Acid test for future floats

JAYANTA ROY CHOWDHURY

New Delhi, March 25: The government is treating the National Buildings Construction Corporation (NBCC) float as a test case to check the appetite for public sector offerings.

A note has been prepared by the cabinet committee on economic affairs (CCEA) for clearing the divestment proposals of Oil India, Neyveli Lignite and MMTC. This is likely to be taken up after seeing the response to the NBCC initial public offering.

While the money collected from the NBCC share sale will go into the divestment proceeds for 2011-12, the three new proposals are part of the government’s drive to raise Rs 30,000 crore from selloffs in the upcoming financial year.

Around 12 million shares, or 9.01 per cent, of the total paid-up capital of NBCC have been put up for sale with a little less than half for qualified investors and a little more than four million shares for small retail buyers.

The price band is expected to be between Rs 90 and Rs 106. Retail investors and employees will get shares at a 5 per cent discount to the final price of the issue.

As on March 23, the NBCC issue got subscribed by 23 per cent.

The government is wary of floating a large number of IPOs as well as taking chances with large public sector flotations after burning its fingers in the ONGC issue.

ONGC shares were priced at Rs 290, which were 2.2 per cent higher than market prices, depressing investor interest. Ultimately, the share sale was bailed out by state-run LIC, which bought a substantial chunk of the shares.

Meanwhile, officials said they planned to bring up the Oil India stake sale next once the CCEA validated it.

The Centre owns around 78.43 per cent of Oil India. In September 2009, the Oil India IPO had helped the government raise around Rs 4,900 crore. As part of the issue, the government offloaded 10 per cent equity, while the oil marketer issued 11 per cent fresh equity.

The firm has a market capitalisation of Rs 30,849 crore as on February 2012. A 10 per cent stake sale could fetch about Rs 3,000 crore for the government. The stock was trading at Rs 1,240.91 apiece, up 1.59 per cent, on Friday over the previous day’s close.

Neyveli Lignite, in which the government is considering a similar 10 per cent float, could bring in about Rs 1,400 crore as it has a smaller market cap of Rs 13,891 crore as on February 2012.

The government holds a 93.56 per cent stake in the coal miner, having already divested 6.44 per cent.

Around 10 state-run firms are on the list for divestment in 2012-13. Besides Oil India, Neyveli Lignite and MMTC, the other firms identified include SAIL, Bhel, Nalco, Hindustan Copper, RINL and Hindustan Aeronautical Limited.

The finance ministry has said it will prefer the normal route of selling the shares through IPOs though it has brought enabling regulations for alternative methods of divestment.

The government has lowered its divestment target for the next fiscal after failing to meet the target of Rs 40,000 crore set for 2011-2012 by a wide margin.

The Rs 40,000-crore stake sale plan in the current fiscal was marred by market volatility. The selloffs in Power Finance Corporation and ONGC through the auction route could together fetch only Rs 14,000 crore.

Besides the IPO route, the government can also look at buybacks and auctions to qualified investors.
Buyout of HZL, Balco can free up funds for Vedanta

Moody’s says the $3.4b bids to bring windfall for the company

JHARNA MAZUMDAR
Mumbai

GLOBAL credit rating Moody’s Investors Service on Monday said that Vedanta Resources’ offer of Rs 15.356 crore ($3 billion) to buy out the Indian government’s 29.5 per cent stake in Hindustan Zinc and another Rs 2,000 crore ($400 million) for purchasing the government’s 49 per cent shareholding in Bharat Aluminium Company if consummated, would free up Vedanta’s access to needed liquidity.

The rating agency said that if the price is accepted by the government, the purchase price for HZL, which has $3.2 billion (Rs 16,381 crore) of liquid funds on its balance sheet, will be a windfall for Vedanta. “The government’s minority stake reserves Vedanta’s cash to support its other companies.”

Buying the stakes will free up Vedanta’s access to needed liquidity, and the Indian government, keen to pay down a mounting budgetary shortfall, is under pressure to sell a report by the agency. A Vedanta spokesperson when contacted on his mobile phone declined to comment for this article. Premod Agarwal, joint secretary, department of divestments at Government of India said, “the proposal is still with the mining ministry and is yet to come to the divestment department.”

“Now, Vedanta has offered what amounts to a 10 per cent discount on a 20-day moving average of HZL’s recent share price,” said Moody’s. HZL closed at Rs 124 on the BSE down 4.06 per cent from its previous close.

Sterlite Industries bought a 64.9 per cent stake in HZL from the Indian government in 2002. Under an agreement, it has had an option since April 2007, to acquire the remainder of the government’s stake at a fair market price, but the government has disputed the option and refused to act on it due to disputes over the price at which the option can be exercised.

