High power costs may hit
Hindalco aluminium biz

Sees aluminium prices remaining firm in the near term

Savitha K & Aditi Divekar

High power costs are expected to hurt the country’s largest base metal producer Hindalco Industries Ltd’s aluminium business in the coming quarters, managing director Debu Bhattacharya said on Friday.

“Energy costs particularly of coal and crude oil are likely to go up across the globe in the next few quarters even as demand for aluminium continues to be strong,” Bhattacharya said.

Energy costs make up for almost 38% of the company’s total aluminium production costs, he said.

Hindalco expects aluminium prices to remain firm in the near term due to high input costs as small base metal producers may find it difficult to operate in high-cost environment thereby putting pressure on demand.

The Hirakud smelter outage, which took place in July, will hamper the company’s aluminium production in Oct-Dec, but is likely to return to full capacity in Jan-Mar, he said.

For Jul-Sep, the company’s aluminium production fell 11.6% to 123,325 tonne.

The company’s two greenfield projects, which are scheduled to commence operations by September, are likely to drive volume growth in 2011-12 (Apr-Mar).

Hindalco is setting up a 1.5-million-tonne alumina plant at Utkal in Orissa at a total cost of ₹7,300 crore. The plant will have a 90 MW captive power unit.

The company’s 360,000-tonne Mahan aluminium project with 900 MW captive power unit in Orissa will also begin operations by September. The ₹3,300-crore project is expected to achieve financial closure by March. The Aditya Birla group company expects to restart operations at its copper mine in Mount Gordon, Australia, in the current quarter ending December.

“The Mount Gordon mine, which is currently under care and maintenance, will be restarted on account of higher international prices,” he said. NewsWise
Time to bet on Indian steel?

If steel majors are betting on capacity expansion, it is because they expect sustained performance from the consumer sectors and a ramp-up in infrastructure spending.

Adarsh Gopalakrishnan

Indian steel producers such as SAIL, JSW and Tata Steel have posted spectacular returns of 231, 685 and 315 per cent from the lows of early 2009. On an enterprise value-per-tonne basis, they currently trade at a premium of 45-100 per cent to most global peers such as Arcelor Mittal. This reflects the strong prospects and higher profitability of the domestic steel sector, despite uncertainties faced on the competition and policy fronts.

Anticipating the growing demand for steel, leading producers have embarked on expansion projects that are expected to double the domestic steel production over the next five years. SAIL, Tata Steel, JSW, JSP and NMDC are betting on giant leaps in infrastructure spending and steel consumption in the form of housing, automobiles and consumer durables.

The possible rationale for this huge capacity jump are GDP growth projections of 9-10 per cent, thanks to doubling automobile sales, massive power capacity additions, upcoming real-estate projects and so on. However, the big question is: Can the companies put through these ambitious expansion plans while maintaining their much envied levels of integration and the resultant profitability?

Indian steel companies managed to hold on to profitability in the crisis of 2009, despite rising iron ore, coal and raw material prices, owing to their low operational cost and unique raw material set-up. These companies are now scaling up capacity to join global ranks. However the challenge for players such as SAIL and Tata Steel is not just to move up the value chain and scale, but to maintain their current levels of profitability while they are at it.
HOW TO STAY RUNNING

India's top three steel producers — SAIL, JSW and Tata Steel — recorded operating margins of 20-45 per cent over the last three years compared to Korean producer Posco (the most efficient producer globally) with margins of 10-20 per cent.

The higher margins are a result of Tata Steel, SAIL and Jindal Steel and Power holding mining licences for their entire iron ore and part of their coal requirement since the early days of their operations.

The fixed costs of mining are estimated to be Rs 700-2,500 per tonne, compared with the current global market prices of Rs 6,750 tonne of high-grade iron ore and Rs 9,000 tonne of coking coal. This has been an advantage over the last 4-5 years, as it has almost always been cheaper to incur the fixed costs of mining inputs rather than having to purchase them from international markets.

International prices of iron ore and coking coal have gone up six-fold and four-fold respectively over the decade, with increased consolidation among miners and the increasingly import-reliant Chinese steel sector. Large iron-ore reserves, coupled with low operating costs, integrated power generation capability and a tightly-supplied domestic market enabled Indian steel producers to enjoy a premium among global metal stocks.

The superior margins and growing domestic market have also been a major draw for such global players as ArcelorMittal, Posco and some Japanese players. This has heated up the competition for both iron ore mines and the land around those mines.

