Hind Copper FPO postponed

Press Trust of India
NEW DELHI

In a bid to ensure that proposed mega stake sale of Coal India next month gets the space and minds it deserves, the government has postponed the follow-on issue of Hindustan Copper to December. "The government does not want any public issue to take place within 45 weeks of Coal India's initial public offer.

So, the FPO of Hindustan Copper is now slated for November-end to December," the official said.

"The bankers are preparing the draft red herring prospectus for the FPO, which is expected to be filed with market regulator SEBI by September-end or early next month," the official said. Hindustan Copper could not be contacted for comments.
Optimism seen in base metals; uptrend in gold showing signs of fatigue

**Agri-commodities**

Chana is on the brink of a short term support at 72,150 and a sustained trade below this threshold, the counter may breach the 71,100 floor support. Fresh longs maybe deferred till a breakout past 72,220 is seen. Market internals indicate a 69% decline in turnover and a 1.7% decline in open interest.

Mentha oil saw the bulls defend the 7755 support level and prevail over the bears as the price rallied strongly on the back of strong volumes and renewed trader interest. The 8822 level will be the next inflection point to watch out for and should the bulls manage to keep the price above this threshold sustainably expect the commodity to scale further heights. Maintain longs for now. Market internals indicate a 9% increase in turnover and a 16% decline in open interest.

Refined soya oil shows a price consolidation process underway and the bulls will need to take the price above 5500 to turn the outlook into a bullish one. Till then, desist from opening fresh longs. Market internals indicate an 8% dip in turnover and a 27% rise in open interest.

**Metals**

Aluminium is showing signs of resilience and should the metal stay above 1100 sustainably, expect the 1103 level to be tested/overcome in the coming week/s. The rally was accompanied by a mild increase in turnover as trader interest was higher but the expiry of the August series saw a routine decline in open interest. This is along expected lines. Market internals indicate a 1% increase in turnover and a 30% decline in open interest.

Copper has played the part of the bellwether counter in the base metals pack quite convincingly. Should the red metal stay above the 7558 levels on a consistent closing basis, expect the 7566-7570 levels to be tested in the near term. Hold longs for now and possibly buy on dips at 754 if the level is tested. Market internals indicate a 3% dip in turnover and a 5% dip in open interest as short-term players booked profits.

Gold has logged gains for the fifth week in a row and the uptrend shows signs of mild fatigue as the weekly candle charts show an inverted hammer. A sustained close below the 11,825 levels will be a fresh weakness on the counter. Silver exhibits higher relative strength and existing longs on gold may be held with a stop loss at the 11,825 closing basis. Market internals indicate a 2% increase in turnover and a 6% increase in open interest.

Nickel has managed to rally in tandem with its base metals peers and managed a close above the 1100 mark, which is a sign of optimism on the counter. The coming fortnight might see a bullish bunch for the metal as long as the bulls manage to defend the 1100 mark on a sustained closing basis. Hold existing long positions for now. Market internals indicate a 25% increase in turnover and a 31% increase in open interest.

The columnist is the author of A Trader's Guide to Indian Commodity Markets and invites feedback at vicky@esplindia.com or (022) 25419165. Mandatory disclosure: the analyst has no exposure to any commodity recommended above.
High energy prices to dent aluminium makers' profit

To offset wide price swings in a short period and thereby create a ground for greater use of aluminium, White recommends that metals producers make "long-term supply agreements of up to 10 years with car firms".

He further says a car maker's contract with a smelter may be linked to a particular model or a platform, taking into account an auto cycle plan of up to 10 years. The recommendation no doubt looks good on paper, as it is tailored to encourage car makers to reduce weight of vehicles, now ranging from 1,200 kg to 1,400 kg, and create incremental demand for aluminium. According to White, long-term supply contracts would give a boost to aluminium use in cars in a much faster way than any development of alloy or joining technologies.

Energy, which accounts for over a quarter of aluminium production cost, is bound to become more expensive.

