A Staff Reporter

Calcutta, Dec. 24: Gujarat NRE Coking Coal, the Australian coking coal manufacturing arm of city-based Gujarat NRE Coke, has secured clearance from New South Wales Planning Assessment Commission (NSW PAC) to expand its mining operations in Australia.

Gujarat NRE Coking Coal has two mines in Australia — NRE No. 1 Colliery and NRE Wongawilli Colliery. Both these mines are located at Wollongong in New South Wales.

"We have received an approval from NSW PAC for the $62-million upgrade and expansion at the NRE Wongawilli mine. We have also received a clearance for the $122-million upgrade of the existing infrastructure at NRE No. 1 mine," said Arun Kumar Jagatramka, chairman and managing director of Gujarat NRE Coke.

Following the approval for expansion, the company can now extract up to 1 million tonnes of coking coal per annum from both the mines.

"From domestic operations, we generate 1.5 mtpa of coking coal. With the longwall operation at NRE No. 1 colliery that is expected to start by January or February next year, we hope to add another million tonnes, thereby taking our total production capacity to 2.5 mtpa," Jagatramka said.

"We have secured $100 million (from Axis Bank, Hong Kong) in October, which is sufficient to fund our expansion programme in Australia for the next 6-8 months. With the longwall operations up and running, this would lower the production cost from $120 per tonne to $60 per tonne, thus generating sufficient cashflow to fund the overall expansion programme."

Meanwhile, in India, the company hopes to get environmental clearance for its 1.5mtpa Andhra Pradesh plant within the next few months. In India, Gujarat NRE operates two plants at Gujarat and Karnataka with a total capacity of 1.5 million tonnes.

Jagatramka said even though the bad phase of the steel industry was expected to continue for the next nine months, there was little chance of coking coal prices softening.

"Although demand from the steel industry is sluggish, coking coal prices have not gone down. The current pricing ($230 a tonne) is too high as supply is unable to match demand. After nine months, when the industry starts recovering, prices may shoot up further."
Copper Inflated by $6.3 b in Unending Exports Mystery

RISHI SHAH &
JOHN SAMUEL RAJAD
NEW DELHI

Earlier this month, the government admitted to overstating export numbers for the first seven months of 2011-12 by $9 billion because of computation errors and said it would review the data. While it is rechecking, it may want to review the 2010-11 export numbers too. ET probed deeper into the astonishing 80% increase in engineering exports for that year, and found no explanation for the highest increase by category — 350% in copper.

In value terms, that is $6.3 billion — increase to $8.1 billion, from $1.3 billion — of unexplained copper exports. Higher copper prices don’t fully explain it as that increase in 2010-11 was only 33%. So, ET went top-down and knocked on each of the four links in the copper chain, but neither data nor officials could justify this sharp rise. Not copper manufacturers, not makers of an essential input, not traders, not even the government.

When we showed data on copper exports to Shakeel Ahmed, chairman and MD of Hindustan Copper, he said: “There has been some mis-reporting in data, knowingly or unknowingly.”

As per the commerce ministry website, 781,000 tonnes of refined copper was exported in 2010-11. But, asks Ahmed: “How could so much be exported when India’s entire production that fiscal was an estimated 650,000 tonnes?”

An ET probe has found no reason for the 350% jump in copper exports in 2010-11.

STOP: ENGINEERING EXPORTS BODY

To make sense of the copper export numbers, our first stop was the Engineering Exports Promotion Council (EEPC), a body set up by the ministry of commerce and industry to drive engineering exports.

Suranjan Gupta, senior joint director, attributes the spike in copper exports to a policy change. In February 2010, the government increased the incentive for Indian copper refiners to import scrap copper, processing it and export it.

<table>
<thead>
<tr>
<th>Numbers Don’t Add Up</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only 4% of India’s copper ore needs are met locally. So, a 350% surge in finished copper exports should be accompanied by a similar spike in copper scrap imports. But that did not happen.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>1.3</td>
<td>459.2</td>
</tr>
<tr>
<td>2010-11</td>
<td>7.0</td>
<td>98.8</td>
</tr>
</tbody>
</table>