“Before any sale, we expect the Indian government to seek a higher price in order to avoid the deal appearing to be self-funded, or a special dividend to extract its 29.5 per cent share of surplus funds. Financing the buy-out of the government’s stakes in HZL and BALCO could prove problematic for Vedanta, as the group’s consolidated cash position is largely the cash held in HZL. The company will therefore still need bridge financing, which it can repay once it has control of HZL’s cash,” said Alan Greene, vice president – senior credit officer at Moody’s.

The restructing of the group’s Indian operations to form Sesa Sterlite that will hold all of Vedanta’s investments in India, involves moving $5.9 billion of existing debt from the UK-listed parent to Sesa Sterlite. Therefore, the paying of a special dividend by HZL would also help Vedanta’s funding conundrum albeit at the cost of paying withholding tax, effectively to the seller,” added Greene.

At the end of the financial year ending in 2002 HZL had cash balance of Rs 50.73 crore, according to Capitaline data. Vedanta had acquired 51 per cent government’s stake in Balco in the year 2001. At the end of financial year 2001 Balco had a cash balance of Rs 248.63 crore, according to Capitaline data.

HZL’s cash & bank balance at the end of financial year 2010-2011 (the latest year for which the annual report is available) stood at Rs 5,632 crore. Balco had cash and bank balance of Rs 177 crore in the financial year 2010-2011.

Moody’s feels that a discounted governmental sale of its stake in HZL to Vedanta would seem to provide Vedanta with some compensation for increased taxes that Cairn India will have to pay after its take over by the Anil Agarwal combine, said the report.

In the current financial year ending March 31, the Indian government had hoped to earn $8 billion (Rs 40,000 crore) from sales of stakes in state-owned enterprises, but has received less than $3 billion (Rs 15,356 crore). The budget for the upcoming fiscal year, ending March 31, 2013, targets sales of $6 billion (Rs 30,000 crore).

Moody’s continues to have a negative outlook for Vedanta because of mounting pressures on the minerals sector, from which it draws most of its revenue.

(With inputs from Rajesh Gajra in New Delhi)

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Govt realises Rs 632-cr fines for illegal mining

New Delhi, March 26
The government today said it has realised fines worth Rs 632 crore from companies and officials found involved in illegal mining between 2006 and September last year. The Mines Minister, Mr. Dinsha Patel, told this in Lok Sabha. — PTI
Royalty-linked benefit sharing may add to coal firms' troubles

SUDHEER PAL SINGH
New Delhi, 26 March

There is still more bad news for coal mining companies, with the mines ministry recommending that coal miners mandatory share 100 per cent royalty with project-affected families. The recommendation, if implemented, could severely dent coal miners' bottom line.

It would not only increase the annual outgo of monopoly producer Coal India Ltd (CIL) on account of benefit sharing, but also bring captive block holders, including large companies like Tata, Reliance, Essar, GMR, GVK and Aditya Birla Group, under the benefit-sharing net.

The suggestion was made by the mines ministry earlier this month to the Parliamentary Standing Committee examining the Mines and Minerals Development and Regulation (MMDR) Bill, headed by Trinamool Congress member Kalyan Banerjee. The proposal was made in response to the coal ministry's plea to the committee that coal miners be asked to share 26 per cent royalty — and not 26 per cent of profits — because profit calculation spared captive miners since these companies did not carry out commercial sales.

The mines ministry, in turn, argued the amount to be shared be equal to the royalty paid, as it was clearly identifiable and would be in harmony with the amount paid in case of other (non-coal) minerals.

The ministry, therefore, recommended amending Clause 43 of the draft Bill accordingly. The clause deals with a benefit-sharing formula for miners. In the current form, the Bill, approved by a 10-member Group of Ministers (GoM) headed by Finance Minister Pranab Mukherjee and introduced in Parliament recently, states: "The holder of a mining lease shall pay annually to the District Mineral Foundation, in case of coal and lignite, an amount equal to 26 per cent of profit of the immediately preceding financial year from mining-related operations."

State-owned CIL produced 431 million tonne (mt) coal last financial year (2010-11) and paid ₹4,800 crore as royalty to state governments. The company earned a net profit of ₹10,665 crore last financial year. The change from 26 per cent profit share to 100 per cent royalty would, therefore, mean an increase in outgo from ₹2,600 crore, as currently proposed, to ₹4,800 crore annually.

Captive coal mining companies produced over 35 mt coal last financial year from 24 blocks that have come into production and paid around ₹390 crore as royalty to the government. Their input costs are expected to go up by an additional ₹890 crore cumulatively if the ministry has its way.
Royalty-linked benefit...

This will act as a double whammy for the captive mining companies that are already battling a severe crisis of confidence following allegations of receiving undue benefits to the tune of a whopping 340.5 lakh crore from the government.