The world has seen much of the latter in the wake of a blistering recession of 2008-09 from which the aluminium industry will take time to recover. Users of the white metal are at a disadvantage if the three-month price on London Metal Exchange would move from a low of $1,400 a tonne at which nearly 80 per cent of world aluminium capacity becomes unavailable in March 2009 to nearly $2,800 in April and now to $2,071. In seeking a much bigger volume of application in automobile industry, which is under dual pressure to cut emission and gas consumption, aluminium is in competition with hot dipped galvanised steel selling in Europe at $850 a tonne. White, who is overseeing the application of more and more white metal in the Jaguar stable, says the use of aluminium sheet by European car makers, now at 130,000 tonnes, could "double or even triple in the next 5-10 years" in a stable price situation.

Call it industry restructuring or a big clean-up operation, Beijing is seriously pursuing the target of permanently shutting energy guzzling plants running on old technologies and therefore, a source of pollution. Raising energy prices and scrapping some subsidies are expected to help in achieving this goal. Energy is one issue which certainly will make aluminium makers wary of entering into the kind of long-term contracts White is suggesting. This apart, smelter owners will be watching how the proposal to price alumina on a shorter term index starting next year will pan out. This will be saying goodbye to the prevalent practice of pricing alumina on a long-term basis and as a percentage of the metal price.

Our own Nalco sells most of its alumina in the world market on long-term contracts. It seems alumina refiners are planning to do what the world's leading iron ore producers have successfully done earlier this year. If China achieves the smelting capacity cut it is targeting and smelters in the highest cost quartile return production stream slowly, then alumina market should develop softness. Experts, however, say the alumina market will continue to remain "relatively balanced" because the refineries retired capacity a lot more drastically than smelters during the worst recession times.

The prevailing aluminium prices are not leaving producers overjoyed, even though industry leader Alcoa reported profits of $137 million in June quarter against a loss of $545 million in the same period of 2009. Alcoa second quarter working is ahead of market expectation. There, no doubt, were fears that slowing industrial demand in China and weaknesses in the western economy would delay Alcoa turnaround. But Alcoa pulled it off because of bold restructuring, involving idling of a quarter of capacity and retiring thousands of hands. Some other aluminium producers, too, opted for identical restructuring.
Karnataka agrees to extend validity of iron ore permit

BS REPORTER
Bangalore, 6 September

The Karnataka government has offered to extend the validity of an iron ore transport permit to nine days and would not agree for 12 days as demanded by the mining companies.

This submission was made by Ashok Harnahalli, advocate general of Karnataka in the state High Court on Monday, when the division bench of the HC heard the case filed by mining companies against the ban on export of iron ore.

In 2008, the state government had drafted the Karnataka State Minerals Regulation and Transportation Rule, stipulating seven days for transport of iron ore. Arguing in favour of petitioners, Advocate D L N Rao said seven days were not sufficient for movement of iron ore from the mine head to the ports and the mining companies require at least 12 days.

Intervening in the arguments, Chief Justice J S Khehar suggested nine days and the state government accepted his suggestion. However, the petitioners did not agree and presented a long list of procedures to obtain permits like mineral dispatch permits and forest pass, which delays the movement of iron ore. The chief justice adjourned the hearing to Tuesday.
VEDANTA BIDS FOR BAUXITE FROM GMDC

Vedanta Resources, which was denied mining rights in Niyamgiri in Odisha, has bid for procurement of 500,000 metric tonnes of bauxite from state-owned GMDC, a top official said.

"Representatives of Vedanta have approached us for procurement of non-plant grade bauxite, which can be allocated to them only through a bidding and transfer process," a top GMDC official said.
Novelis plans closure of UK plant

A luminium maker Novelis, an arm of Aditya Birla Group-promoted Hindalco, plans to close down its foil rolling and packaging manufacturing facility in Bridgnorth, UK, by next year. Activities of the facility, which employs 319 people, will be consolidated and moved to other plants in its European system. The closure is subject to consultation with Novelis employees at the Bridgnorth facility, according to reports.