HEADLED FOR OVER-CAPACITY?

Sustained weakness in the developed markets is forcing several international steel majors to look towards India for expansion. India's low per capita consumption of steel, at 43 kg, makes several observers sit up at the growth possibilities. The last year has been dynamic in terms of intent expressed by some international players.

ArcelorMittal plans to set up multiple 3 mtpa plants across India. Japanese players, such as Nippon Steel, Sumitomo and Kobe, have announced tie-ups with Tata Steel, JSW, Bhushan Steel and NMDC, respectively, for specialised steel plants and technology transfer. Posco, whose own greenfield plant faces hurdles, is expected to announce a tie-up with SAIL. These foreign moves are in addition to the massive greenfield and brownfield moves by Tata Steel, JSW, SAIL and JSP, which are expected to take their cumulative capacity from the current 31 million tpa to 51 million tpa over the next two years.

Major additions by Tata Steel and JSW are focussing on the flat product segment, with their crude steel capacity additions accompanied by hot and cold mill additions. Players such as Bhushan Steel, that are steel processors, are looking to vertically integrate by moving into steel billet and slab production. SAIL is taking the middle path by trying to boost margins by moving out of the semis category and expanding the value-added flat product segments.

With this, the total Indian capacity is expected to hit 110-120 million tpa of capacity from the current 66 mtpa over the next five years. The steel industry's move is best summed up using a poker term — it's an 'all in' bet. For this bet to pay off, the steel sector needs to bet that steel consumption will grow at a CAGR of 14-15 per cent over the next five years. This is almost double the current rate.

It would not only require explosive and sustained performance from cyclical sectors such as the automobile and consumer durables industry and the bubble-prone real estate space but the government would also have to ramp up its direct spending and support for infrastructure.

A liberal compound growth rate of just under 11 per cent per annum indicates that domestic steel consumption in 2014 will reach 100 million tonnes, resulting in an overhang of 10-20 million tonnes. Imports remain a source of supply too, with exports being outpaced over the last four years. Global compe-
tition in the export space comes from countries such as China, Russia, Kazakhstan and Japan. Despite talk of 'consolidation', in the near-term, reports indicate that regional Chinese steel players continue to replace small mills with larger more efficient capacity. Similar additions are underway in Russia, where companies pursue a strong export-led expansion under operating conditions that are rather similar to India in terms of raw material integration. Japan is another steel-surplus economy.

Growing Indian steel exports are a certain possibility, considering our low-cost production know-how but it is likely to remain a challenging and capacity-heavy battleground.

The key counter to capacity additions powering ahead, are delays in the implementation of several greenfield plants which account for at least 30-35 million tonnes of capacity. First is the slowdown in the steel realisations, leading to nervous steel producers deferring investment plans. Reports point to the strong possibility that steel prices are likely to remain under pressure over the near term as the industry adapts to a 'new normal' of lower consumption in mature markets and China tightens its domestic industry to achieve economies of scale and meet power conservation targets.

Closer home, the new Mining Bill is reported to contain a clause which entails a 20 per cent payment to the local population for the consumption of local raw materials. This move will impact domestic integrated producers and narrow their margin advantage. The last, and possibly the biggest, hurdle is the one of securing mines and land for setting up steel plants, for which clearances appear challenging in light the Environment Ministry's recent firmness in dealing with such issues.

Perceived domestic risks of non-conductive mining and environment policies and archaic land acquisition laws may inadvertently turn out to be the prudent bartender refusing to serve steel producers on a capacity addition binge. However, the latter's actions indicate a certain air of inevitability and expectation that government spending and policy will come good for the capacity they are adding over the next decade.
POSITION IN THE CYCLE

Firm steel prices will ultimately decide whether domestic players expand or hold back. The start of 2010 saw domestic steel players effect regular hikes in response to buoyant demand and rising input costs.

After bumps in the form of the crises in Dubai and Greece and a cooling China, prices have recovered from the July lows. This was due to surging German exports, Chinese restocking and raw material price hikes. The second quarter of the current fiscal saw both domestic flat and long steel prices rule 8-10 per cent higher, at Rs 35,000 and Rs 28,000 per tonne respectively, than during the same quarter in the previous fiscal. The ‘new normal’ in steel could see the shuttering of several less efficient plants in the developed markets as an adjustment to depressed sales as a result lower levels of consumption.

