Old king coal
But there's nothing merry about its shortage

That the Prime Minister's Office has had to step in to resolve the differences between the Union Ministry of Environment and Forests on the one hand and the Union Ministries of Coal and Power on the other over the mining of coal in forest areas, shows the critical level that the issue of coal shortage has reached in hampering the operation of the country's various power plants. At a high-level meeting earlier this month, Prime Minister's Principal Secretary Pulok Chatterjee instructed the Environment and Forests Ministry to look into the possibility of allowing an additional 25 per cent of coal to be mined without the Ministry having to issue any new clearances or permits. Around 70 per cent of India's power is sourced from coal and optimal coal mining is the key to sustaining India's economic growth. However, over the past few years, the Union Ministry of Coal and the Union Ministry of Power have claimed that the Environment and Forests Ministry has been withholding clearances for mining in forest zones, leading to a serious drop in coal production. If this dispute is not sorted out at the earliest, India will find itself on the brink of an energy crisis. If the country is to continue on the road to economic development, it can't do so without the power it derives from its coal deposits. Take, for instance, the fact that since March 2009 Coal India Limited — the country's largest state-run mining agency — has refused to sign any new Fuel Supply Agreements because it apprehends that it will not be able to fulfill its commitments. The agreement is a legally binding document that requires CIL to supply at least 90 per cent of the contracted volume of coal; or else it can be dragged to court. Given that CIL had no growth in 2010 and registered a negative figure in 2011, its refusal to sign any new FSAs is understandable — although its impact on industry has been alarming. Instead, the coal giant now has memorandums of understanding with its new clients which require it to supply only 50 per cent of the promised volume. But this doesn't resolve the problem of demand and supply that lies at the root of the problem.

It is nobody's case that environmental concerns should be ignored for the sake of economic growth — such development would be unsustainable in the long run anyway, and advocating this approach for short-term gains is only proof of a myopic policymaking. For far too long, environmental clearances have been taken for granted and unrestricted damage to the environment has been inflicted in the name of economic development. There is now a growing realisation that the conservation of environment and economic growth can go hand in hand, if only the Government can provide clear policy guidelines rather than lurch from one dispute to another.
Capacity expansions key for Sterlite
With scope for realisation growth limited, timely rise in these appears essential

JITENDRA KUMAR GUPTA

Sterlite Industries' stock, which had nearly halved over five months to 385 in mid-December, has risen 24 per cent so far in 2012 on the back of a 9-12 per cent rise in metal prices. The recent December quarter numbers, which Sterlite announced on Monday, have only helped the stock stand out; it gained 3.1 per cent versus the Sensex's 1.46 per cent.

Going ahead, analysts believe scope for further gains in metal prices is limited and, hence, increase in volumes is imperative to drive growth. In this context, the progress of Sterlite's expansion plans in the aluminium and power businesses are key monitorables. They are also concerned over the increase in funding to group companies.

While these concerns prevail, a lot of it is also factored in and reflects in the stock's low valuations. On a sum of the parts basis, analysts value it at ₹130-160 as compared to the current price of ₹112, which translates into a price to earnings (P/E) ratio of 8x and a book value of 0.7 times 2012-13 estimates.

"We maintain our 'buy' on the stock on weak valuations and most problems being discounted in the stock price. While there are early signs of recovery, any progress on lower costs and clearerance to coal mine or aluminium expansion would be a key trigger for the script," says Alok Nemani, who tracks the company at Nomura Equity Research. In a note on the company, among other triggers could be the government deciding to sell its stake in Balco, a deal Jagdish Agarwal, research analyst at Emkay Global Financial Services, believes could conclude in 2011-12 itself.

Q3: Forex woes
Compared to the corresponding period last year, non-ferrous metal prices on the London Metal Exchange were on an average down by 18-20 per cent in the December 2011 quarter. Despite this, Sterlite reported a strong 23.5 per cent growth in revenue in the quarter due to strong volume growth in zinc, lead (up 103 per cent) and silver (up 37 per cent to ₹6,000 kg). Higher copper volumes also helped.