Novelis is the global leader in aluminium rolled products and beverage can recycling, and the $8.7-billion turnover company operates in 11 countries, with around 11,600 employees. Its parent, Hindalco, is Asia’s largest integrated producer of aluminum and a leading copper producer.

“The proposed consolidation of our foil and packaging businesses at the other plants in the Novelis Europe system would enhance our overall competitiveness and our sustainability as Europe’s leading supplier,” reports said quoting Tadeo Nardocci, president of Novelis Europe and senior vice-president of Novelis Inc.

The proposal to close down the unit aims to improve the competitiveness of Novelis’ overall European foil and packaging production system in response to over capacity in the European foil market. It was primarily to address the European market and structural conditions, not because of any performance issues at Bridgnorth, he said.

A few weeks ago, Novelis had increased the prices of specialty sheet products that it sells to European distribution and industrial customers. The company’s fabrication charge would increase by up to €100 per tonne, depending on the product, Novelis had said.

Increasing competition from low-cost countries, poor market conditions and long-term outlook in the segments served by the plant, and high exposure to currency fluctuations are affecting Novelis. Further, the Bridgnorth plant was at a technical and logistical disadvantage compared to other plants in the Novelis Europe system, said the executive.

If, after employee consultation, the proposal was implemented, existing customer orders would be fulfilled and clients would be contacted individually regarding the future handling of their business within the Novelis Europe system, he said.
ArcelorMittal, Indiabulls in talks for mining JV

The world’s largest steel-maker, ArcelorMittal, is in talks with financial services and infrastructure major Indiabulls for setting up a mining joint venture (JV) in India.

“It is essentially a mining joint venture to meet our coal requirement for power projects,” Indiabulls CEO Gagan Banga said.

He said iron ore mining can also be looked into, but insisted the joint venture would not foray into steel production.

While Indiabulls did not give details like the location of the proposed mining project or the investment involved, sources said it could be in Rajasthan.

“There are indications of iron ore in Rajasthan. The JV would seek to locate and develop it,” a source said.

State-owned SAIL has already discovered iron ore deposits in the desert state.

According to LNM India Internet Ventures, LN Mittal holds some stake in Indiabulls Power that is developing various projects in the country.

The JV could be between an ArcelorMittal subsidiary or an investment arm of the Mittal family and an Indiabulls Group firm, sources said. An ArcelorMittal spokesperson did not revert to queries.

With its mega ₹1,00,000-crore steel project in Orissa and Jharkhand stuck in delays and controversies over land acquisition, the group is scouting for investment in other destinations as well.

It has signed an agreement with the Karnataka government for a ₹50,000-crore steel project.

ArcelorMittal last year, had entered into a co-promoter agreement with Uttam Galva to produce steel.
PM’s hard talk: not retiring, may change ministers team

He also suggested that he was considering a Cabinet reshuffle as 16 months have passed in the second term and he was “inclined to see the options” available to him ahead of the winter session of Parliament in November.

Having come under sharp scrutiny in recent weeks over the tardiness in government functioning, complicated by aggressive party interference, the PM today told a group of editors that differences were there even in Jawaharlal Nehru’s Cabinet evident by the kind of letters exchanged between Nehru and Sardar Vallabhbhai Patel.

He, however, agreed that there has to be cohesion in the government and to that extent, he felt his government does display a “degree of cohesion” once a decision has been taken.

On the recent Supreme Court directive to distribute foodgrains for free to the poor, Singh said that he appreciated the “sentiment” behind those words but added: “I respectfully submit that the Supreme Court should not get into the government’s realm of making policy.”

“How can you distribute free foodgrains to 37 per cent population?,” he said. “It is different to provide cheap foodgrains, but not free foodgrains. It is not possible in a country of our size. But I do agree we need to provide cheap foodgrains.”