Experts believe that the ministry's recommendations, though dampening, would go a long way in correcting the current regulatory flaws. "Collecting money in form of royalty is always a cleaner mechanism when compared to a percentage of profit, where cost recovery becomes an issue. The recommendations would help avoid any conflict over what costs should go into calculating benefit-sharing outgo," said Gokul Chaudhri, partner at consultancy firm BMR Advisors.

The standing committee's final report on the Bill would be tabled in Parliament after which the government would seek to pass the Bill. If the government decides to change the existing Bill in line with the recommendations of the committee, a fresh Bill would need to be cleared by the Cabinet and tabled in Parliament.
Steel min for interest subsidy on pelletisation

KOLKATA, P T I: The steel ministry is set to begin the process to formulate an interest rate subsidy scheme for value-addition in iron-ore fines and energy efficiency in the secondary steel plants, an advisor to the ministry said.

"Both the plans for offering interest rate subsidy for iron-ore processing and introducing energy-efficient systems in secondary steel plants has received in-principal approval of the Planning Commission. Now we are going to begin the process to formulate the scheme details," Steel ministry Advisor (Industrial) ACR Das said.

Speaking on the sidelines of 'Iron Ore Pellet Conference 2012' organised by OreTeam, Das said the ministry had recommended for a five per cent interest rate subsidy for both the plans. "We are holding first meeting on March 26 on deliberating on energy efficiency in secondary steel plants. While, I have begun seeking inputs on iron-ore processing scheme," he said. The government was mooting to offer interest subsidy for iron-ore fine processing like pelletisation, beneficitation and agglomeration of iron-ore. Once the schemes are ready, these would be sent again for Planning Commission's nod and then to Finance Ministry, Das said. There is huge mismatch in use of iron-ore fines domestic consumption and production due to lack in pelletisation.
‘We are Betting Big on Gujarat, Odisha for Refinery & Smelter’

State-run National Aluminium Co (NALCO) plans to expand operations both in the country and overseas. Acting chairman and managing director BL Bagga tells Rajkesh Mazumdar that the country’s third-largest aluminium maker will also invest in thermal, nuclear and wind power plants as part of its move into the energy sector. Excerpts:

What is your expansion plan within the country?
We are talking to the Gujarat government for setting up an alumina refinery. The state government has already identified land for the project, which will be investing about Rs 500 crore. Gujarat Mineral Development Corp will supply bauxite at pre-determined rates linked to the benchmark London Metal Exchange. We hope to sign a draft agreement with the state government by April.

What will be the refinery’s capacity?
The refinery will be of 1 MT capacity. Our engineers have appraised the project site, which is close to the Mundra port. The bauxite mines are 40-50 km away.

Will you set up a smelter in Gujarat?
We are yet to identify an energy source, either in the form of captive coal or gas. We hope to move ahead with the project within the next two months. The capacity of the smelter will be revised depending on the actual water availability. After our second phase of expansion, we expect to have nearly 1 million tonnes of surplus alumina, which we would want to use domestically.

Naico CMD BL Bagga

What is the status of Nalco’s planned aluminium smelter-cum-power project in Indonesia?
The Indonesia project is moving, but slowly. RAK Minerals & Metals of the UAE, the company chosen as the preferred bidder for the coal project, is undergoing a restructuring of its shareholding. In case there is a change, we may have to take up fresh legal and financial due diligence of the new entity.

What about mining projects abroad?
We are mainly looking at Indonesia and Afghanistan for the long term. While the coal-mining project in Indonesia is underway, in Afghanistan we have decided to team up with Hindustan Copper and Mineral Exploration Corp Ltd in a consortium led by Steel Authority of India Ltd. While SAIL has already successfully bid for Afghanistan’s Hajigak iron ore reserves, we will mainly focus on copper and gold reserves in that country.
Interest subsidy likely for iron ore beneficiation technology

Our Bureau
Kolkata, March 26

The Government is in the process of allowing more relief to the iron ore mining industry.

“We are in the process of drawing up a plan to give some interest subsidy to iron ore beneficiation technology. The final report on it is to be given to the Planning Commission,” said Mr A. C. R. Das, Industrial Advisor to the Ministry of Steel.

At the ‘Iron Ore Pellets Conference 2012’ here on Monday, Mr Das said India’s steel production was projected to reach 150 million tonnes by 2016-17 from the current level of 72 million tonnes.

GROWING DEMAND

“Pelletization of unused iron ore fines will be needed in a big way to meet the raw-material requirement of the growing domestic steel industry,” he added.

Mr Das said India’s iron ore reserves are pegged at 25 billion tonnes, but mining of high-grade iron ores is limited and cannot sustain the development of the steel industry.

“Hence pelletization becomes very important...Ultimately, iron ore fines will compete with lumps and it makes a strong case for pelletization.”

The Government’s recent policy decisions will lead to diversification of iron ores from export to meeting the requirements of the domestic steel industry, said Dr A. S. Firoz, Chief Economist, Economic Research Unit, Ministry of Steel.

