

## गोवा अवैध खनन में पीएसी की रिपोर्ट पांच अक्टूबर को होगी पेश

पणजी, 24 सितंबर (भाषा)। गोवा में अवैध खनन की जांच कर रही मनोहर पार्रिकर नीत लोक लेखा समिति (पीएसी) अपनी रिपोर्ट पांच अक्टूबर को राज्य विधानसभा में पेश करेगी। गोवा विधानसभा का दो दिवसीय सत्र पांच अक्टूबर को शुरू हो रहा है। विपक्ष के नेता पार्रिकर ने कहा कि वे केंद्र सरकार के नियुक्त शाह आयोग के पूर्व विधानसभा सत्र के पहले दिन रिपोर्ट पेश करेंगे। शाह आयोग की रिपोर्ट डेढ़ महीने में आने की संभावना है।

सूत्रों के मुताबिक, पीएसी रिपोर्ट में गोवा में

अवैध खनन का ब्योरा दिया गया है और कहा गया है कि इससे सरकारी खजाने को 12 सौ करोड़ से दस हजार करोड़ रुपए का नुकसान हुआ है। अंतिम रिपोर्ट तैयार है लेकिन उसे विधानसभाध्यक्ष के कार्यालय को सौंपे बिना या सत्र के दौरान विधानसभा में पेश किए बिना उसका खुलासा नहीं किया जा सकता। पीएसी नियंत्रक व महालेखा परीक्षक (कैग) की रिपोर्ट के आधार पर जांच कर रही है। रिपोर्ट में कहा गया था कि 2003-05 के दौरान करीब एक करोड़ टन लौह अयस्क गोवा से रायल्टी का भुगतान किए बिना बाहर भेजा गया।

## Rising costs cut Hindalco's PAT by 51%

ENS ECONOMIC BUREAU  
MUMBAI | SEPTEMBER 24

RISING input costs halved Hindalco's profits in the twelve months to March 31 as higher prices of raw materials and fuel weighed on the aluminium maker.

The group's consolidated profit after tax, which does not account for the profit or loss of Hindalco's subsidiary Idea Cellular, fell 51.1 per cent from the previous year to Rs 2,879 crore. However, turnover increased by 19 per cent to end the year at Rs 72,078 crore. Earnings per share fell 42.1 per cent to Rs 12.84.

Hindalco chairman KM Birla confirmed today that the company planned to invest \$6.5 billion (Rs 32,155

**However, turnover increased by 19% to ₹72,078 crore. Earnings per share fell 42.1% to ₹12.84**

crore) over the next three years, with three projects worth \$5 billion (Rs 24,735 crore) in Orissa, MP and Jharkhand expected to be completed by early 2013.

The group has obtained financing for a Rs 4,096 crore refinery in Rayagadh, Orissa, and Rs 7,875 crore in debt for an aluminium smelter in Mahan, Madhya Pradesh. It has yet to receive loans for its Aditya Aluminium project in Lapang, Orissa. However, Birla admitted that "input

cost pressures, lower treatment and refining charges and one-timers associated with the Hirakud power outage have been some of the constraints faced in attaining even higher levels of performance".

Hindalco's total costs rose 22.5 per cent to a consolidated Rs 64,447 crore, with its spending on raw materials increasing by 24.4 per cent and costs of power and fuel rising 10.2 per cent.

The group said Novelis, an acquired subsidiary, had finished recapitalising its balance sheet with a \$1.5 billion (Rs 7,421 crore) secured-term credit facility. The Canadian aluminium roller returned to profits in the financial year, earning the group Rs 728 crore after tax.

## **Coal secretary for speeding up foreign acquisition**

BS REPORTER  
Kolkata, 24 September

WITH public sector companies repeatedly failing to acquire overseas assets, new coal secretary Alok Petri is batting for removal of procedural bottlenecks in buying coal blocks abroad.

"We want companies like Coal India Ltd (CIL) or Steel Authority of India Ltd to acquire assets abroad, using huge funds they have. But they have several procedural hurdles and need many one-to-one negotiations to do such a thing. By the time they come to a conclusion, somebody else will go ahead with the acquisition. On the other hand, the private sector has the advantage of over-running this process. Hence, it is upon the government to try and see that this risk factor is reduced," Petri said on the sidelines of an energy summit here today.

Kolkata-based CIL's plans to acquire overseas assets are stuck with the finance ministry. The firm was in talks with Indonesia's Golden Energy Mines and the United States' Massey Energy and Peabody Energy for assets. "Once the approval comes, if the offers are not their, we may look for some other assets," said NC Jha, CMD, CIL.

Petri also hinted that the estimate of the Planning Commission that the country would need nearly 800 million tonnes of coal during the 12th Five Year Plan, was an overestimate.