Similarly, on the question of withholding or withdrawing environmental clearances for projects, the Prime Minister asserted that the right balance had to be struck because development is vital to counter poverty.

“While environment concerns are important and the environment must be protected, it can’t be done by perpetuating poverty. The right balance must be found.”

CONTINUED ON PAGE 2
PM's hard talk: May change team

In this context, Singh said he will soon hold a meeting of Ministers of Mines, Road & Transport, Environment, Petroleum among others to discuss these issues in detail and find a way out. “We can’t let the old license permit raj to return,” he added. It may be noted that several key projects like POSCO and Navi Mumbai have been facing stiff resistance from the Environment Ministry.

On being confronted with Rahul Gandhi’s observation about two Indias, Singh agreed with the description and said this was because of the per capita income in agriculture was much lower than that in the industrial sector. The gap, he added, could only be bridged if more people moved from agriculture to industry.

When asked about the issues which are worrying him as of now, Singh highlighted the upcoming Allahabad High Court judgement on the Babri Masjid. He said it would be a test as to how the country will “absorb” this. “In a country like ours, communal tensions and caste divisiveness have to be fought with cohesiveness.”

The second issue on his mind was Kashmir for which he plans to call a CCS meeting soon. “It is a complex problem that has defied solution for many years. Much more enlightened leaders like Jawaharlal Nehru, Indira Gandhi and Rajiv Gandhi have worked at it. So we have to be patient.”

The other worrying issue, he said, was that of Left-wing extremism. Contrary to public perception, he said that there was “great convergence” between the Chief Ministers of Naxal-affected states and the Centre. While stating that there is “no royal road to success”, he said the Government’s Naxal policy has to “walk on two legs” and draw attention to better performance by police and paramilitary in Jharkhand and the relative improvement in Chhattisgarh following initial lapses.

Singh also came out in strong defence of Home Minister P Chidambaram, particularly on the question of him having a limited mandate.

“All of us have a limited mandate. Under the Constitution, law and order is a state subject and I think the Home Minister is doing a good job in a difficult situation.”

The Prime Minister also brushed aside concerns being raised on the recently passed civil nuclear liability Bill. Pointing out that nearly three-fourths of Parliament supported the legislation, he felt that ending India’s “nuclear apartheid” was one of the government’s principal achievements.

When asked about concerns raised by the industry and the hope in some quarters of some more changes, he said: “The time for changes has passed. But there should be no problems. As time passes, the value of the Bill will be reflected in the profits made (by companies, including Indian firms).”
ORISSA MAY FIND IT DIFFICULT TO ALLOT ALTERNATIVE MINES ON PRIORITY AHEAD OF OTHERS

Vedanta’s plan-B may hit roadblock

Bhubaneswar, Sept. 6: The Orissa government will find it tough to provide another mining site to Vedanta Resources, which was denied permission to mine bauxite in Niyamgiri Hills, a top company official said on Monday.

“The state government in its MoU with Vedanta in 2004 had committed to supply 150 million tonnes of bauxite for its alumina refinery at Lanjigarh,” a top company executive said.

Though the Vedanta group was ready to take bauxite from any other alternative mine to run its refinery after being denied permission to mine in Niyamgiri, it would have to wait for long to get the raw material from within the state, he said.

Pointing out that the state’s 11 bauxite sites had 54.89 per cent of the country’s total bauxite reserve, he said that Orissa cannot do much without the help of the Central government.

“We will follow guidelines set according to laws for allocating any mines to any company including Vedanta,” the state steel and mines minister, Mr Raghu- nath Mohanty, said.

Though Vedanta has applied for seven bauxite mines in the state, the government cannot allot raw material reserves to it at its will, as “we have to follow rules,” he said.

Vedanta had applied for small reserves located at Karlapat, Sijumali, Tukur- mali, Kasumali, Bijimali and Sabarmali hills.