Though steel has historically witnessed a 3-4 year cycle of improving realisations the cycle may turn more volatile with the advent of quarterly price contracts for inputs, the unpredictable influence of the Chinese steel industry and growth uncertainties in developed markets. Prices are likely to moderate and may move south over the next six months.
McNally Bharat enters Brazil

Our Bureau
Kolkata, Nov. 13

McNally Bharat Engineering Co Ltd (MBECL), which is spreading its wings in major mining and metals producing geographies across the world, is stepping into Latin America through Brazil.

It is also entering Russia by setting up an office. In China, it is incorporating a 100 per cent indirect subsidiary. Mr. Deepak Khaitan, Chairman of MBECL, told reporters here that the South African and Zambian subsidiaries would spearhead its African safari. It plans to be active also in Indonesia, Mongolia and Australia.

During the quarter to September 30, 2010, the company’s PAT grew 66 per cent to Rs 15.81 crore, against Rs 9.54 crore in the corresponding quarter last year. The order book as on October 10 was at Rs 4,006 crore. Its bids worth Rs 9,000 crore, including Rs 500 crore with I1 status, are at various stages of decision making processes.
Niyamgiri tribals to step up stir

Special Correspondent

BHUBANESWAR: Tribals living in and around the Niyamgiri hills in Orissa's Kalahandi district are up in arms once again.

The Niyamgiri Suraksha Samiti, an organisation of tribals that has been opposing Vedanta's alumina refinery, on Saturday said it would intensify the agitation.

The announcement came a day after a group of pro-Vedanta organisations approached the Orissa High Court challenging a recent order of the Union Ministry of Environment and Forests withdrawing the terms of reference for expansion of the capacity of the refinery from one million to six million tonnes per annum.

In a statement, samiti leader Lingaraj Azad alleged that Vedanta had stage-managed the petitions in the guise of public interest litigation.

While a group of tribals was filing petitions in the High Court in Cuttack on Friday, many tribal people were severely beaten up by security personnel who carried out a combing operation in the hamlets in the Niyamgiri hills. Two persons were taken into custody, Mr. Azad alleged.

"Vedanta was carrying out an illegal expansion of its refinery and has caused massive pollution in the area which has been highlighted in great detail by the N.C. Saxena report as well as many other independent reports. But the company has been trying to divert attention from its misdeeds by engineering acts like yesterday's [Friday's] PIL, and at the same time it has been suppressing genuine local voices by using goondas and the police. It is clear that such combing operations are carried out exactly at a time when it suits Vedanta the most."

The samiti, even as it intensified its peaceful protest, would also bring to light Vedanta's role in filing petitions in the court, Mr. Azad said.
Throwing light on heavy metals

It may be time to go light on safe-haven assets such as gold and bonds, and shift to primary commodities, which would yield better returns.

Priti Gupta

In the past year, there has been a spectacular recovery in most asset classes, be it equities, commodities or currencies. A large thrust to the rally came from the abundance of cash (liquidity, driven by the stimulus) and weakening currencies, especially the dollar.

However, in the case of precious metals, the rally was supported by investment flows as investors sought safety rather than returns. But how has the global recession that has lasted much longer than anticipated, impacted hard commodities, especially industrial commodities? Prices of commodities such as copper have fallen nearly 70 per cent, whereas aluminium lost nearly 62 per cent.

With more than a year since the recession, most of these metals continue to trade considerably lower than their pre-recession peaks (except copper, which is only 5 per cent lower than its peak). This offers great opportunities for investment, if we are headed into a broader economic growth scenario in the next couple of years.

IMPROVING TRADE

The reason why the industrial commodities have taken a heavy beating would be sufficient to consider them for future investment. As the world slipped into recession, global trade collapsed following shrinking demand, adding to the financial crisis.

But now with the recovery progressing, global imports have steadily increased, with emerging markets' growth driving the demand for such commodities.

The emerging markets, especially China and India, are fuelling the world's growth克服 of the recession as they build their infrastructure. Incidentally, both the world's most populated countries are creating more wealth for their huge populations who will be demanding better food, better homes and better infrastructure. This would generate immense demand growth in these commodities.

GROWING DEMAND

The massive resource-consuming BRIC (Brazil-Russia-India-China) nations would be the chief engines of global growth ahead. China and India have been the fastest-growing economies in the world, comprising the largest populations and, thus, requiring vast quantities of primary materials. These could be food (agricultural products), shelter (homes) and amenities (infrastructure).