"The results were in line with the expectations. The positive thing is that on the operating front, Sterlite was able to bring down the cost of production at Balco and Vedanta Aluminium," says Ravindra Deshpande, analyst at Emkay Securities. This was led by copper, which witnessed a 75.5 per cent growth in operating profits on a 43 per cent increase in treatment charges and refining charges (TC/RC) margins at 15.9 cents per pound. Also, there was a reduction in cost of production in aluminium and power businesses (on better coal availability), leading to 17 per cent growth in consolidated operating margins. Net profits, though, were lower at ₹94 crore, due to ₹42 crore of forex losses.

Concern on fund use
Albeit marginally, Sterlite has raised funding (equity and debt) to Vedanta Aluminium. As of December 2011, this was ₹10,175 crore — ₹673 crore more compared to September 2011. "We believe the investment for Cairn's acquisition has been partly funded by Sterlite," says ICICI Securities analyst Abhijit Mitra in a note. He adds, "The management maintains this is a temporary measure, but increasing investments in a loss-making entity (₹2,676 crore in the nine months to December 2011) continues to be a big investor concern."

Expansion plans
In the next two years, growth in volumes will be critical, considering that analysts do not see significant upside in metal prices. A possible delay in expansion of its aluminium and power businesses remains a worry. The company's 350,000-tonne-a-year aluminium smelter at Balco and 300-Mw captive plant (commissioning expected in Q2 of FY13 and Q4 of FY12, respectively) may face delays due to coal shortage and backhaul mine allocation.

Similarly, two of the four units (600 Mw each) of its power subsidiary, Sterlite Energy, have been commissioned, while another 600 Mw is running on a trial basis. Though management expects the fourth unit to get commissioned by June, analysts see a delay due to availability of coal. In fact, the existing two units are also running at only 70 per cent of plant load factor, with most of the coal being imported. Nevertheless, even after assuming some delays, analysts expect the power business' contribution to rise.
With bullish breakout, copper gives confused market signals

BREAKING UPSIDE RESISTANCE

GEORGE ALBERT

The leading indicator of the equity markets – copper – is giving scrambled signals with a bullish breakout, but lagging the markets.

Copper usually leads the equity market, both up and down, but is now giving confused signals. First, a few words about the copper-equity market link: The relationship between copper, the equity market and the economy have been clearly established time and again.

Since copper is used in most manufacturing processes, a fall in copper prices shows a drop in demand for the metal. This, in turn, indicates that manufacturers don’t need the metal as they foresee a slowdown in their business. When manufacturers slow down, so does the economy. Since the stock markets discount the future, they tend to fall a little after copper prices fall, and vice versa, in a bullish scenario.

For instance, in December 2008, copper stopped falling and rallied. However, the equity markets began to rally only a few months later, in March 2009. Again, in February 2011, copper began falling, but the S&P 500 continued to rally and fell strongly a few months later.

In our column on December 14, 2011, we had mentioned that copper was forming a symmetrical triangle with a bearish bias. We had also mentioned that if the price of copper broke above the triangle, the bearish bias should be abandoned in favour of the bull.

Earlier this month, copper broke to the upside, giving a bullish signal, and took the equity markets up with it. It also broke another resistance level, as shown in the chart, indicating that prices would head higher. The symmetrical triangle and breakthrough is shown in the chart. We are looking at the continuous futures contract of copper (symbol: HG), with each contract controlling 25,000 pounds of the metal.

The breakout of resistance shows that copper is now headed to the next resistance zone between $4.12 and $4.21, and, going by the past experience, the equity markets should follow. Both the US and Indian indices were at resistance along with copper last week. It was felt that this would lead to both copper and equities falling. However, with the copper breakout, it’s now likely that even equities will break out.

The bullish signal given by copper is, however, scrambled. Copper is supposed to lead the equity markets up. But a step back to the longer-term picture shows that’s not the case. The Dow and Nasdaq 100 have reached the September 2011 highs from where they had fallen sharply. Copper, however, is 16 per cent below the September 2011 level of $4.50. At the time of writing this article, Tuesday morning in India, the price of copper was at $4.80.