“However, there is a need for doing R&D on pelletization before it becomes an effective tool to utilise unused iron ore fines. This may not be a lucrative proposition unless issues like taxation on mining, environmental concerns and land acquisition are effectively dealt with.”

R&D ON PELLETIZATION

The conference was organized by OrefTeam, a global research house, in association with ERU, Sponge Iron Manufacturers Association and NMDC.

Dr A. K. Mukherjee, Principal Scientist, Tata Steel R&D, said iron ore production is falling alarmingly.

“Unfortunately, technology is not existent, and herein lies the challenge. We have sinter plants but we believe pellet plants will give some advantage on the transportation side,” he observed.

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Vedanta’s HZL, Balco stake buy move is credit positive: Moody’s

Our Bureau

Mumbai, March 26

Vedanta Resources’ offer to buy out the Indian Government’s stake in Hindustan Zinc (HZL) and Balco will be credit positive for the company, said Moody’s on Monday.

(However, the rating agency said its current outlook for Vedanta remains negative because of mounting pressures on the minerals sector, from which it draws most of its revenue.)

If accepted by the Government, Vedanta’s ₹15,000-crore offer price for HZL, which has ₹16,000 crore of liquid funds on its balance sheet, would be a windfall for Vedanta, said Moody’s.

Vedanta already owns 64 per cent of HZL, but the Government’s minority stake restricts it from using HZL’s cash to support its other group companies.

The company has offered ₹15,000 crore for the Indian government’s 29.5 per cent stake in HZL and ₹2,000 crore for the state’s 49 per cent interest in Balco.

Moody’s expected that the Government would, before the sale, seek a higher price in order to avoid the deal appearing to be self-funded (since the HZL has surplus funds). The government could also seek a special dividend to extract its 29.5 per cent share of the surplus funds, it said.

Financing the buyout of the Government’s stakes in HZL and Balco could prove problematic for Vedanta, as the group’s consolidated cash position is largely the cash held in HZL. The company will therefore still need bridge financing, which it can repay once it has control of HZL’s cash, Moody’s added.

But the group is currently restructuring, which involves moving ₹5.9 billion of existing debt from the UK parent to a new merged entity in India that holds the present stake in HZL. Therefore, the paying of a special dividend by HZL would also help Vedanta’s funding conundrum, albeit at the cost of paying withholding tax to government.

While the purchase of the minority interests in HZL and Balco might not result in significant debt increase, given the cash assumed, the group’s net indebtedness will rise by the price paid, it said.
The real coal scam

The PMO was in favour of auctions way back in 2004, but seven years later, there's been zero progress.

The matter has bounced around with the law ministry saying no change was needed in the mining Act and then saying it was.

Parliament passed the Act in August 2010 but no auctions so far!

SUNIL JAIN

The Cabinet approved the change in the MMDR Act on January 30, 2010 (that's 46 months after the PMO initiated action on it) and, despite all the tension between the government and the opposition, the MMDR Amendment Act was passed by both houses of Parliament on August 31, 2010. The President signed it on this September 2, and it was gazetted on September 5, 2010. No auctions have been held even after this.

For those interested in more such details of how the 'file' moves, do read Arun Shourie's Courts and their Judgments — while critical of delays in court judgments, Shourie argues the ultimate combination is when the courts' and the executive's decisions reinforce one another, http://www.expressindia.com/news/columnists/suniljain/20100928.htm.

Is this corruption or incompetence, or corruption that ensures incompetence? It's difficult to say conclusively but, like the 2G scam, this is yet another case of the powers—not be-knowing fully well the consequences of their inaction, but nothing happening despite this. It gives all concerned a somewhat credible cover, the only person that gets blamed is the 'system' and that, as we know, isn't a juridical person! The tragedy is that when the CAG takes it up, enough people in government say 'policy' is outside the purview of the CAG. Ditto for when the courts take it up. In which case, whose job is it to ensure the government does its job? That's what Parliament does, you'll be told. But that doesn't do too much, does it? That's the beauty of the 'system', more cheaper than balances. Till the next scam!
Govt realises ₹632 cr in fines for illegal mining

The government said on Monday that it has realised fines worth ₹632 crore from companies and officials found involved in illegal mining between 2006 and September last year. In a written reply in the Lok Sabha, minister of mines Dimsha Patel said that during the same period, the highest amount of fine was realised from Andhra Pradesh followed by ₹104.96 crore from Tamil Nadu and ₹104.24 crore from Gujarat. The minister said that since 2006, till the end of the September quarter of the current fiscal, nearly 2 lakh vehicles were seized and 31,033 court cases filed. The highest number of illegal mining cases were detected in 2010 at 73,315 followed by the previous year at 41,576. In the current year so far, 47,254 cases were detected in which Maharashtra has the highest number at 20,928.