## '32 OF 54 IRON ORE MINES IN GOA ILLEGAL'

**Ketaki Ghoge and Snehal Rebello**

✉ letters@hindustantimes.com

**PANAJI (GOA):** Fresh revelations show that 32 of the 54 working iron ore mines in forest areas do not have the mandatory clearances under conservation laws. Official records also show 21 mines operating within the 10-km protected zone around wildlife sanctuaries without environmental clearances.

Documents accessed by HT show the Goa government has been complicit in the illegal mining. "Nearly 1.4 lakh trees have been butchered to make way for mines in forest areas," said Manohar Parrikar, opposition leader and chairman of the PAC probing the illegal mining. The PAC will submit its report on October 5 or 6.

The law mandates that four times the forest cover lost to mining be compensated through reforestation. The state, though, has undertaken only 2.5% afforestation. Principal chief conservator of forests Shashi Kumar defended his decision to allow mines to operate close to wildlife sanctuaries. "We sought legal opinion from the Advocate General, who said mines could be allowed to operate temporarily," he said.

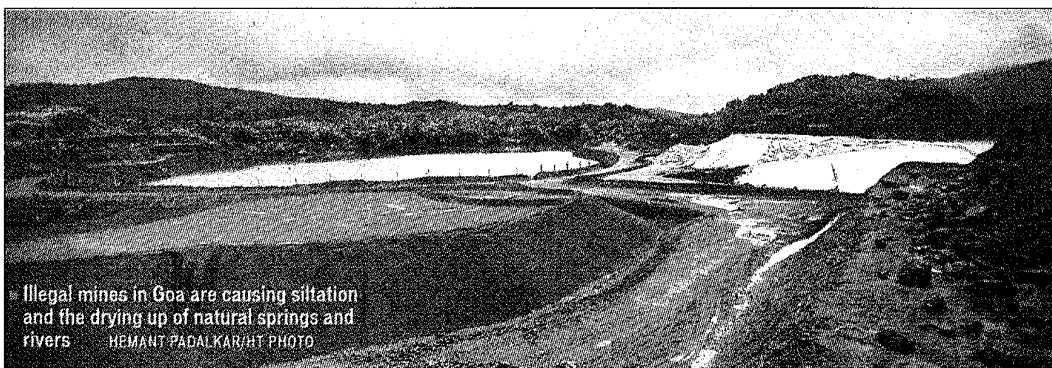
# Yours or mine? The environmental costs of indiscriminate mining

## GROUND REPORT

Goa is the latest state to explode with civil society protests against illegal mining

Ketaki Ghoghe and Snehal Rebello

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Sulcorna, a remote village in Quepem taluka of south Goa, barely 600 metres away from the Netravali wildlife sanctuary, is perhaps the last place where you would expect to hear the familiar grouse of all big cities — too much noise from traffic. Yet the tribals that make up thirty local families will uncannily throw up phrases like “bumper-to-bumper traffic.”

In October, when the mining season opens after the monsoon lull, shiny bright orange Mahindra & Mahindra trucks carrying lakhs of tonnes of iron ore block the lone serpentine road from Colomb to Sulcorna villages in Quepem — a sight found along the entire mining belt running through Goa.

As you drive through this 86-km stretch from the north to south, Goa's landscape of dense forests and paddy fields is scarred by large mining craters, chopped hillocks and iron ore dumps. Since 2005, when the mining boom took

off in Goa with China accepting even low-grade iron ore (below half metal content), there has been a mass revival of Portuguese-era mining leases. In the past six years, iron ore exports have more than doubled, with private companies cashing in on super-normal profits.

This is at the cost of the environment, with the impact of mining increasingly visible in depleted water tables, reduced agriculture and horticulture production, siltation of rivers, drying up of wells and natural springs. Today, active mining projects operate in seven of Goa's 12 talukas, of which Quepem falls in the internationally recognised biodiversity hotspot, the Western Ghats. But as the mining season opens this October, traffic across these talukas is likely to ebb, or so hope civil society groups that have taken up cudgels against illegal mining.

Growing pressure on illegal mining has forced the state government to take some action. The illegal trade has caused the state exchequer a loss of ₹3,000 crore in the past five years, say some, while others say it is a much higher ₹10,000 crore.

In mining-affected villages, however, not everyone is against the activity. “We don't know which mines are legal and which are illegal,” said Geetanjali Naik, the sarpanch of Colomb village. “But we do know that we have assured earnings because of the mines.”

Naik owns six trucks that ferry iron ore to and fro during the mining season. Ten years ago, her family owned just one bicycle.

“Many locals don't want to raise voices against mining because they have taken loans, bought trucks to ferry iron

ore to jetties and depend on these sites for employment,” said Shankar Jog, 70, a retired public works department engineer.

Jog, who returned to his ancestral family home in Sancordem village a decade ago, found that the Ragado river cutting through the village was shrinking and agriculture produce was reducing. Silt from the mining sites was winding down the slopes into the river.