The price action clearly shows that copper has been lagging the equity market of late, casting doubt on the break out. At this time, our bias would be neutral to cautiously bullish on copper and neutral on equities. But, if copper shows substantial strength, we would turn cautiously bullish on equities, too.

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Copper nears four-month high

London copper futures edged higher and stayed near four-month highs on Tuesday, spurred by hopes that demand from China will stay brisk and the global market will remain in deficit. Three-month copper on the London Metal Exchange rose 0.2 per cent to $8,385 a tonne by 0716 GMT, after hitting a session high of $8,402.75. Reuters
Krishna moves SC to halt mining case probe

EXPRESS NEWS SERVICE
NEW DELHI, JANUARY 24

FOREIGN Minister S M Krishna on Tuesday moved the Supreme Court to stop a police investigation into his role in de-reserving forest land for mining when he was chief minister of Karnataka.

The move to de-reserve the forest land — reported to be about 11,620 sq km — was a “collective” decision of his Cabinet, Krishna said in his petition to the court.

“If this be the law, it is most respectfully submitted, then each and every Cabinet decision would be rendered vulnerable to allegations of individual criminality, however wild or baseless, so that the very functioning of the government under the Westminster system would come to a standstill... no motive or malice can be attributed to a collective body, such as a legislature,” Krishna’s petition read.

The Karnataka High Court had cleared an investigation into Krishna’s role in the matter on January 20.

Krishna, who was chief minister of Karnataka between October 1999 and May 2004, alleged the case was “politically motivated”. “The case is a classic example where the complainant is an active member of a rival political party,” he said.

“If the legal principles adopted by the High Court are permitted to stand, the consequences would be far reaching, and the very functioning of the Central and state governments would be in jeopardy as even policy decisions taken by collective bodies would be made the subject matter of reckless and motivated allegation,” he added.

The High Court, Krishna said in his petition, permitted “an investigation by the police against the then chief minister into a policy decision of the year 2002 taken by the Cabinet of the state of Karnataka to de-reserve forest lands pursuant to the National Mineral Policy adopted by the Central Government in 1993... (this) ignores fundamental and vital precepts and canons of Constitutional law, and raises serious issues of national and public importance”.

The Lokayukta Police of Karnataka, following a complaint by one T J Abraham on December 3 last year, have registered an FIR against Krishna for allegedly permitting illegal mining in the state, including in Bellary. The FIR has also named former chief ministers HD Kumaraswamy and Dharam Singh.
Asian Mining Congress from Jan 28

Kolkata, Jan. 24

The 4th edition of the Asian Mining Congress will be organised here in the city from January 28 by the Mining, Geological & Metallurgical Institute of India (MGMl). The four-day festival will end on January 31. About 70 eminent speakers from India and abroad will debate, deliberate and exchange views on the key issues for the mining and allied sectors in Asia. The Congress will present the pressing issues if the year and of the market, describe latest technique and solutions with case studies. "Our Bureau"
Copper declines as investors book profits

Bloomberg
Jan. 24

Copper fell in London as some investors took advantage of prices near the highest level in four months to sell the metal and lock in profits.

Copper for three-month delivery slid 0.8 per cent to $8,295 a tonne by 11:20 a.m. on the London Metal Exchange.

Copper for March delivery fell 0.8 per cent to $3,768.5 a pound on the COMEX in New York.

LME prices are up 9.1 per cent this year, exceeding gains of 1.9 per cent for the Standard & Poors GSCI Spot Index of 24 commodities and 5.2 per cent for the MSCI All-Country World Index of equities.

Copper inventories monitored by the LME fell for a 15th session to 3,422,250 tonnes, the lowest level since September 25, 2009, exchange data showed.

Nickel for three-month delivery on the LME advanced 0.2 per cent to $20,350 a tonne, aluminium slipped 0.1 per cent to $2,236 a tonne and lead gained 0.2 per cent to $2,250 a tonne.

Zinc rose 0.9 per cent to $2,079 a tonne and tin fell 0.7 per cent to $22,000 a tonne.