SAIL opposed to jumbo corridor in mine areas

PWS  Bhubaneswar

The Steel Authority of India (SAIL) and the Wildlife Warden office of Odisha’s Forest & Environment Department are on a collision course over the proposed elephant corridor in the State. SAIL chairman Chandra Sekhar Verma, who called on Chief Minister Naveen Patnaik on Saturday, tried to end this impasse.

According to sources, the proposed elephant corridor, likely to be notified by the State Government shortly, would seriously affect mining at Bolani, Meghathapur, Kiriburu and Goa, four important iron ore raw material sources of the SAIL plants at Rourkela and Durgapur.

The SAIL chairman is understood to have pleaded with the Chief Minister to prevail upon the office of the Principal Chief Conservator of Forest (Wildlife), which is in no mood to fall in line with the SAIL’s reasoning on the proposed elephant corridor.

PCCF (WL) and Chief Wild Life Warden of Odisha JD Sharma feels there is “serious presence” of elephants in the Bolani area. “Evidence collected through physical inquiry conducted in the presence of SAIL officials in these areas proved serious presence of elephants in the area by spotting of elephant herds by people, elephant dung, broken trees and photographs of elephant movement there,” said sources close to Sharma.

The study report prepared by the SAIL, which underplays the presence of elephants in these areas, said sources in the PCCF Wildlife office that they could not accept it as it had not taken into account required evidence.
**GMDC**

**Business & background:** Gujarat Mineral Development Corporation (GMDC) is a mining company specialising in lignite mining.

**Prospects:** GMDC has reported a year-on-year 6.54 per cent rise in net sales to Rs 383.96 crore in the third quarter, against Rs 360.40 crore in the same quarter a year ago. Net profit climbed 10.82 per cent to Rs 112.46 crore during the quarter compared with Rs 101.48 crore in the December quarter of 2010.

Deepak Chheda of Asit C Mehta Investment Intermediates expects company’s revenues to grow by 19 per cent in FY12E on account of higher lignite volumes. The rise in demand in Gujarat and Rajasthan may help its earnings per share to grow by 23 per cent in FY12E.

**Valuation:** At Friday’s close of Rs 195.05, the scrip was trading at 14.07 times its trailing 12-month EPS.

| Standalone results | DEC-11* | DEC-10 | %
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Year End</td>
<td>383.96</td>
<td>360.4</td>
<td>6.54</td>
</tr>
<tr>
<td>Net Sales</td>
<td>224.85</td>
<td>197.5</td>
<td>13.85</td>
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<tr>
<td>Expenditure</td>
<td>112.46</td>
<td>101.48</td>
<td>10.82</td>
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*For the quarter ended Dec 31, all figures in Rs crore

Amit Mudgill, amitmudgill@mydigitalfc.com
NMDC

LTP: 199.25  52-wk H/L: 304.90/136.15  EPS: 19.48

Business & background: NMDC explores copper, iron ore, limestone, graphite and tin.

Prospects: NMDC reported a year-on-year 7.6 per cent rise in its net sales to Rs 2,822 crore for the December quarter compared with Rs 2,622 crore in the corresponding quarter last year. Profit after tax (PAT) jumped 22.45 per cent to Rs 1,859 crore for the third quarter against Rs 1,519 crore in the same quarter last year. The miner has strong balance sheet, has a presence in the sellers market (iron ore), and is relatively immune to iron ore price declines. Bhavesh Chouhan of Angel Broking believes that the low cost of production, high-grade mines, long mine life and compelling valuations make NMDC an attractive bet.

Valuation: At Friday’s close, NMDC shares were trading at 10.23 times their trailing 12-month EPS.

