## NON-FERROUS METALS

**PROPOSALS:** Increase in excise duty from 10% to 12%. Removal of customs duty on coal import, CVD decreased to 1% from 5%.

**IMPACT-NEUTRAL:** Increase in excise duty to 12% from 10% will have a neutral impact, as the hike is expected to be passed on to customers. The price increase is likely to be around ₹2,500 per tonne in the case of aluminium. The exemption of customs duty on non-coking coal is not expected to have a significant impact on most aluminium companies, as they source coal from Coal India Ltd or through the e-auction route.

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>Closing price (in ₹)</th>
<th>% change (in %)</th>
<th>Sales growth (%)</th>
<th>Net profit growth (%)</th>
<th>Trading EPS (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hindalco Industries Ltd</td>
<td>140.85</td>
<td>-0.77</td>
<td>15.11</td>
<td>10.18</td>
<td>12.04</td>
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<td>Hindustan Copper Ltd</td>
<td>272.15</td>
<td>-2.80</td>
<td>-8.11</td>
<td>-3.10</td>
<td>2.67</td>
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<td>Hindustan Zinc Ltd</td>
<td>129.5</td>
<td>-0.08</td>
<td>23.12</td>
<td>34.71</td>
<td>13.93</td>
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<td>National Aluminium Co. Ltd</td>
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<td>-3.41</td>
<td>13.26</td>
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<td>3.39</td>
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<td>Sterlite Industries (India) Ltd</td>
<td>113.85</td>
<td>-4.49</td>
<td>31.29</td>
<td>-28.98</td>
<td>3.47</td>
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</tbody>
</table>

(CRISIL Research)
Disinvestment target within reach

Through offer-for-sale route, Govt can auction small chunks across PSUs

Srividhya Sivakumar  
BL Research Bureau

Having fallen terribly short of its Rs 40,000-crore target from stake sales in public sector units for the current year, the Finance Minister has lowered the disinvestment target to Rs 30,000 crore for next year. It managed to raise only 35 per cent (about Rs 14,000 crore) of the targeted amount this year.

ACHIEVABLE TARGET

The new target, for once, looks within reach. Now that the Government is willing to take the offer-for-sale route to divestment, it can auction small chunks across many PSUs.

Now, based on current market valuations, it could raise about Rs 24,437 crore just by selling five per cent stakes in just 7 PSUs — SAIL, Oil India, Hindustan Copper, Coal India, MMTC, BHEL and Neyveli Lignite. The proceeds would go up to Rs 48,873 crore on a 10 per cent stake sale in each of these companies.

Sale of its entire stake in Hindustan Zinc (29.53 per cent) and Bharat Aluminium Company (49 per cent stake) to Vedanta Group could fetch it even more. Vedanta, which is in the midst of reorganising its holding in India, has offered to buy out the Government’s stake for Rs 15,000-16,000 crore. In addition to this, sale of shares held by SUUTI (erstwhile UTI’s stakes in L&T, ITC and Axis Bank) could add about Rs 30,000-32,000 crore to its kitty. A 10 per cent stake sale in

Rashtriya Ispat Nigam is also on the cards.

SETTING THE STAGE

A lot, however, will depend on the market conditions and investor appetite for the respective offers, since this year’s showing — especially the auction of stake in ONGC — wasn’t impressive. The Government, however, is armed with a plethora of options, ranging from normal book-building to auction to IPP route besides IPO (for unlisted companies).

Of course, it is to fix this problem that the Budget seems keen on improving retail participation in equity markets with the slew of capital market initiatives such as Rajiv Gandhi Equity Savings Scheme and lowering of STT. srividhya.sivakumar@thehindu.co.in
Mr A. M. Muralidharan, Managing Director, Volvo India Pvt Ltd, said the Government’s plan for the infrastructure sector will encourage more projects on PPP model. The signs for the road construction segment are very promising considering the Government’s plan to invest Rs 10,000 crore and introduce external commercial borrowing, Mr Muralidharan said. He said the implementation of the GST model will be watched carefully. It will provide a huge boost for equipment manufacturers as it will reduce taxes on sales of equipment between states. The mining sector has also seen some very bright spots with the exemption of customs duty on coal. “I believe this is one of the high points of the Budget since mining companies will look at venturing into newer projects,” he said.
खानन ग़र्दानी पर सीमा शुल्क घटाने का प्रस्ताव

नई दिल्ली। सरकार ने खानन संबंधित आदेश के तहत आये गारी ग्राहकों एवं ट्राफिक पर सीमा शुल्क की घटाकर 2.5 प्रतिशत करने का प्रस्ताव किया है।
Customs duty reduction no big deal, says mining industry

To encourage value addition (conversion of low-grade iron ore into pellets) and augment overall ore supplies, the finance minister announced reduction of basic customs duty from 7.5 per cent to 2.5 per cent on imported plant and machinery for setting up of pellet plants and ore beneficiation ones.