*Figures in $ bn*
Value-Addition Norms Eased

The government reduced the minimum value addition requirement for copper cathodes (essentially sheets) and wires made from scrap copper to 8%, from 15% earlier. So, if an Indian refiner imported $100 of scrap copper, the earlier policy mandated a minimum finished product price of $115 for it to be exported. This was now reduced to $80. Gupta says “it is likely” that Indian companies imported scrap copper in large quantities, converted it into sheet and wire, and exported those to China in a big way. China consumes about one-third of the world’s copper production. According to Gupta, in 2010-11, China faced a 20% deficit in copper products. The same year, he adds, India’s scrap copper imports increased by 161% and its exports of copper sheets to China rose 917%. Ruling out suggestions of over-invoicing, Gupta says: “We should be celebrating the role of our exporters rather than blaming them for over-invoicing.” However, the ministry of commerce trade data for that period does not support Gupta’s assertion. That data shows a 77% increase in imports of copper wires and strip — to $55.5 million, from $35 million. Even at a minimum of 15% value addition, the older norm, $8 billion of exports seems far out.

ET asked four active traders, based in Mumbai and Punjab, if there was a spike in scrap copper imports. “There is no surge in demand for scrap copper,” says Suresh Mehta, director in Mumbai-based Asha Mercantile Private Limited. “In fact, it’s only declining. I have stopped importing scrap copper, and others too are either importing at the same level or trying to opt out of copper.”

Traders, say Mehta, are struggling to cope with the spike in copper prices, which means they need more money to buy the same amount of copper. In the past five years, he says, the price of scrap copper has jumped from $2,200 per tonne to $7,300 per tonne. According to Mehta, in 2010-11, the rise in price of scrap copper was relatively muted — from $570 per kg in March 2010 to $450 per kg in March 2011.

Another way to ascertain whether copper smelting in large numbers has occurred or not is to check the demand for borax, or boric acid. There are many ways in which copper can be smelted and using borax is one such. If the volume of copper smelting increased by more than 300%, the demand for borax should have increased too. There are two listed companies that sell boron products in India: Borax Moraj Limited and Indo-Borax & Chemicals Limited. There’s no estimate in India for the market size of boron products, but two industry officials said these two were the largest.

According to the annual report of Indo-Borax & Chemicals, “boron materials are not found in India. The basic inputs have to be essentially imported”. Indo-Borax’s revenues increased by 15% in 2010-11, while Borax Moraj posted a 6% rise. The annual reports of both the companies attribute the growth primarily to higher prices. Borax Moraj, which is the bigger of the two, registered a volume growth of 0.3%. Officials of both companies could not be reached for comments.

Lastly, we asked producers if they produced more. Public sector undertaking Hindustan Copper has a monopoly in copper mining. However, its annual production of 3.6 million tonnes of iron ore meets about 4% of domestic requirement. With 1% copper content, it takes 100 tonnes of ore to make 1 tonne of finished copper. In other words, Hindustan Copper’s 3.6 million tonnes of ore can produce 36,000 tonnes of finished metal — about 5% of 2010-11 production. Thus, copper refiners such as Sterlite Industries (India) and Hindalco — the two biggest — rely on copper imports to meet demand. It’s not known how much ore or scrap copper they imported. However, numbers on their copper sales are available. Let alone a spike, these show a fall in production in 2010-11. Sterlite, India’s largest producer, posted a 9% drop in production of copper cathode and a 5% fall in copper rods.
Orissa plans to levy forest development tax on minerals

DEBABRATA MOHANTY
BHUBANESWAR,
DECEMBER 25

IN its effort to mop up more revenue, the Naveen Patnaik government is now planning to impose a forest development tax on minerals extracted from forest areas.

Since 2003, the state government has been collecting forest development tax (FDT) on kundu leaf, timber and bamboo as an attempt to make up for the loss on sales tax on the forest produce, particularly kundu leaf in which Orissa is a leading producer.

A note from the state steel and mines department to the forest and environment department last week said that FDT can be levied on the basis of the sale value of minerals fixed by the Indian Bureau of Mines. Though IBM sale value for iron, chrome and manganese is available, the same for bauxite and many other minerals are not available and a mechanism will have to be devised for assessing the sale of value. The note, however, cautioned that mine lessees may show forest produce coming from a non-forest area as FDT will be levied. "Therefore, it may be necessary to develop a mechanism by the forest and environment department to identify the produce which is from the forest area," the note said. It added that the view of law department needs to be taken as royalty on mineral is collected under MMDR Act. "As per provisions under section 2 of the Act, levy of taxes/cess on minerals by the state is not permissible."

The government’s move for FDT comes in the aftermath of a state Cabinet resolution for levying mineral resources rent tax on iron ore at 50 per cent of the surplus rent. The state Cabinet had passed a resolution for Mineral Resources Rent tax. The Cabinet note said that the tax collected from mine owners would be spent for improving social and physical infrastructure, strengthen welfare measures, besides improving the livelihood of people in the mining areas. Making a statement in the Assembly on Tuesday, the Chief Minister said the state government cannot be mere bystander to exploitation of public resources for the benefit of a few.

