Expansion concerns for Hindalco

Delayed expansions affecting the stock’s performance

M urphy’s law seems to be at play at Hindalco Industries. Almost everything that has gone wrong has gone wrong as far as its expansion plans are concerned. The company had crafted a well laid out plan to increase its aluminium and alumina production capacities, but little did it expect that sourcing coal, which apart from bauxite ore, decides the profitability of a unit, will be hard to get.

Even though importing is an option, given the depressed prices of aluminium at present, using this coal would make its aluminium costlier than the market price of the commodity.

Cola deal to add fizz

There is still hope Hindalco can offer a positive surprise, going forward. This confidence comes from a turnaround of its international operation, Novelis, whose profitability used to fluctuate with that of aluminium prices on the London Metal Exchange (LME). This has changed after the company resolved disputes and renewed its contract for manufacturing aluminium cans for Coca-Cola. Cans accounted for nearly 58 per cent of Novelis’s overall shipment during FY11. In case of Hindalco, monitoring Novelis is important as it contributes around two-thirds to consolidated revenues. Against a net profit growth of 11.6 per cent in FY11 on standalone basis, Hindalco’s consolidated profit fell by 37 per cent. This is expected to change, going forward.

Ravindra Deshpande of Elara Capital believes Novelis will continue to provide steady stream of cash flows for Hindalco and give impetus to medium- to long-term growth for the company.

Expansion blues

Analysts feel the market will, however, look at commissioning of its expanded capacity to re-rate the stock. Its Mahan smelter, a greenfield 350,000-tonne aluminium project is now likely to fire in June 2012, a delay of three months. This is still not clear as the Mahan coal block awaits environmental clearances. ICICI Securities believes even if the Mahan coal block is made available, the time taken to ramp up the block will be around 15 months. Hindalco’s 1.5-million tonne Utkal alumina refinery is slated to be commissioned by December 2012, though coal remains an issue.

Non-availability of captive coal will also impact the Aditya smelter, which is in the midst of an expansion by 350,000 tonnes. But, due to lack of captive coal, analysts expect only 20-25 per cent of this capacity to go on-stream. Though its current balance sheet is able to absorb the delay, analysts believe the plants need to start soon in order to avoid deterioration. Falling aluminium prices can aggravate the situation.

Aluminium is trading near the $2,000-per tonne mark on LME. With a global slowdown in construction, automobile and airline industries, analysts expect prices to remain volatile with a higher possibility of slipping lower.

Giriraj Daga of Nirmal Bang observes the aluminium surplus stood at a high of 1.72 million tonnes in January 2012 as compared to 1.24 million tonnes in August 2011. Ravindra Deshpande adds that with weak demand from China, the largest consumer of aluminium, growth in consumption would slow down to around seven per cent in 2012, as against nine per cent in 2011 and 17 per cent in 2010.

Caution’s the watchword

Analysts are increasingly turning cautious. Consensus earnings per share (EPS) estimates for FY13 and FY14, which stood at ₹16.45 and ₹17.21, respectively, in January 2012 has now been trimmed to ₹16.13 and ₹16.74, respectively.

Compared to 86 per cent of analysts having ‘Buy’ recommendations at the start of the March quarter, Bloomberg data shows only 54 per cent maintaining the recommendation. The remaining is split equally between ‘Hold’ and ‘Sell’ calls. Irrespective of the view on the company, the one-year consensus price target for Hindalco stands at ₹163, against its current price of ₹128.
Steel industry awaits SC nod for sale of additional iron ore at e-auctions

MAHESH KULKARNI
Bangalore, 19 April

With barely eight million tonnes (mt) of iron ore left for auction in Karnataka, sufficient to fire the steel mills' furnaces for two months, iron and steel companies in and around the state, including JSW Steel and Kalyani Steel, are in dire need of the key raw material.

In the absence of regular mining, they expect the Supreme Court to give a nod for auctioning another two to four mt of additional ore stored at various stockyards of miners and private traders. The apex court is resuming the hearing on the illegal mining case tomorrow.

According to officials in the department of mines and geology (DMG) and mining companies, there is a possibility of bringing in an additional two to four mt of ore under the electronic auction platform.