“It's difficult to show the visible impacts of mining on environment and agriculture immediately,” said Jog. “But we do know that the dust from the mines settling on our crop has affected the quality and quantity of our production every year.”

A report by the Mumbai-based National Environmental Engineering Research Institute on the directions of

the Bombay High Court has recorded the environmental degradation caused by three mines. Besides a significant alteration of the village topography due to open-cast mining and degraded soil fertility due to siltation, the report also revealed that the deepening of the mines had resulted in water scarcity in the wells located at the foothills of the plateau due to the loss of the recharge area.

Such indiscriminate mining has impacted almost 95% of the 375 families that depend on agriculture in Sirigaon, a village in the Bicholim taluka that has three mines.

Here, Dinanath Gaonkar, 54, has not cultivated his one-hectare paddy field in the past seven years. “Not a natural spring along the paddy fields survives today. Most of our 72 wells have dried up because mines are depleting the water table,” he said.

With allegations of collusion between mining companies and the state government, locals such as Goankar and Jog have moved court, going to the Goa bench of the Bombay High Court. Jog moved court after attending public hearings — a mandatory step for granting environment clearances for big projects — that ignored the voices of the public cautioning the government against granting more approvals.

Dayanand Narvekar, a former state finance minister and Congress MLA, admits that the fault lies with the

## VITAL STATS

- Goa is spread across 3,702 sq km. Mining occupies between 8% and 15% of Goa's area but its contribution is less than 5% to the state's GDP
- Seven of the 12 talukas in Goa are under mining. But the business is largely restricted to four major talukas — Bicholim, Sattari, Sanquem and Quepem.
- 91 working mines. None are government owned.
- 60% iron exported from Goa. Exports doubled in five years from 25.53 million tonnes in 2005 to 46.84 million tonnes in 2011.
- Close to 15,000 trucks are used by industry to transport ore to the jetties. About 300 barges are used to transport ore to the ports for export
- 34.90%: Total forest cover in Goa
- 18% of forest area has been lost for mining

government. “We, as the government, are completely responsible for this. We allowed them (mining firms) to subvert laws and extract recklessly from our forests. The list of violations by the mining industry is long, starting with illegal mining, mining in forest areas without clearance, dumping rejected ore on government land and not filling craters once mines are shut,” said Narvekar.

### **NMDC, Severstal for tie-up**

KOLKATA, 24 SEPT: Iron ore major NMDC and Russia's largest steel maker Severstal are looking at a tie-up in order to meet raw material requirements for their proposed JV steel plant in Karnataka. "Severstal has a small coking coal mine in Russia. They have suggested for transferring it to the JV with a reciprocal arrangement for iron-ore," NMDC chairman and managing director Rana Som told reporters here on the sidelines of an energy seminar.

Som said they are also evaluating the move to acquire another coking coal block in Russia. In addition, NMDC is planning a farm pact with Russian steel major Severstal for building a two million tonne steel plant at Karnataka. **pti**



# Enough to Go On?

The dismantling of the 'go, no-go' policy may do little to improve supplies of coal

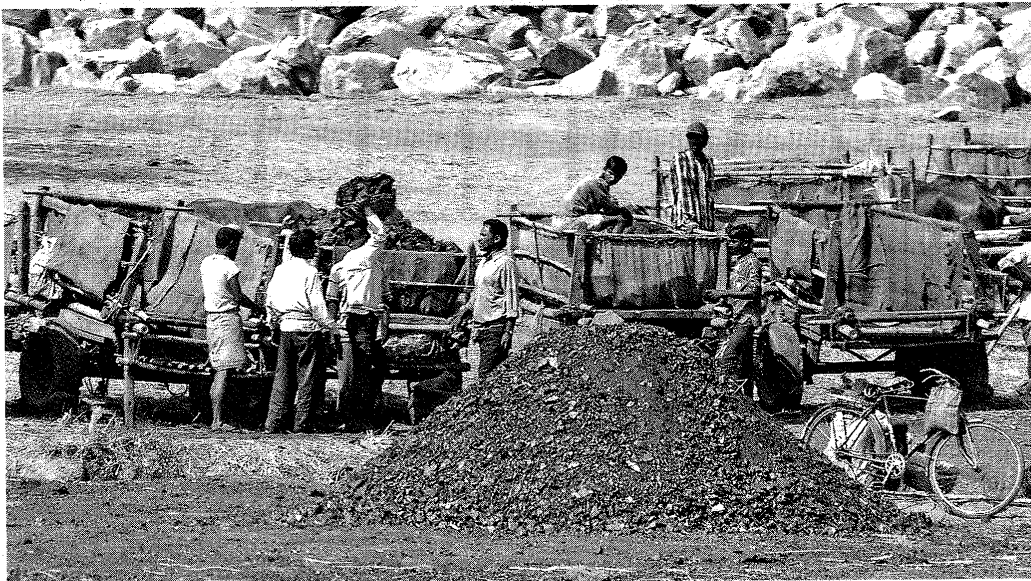
:: Avinash Celestine

**I**n March this year, the Central Bureau of Investigation (CBI) raided the houses and businesses of a few top industrialists in Dhanbad, Jharkhand, home to one of the subsidiaries of India's biggest coal miner, Coal India (CIL). Dhanbad is more widely known in popular imagination as home of the infamous 'coal mafia', which spread a reign of terror across the coal mining districts of the then undivided Bihar in the 1970s and 1980s.