Besides Vedanta, other companies have also applied for PL and, so it would be a tough job for the state government to reject others to give priority to Vedanta.

competition

Besides Vedanta, other companies have also applied for PL and, so it would be a tough job for the state government to reject other applications in order to give priority to Vedanta, an official at the steel and mines department said. Vedanta had eyes on small reserves, which are located within 10 km from its refinery unit at Lanji- garh, but the small mines have 12.28 million tonnes of bauxite, not enough to meet the requirement of the refinery, he said.

As Vedanta has also been accorded permission by the state government to expand its refinery capacity, reserves totalling 12.28 million tonne located in prox- imity to the refinery would be finished within two years.

— PTI
Captive coal bidders face new riders

Ministry mulls 5% project profits for local area development

SUDHEER PAL SINGH
New Delhi, 6 September

Power, cement and steel companies may have to spend part of their profit for local area development near their captive coal mines. The ministry of coal is considering a proposal to commit at least 5 per cent of profits from a project for local area development under guidelines being finalised for competitive bidding of captive coal blocks.

The proposal, if finalised, would add to the storm that has already been brewing as a result of a different, but similar, proposal by the government asking mining companies to share 26 per cent of their profits with the local populace and make them stakeholders in mining projects. An inter-ministerial committee is currently finalising detailed guidelines to introduce competitive bidding for coal mines, which is expected to bring transparency to the allocation of captive blocks to private companies in the power, steel and cement sectors. A Bill to introduce the new regime by amending the Mines and Minerals (Development and Regulation) Act, 1957, was passed by Parliament last month.

The current proposal stems from the fear of various state governments that the new system of auctioning coal blocks would dilute their rights over the natural resource.

Turn to Page 7
Captive coal...

STATES HAUL, therefore, demanded that the guidelines provide for a financial commitment from a winning bidder towards compensation to local people.

A few states suggested the commitment be not be less than 5 per cent of net profits. A decision would be taken after consultations with stakeholders. The Andhra Pradesh government had suggested to the Union coal minister during discussions on the Bill that 5 per cent of profits be earmarked for community welfare and social causes.

AP is not alone in demanding a financial package from companies. Maharashtra and West Bengal have demanded the creation of a separate mineral development fund. "One option could be to ask for a specific contribution by a successful bidder to such a fund, to be used in the local area," the Maharashtra government stated in its response to the Union government.

Industry is keeping its fingers crossed on the proposal. "We have to wait and see what form the government makes it happen. If it is part of corporate social responsibility, then it will obviously be voluntary. But if it is put in the bid document as a condition, then it will have to be debated," Amit Mitra, secretary-general, FICCI, told Business Standard.

Expressing his opposition, a senior official from a large private sector power firm said, "When states already collect royalty on minerals, why are we being asked to pay? And if we have to pay, why shouldn't state governments pay an equal amount, too?"

In a bid to compensate mineral-rich states, the Centre has already decided that the entire revenue from the competitive bidding process would go to state government coffers. In addition, the government is considering a 5 per cent price preference to bidders agreeing to set up the end-use project in the host state. Another important proposal — to carry out separate bidding for each of the three sectors of power, steel and cement — is also being discussed.
Hindalco: Steep proclivity

Strong metal prices, streamlining of operations and expansion plans have spurred interest in the company

The growing appetite for metals, especially aluminium and copper, has propped up prices on the premier metal exchange in London. The ripple effect is being felt in India. Prices on the London Metal Exchange have a direct relation with the share price of Hindalco. This time, the 10-15 per cent improvement in prices of aluminium and copper have triggered a similar movement in the Hindalco scrip.

But it’s not just the price movement that is behind the positive sentiment. For one, most operations at Novelis, its overseas subsidiary, and the Indian division, have contributed to the rally. Hindalco has also witnessed a decline in debt from ₹28,309.8 crore to ₹23,998.7 crore. While it has been on track with its debt repayment schedule, some revaluation of currencies has also helped. Subsequently, the debt-to-equity ratio has fallen from 1.8 times last year to 1.11 times in the FY10. Similarly, interest costs have also been on a decline.