Naveen, in a letter to the Prime Minister recently, said mining companies are generating "supernormal rents" from iron ore mining due to rising demands for the resource. "The huge profit is evident from the audited operational profits of 80 per cent of sales revenue from iron ore mining, which is unheard of in any other industry. This has led to a situation where, in spite of the state being the owner of these resources, mine owners are benefitting beyond any measure of reasonable returns," he wrote.

Mining revenue has made substantial contribution to state’s coffers helping it become a revenue-surplus one. In 2008-09, 2009-10 and 2010-11, Orissa got Rs 1,100 crore, Rs 1,900 crore and Rs 2,241.29 crore, respectively as royalty from different mineral resources. By the end of November, it had collected Rs 2,800 crore and is expected to reach the Rs 4,000 crore target by March 2012. In 2009-10, the state achieved a revenue surplus of Rs 1,073 crore.
Laxity has Jharkhand mining corp in loss

Ranchi: The Auditor General in its report had pulled up the Jharkhand State Mineral Development Corporation (JSMDC) for falling to lift considerable amount of coal against 3 lakh million tonnes allocated to it by the Coal India Limited.

As per the audit report the lower lifting than the annual quota, meant to be sold to small consumers of the State for various industrial purposes, had caused Rs.259.34 loss in the form of interest as the price against the allocated fuel had already been paid to the GIL in advance.

PNS
Essel Mining Driving Aditya Birla Group’s Acquisition Strategy

With a registered office in Kolkata, the $1.5-b Essel Mining & Industries started operations in the 1950s

M V RAMSUYA
Mumbai

It was 2007 and the commodity markets were a roller-coaster. Indian companies were up and down—the major players were that there was a merger between Anglo-Dutch steelmaker Corus, seven times its price, $18 billion. Barely a couple of months later, came another big surprise: Essel Mining’s financials. Being unveiled was an announcement of a global bid by Essel, bought out Canada’s Novelsis, one of the world’s largest rolled aluminum makers, for the Bidor, a public company. India was now truly on the global map. But what caught attention in the Novelsis deal was that Essel Mining & Industries, a little-known, state-owned company, had had extended $300 million (then about $1.550 crore) in equity, to fund the acquisition of the Canadian major.

This made the industry sit up and take notice. Soon it emerged that Essel Mining was driving most of Aditya Birla Group’s transactions serving as a holding company for the group, and leading the business family’s efforts to ramp up promoter holding in companies, that were as diversified as aluminum and telecom and financial services.

“Essel was a strong supporting factor in the days leading up to the acquisition of Novelsis,” said one of the members of the team involved in the Novelsis acquisition. “The significance of having a company, almost 100% owned by the promoter, to bring in promoter equity, is enormous. It sends out the right signals that the group is serious,” he added.

And from financial projections made recently, Essel Mining is likely to continue that. It is expected to double its net profit to $1 billion by 2015, with cash flow likely to act as a cushion for the group’s various future plans. “Sales of iron ore have been strong even as prices of the ore have fallen, the company is likely to double its earnings,” explained a senior group executive, who is privy to Essel Mining’s financials. Being embroiled, it is not mandatory to file its financial information.

But not much is known about Essel, a major driver of growth for the Birlas, the leading business group of India. With a registered office in Kolkata, the $1.5-billion Essel Mining & Industries started operations in the 1950s when the group was much smaller. Through a chance transaction with an Odisha-based mining magnate, Shyam Lal, the company acquired mines with proven reserves of 300 million tonnes of high-grade iron ore in the Barbil-Barajamda belt of Kadapa district in Odisha. The consideration for this acquisition is still not known.

“Last year we moved about 12 million tonnes of ore. Although there has been a fall in the past couple of months due to closure of some steel units in Odisha, we expect the government to take remedial measures and the business to grow,” said the group executive, adding that sales are likely to go up to about 16-18 million tonnes next year.

Mining accounts for 85% of the company’s revenue. As China continues to remain a strong demand centre for iron ore—240 million tonnes of the ore will remain unfilled. From $25 a tonne in 2006, price of the ore has fallen to $150 within three years.

