by authorities concerned will ensure that remediation measures, including earthworks, water treatment, drainage systems, proposed plantations, green belt and others, function as intended.

Besides, the report also recommended that site surveillance was necessary to demonstrate that the mining site remained safe and posed no environmental or health risks by frequent checking of surface water and groundwater to ensure that there will be no pollutant discharge into the surrounding environment.

It said monitoring will provide valuable reference data for authorities in subsequent decision-making and in refining environmental permitting procedures or land use planning.

**Team composition**

The monitoring body should comprising representatives from the government as well as local communities and other interested parties.

Apart from them, the body should also comprise scientific expertise as it would need to be conducted using transparent and scientifically rigorous procedures, the report said. To ensure that R&R report should be implemented properly, the panel suggested to upgrade the skills of both mine owners and managers to ensure they take up proper afforestation, construction of green belts, bio-diversity management plan and other key issues.

The panel said as most of the corporate social responsibility activities implemented by the mining companies had failed to reach the targeted section, such things should be the part of an integrated programme of effective planning and management through all phases of mine development and operations.

**Mining highlights**

- Indian Council for Forestry Research and Education (ICFRE) aided study.
- Advocates for inclusion of government and local bodies in the monitoring body.
- Scientific expertise also to be a part of the team.
- Recommends to upgrade the skills of owners and managers.
- Asks to encouraged Corporate Social Responsibility (CSR)
Financial Express, Delhi
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Mercator’s offshore biz keeps it afloat

With fall in shipping business, coal mines in Indonesia, Mozambique bring firm 60% revenue

Nikita Upadhyay & Raju Kalesh

Mumbai, Feb 12: A move to invest in non-core coal mines in Indonesia and Mozambique has helped Mercator, India’s second largest shipping company, to stay afloat and earn roughly 60% of its revenue now as its core shipping slips into the red.

“We had surplus cash at that time when shipping was doing well and instead of putting it back into shipping, we decided to diversify,” said Atul Agarwal, managing director, Mercator. “We, who were looked upon as fools in 2007, are now the wise guys and are hailed as visionaries.”

Mercator, started by co-brothers Agarwal, a chartered accountant, and engineer HK Mittal in 1988, purchased coal mines in Indonesia and Mozambique, a diversification that invited investors’ wrath and analysts’ concern.

“The coal trading business is a low-margin business compared with shipping. However, if they build up scale in their coal mining business, the company will do better on the Ebida level,” said Kapil Yadav, assistant vice-president, Deloitte Capital. “It’s also challenging because the company has to deal with a different government, but they are better placed than other pure-play shipping companies. They have to build up scale fast to keep the momentum of growth.”

While revenues from shipping business for the quarter ended September 30, 2011 declined by 17% to Rs235.63 crore and coal trading, mining and transportation business grew by 56% to Rs54.96 crore, its core business has slipped to red, hit by falling freight rates, souring freight prices and idle ships with slow-moving trade.

But coal helps Mercator stay afloat, giving a 5-7% margin on every tonne of coal shipped after paying 9% of the sales to the Indonesian government. “Cost of mining coal is lower than its logistics cost,” said Agarwal.

Many Indian companies that invested in non-core earlier are reaping benefits. Television and fridge maker Videocon Industries, which invested in oil blocks in Brazil and Mozambique in mid-2000 purchased for token amounts, will now give them three-fourths of the group revenues as the crude is pumped out.

“Unrelated diversification was due to sheer survival thrust and to bring down our reliance on consumer goods,” said Videocon chairman Venugopal Dhoot in an earlier interaction with FE. “The jackpot at Videocon’s oil field gave us the confidence to look overseas.”

Essar Shipping, Ports and Logistics, owned by the S库存, diversified to build ports and leased rigs to oil exploration companies. The ports and rigs leasing business is compensating for the slowdown in shipping. Essar Shipping is planning 50% capacity for handling the group’s cargo and the balance for third party cargo.

“Companies in the shipping business tend to look at vertical integration at a time when shipping is not doing well,” said Ganesh Radhalrishna, government and infrastructure advisor at PricewaterhouseCoopers India. “Adani is a good example of a vertically integrated company. Energy companies embrace vertical integration primarily to mitigate risks. Entry into such business must be in consonance with the group’s strategy and taken on merit as each of the businesses has totally different challenges.”

Even India’s largest shipping company Shipping Corporation of India or SCI has shown interest in the port business (Vishakhapatnam’s port, berth 5). It is considering setting up a mega shipyard and it is already exploring options for a joint venture with Coal India. The fuel is key to Mercator. “We expect coal to do well in the foreseeable future of 5-10 years,” said Agarwal.

India is a potential market for Mercator as coal supply will fall by 10% short of demand. India’s coal mines will not be able to meet the rising demand and companies have to purchase from overseas.

“The total coal availability in the country by end-2011 would be close to 600 million tonnes with a projected import requirement of over 66 million,” coal minister Prakash Javadekar said in November 2011. “Even if we commission only 10,000 MW power from new power plants, instead of 50,000 MW, the new power plants will increase coal demand,” said Agrawal who purchased Mercator from its founder for Rs2 crore then.

Mercator sells 65% of its coal to India and rest to China, Malaysia, Thailand, Philippines. “We wish to make it 50:50 in the coming future,” said Agarwal.

The company, which owns three coal mines in Indonesia with 75 million tonnes in reserves and one in Mozambique with 2 billion tonnes of reserves, is scouting for more with a war chest of $50 million.