The raids came after the CBI suspected that the industrialists were misusing their 'coal linkage' certificates. These certificates are in effect, a form of licence, which entitles the holder to quotas of subsidised coal for their business, whether its running a power plant, or a steel plant. The condition is that the coal cannot be resold to others but must be used by the certificate holders themselves. The industrialists were accused of violating this condition, and of benefiting from the huge and growing price differential between subsidised coal and the price of coal in the black market. Meanwhile, Odisha politics was hit by a ₹125-crore scam involving diversion of subsidised 'linkage' coal to the open market by firms linked to politicians.

Both these incidents are a symptom of the growing hunger for, and shortage of, domestic coal in the country. Whether it is the linkage scams in the heart of coal country, or the growing imports of coal by steel plants, or the recent acquisitions of overseas coal mines, such as the \$1.26-billion deal by GVK Power to buy mines in Australia, or the fact that 14 power plants in the country have less than four days of coal stocks available, these symptoms are growing by the day.

That coal shortage is projected to hit 137 million tons this year up from just 43 million tons barely five years ago, and has forced the government to resort to its favourite tactic when faced with a crisis – set up a Group of Ministers (GoM). It met this week and scrapped the contentious 'go, no-go' policy, which has had the coal and environment ministries at loggerheads for months now. Critics have claimed that the policy, which essentially blocks coal from being mined in



Black Spots: The domestic shortage of coal has soared three-fold in the past five years

heavily forested areas, stands in the way of greater coal production.

## Iffy Issue

CIL chairman NC Jha told *ET on Sunday* (a week and a half before the GoM meeting this week), that the potential production capacity of around 168 CIL coal blocks pending with the Ministry of Environment and Forests (MoEF) for forest clearances, was about 200 million tons a year. Total domestic production of coal was around 533 million tons in 2010-11. So if all these projects take off, they could have a big impact on coal output.

But that's a big if. The 'resolution' of the 'go, no-go' issue has been touted as solving the problem of coal shortage, or at least going a long way towards fixing that shortage. In reality, it is likely to do little.

If there does indeed exist a conflict between development on the one hand, and environmental concerns on the other, it is

in the mining sector where this is the most apparent. A car plant can be shifted to another location if there are serious environmental or other social concerns. Coal or iron ore mines cannot.

Here's the big irony about the whole no-go issue: it started off as an attempt to speed up forest clearances for coal projects. And here's the second irony: 'go, no-go' started off as a joint initiative of the coal ministry and the environment ministry.

As late as August last year, coal minister Sriprakash Jaiswal told parliament this exercise was taken up 'jointly' by the ministries.

## Digging in the Dark

A senior official of National Thermal Power Corporation, the country's largest power company that owns a number of 'captive' coal blocks (mines owned by power or steel producers and dedicated to supplying coal for a given project or plant) was more explicit in his comments. "Go, no-go is a good idea. There were a number of coal blocks for which we would take the trouble to apply for forest clearances, only to have them rejected after a few years, as they were in dense forest areas. So we asked that such areas be identified in advance. We would then apply only in the 'go' areas."

How the MoEF did this in essence, was to superimpose maps of dense forest areas over maps specifying coal bearing regions. The points where the two coincided were 'no-go' areas and the rest were 'go' areas. The distinction was to help miners to focus their exploration efforts on the 'go' areas. Up to 153 blocks were classified as 'no-go' areas and 449 blocks as 'go' areas.

"Go, no-go is not the issue," said Jha. "For me what is important is that if it is a 'go' area then the forest clearance should

come as quickly as possible, and not be delayed for months and months, if not years."

## Back to Square One

According to the latest coal ministry statistics, 286 captive coal blocks, with total geological reserves of 43.5 billion tons have been allocated to both private and government players. Till June last year, only 26 of these had actually started production – delays in forest clearances are only part of the reason. Land acquisition is another major reason. "Also, there was no serious thought to whom such blocks should be allotted," says a former senior CIL executive. "Many allottees are just sitting on coal blocks they were allocated." Recognising this, the coal ministry went ahead and cancelled a number of allocations because of delays in production.

By March this year, the rhetoric on 'go, no-go' had shifted subtly, and there was no more talk by the coal minister of working 'jointly' with the MoEF. He told parliament that the coal ministry had moved a note to the Cabinet Committee on Infrastructure on the need for "making available more coal-bearing areas...in view of the situation arising out of the stand taken by the MoEF consequent to categorising the forest areas into 'go' and 'no-go' areas".