Amit Mudgill, amitmudgill@mydigitalfc.com
Sesa Goa

**Business & background:** Sesa Goa is engaged in iron ore mining, beneficiation and exports.

**Prospects:** Sesa Goa has reported a year-on-year drop in its consolidated net profit to Rs 692 crore in the December quarter compared with Rs 1,065 crore in the corresponding quarter, the previous year. For the quarter, iron ore sales rose to 5.04 mt compared with 4.78 mt in the same quarter a year ago. Alok Kumar Nemani of Nomura India believes the decision of the Supreme Court on mining in Karnataka, and the Justice Shah report on mining in Goa would be key catalysts for the scrip. Either way, Nemani does not expect Sesa Goa's mines to be banned altogether and believes any impact would be more on account of deferral of earnings, citing approval for Sesa's mines would consume time due to minor violations.

**Valuation:** At Friday's close, the scrip was trading at 9.50 times their trailing 12-month EPS.

Amit Mudgill, amitmudgill@mydigitalfc.com
Avoid mining stocks as regulatory risk looms

Giriraj Daga  
Nirmal Bang Institutional Equities

The Indian mining sector, particularly iron ore, has been at the receiving end in the past one year with decline in global commodity prices and state governments' initiatives to crackdown on illegal mining. The Karnataka government went one step further by banning iron ore exports in April 2011 and imposing a ban on entire iron ore mining in August 2011. This coupled with around 25 per cent drop in iron ore prices has resulted in the substantial drop in profitability for the mining sector. The quarterly numbers confirmed the trend of squeeze in the profitability as leading private sector miner Sesa Goa reported 20 per cent drop in ebitda for first nine months of FY12. Apart from this, other major iron ore-rich states like Orissa, Chhattisgarh and Jharkhand have also started cracking down on illegal mining activity. Iron ore exports to China have witnessed 21 per cent drop in export volumes during the first nine months of the present financial year.

Although, iron ore prices have recovered in past few weeks to the tune of around 10 per cent, we still remain cautious on the overall sector. In terms of the Indian market, we expect the blanket mining ban would not last beyond a few months, since it is very large employment generator for these states. However, exports curtailment measures like export duty or ban on export is expected to continue for couple of more quarters. The recent reports that the government may canalise ore exports via state-run MMTC to stop illegal mining is also a negative for the sector and considering the government's proactive action regarding conserving natural resources, we do not rule out the possibility of the same. Overall, we believe, it would be too early to consider the mining sector as a buying opportunity. We advise investors to stay away for the time being.
Miners in rocky terrain

Mining firms are seeing weak demand mainly due to the global slowdown, which has resulted in slow demand from China. Profits of most companies are also likely to be impacted by a new law.

**Weak demand**

At the moment, metal and mining companies are witnessing weak demand mainly due to the global economic slowdown, which has resulted in slow demand from China, the largest consumer of metals. Profits of the companies are likely to be impacted by the Mines and Minerals (Development and Regulation) Act, 2015.

"I am bearish on the shares of mining and metal companies," said Uday Shankar, an analyst at Angel Broking, "as the country is facing a slowdown and the demand is likely to be low." Shankar added that the demand for metals and mining companies is expected to remain low for an extended period.

"Sesa Goa's net profit for the December 2011 quarter fell 35 per cent from the year-earlier period to Rs 691.72 crore due to lower prices and higher input costs. The company's operating margins declined to 12.20 per cent from 15.35 per cent in the year-earlier period.

Sesa Goa's net profit for the December 2011 quarter fell 35 per cent from the year-earlier period to Rs 691.72 crore due to lower prices and higher input costs. The company's operating margins declined to 12.20 per cent from 15.35 per cent in the year-earlier period.

Tata Steel reported a consolidated loss of Rs 601.67 crore compared with Rs 1,005 crore profit in the year-earlier period as demand for steel fell sharply in crisis-hit Europe and Southeast Asia. The company sold 18.1 million tonnes of steel in the quarter, down 15 per cent from the year-earlier period.

"We are seeing a strong demand for steel in Europe and the United States, but the demand in China is weak," said Shankar. "The impact of the slowdown in China is likely to be felt in the second quarter of the financial year."
CMIE pegs FY12 GDP growth at 7%

Industrial production to expand 7.4 per cent

Press Trust of India

Mumbai

THE Centre for Monitoring Indian Economy (CMIE) has estimated FY’12 GDP growth to be 7 per cent, a notch above the government’s own advance estimate of 6.9 per cent, and has said it will improve next financial year.