There are 58 stockyards maintained by both miners and private iron ore traders across the state, where some quantity of ore is stocked. This is in addition to the 25 mt of stockpile being sold through e-auctions as directed by the apex court. However, it is yet to be ascertained what grade of ore is available at these stockyards, mining industry sources told Business Standard. "We have measured the availability of ore at various stockyards and sent the list to the head of office at Bangalore for further action," DMG officials in Bellary said.

Regular mining is yet to be allowed by the Supreme Court.

"The Supreme Court permission is necessary to bring any additional ore under the e-auction process and we hope the court would give permission for bringing additional ore if it is available," said R K Goyal, managing director, Kalyani Steel.

Of the 35 mt of stockpile available for sale through auctions in Karnataka, the monitoring committee, appointed by the Supreme Court has till now released 17 mt. Of the remaining eight mt, only about two mt is medium grade (between 63 per cent Fe and above 54 per cent Fe grade), while the balance five mt is very poor grade, which is unfit to be used by the domestic steel mills.

State-owned NMDC, which has been allowed to conduct mining, has so far sold 3.6 mt through the auction.

The committee is releasing another 1.4 mt on April 20 and 21 through e-auction. Another 1.4 mt is likely to be released for auction towards the end of April. However, the steel industry does not expect the stock to last beyond another two months.

Meanwhile, the base prices of ore, slashed by 10 per cent at earlier auctions, have been raised by five per cent for tomorrow’s auction. The base price for 63 per cent Fe grade iron ore fines is fixed at 23,560 a tonne, while same grade lumps is at 35,495 a tonne.
PRICE CARD

As on April 19

<table>
<thead>
<tr>
<th></th>
<th>International</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price</td>
<td>%Change</td>
</tr>
<tr>
<td>METALS (£/tonne)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aluminium</td>
<td>2,028.5</td>
<td>-7.0</td>
</tr>
<tr>
<td>Copper</td>
<td>8,085.0</td>
<td>-3.2</td>
</tr>
<tr>
<td>Nickel</td>
<td>17,372.0</td>
<td>-10.0</td>
</tr>
<tr>
<td>Lead</td>
<td>2,492.0</td>
<td>-4.2</td>
</tr>
<tr>
<td>Tin</td>
<td>21,570.0</td>
<td>-3.8</td>
</tr>
<tr>
<td>Zinc</td>
<td>1,081.0</td>
<td>-1.5</td>
</tr>
<tr>
<td>Steel-HRC</td>
<td>645.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Gold ($)/ounce</td>
<td>1,634.6</td>
<td>-1.4</td>
</tr>
<tr>
<td>Silver ($)/ounce</td>
<td>31.4</td>
<td>2.5</td>
</tr>
</tbody>
</table>

ENERGY

- Crude Oil ($/bbl) 117.6 * 6.1 | 115.4 | 4.8
- Natural Gas ($/MMBtu) 1.9 * -16.4 | 2.0 | -40.4

AGRIC COMMODITIES (£/tonne)

- Wheat | 285.0 | 17.0 | 226.3 | -10.3
- Malize | 281.7 | 8.5 | 219.2 | -9.6
- Sugar | 584.3 | -8.9 | 530.5 | -1.8
- Palm oil | 1,250.0 | 10.6 | 1,283.5 | 9.7
- Rubber | 3,595.5 | -3.9 | 3,753.6 | -2.2
- Coffee Robusta | 2,015.0 | 8.2 | 2,358.6 | 15.0
- Cotton | 2,028.5 | -6.3 | 1,891.5 | -9.7

Conversion rates: 1 vnd=71.13335532; 1 US Dollar = 60.33

Notations:
1. International nickel & crude oil prices are monthly mean local spot prices.
2. International crude oil is Brent Dated and domestic diesel is Indian Dated.
3. International sugar is NYSE near month futures & domestic cassava futures.
4. International wheat, soymeal & coffee robusta are D-tankage prices.
5. International coffee is NYSE near month futures & domestic rubber futures.
6. Domestic crude oil is DMR near month contract.
7. Domestic wheat & soymeal are NYSE near month futures.
8. International sugar is NYSE near month futures & domestic cassava futures.
9. International coffee is NYSE near month futures & domestic rubber futures.
10. International crude oil is DMR near month contract.
11. Domestic sugar is DMR near month contract.