With the scrapping of the 'go, no-go' plan, the uncertainty has returned. There is again the possibility that miners may apply for a forest clearance only to face rejection later. And irrespective of whether 'go, no-go' exists or not, all coal blocks need an MoEF clearance if they happen to be on land owned by the forest department. The whole 'go, no-go' controversy has obscured the fact that it is these forest clearances which can take years to come through and which need to be speeded up. ■

## GROWING SHORTFALL

Year	Demand*	Domestic Production*	Gap*
2005-06	445.65	407.04	38.61
2006-07	474.18	430.83	43.35
2007-08	492.5	457.08	35.42
2008-09	550	492.76	57.24
2009-10	604.33	532.06	72.27
2010-11	656.31	533.08	123.23
2011-12 (est)	696.03	559	137.03

\* Figs in million tonnes  
Sources: Parliamentary Questions, PIB

ANAND SINGH

### **NMDC, Severstal for tie-up for Karnataka plant**

PTI ■ KOLKATA

**I**ron ore major NMDC and Russia's largest steel maker Severstal are looking at a tie-up in order to meet raw material requirements for their proposed JV steel plant in Karnataka.

"Severstal has a small coking coal mine in Russia. They have suggested for transferring it to the JV with a reciprocal arrangement for iron-ore," NMDC Chairman and Managing Director Rana Som told reporters here on the sidelines of an energy seminar.

Som said they are also evaluating the move to acquire another coking coal block in Russia.

"It's a small asset of 70 million tonne. Our team is already in Russia to take stock of the assets. We are expecting to complete the due diligence process and approach the board over next 10-12 days," Som said.

In addition, NMDC is planning a farm pact with Russian steel major Severstal for building a two million tonne steel plant at Karnataka.

"We will convert the MoU into a MOA (memorandum of association) within a month," he added.



# SC lets CBI probe in State

## Rejects plea to stop e-auction of iron ore piled up in Bellary

**NEW DELHI:** The Supreme Court on Friday favoured a CBI inquiry into the alleged "linkages" between illegal mining activities in Andhra Pradesh and Karnataka being resorted to by two companies including one owned by arrested former Karnataka Minister G Janardhana Reddy in Bellary region.

A forest bench headed by Chief Justice S H Kapadia sought a status report of the CBI's ongoing probe with regard to the extraction of iron ores by Obulapuram Mining Company in Andhra Pradesh, also owned by the Reddys.

The court's order came on the recommendations of the Central Empowered Committee (CEC) submitted on September 21 seeking direction to extend the CBI probe into the alleged "illegalities" in extraction of iron ore in mining leases in Karnataka's Bellary district.

The Bench said Associated Mining Company (AMC) owned by Reddys and Deccan Mining Syndicate promoted by S M Jain should be covered by

### More mining muck



- A Forest Bench of SC seeks status report of CBI's ongoing probe
- Associated Mining Company owned by Reddys and Deccan Mining Syndicate promoted by S M Jain should be covered by CBI probe
- SC rejects argument of senior counsel appearing for mining companies, seeking direction to do away with e-auctioning procedure
- Court satisfied with e-auction of accumulated iron ores

the CBI probe, after being informed of their "illegal mining" operations in the region.

"Essentially, the court prima facie is satisfied about internal linkages between Obulapuram Mining Company (OMC) in Anantpur district in Andhra Pradesh and mining in Bellary. The material extracted by two companies (there may be

more) is being routed through OMC. It is for this reason we are issuing notice to CBI," the Bench said.

"We want CBI to investigate this aspect of internal linkages. We want CBI to inform about the status of investigation which it has undertaken in OMC of Andhra Pradesh," the Bench also comprising Justices

Aftab Alam and Swatanter Kumar said.

Appearing for the CEC, senior counsel Shyam Divan, the amicus curiae, submitted that the CBI probe being carried out in Bellary Reserved Forest of Anantpur district in Andhra Pradesh should also be ordered to probe the illegalities committed by AMC and by some "third parties" in leases granted to public sector National Mineral Development Corporation (NMDC).

The court also expressed its satisfaction with the e-auction of accumulated iron ores being undertaken for the requirement of the steel industry.

"We are happy to note that the procedure of e-auction has benefited economy of the state as indicated in CEC report. We are of the view that e-auction suggested by monitoring committee to continue so that best price could be obtained. We accept the recommendation of e-auction," the bench said.

The court rejected the argument of senior counsel Mukul Rohatgi, who was appearing for the mining companies,

seeking direction to do away with the procedure of e-auctioning saying that the extracted iron ores were private property and that could not be nationalised.

"This economy has suffered. We are not going to allow (your arguments). This is the end of the matter. Enough is enough," the Bench said.

Attorney General G E Vahnavati also supported the CEC's recommendations of e-auctioning of the extracted iron ore.