For that matter, these economies have already shown appetites for massive quantities of primary commodities. China's credit growth has begun to pick up; re-stocking of commodities such as aluminium and copper is already on, adding momentum to spot premiums in these metals.

India, the second-fastest-growing nation, has yet to build decent infrastructure; rapidly rising incomes and faster migration of massive crowds to urban areas would demand gigantic investments in infrastructure. India would certainly be next in metals consumption. Planning Commission estimates put investment in infrastructure development in India at $500-600 billion for the next five years. With India's projected 9 per cent-plus GDP growth, and with double-digit growth expected for China, we are headed for more intense competition for industrial metals.

FRESH PAPER

The ongoing developed world's currency war with China would add fuel to commodity prices. As paper currencies get weaker, hard commodities would demand more paper since resources are limited.

Given the present scenarios of China printing money so as to keep the yuan undervalued, the Fed ready to increase liquidity to avoid another deflation, and Japan deprecating the yen to come out of its long-term deflation — one can expect generation of humongous quantities of paper, which will eventually flow into the markets as investments or reach emerging market economies in exchange for goods and services. It could even chase higher returns, which would eventually increase the disposable incomes in the hands of these nations.

CHASING RETURNS

With prolonged near-zero interest rates in two of the world's top-three economies (the US and Japan), capital in these countries is chasing returns. The newly-launched Exchange-Traded Products (ETP) provided a convenient way of investing without the hassles of the regular commodity markets.

Gold and silver ETPs have proved that there is immense demand for such products as investors were looking to diversify across asset classes. After the tumultuous success of the ETPs in gold and silver, similar products are being contemplated in industrial metals. There are even rumours that an ETP might be launched soon for aluminium with 1 million tonnes as the trading base. This has already caused a significant rally in aluminium prices.

Similar products in other metals such as copper are also being contemplated. This would provide a huge thrust to prices of these commodities. As these products would be tapping into funds already invested in gold, such funds could move out of gold as the global economy stabilises and starts to grow.

The ETPs of industrial metals would attract a substantial amount of the estimated $200 billion worth of this market.

It is estimated that, in the initial phase of the launch, exchange-traded products backed by copper could hold 300,000 to 400,000 tonnes of metal, which is roughly 2.2 per cent of global refined copper demand.

It is just a matter of time before the world settles on growth. And when that happens, industrial metals would be the preference of most investors.

So it may be about time before one's strategy and go light on safe-haven assets such as gold and bonds, and shift to primary commodities, if not specifically industrial metals, which would yield better returns in the coming quarters.

(The author is Executive Director, Commodities, Anand Rathi Financial Services)
McNally Bharat marks footprint in South America

Special Correspondent

KOLKATA: McNally Bharat, a company in the Williamson Magor group, is looking to have an increasing presence in mineral-rich overseas destinations. These might either be through subsidiaries in these countries or at least a representative office, Chairman Dipak Khaitan said.

“We have already incorporated a subsidiary in Brazil and South Africa,” he said adding that the company had rep offices in Australia and Russia.

Operations

The engineering and turnkey project execution company’s area of operation includes bulk material handling, ash handling, road construction and maintenance and open-cast mining machinery fabrication. “We want to be present in mineral-rich countries,” he said.

Over the last few months, McNally Bharat, the focus company within the group (which also has its fold Eveready Industries and tea business), has acquired the Gujarat-based Sayaji Engineering Company as also the engineering workshop and the coal and mineral technology (CMT) of a German company.

Has representative offices in Australia and Russia

On Saturday, the board of the company also finalised the second quarter results which showed a top line growth of 22 per cent an operating margin which was only marginally higher than the same quarter of 2009-10. “It could have been better,” Mr. Khaitan said at a press conference.

He said the company might stick to the organic growth path now, since efforts to make buys were getting frustrated. “With economies improving there were no more distress sales,” he observed.

Attrition level

The company had said earlier this year that it was moving in on a West European buy in the oil, gas and water segments.

He said that with the economy looking up within the country, attrition levels were also up and the company has lost 55 people in the first-half of the year.

P. Bose, Chief Financial Officer, said that the company had recruited 140 people during this period to make up for the loss.
Gold, silver decline further on global cues

Press Trust of India

Mumbai, Nov. 13

Precious metals, gold and silver, declined further on the bullion market on Saturday due to sustained offerings by stockists and traders in tandem with weak trend in global markets.