While the GDP growth will be the slowest in three years at 7 per cent for 2011-12, it will be 7.7 per cent in the next financial year, CMIE said in its February review of the economy.

The report said the GDP which expanded by a healthy 7.3 per cent in the first half of the fiscal till September 2011, is expected to grow by only 6.8 per cent in the second half due to both domestic and global issues.

On the domestic front, the report points out impact of drop in mining sector output because of bans in Karnataka and Goa, fall in production from Reliance Industries KG-DM6 basin, and drop in coal supply.

As a result, growth in manufacturing sector is expected to moderate to 4.9 per cent. It said, adding exports are also expected to fall in the second half. The banking and financial services sector growth will moderate to 8.8 per cent from 10.4 per cent of year ago on account of lower growth in credit off-take and higher cost of deposits, it said.

The finance ministry, which had pegged FY’12 growth at 9 per cent in the budget, has been forced to revise the estimate repeatedly over the financial year, and in the data released earlier this month, it estimated GDP growth at 6.9 per cent.

The CMIE monthly review also said that the country’s industrial production is expected to grow by 7.4 per cent in FY’13 as against the forecast of 5.1 per cent for the current financial year. Industrial production growth was 8.2 per cent in 2010-11.

The manufacturing sector is expected to witness a healthy growth of 6.5 per cent in FY’13, against forecast of 4.9 per cent in FY’12, CMIE said. This growth would be driven by over 10 per cent rise in production of motor vehicles and other transport equipment, machinery, basic metals and wearing apparel.

Rising corporate salaries, increase in rural income, softening of interest rates, improvement in availability of finance, new models and expansion of dealers network could boost passenger car production by 13.1 per cent in FY’13.

Production of MUVs, two-wheelers and three-wheelers is also expected to grow by around 10 per cent. This will lead to higher demand and production in auto ancillary category.

Huge capacity additions in the industrial and infrastructural construction segments and in increase in production of automobiles and machinery is also expected to generate higher demand for basic metals in FY’13.

CMIE said the mining industry, which saw stagnation in FY’12, is expected to grow by a healthy 5.6 per cent next year.

CMIE expects that electricity industry will continue to be a growth driver, clocking a double-digit rise in generation in FY’13. The growth in electricity generation will accelerate to 13.2 per cent in FY’13 from 8.3 per cent in FY’12. Thermal power generation, which accounts for 80-85 per cent of power generated in India, is expected to grow by a smart 14.3 per cent owing to huge capacity additions and a likely improvement in availability of coal. Nuclear power generation too is expected to grow by 19 per cent, while hydro power generation is expected to grow by 6.5 per cent.

Coal production may grow by 8.5 per cent in FY’13 after two years of stagnation. Coal producers will be able to raise the output following the scrapping of go/no go classification of coal blocks and fresh capacity addition of 24 million tonnes.
Data Sends Mixed Signals

Commodities showed a mixed trend this week. While signs of improvement in the US economy have aided bullish sentiment, the uncertainty over Greece is acting as a limiting factor. Base metals corrected while gold and silver gained marginally. Prices of soybean, corn, soy oil, palm oil and cotton rose while those of rubber and white sugar corrected. Crude oil soared after Iran threatened to cut supply of oil to Europe.

**ALUMINIUM**

Aluminium prices fell to their lowest in three weeks following the declining trend across industrial metals amid fears of a Greek default in addition to disappointing economic data from China. But positive data from the US, one of the triggers for the commodity rally since January, reduced losses by the end of the week. Aluminium has rallied 5% since January and considering that the global aluminium stocks to-use ratio is at a 12-month high, gains may be limited. Data shows that the difference in spot and 15-month forward price is at a three-year high supported by the low interest rate scenario in the US and Europe. The shrinking of this premium could lead to a bearish trend in aluminium, analysts said.