The apex court had on September 2 directed for monthly e-auctioning of 1.5 million metric tonne iron ore stock from Bellary, Chitradurga and Tumkur districts in Karnataka for the consumption of steel industry.

Appearing for the NGO Samaj Parivartan Samudaya, advocate Prashant Bhushan referred to the findings of the Karnataka Lokayukta report pointing out large scale irregularities in mining activities in the State due to "collapse of administration" and involvement of a former minister (Reddy) in it.

**DH News Service**

### Guv for CBI probe into illegal mining

Governor H R Bhardwaj on Friday said he favoured the Central Bureau of Investigation (CBI) taking up the investigation into illegal mining in the State.

Speaking on the sidelines of the National Awards for Excellency in Printing at the Nimhans convention centre, Bhardwaj said: "In the matter of Reddy brothers (incarcerated minister Janardhana Reddy and his brothers) Yeddyrappa's claim that there is no evidence is rubbish."

## Now, commercial tax dept tracks mining transactions

Siddaiah Hiremath

**BELLARY:** More than 50 officials of the Commercial Tax department, who are camping here, have intensified inspections following the Lokayukta report on illegal mining which pointed to the default in payment of dues worth crores of rupees.

Information is being collected with regard to the transactions of more than 100 miners and more than 2,000 agencies engaged in mining in Hospet division in the last five years.

The Commercial Tax officials are collecting information regarding payment of tax by these companies, department sources said. The staff have been searching for files to ascertain whether the companies have defaulted on payment of taxes.

### Eight teams

The officials, who have arrived from Bangalore, have been divided into eight teams and they are collecting the details during their visits to the mining areas and the ore stockyards. The teams are also collecting the necessary documents from the departments of Forest, Mines and Geology, Income Tax, Railways and Customs.

The Commercial Tax department has written to more than 75 banks, asking them to provide complete details of transactions of the mining



companies and ore transport agencies in the last five years.

The assessment has been taken up in the wake of the Lokayukta report, the Supreme Court-appointed Central Empowered Committee and the CBI seeking details in this regard.

Department sources said that the report has to be submitted within one month. Details of payment of taxes are being collected by visiting the houses and offices of the mine owners and ore transport agencies.

Separate teams of the department have panned out to the Belekeri and other ports to ascertain the quantity of ore exported.

However, they are seeking more time to provide details. An official of the Commercial Tax department said all the information is expected to be collected in a couple of days. The 'e-sugama' and e-suvega' projects implemented by the department facilitates tracking down payment/evasion of entry tax.

DH News Service

# NMDC upbeat on acquisitions

**fe Bureau**

**Kolkata, Sept 24:** Government-owned NMDC is upbeat about acquisitions in Russia and the US. Chairman and managing director Rana Som said NMDC has zeroed down on two coal properties in Russia and another in the US.

In Russia, NMDC was negotiating for two coal resources — one Winsin coal mines with reserves of about 50 million tonne and another with Severstale, the largest steel maker

## NMDC has zeroed down on two coal properties in Russia & another in US

of Russia.

Som said for the Winsin coal mine due diligence has already carried out. A team that has been sent would be back by Sunday (September 25) "We will go through their presentation. Within 10-12 days we will take a broad view on investment," Som said, adding NMDC was looking for a small but effective site in Russia.

With Severstale, he said, the company has a memorandum of understanding (MoU), which would be converted to a memorandum of agreement (MoA) within the month.

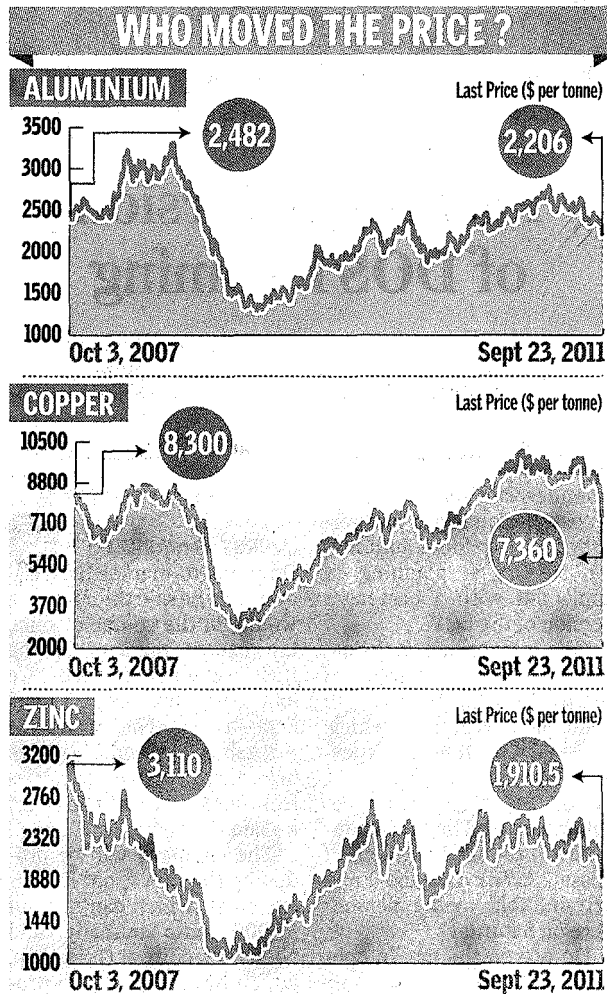
The MoA would be in terms of bringing a Severstale coking coal mines under a JV of NMDC and Severstale. While the mine under the JV would provide