BALTIC EXCHANGE INDICES

<table>
<thead>
<tr>
<th></th>
<th>April 18, 18</th>
<th>%Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baltic Dry</td>
<td>1006</td>
<td>1.72</td>
</tr>
<tr>
<td>Baltic Supramax</td>
<td>974</td>
<td>1.78</td>
</tr>
<tr>
<td>Baltic Panamax</td>
<td>1,291</td>
<td>4.79</td>
</tr>
<tr>
<td>Baltic Capesize</td>
<td>1,934</td>
<td>-0.52</td>
</tr>
<tr>
<td>Baltic Handysize</td>
<td>550</td>
<td>0.73</td>
</tr>
<tr>
<td>Baltic Clean Tanker</td>
<td>636</td>
<td>-0.47</td>
</tr>
<tr>
<td>Baltic Dirty Tanker</td>
<td>724</td>
<td>-1.05</td>
</tr>
</tbody>
</table>

ELECTRICITY TRADING AT IEX

Market price in ₹/MWh

Graph showing electricity trading data.
SAIL Mines bag JCSSI awards

The Raw Materials Division (RMD) of Steel Authority of India Limited (SAIL) has won JCSSI awards for being the mines with zero fatal accident. The awards are given by the Joint Committee on Safety, Health and Environment in the steel industry every year, upheld the safety management standard of SAIL's mining outfit. RMD has got two awards for this year under the category No Fatal Accident in Collieries/Mines.
**Hindustan Zinc Q4 profit declines 20%**

**New Delhi: Hindustan Zinc Ltd., India’s largest producer of the metal, reported a 20% decline in fourth-quarter profit as lead and zinc prices fell.**

Net income fell to ₹1,410 crore, or ₹3.34 a share, in the three months ended 31 March from ₹1,770 crore, or ₹4.19 per share, a year earlier, the unit of London-based Vedanta Resources Plc, said on Thursday in a statement to the BSE.

The company’s zinc output dropped 2% to 190,000 tonnes in the last quarter from a year earlier, while production of lead more than doubled to 37,000 tonnes, it said in an exchange filing on 10 April. Silver output gained 77% to 88,000 tonnes. **BLOOMBERG**
MARKETS

Hindalco raises ₹3,000 cr via bonds

Mumbai: Hindalco Industries Ltd, India's second-largest aluminium maker, raised a record amount in a bond sale.

The company sold ₹3,000 crore of 9.55% 10-year debt, according to a person with direct knowledge of the matter who declined to be identified because the details are private.

Hindalco, which has the equivalent of $8.7 billion in outstanding debt, is spending ₹27,000 crore over the next three years to expand aluminium and alumina production, managing director Debu Bhattacharya had said on 9 February.

“The funds raised will probably be part of the ongoing capital expenditure plans by the company in the states of Orissa, Madhya Pradesh and Jharkhand,” Niraj Shah, an analyst at Fortune Equity Brokers India Ltd in Mumbai, said in a phone interview on Thursday.

Pragnya Ran, a spokeswoman at Hindalco, couldn't immediately be reached for comment. BLOOMBERG
Will iron ore prices lose shine?

Iron ore prices have been firm since February, despite concerns that slower steel output may affect demand. This has come as a surprise, as fears have been mounting about slower economic growth in China, which produces 46.6% of the global crude steel output. In the two months till February, global crude steel output rose just 0.6% year-on-year (y-o-y), while China’s output was up 2.2%.

But iron ore production numbers show one reason why prices may have remained steady despite fears of a slowdown. Global iron ore mining majors have reported a lower-than-expected growth in production in the March quarter. India’s exports have slowed considerably — though that is not a new development — because of the mining ban in Karnataka and logistics-related issues in other states. BHP Billiton Ltd’s ore output rose 14% y-o-y in the March quarter, but was down 8% compared with the previous quarter. Cyclonic conditions in Australia affected its operations. Vale’s Brazilian operations, too, suffered because of rains, and its iron ore output fell 2.2% y-o-y and a sharp 15.6% sequentially. Rio Tinto Plc’s output rose 9% y-o-y, but fell 11% sequentially.