This should benefit companies engaged in export of low-grade ore from Goa and Karnataka. A majority of the $5 million tonnes of iron ore exported by Goa last year was low-grade (below $5-$6 per cent ferrous content). About 25 per cent of Karnataka's ore exports are of low-grade. The government charges 30 per cent duty on ore exports.

However, the industry feels the duty reduction would not make much difference. For example, a company setting up a four-mt per annum capacity pellet plant requires an investment of $1.2 billion, which includes an import content of $100-150 crore. With a customs duty of 2.5 per cent for machinery, the units will not save much more than $5 crore, said Vinod Nowal, director and chief executive officer, JSW Steel.

Agreeing with him, R K Sharma, secretary general, Federation of Indian Mineral Industries, said: "More than importing machinery, the big cost for companies is towards water and power. More, there are no new mining leases being allotted in various states." He said the sector had wanted news on reduction of the export duty from 30 per cent, but was disappointed to find the minister hadn't touched the subject.

Presently, India has a capacity of 18 mt of pellets annually, of which 2.5 mt are exported. Sharma said there was a huge difference between the price of pellets and iron ore. "It would not make economic sense for many steel mills to use pellets rather than ore directly. Hence, not many are interested enough to invest in one," he said.

Further, the impact of a reduction in customs duty on coating material for manufacture of electric steel from 7.5 per cent to five per cent is negligible. Total electrical steel capacity in India is just 374,000 tonnes.

However, enhancing the export duty on chromium ore from $3,000 per tonne to 30 per cent ad valorem is likely to make exports unfavourable, making the ore available for Indian steel makers.
Goa govt rules out ban on iron ore exports: Goa CM Manohar Parrikar has ruled out the possibility of a ban on iron ore exports from the state. "In Goa, the exports are hallmark of the mining industry. The recommendations by the Shah Commission cannot be accepted," Parrikar said.
Duties turn precious metals pale

Sangeetha G
Chennai

The government has made a futile attempt to discourage investors from parking their money in "unproductive" gold, without giving alternative investment avenues to hedge inflation. Tax hikes would only increase smuggling activities and help unorganised players.

Basic customs duty on standard gold bars, gold coins and platinum has been hiked from 2 per cent to 4 per cent and on non-standard gold from 5 per cent to 10 per cent.

"Customs duty was 1 per cent in December, hiked to 2 per cent in January and now 4 per cent. This will only increase smuggling activities," said Rajiv Jain, chairman, Gem and Jewellery Export Promotion Council.

The increase in customs duty and excise would mean an increase of about Rs 825 per 10 gm of gold. Tax deducted at source for purchases above Rs 2,00,000 will only discourage fair accounting practices in the industry, said Vinod Havad, chairman, Gem and Jewellery Trade Federation.

"The demand for gold, especially as a hedge against inflation, is not going to be affected. Gold has been seeing even higher levels of volatility on a day to day basis," said Ajay Mitra, MD, India & Middle East, World Gold Council.
Some baby steps in metals and mining space

Adarsh Goel\theauthor{\textit{B.I. Research Bureau}}

Alloy producers who utilise chromite got a boost from the budget. Indian exports of chromium will be charged an ad-valoreem rate of 30 per cent on sale price. Currently exporters pay a flat charge of Rs 3000. Chromium is utilised by producers such as Tata Steel, Jindal Stainless, Indian Metals & Ferroalloys are some who utilise chromium. This could lower domestic prices and improve availability of chromium ores.

Following up last year's move to exempt iron ore pellets from export duty, the budget lowered the import duty on plant and machinery bought for setting up a pellet-making unit from 7.5 per cent to 2.5 per cent. Setting up a pellet plant cost around Rs 300-400 crore per million tonnes. SAIL, Essar Steel, JSW Steel are a few companies setting up plants to utilise iron ore fines. On the long run, pellet making could reduce dependence on expensive iron ore lumps. Margins could receive a boost from utilising more readily available iron ore fines and tailings. International iron ore fines sold at 20 per cent lower rates than higher grade lumps. Domestic producers could pick up fines at even cheaper prices. Tailings are unused mining residues and iron ore miners like SAIL and NMDC have plenty of it. Both are cheaper input than iron ore lumps.

**DOMESTIC FLAT STEEL PRODUCERS**

Another move which is likely to aid domestic flat steel producers is the hike in import duty on non-alloy flat steel from 5 per cent to 7.5 per cent. With large domestic flat steel capacity additions expected over the next two years, the hike provides a narrow margin of protection for domestic producers against Chinese and East-European steel imports.

Domestic miners looking at Greenfield and Brownfield mine additions also received a fillip as the import duty on equipment destined for exploration and extraction of ores from the current 7.5 and 10 per cent to 2.5 per cent. Coal miners have been exempted fully from this charge as the government hopes this will provide a small incentive on the capital expenditure front for new mines. One per cent tax

It has also been mandated that the sellers collect a one per cent tax from buyers of iron ore, coal and lignite at source. This applies only to buyers whose intention is ostensibly to export the ore. The government hopes this will result in better monitoring of exports and eliminate illegal transactions in the segment.