coking coal to NMDC, NMDC on the other hand would provide iron ore to the company.

"The coking coal mine, which they have, will be transferred to a JV against a reciprocal arrangement in respect of iron ore by NMDC," Som said, adding that the coking coal mine was having a reserve of 17 million tonne.

On the mines in the US, he said NMDC had eyed a mine in Alabama and was looking into a possibility of due diligence.





Aluminium, copper and zinc prices are up by 71, 158 and 79 per cent, respectively, from the lows in late-2008. The rise has been fuelled partly by global rebound in demand from the lows hit following the recession between 2008 and 2009. But how much of the rise can be attributed to growth in demand and how much to 'speculation'? The question is pertinent given the emergence of several metals as an asset-class. Considering that a certain component of demand for contracts in metals is now driven by forces that do not directly consume metals, how much do they affect prices? More importantly, does it distort the demand-based fundamentals which drive market-based global pricing for metals?

## NMDC chief slams power management in country

**Our Bureau**

*Kolkata, Sept. 24*

Mr Rana Som, Chairman and Managing Director of NMDC Ltd, on Saturday said that all sectors related to energy should be brought under a "single umbrella" to ensure the country's energy security.

He was also critical of the inadequacy of the National Solar Mission to build adequate capacities in the renewable energy segment.

Addressing a seminar organised by the Mining, Geological and Metallurgical Institute of India (MGMI) on

energy security here on Saturday, Mr Som pointed out that the country's response to manage either supply or demand for energy were far from satisfactory.

According to him, the coal-energy output ratio of the country's thermal power sector has remained substantially low due to existence of a large number of archaic sub-critical power stations.

A change over to super-critical technology should improve the country's energy output ratio by nearly 25 per cent.

While engaging into underground coal gasification (UCG) projects in difficult assets, is a need of the hour, the country should also pay attention to harness non-renewable energy.

Mr Som was particularly critical of the solar mission. "They are allowing each investor to set up a maximum of 1 MW capacity to generate a total of 20,000 MW. This policy should be overhauled," he said.

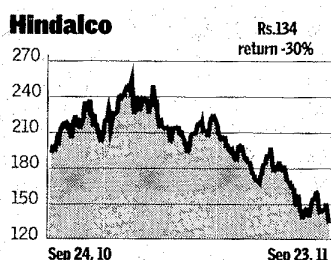
"On the demand side, our (India's) response is absolutely disastrous," he added.

Hindalco Industries

# Proven mettle

The domestic aluminium operations with better margins will be the key driver for both sales and profit growth.

BUY



Adarsh Gopalakrishnan

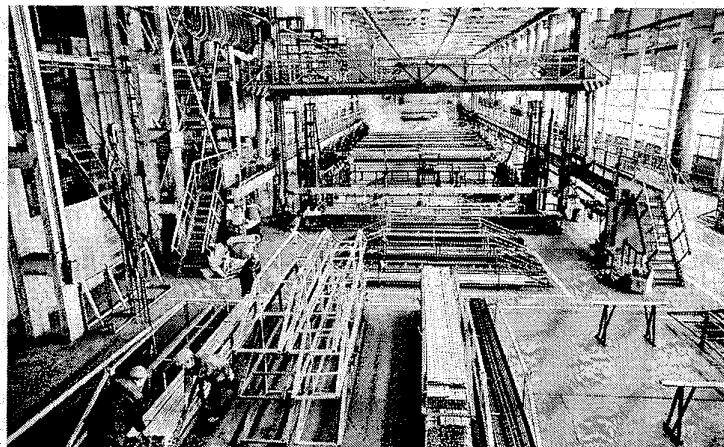
Investors with a long-term perspective can consider buying shares in aluminium major, Hindalco Industries, despite upheavals in the global economy and the likely pressure on commodity prices. The company's integrated domestic aluminium business and the much-improved global operations (Novelis) have the potential to weather the ongoing storm in aluminium prices more effectively than global peers.

A 25 per cent slide in the stock's price in a span of six months has Hindalco trading at Rs 134 (P/E 10.8 times consolidated FY11). This is at a discount to domestic peer, Nalco (P/E 15.6). Also, given its superior margins and large expansion plans, Hindalco's EV/EBITDA of 6.5 times compares favourably to that of international peers such as Alcoa, Chalco and Rusal.