Though production during the quarter has been affected, firms have seen their capacity expand, and are continuing with further expansion plans. Weather seems to have been the main culprit affecting production in major mining regions, which leaves scope for an improvement in output, going forward.

The rise in prices was the brighter side of the coin for miners. Prices at the end of the March quarter were 6.7% higher than they were at the beginning. Fortescue Metals Group Ltd, a relatively smaller Australian iron ore producer, attributed the increase in realizations to the higher-cost iron ore produced in China. An increase in costs of Chinese producers supported prices, helping other players.

Investors should keep a watch on China’s steel data to assess the direction of ore prices.

The key question is whether prices will hold up at these levels. A lot depends on the gap between expectations and reality as far as China’s steel output is concerned. Reuters reported on Thursday that Shanghai steel futures hit a two-week low, on concerns that steel demand in China may slow, which, in turn, affected iron ore spot prices. Expect this volatility to continue for some time, as people take time to assess the extent to which China’s steel output slows. Also, as global iron ore production returns to normal levels, an increase in supply, too, could affect prices.

Indian iron ore companies, such as Sesa Goa Ltd and NMDC Ltd, whose output and exports have been hit because of policy-related reasons, will benefit from better realizations in the March quarter. But investors should keep a watch on the steel data from China. Proof of a slowdown will cause iron ore prices to slide, hurting producers’ margins. That could see their shares underperform. The main trigger for domestic firms, of course, is the lifting of the mining ban in Karnataka and removal of logistical barriers to export iron ore.

RAVI ANANTHANARAYANAN
manufacturing also boosted arguments in favour of more accommodative monetary policy, a potentially positive development for gold.

Spot gold was up 0.3% at $1,646.30 an ounce at 1405 GMT, having earlier sunk as low as $1,630.80 an ounce, while US gold futures for June delivery were up $7.90 an ounce at $1,647.50.

REUTERS
आयरन और का उपाधन गिरा

दुनिया की सभी बड़ी खाना कंपनियों बीएसपी बिलिंग, बीएन और रिलो डिटो आदि के आयरन और उपाधन में गिरावट आई है। इस प्रकार से आयरन और के वैश्विक मूल्य में उक्त दो दर्जे की जा रही है। प्रत्येक मैटल दर पर आयरन और की मात्र कमजोर जाते रहे हैं। मौसम प्रभावित रहने की नजर से इन कंपनियों के आयरन और उपाधन में कमी आई है।
SC panel for partial resumption of Karnataka mining

Proposes allowing one category of 45 lessees for now, with strict riders including approved R&R plan in line with earlier guidelines; more stringency for others

MANSHEE KULKARNI
Bangalore, 19 April

The Central Empowered Committee (CEC) appointed by the Supreme Court to probe illegal mining in Karnataka has recommended resuming operations in one of the three categories of leases, with riders. The SC is to hear the case tomorrow.

In its report to the apex court today, the CEC says Category A mines may be permitted to resume work after preparation and approval of a rehabilitation plan for each of these, in accordance with the earlier SC guidelines on the issue. Each lessee, it has said, must undertake to comply with the R&R details and with the permissible annual production.

In its earlier report in February, the CEC had classified the mining leases into three categories — A, B, and C — depending on the extent of illegalities. Category A comprised working leases wherein no or marginal illegalities were found. The number of such leases are 21 and 24, respectively. They include NMDC, Mineral Enterprises Ltd and two leases of Mysore Minerals Ltd, among others.

If accepted by the SC, the move will be a big boost to mining companies and steel mills, which are facing acute shortage of raw material.

According to the report, the mining lease should have the required statutory clearances such as environment clearance, approval under the Forest (Conservation) Act, 1980, an approved mining plan and consent to operate.