**Other Commodities Futures**

<table>
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<tr>
<th></th>
<th>CURRENT PRICE</th>
<th>WEEKLY CHANGE</th>
<th>MONTHLY CHANGE</th>
<th>QUARTERLY CHANGE</th>
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</thead>
<tbody>
<tr>
<td><strong>GOLD</strong> ($/troy ounce)</td>
<td><strong>1,731.0</strong></td>
<td><strong>0.4%</strong></td>
<td><strong>4.3%</strong></td>
<td><strong>0.3%</strong></td>
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<tr>
<td><strong>SILVER</strong> ($/troy ounce)</td>
<td><strong>33.6</strong></td>
<td><strong>-0.1%</strong></td>
<td><strong>10.0%</strong></td>
<td><strong>3.5%</strong></td>
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<tr>
<td><strong>LEAD</strong> ($/tonne)</td>
<td><strong>2015.0</strong></td>
<td><strong>-5.7%</strong></td>
<td><strong>-5.8%</strong></td>
<td><strong>-2.1%</strong></td>
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<tr>
<td><strong>PALM OIL</strong> ($/tonne)</td>
<td><strong>1047.4</strong></td>
<td><strong>2.6%</strong></td>
<td><strong>2.1%</strong></td>
<td><strong>1.2%</strong></td>
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<tr>
<td><strong>WHITE SUGAR</strong> ($/tonne)</td>
<td><strong>627.0</strong></td>
<td><strong>-3.6%</strong></td>
<td><strong>-0.3%</strong></td>
<td><strong>0.6%</strong></td>
</tr>
<tr>
<td><strong>BRENT CRUDE</strong> ($/barrel)</td>
<td><strong>120.3</strong></td>
<td><strong>2.6%</strong></td>
<td><strong>8.7%</strong></td>
<td><strong>11.9%</strong></td>
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Karnataka requests Supreme Court to revoke suspension of 117 mining leases

Miners cleared by CEC “may kindly be allowed to operate without hindrance”

Muralidhara Khajane

BANGALORE: The Karnataka Government has requested the Supreme Court to revoke the suspension of 117 mining leases listed under category A and B by the Central Empowered Committee (CEC).

The Supreme Court-appointed CEC has recommended cancellation of 49 mining leases listed under Category C, where iron ore was being mined illegally. It has recommended resumption of operations in 45 mining leases listed under Category A, subject to fulfillment of stipulated conditions. It has also recommended that mining be allowed in 72 leases listed under Category B, after asking the concerned leases to comply with prerequisites, including payment of penalty.

Chief Secretary to State government S.V. Ranganath in an affidavit submitted to the Supreme Court on February 8 stated that the CEC had cleared a few mines “where no significant illegality or irregularity has been noticed. These mines may kindly be allowed to operate without hindrance”.

The affidavit said that there were some other mines which had been enumerated as Category B “for reasons of some or other kind of illegality or irregularity noticed by the CEC” and these mines too could be allowed to operate. “The State government would undertake to ensure all material safeguards in place and due diligence is exercised by all agencies as directed by the court,” the affidavit said.

With regard to leases under Category C, where large-scale serious and irreversible irregularities have been noticed by the CEC, the government would take “whatever action as directed by the court”, the affidavit said.

In Western Ghats

In its affidavit, the government took exception to the recommendation of the Indian Council for Forestry Research and Education (ICFRE) to the Supreme Court on permitting mining in the Western Ghats. The government has expressed its opposition to mining in the Western Ghats.

The ICFRE in its report indirectly suggested that mining of iron ore be permitted in the Western Ghats by using advanced underground mining technology in an “environment friendly” manner. However, the CEC in its report rejected the suggestion by noting that “the ICFRE has gone totally out of context and beyond its terms of reference.”

Noting that the ICFRE recommendation to exploit large-scale deposits of magnetite ore in the Western Ghats through closed underground mining operations adopting latest and advanced technology “may not be a viable proposition”, the affidavit said that the State government was obliged to conserve the mineral for posterity, keeping in mind the principle of “inter-generational equity” and in the light of likely danger to be caused to ecology. Western Ghats have been now considered as a unique “eco-sensitive biosphere and it is being considered for the World Heritage Site tag”, the affidavit said.