Jagdish Agarwal, a research analyst with Emkay Global Financial Services, says the group is upbeat on Essel Mining due to robust demand forecasts. “They have a strong management team at Essel and the fundamentals of that company are also sound. Demand for iron ore may have slackened due to overall economic conditions, but the long-term potential is attractive,” he added.

Essel Mining as a cash-rich promoter company, that funds the group’s ambitious acquisition programmes overseas, also becomes evident in a recent transaction that the conglomerate closed. In January 2011, the Aditya Birla Group announced the acquisition of Columbia Chemicals for $750 million, a move that catapulted the group into the world’s largest maker of carbon black, a key ingredient for making tyres and paints.

This acquisition was done through a different Aditya Birla Group entity in Thailand, Egypt, and Singapore to spread the pressure on the parent company’s balance sheet. The financing was arranged with a collateral and guarantor group. The only common covenant that was asked for was that the Aditya Birla Group maintains 51% ownership and management control of the borrower. Essel Mining had been the flavour of 2011 for the Birlas and Essel Mining has been a key player. Since January-end, the group has stitched up three deals worth $624 crore. Asia Pacific’s Columbian Chemicals, the group has acquired, also bought the chloro chemicals division of Kanoria Chemicals for $690 crore in April last year and Swedish specialty pulp company Domsjo Fabriker for $340 million, again in April.

In an earlier interaction, Aditya Birla Group’s executive president of International Business, C K Ranganathan, had said that the group was led by a strong will to make global forays. “There are more opportunities available at real-time than ever before. The group is better positioned than many of its global peers financially (to make those deals),” he added.

EYE ON COAL MINES

The company is currently on the lookout for coal mines. But with strong demand for coking coal pushing up prices of coal overseas, Essel Mining is looking at a minority stake in foreign mines, with an off-take arrangement. “The group needs coal for its cement and aluminium operations. If the local supply situation is difficult, we will look at overseas mines,” says Rajendra Kasita, a director at Aditya Birla Management Corporation, which Essel Mining has been in the race for a number of large mines in Australia, including the latest New Hope Coal. But as the competition gets tougher, Indian companies will have to look at smaller mines.

Essel Mining’s search for coal mines follows recent concerns for Hindutva’s greenfield projects. It was allotted a coal mine under its Mahan project, along with Essar Power which is under review by the ministry of environment and forests. The Mahan coal project is still facing 240 million tonnes of hurdles, the company may have to procure coal from the open market primarily through e-auction and import, adversely impacting overall costs,” said a recent report.

Having supported large group investments in manufacturing, Essel is now looking at other business areas within the conglomerate which require funds. Aditya Birla Retail recently said it will invest $1.550 crore over the next five years to expand its hypermarket and supermarket stores. Retail is a business that has seen sales growth in double digits but losses too have widened due to large investments.
Krishna delta is full of diamonds

SYED AKBAR | DC
HYDERABAD, DEC. 24

After oil and natural gas, the Krishna river basin seems to be ideal for diamond mining.

The search for gem stones in the state has been extended to areas beyond Vijaywada and up to the estuary of Krishna with the Geological Survey of India finding evidence of precious stones in this hitherto unexploited region.

Till date, the area between Sangam (the confluence of Tungabhadra and Krishna in Mahbubnagar district) and Prakasam Barrage in Vijaywada was recognised as the diamond zone.

However, studies by the GSI have now revealed the diamond zone extends beyond Vijaywada and up to the shores of Avanigadda and Nagyalanka in Krishna district and Repalle in Guntur district.

Penna River, downstream of Somalila, is another new area with prospects of diamond reserves.

The reserves may continue into the sea, off-shore of Krishna and Penna, say experts.

The mapping of the geological terrain of coastal areas dating back to the last glacial maximum (18,000 years ago) and beyond shows the palaeo-channels and channel bars comprising diamond-bearing gravels extend into the lower part of the Krishna delta and near shore area.

Page 3: Delta rich in ruby corundum
NAVEEN PUSHES MINERAL RENT TAX DEMAND

AKSHAYA KUMAR SAHOO
BHUBANESWAR, DEC. 25

The Odisha government has reiterated its demand for imposition of mineral resource rent tax on “super normal” profits earned by mine owners on iron ore extraction.

Chief minister Naveen Patnaik, who had earlier written twice to the Prime Minister Manmohan Singh on the issue has expressed his displeasure over the delay in taking a decision by the Central government on his proposal.

“I am unable to understand why the Central Government has not taken a decision on my proposal, which will be in the larger interest of the community, particularly those residing in the mining areas,” the chief minister said in a letter to Prime Minister Manmohan Singh on Saturday.