To restart work at the Category B leases, other than the seven mining leases located near the inter-state boundary, the mines have to make sure the illegal area identified by the joint team is physically undertaken according to the R&R plan. The conditions include the riders for Category A. In addition, these should meet other conditions like the reclamation and rehabilitation of the area, and deposit the penalty/compensation for illegal mining, as decided by the court.

"The mining operations in respect of seven mining leases located on/nearby the inter-state boundary between Karnataka and Andhra (kept in Category B) may not presently be allowed to be restarted. The survey sketches of these leases should be finalised after the inter-state boundary is decided and thereafter the individual leases should be dealt with depending upon the level of the illegality found," M K Jiwrajka, member-secretary, CEC, said in the report.
Mining in Karnataka can resume after implementation of rules

Ajit Athrady

NEW DELHI: The Supreme Court appointed Central Empowered Committee (CEC) on Thursday recommended that mining operations in Karnataka could be resumed only after the lease holders effectively implemented the Rehabilitation and Reclamation (R&R) plan to regain lost nature.

The CEC, in its report to the apex court, said mining companies should implement the R&R plan to its fullest satisfaction before being allowed to restart mining operations in the ore rich districts. It, however, said that seven lease holders along the Karnataka-Andhra Pradesh border should not be allowed to excavate ore until the demarcation of border between the two states.

The apex body of mining companies, Federation of Indian Mineral Industries (FIMI), and the Indian Council of Forestry Research and Education (ICFRE), a Dehradun-based Central Government institute, have agreed to finalise the R&R plan for 49 leases by June 2012.

Before allowing the lease holders to resume operations, a monitoring committee headed by the chief secretary of Karnataka and a joint team led by the Director of Mines and Geology Department of Karnataka shall routinely inspect if the R&R norms were being followed. Companies found violating the norms and indulging in illegal mining may be levied a penalty decided by the court, the CEC said in its report.

Before resuming operations, the mining companies should obtain clearance from the Union Ministry of Environment and Forests. Moreover, the annual ceiling of 30 million tonne a year on ore extraction (in Bellary, Tumkur and Chitradurga districts) shall remain unchanged, the CEC said.

The CEC, while recommending a crackdown on illegal mining in Karnataka, had noted that out of the total 2,66 iron ore mines, more than half - 132 - were located in forest areas, while the remaining - 134 - were in non-forest areas, covering a total of 11,604 hectares of land.

DH News Service
Hindustan Zinc to pay 45% final dividend

Corporate Bureau

CHENNAI: Hindustan Zinc has recommended final dividend of 45 per cent (Rs. 0.90 per share of face value Rs. 2) for the year ended March 31, 2012.

The total dividend for the year is 120 per cent (Rs. 2.40 per share).

In a filing with the Bombay Stock Exchange, the company said that it had posted a net profit of Rs. 1,412.84 crore for the quarter ended March 31, 2012 against Rs. 1,771.27 crore in the same period in the previous year. Total income had declined to Rs. 3,516.66 crore from Rs. 3,545.89 crore.

For the year ended March 31, 2012, the company reported a net profit of Rs. 5,526.04 crore against Rs. 4,900.49 crore in the previous year. Total income had risen to Rs. 12,948.14 crore from Rs. 10,905.19 crore.
Copper slips towards 3-month low

Reuters
London, April 19

Copper fell on Thursday, closing in on recent three-month lows after Spain's eagerly awaited bond auction failed to soothe worries on its long-term fiscal outlook.

Three month copper on the London Metal Exchange traded down $45 to $8,005 in official midday rings, having hit a three-month low at $7,885.25 early this week.

In market structure, pressure remained for holders of short positions for April delivery. Cash copper was last seen at an $88-a-tonne premium to the three-month contract by the close of business on Wednesday. “The backwardation has eased but does not appear to have gone away as there is still tightness right through to April 27. It seems that the short positions have been rolled over to nearby dates,” said one LME trader.

“Since the backwardation is due to certain parties holding a dominant long position on the LME and not due to an actual pickup in real demand, I think the squeeze will persist into May,” a Singapore-based trader said.

Aluminium was marginally lower at $2,056 a tonne in official rings, while tin was last bid at $21,300. Zinc was last bid at $1,996. Battery material lead was last bid at $2,047, while nickel rose to $17,680.