Standard gold (99.5 per cent purity) dropped by Rs 120 and closed at Rs 20,120 for 10 gm. Pure gold (99.9 per cent purity) also fell by a similar margin and finished at Rs 20,215 for 10 gm.

Silver ready (999 fineness) slumped by Rs 675 a kg and ended at Rs 40,510.

Chennai: Bar silver (a kg): Rs 39,640; retail silver (2 gm): Rs 42.40; standard gold: Rs 20,110; retail ornament gold (22 carat): Rs 1,870.

Kolkata: Silver ready: Rs 39,800; Gold ready: Rs 20,415.
NTPC to invest Rs 3,194 cr in Jharkhand mine

Our Bureau

New Delhi, Nov. 13

State-run power major NTPC Ltd has cleared a Rs 3,194-crore investment for its Pakri Barwadih coal mining project in Jharkhand. NTPC’s board of directors took a decision to this effect at its meeting on Friday, the company said.
Ignorance is not bliss

The official Tiger anthem released by the environment and forest minister with a punch line: “If the tiger goes, he will not go alone. You may soon follow.” This is no rocket science, but the very “circle of life” taught to us in school books. Unfortunately, this very philosophy is absent from the consciousness of civil society, as well as machinery of successive elected governments. Not only is there total apathy, but also ignorance towards our natural history, conservation and its management.

A classic example of the government’s attitude is the case of Sariska. In 2006, two tigers were airlifted from Ranthambore National Park to Sariska Tiger Reserve. The Rajasthan forest officials arm-twisted their way to get the two tigers from Ranthambore by ignoring all recommendations of the NTCA (National Tiger Conservation Authority, formerly Project Tiger) and the Tiger Task Force. Without DNA testing they picked up Stallings, which have refused to mate till date.

A year later, the state officials disregarded the NTCA guidelines of only translocating transient tigers (tigers which do not have, at present, any fixed territory or are looking for one) while bringing in the third tiger from Ranthambore. Experts say removing a tiger from its territory creates an ecological imbalance as a vacuum is created in the range. But for the officials, trapping a territorial tiger is easier than a transient tiger. Add to that the relocation of villages from the core critical tiger habitat, as recommended by the Tiger Task Force, which still plagues officials.

The reintroduction of tigers in Sariska necessitates relocation of villages. Of the four strategically located villages—Kankawari, Kraksa, Unari and Bagani—only Bagani, the least populated of the lot and with least impact on wildlife, has been relocated. The ruckus here only came last month, when the Rajasthan government did a complete U-turn by first issuing new mining leases in the vicinity of Sariska and refusing to cancel them despite Jairam Ramesh requesting CM Ashok Gehlot. The Supreme Court ruling was also ignored. In fact, the idea of tiger relocation came into being just to ward off pressure from the mining lobby that was targeting the tiger reserve to be desnified.

For a long-term conservation strategy, the NTCA has repeatedly stressed on creating and maintaining active buffer zones surrounding core areas and re-establishing corridors for free flow of gene pool, avoiding in-breeding amongst species. Except for a handful of cases, none has bothered to understand the problem. For example, Rajasthan officials claimed that Ranthambore National Park does not have the capacity to hold more tigers and tigers are straying from the park for want of space. Needless to say, Ranthambore hardly has any buffer area.

A straying tiger loosely means one which goes where it is not supposed to. Now how do we know when a tiger is supposed to go? Do we expect tigers to know their demarcated ‘protected areas’? A tiger is either pushed by stronger rivals to find its territory or simply wanders away while hunting for food. Recently, a sub-adult tiger from Ranthambore was spotted 200 km away in Mathura and now has taken refuge inside the Bharatpur Bird Sanctuary.

There is enough policy and management guidelines, what we need is proper implementation and a able leaders, besides, of course, widespread awareness and civil society movement.

The writer is a conservationist, author and artist based in New Delhi.
Hind Copper

In New Delhi, Nov. 12:
Hindustan Copper’s follow-on public offer will take place this month and not in December, as earlier planned, Mines minister B.K. Handique said.
Mining bill

New Delhi, Nov 12

The mines ministry is ready with the final draft of the new mines bill and a group of ministers will meet soon to review the proposed law. The mines and mineral development and regulation act will be introduced in the ongoing winter session of Parliament.
Mining exhibition
KOLKATA, 13 NOV: Ontario's ministry of northern development, mines and forestry has expressed interest in the Indian mining sector at the International Mining & Machinery Exhibition in Kolkata.