DOMESTIC EXPANSION

Aluminium consumption in India grew at a scorching pace of 14 per cent in 2010-11, better than the anticipated 9-10 per cent growth. This pace has been the incentive for Hindalco, Vedanta (Sterlite Industries) and Nalco to embark on significant capacity additions in alumina and aluminium metal.

Alumina produced from bauxite is a key input for aluminium metal production. Hindalco plans to add significant capacity over the next five years, which will see alumina capacity quadrupling and aluminium metal production trebling from the current levels.



The company's improved global operations have the potential to weather the ongoing storm in aluminium prices better than its peers.

The company has faced delays in commissioning its Utkal alumina refinery project and smelter due to problems related to land acquisition and coal-mine allocation, among other issues. Despite this, Hindalco, thanks to its first-mover advantage in setting the ball rolling, remains the best placed among the top-three Indian aluminium producers to capitalise on growth in Indian aluminium consumption.

Over the next three-five years, Hindalco's domestic aluminium operations with better margins (relative to copper and international re-rolling), will be the key-driver for both sales and profit growth.

With revenues of around Rs 8,000 crore in FY 11, the company's domestic aluminium operations accounted for just over 10 per cent of group sales. However, clocking in EBITDA of Rs 2567 crore, this segment contributed to around 30 per cent of consolidated operating profits.

Despite cost pressures such as higher domestic coal prices, the company's captive bauxite and coal mines coupled along with captive power generation make Hindalco's domestic alumina and smelter operations among the lowest cost globally.

The domestic aluminium operations operated on EBITDA margins of 32 per cent in FY11. Recent reports indicate that the company is close to securing clearances to mine at the Mahan Coal block; this would be a major boost to the company's expansion plans. Power generation and alumina cumulatively ac-

WHY BUY

- Domestic capacity additions
- Integrated Indian aluminium operations
- Improved operations of subsidiary Novelis
- Captive mines give margin advantage

count for over half the cost of producing aluminium metal. Producing both cheaply could be Hindalco's ace up the sleeve. Hindalco's domestic arm includes copper operations which produce copper cathodes, sulphuric acid and a limited quantity of precious metals.

While these operations earn close to double the revenues of the domestic aluminium operations, the segment's operating profits were less than a third of the domestic aluminium operations. This is due, in large part, to operating on a pre-negotiated Treatment and Refining Charge (TCRC), which restricts realisations.

GLOBAL OPERATIONS ON REBOUND

Novelis buys aluminium metal from external sources and processes them by rolling or drawing into beverage cans, auto-parts and consumer electronics. Substitution of steel with aluminium and use of aluminium by the auto-industry, support prospects for Novelis.

About 50 per cent of Novelis' clients are in the relatively defensive food and beverage space, which may prove an effective hedge in volatile times. During the last fiscal, Hindalco completed an aggressive round of refinancing, which

involved Novelis returning capital to the parent entity and lowering long-term borrowing costs.

Novelis now looks well-prepared to expand existing rolling capacity by over 30 per cent over the next four years, focusing on developing regions in Asian and South America, where per-capita consumption of value-added aluminium products show good scope for growth.

The subsidiary shipped out 10 per cent more aluminium products in FY-11 compared with the previous year. Novelis' sales were up by 22 per cent to over Rs 48,000 crore which accounted for around 67 per cent of consolidated sales. Operating profits grew by 42 per cent to just under Rs 5,000 crore, accounting for around 60 per cent of consolidated operating profits.

Aluminium prices on the London Metal Exchange, based on which the company prices its products, are down by nearly 20 per cent since mid-April. Weakness in Europe and the US, and an imminent manufacturing slowdown in China have all contributed to the slip. Working in Hindalco's favour though are two factors: The cost of its Indian operations are among the lowest in the world.

Aluminium prices are approaching levels which could spark capacity shut-downs among cost-intensive producers stemming downside in prices. The second factor is that Novelis (which contributes to the bulk of the company's profits) may actually benefit from falling aluminium prices as a re-roller.

FINANCIAL OVERVIEW

A solid showing in terms of volumes (both domestic and international) and 20 per cent higher average aluminium prices in FY-11 compared with the preceding fiscal led to Hindalco's consolidated sales moving up by 19 per cent to Rs 72,000 crore. The company's core EBITDA grew by 25 per cent to Rs 8,700 crore. Net profits slipped from Rs 3,925 crore in FY-10 to Rs 2,456 crore in FY-11.

However, this is mainly due to a one-off derivative gain (Rs 2,700 crore) in FY-10 compared with a loss of Rs 300 crore in the recent fiscal. Gross debt levels have risen by over Rs 3,700 crore to Rs 27,691 crore, taking the debt-to-equity to around 0.96 times in FY 11. The company's EBIT covered interest a reasonable three times over.