Analysts say since a large part of the debt is related to future projects, over 50 per cent interest will be capitalised in the last few years. Moreover, with some projects coming onstream in the current year, interest costs could jump. But, the management has announced a ₹40,000-crore expansion plan to treble its aluminium capacity. While the debt-to-equity may rise again, the company may not see an impact on interest costs, as the gestation process continues.

Operationally too, the management will have to focus on streamlining working capital costs, as inventory turnover days have jumped from 39 to 81 in FY10. The debtor days have also risen from 37 to 50. After planning an optimal working capital strategy, the company had to pump in around ₹600 crore to manage it. With the product portfolio moving again towards value-added products, at around 60 per cent, things could improve on this front. The share, however, remains lower than the 65 per cent witnessed during FY06-FY08, reckon analysts. This will impact valuations, which remain attractive compared to the global peers.

AKASH JOSHI
TINY SMELTERS REVIVE ON HIGH COPPER PRICES

In 10 days, copper prices have risen about 8 per cent

DILIP KUMAR JHA
Mumbai, 6 September

Encouraged by a steady rise in global copper prices, around 500 small and tiny secondary smelters in India are planning to revive units to meet the rising demand from user industries.

A majority of these plants, with a combined capacity of about 250 tonnes per annum, were closed when copper prices slipped below the cost of production about 18 months earlier. Now, they wanted to cash in on rising global copper prices, said Surendra Mardia, president of the Bombay Metal Exchange (BME), a Mumbai-based copper and allied products' trade body.

The global benchmark for production cost is around $3,500 a tonne. Copper prices on the benchmark London Metal Exchange (LME) hit a multi-year low of $2,812 a tonne on December 30, 2008, on plummeting consumer demand in the wake of the Lehman Brothers collapse.

As domestic small and tiny smelters ran out of orders, many diversified for survival. Now, looking at a rebound in prices, they were considering reviving their plants, Mardia added. In the past 10 days, copper prices have risen about eight per cent, sufficient for secondary smelters to freshly invest in closed units. Meanwhile, Standard Chartered has raised its 2011 copper forecast from $7,800 a tonne to $8,325 a tonne because of slower-than-expected starts to projects. The metal is now less than 15 per cent off the record, which is set to be breached this time, says a base metal analyst.

Initially, demand will pause, as happens during a sudden price rise. Once this level looks stable, consumers will start purchasing again, says Rohit Shah, director of BME.

A majority of these units are in talks with banks to source funds for their working capital requirements. If copper prices continued at this level, a possibility now, all these plants would become operative before October 1, he added.

Secondary copper produced by small units is used in handicrafts, sanitary components, bicycle components, motor components and manufacturing industries.

They procure copper scrap as raw material from abroad and smelt it to supply to the consumer industries. Secondary copper producers, largely unorganised sector players, contribute nearly 40 per cent of India's copper production.

The demand for India's handicraft products has revived abroad. Also, consumption in the housing sector in emerging economies is rising. The Indian government has announced a massive investment on housing, which consumes nearly 30 per cent of India's copper production of nearly two million tonnes.
कॉरिडॉर में पंजाब, हरियाणा, हिमाचल, जम्मू-कश्मीर, उत्तarakhand व चंडीगढ़ शामिल है।

उत्तर भारत के पंजाब राज्य एवं केंद्र सरकार द्वारा सम्बन्धित रूप से खुलकर, जिन्होंने उस समय जैव विविधता के क्षेत्र में अत्यधिक ध्यान दिया है, की उन्होंने इसे प्रकट किया है। इसके लिए, जैव विविधता के क्षेत्र में अत्यधिक ध्यान दिया है। इससे उत्तर भारत के पंजाब राज्य एवं केंद्र सरकार के क्षेत्र में अत्यधिक ध्यान दिया है।

चंडीगढ़, जिसे एक जैव विविधता के क्षेत्र में अत्यधिक ध्यान दिया है, वह उग्रता से चंडीगढ़ का जैव विविधता को कॉरिडॉर बनाने की तैयारी कर रहा है।

7,500 किलोमीटर लंबा मोर नियामक कोष निर्माण है। यह एक अत्यधिक ध्यान से उभरा है।

कॉरिडॉर से संपर्क रखने की उन्नति के माध्यम से, कॉरिडॉर का प्रयोग अत्यधिक ध्यान से किया जा रहा है।
Mining projects in go areas need green nod

Chetan Chauhan

NEW DELHI: The environment ministry has said that its clearance will have to be taken for mining projects in certain areas.

The ministry has said that the exercise to identify go and no-go areas of the coal-bearing land was only indicative in nature and was not legally enforceable.

Replying to Power ministry's proposal for three coal blocks — Meenakshi, Meenakshi B and Dip Side of Meenakshi, a ministry official said: “In this connection I am further directed to inform that identification of Category A (go) and category B (no-go) areas for coal blocks in the country has only indicative value and has no legal enforcement.”

The ministry official in a communication to the Prime Minister also said the exercise of categorisation Category A and B areas is in no way substitute to the statutory powers conferred to the Forest Advisory Committee (FAC) under the Forest Conservation (FC) Act 1980. For every project in forestland, approval of FAC is mandatory.

“The provisions under the Act do not provide freedom to communicate the acceptance of any forest land for use of non-forestry purposes without passing through the statutory process,” the official argued.

This has put a big question mark on the environment ministry's move to demarcate go and no-go areas, which, if implemented could imply an outright loss of 600 million tonnes of coal production annually.

The power ministry had requested the environment ministry to consider enlisting the coal earmarked for the Orissa Ultra Mega Power Project in the go area. As per the joint exercise carried out by the environment and coal ministries, Meenakshi A was in the go area, Meenakshi B in no-go area while the third one was on the borderline.

The view of the ministry has settled the question that the categorisation is just indicative and does not mean automatic clearance for mining projects in go area.

It can result in more trouble for coal minister Sripal Singh Jaiswal, who has opposed the categorisation.
ArcelorMittal in JV talks with Indiabulls for steel project

NEW DELHI, 6 SEPT: ArcelorMittal, the world’s largest steel maker, is in discussions with Indiabulls Group to form a joint-venture company for scouting and mining iron ore in Rajasthan and setting up a steel plant.

“The discussions are on (between ArcelorMittal and Indiabulls to form a JV company). ArcelorMittal is pitching for a majority stake in the JV company,” a person in the know of the development said.

“There are indications of iron ore in Rajasthan. It is a mineral rich state. The JV company would seek to locate and develop it. Then, a steel plant would be developed in the state,” the source said.

According to the source, the JV would be between an ArcelorMittal subsidiary or an investment arm of the Mittal family and an Indiabulls Group firm.

ArcelorMittal chief financial officer Mr Aditya Mittal is said to be the brains behind the proposed venture, which aims at tapping the market for steel in north India where there is no integrated steel plant.

“Promoters of ArcelorMittal and Indiabulls share a good relationship and the new venture would further their partnership,” the source added.

Through LNM India Internet Ventures, it is said that Mr LN Mittal already holds an 8.79 per cent stake in Indiabulls Power, which is developing various power projects across the country.

State-owned SAIL has already discovered iron ore deposits in the desert state. The proposed investment in the JV could not be immediately ascertained. An ArcelorMittal spokesperson did not revert to query on the cost of the proposed venture.

ArcelorMittal had in July said it expected to start work on one of its proposed Rs 1.3-lakh crore India projects in early 2011. pti
TAPPING POTENTIAL

CIL looks for opportunities to expand mining outside India

The company expects its shares to get a valuation comparable with the world’s biggest private coal miner

By Aneek Paul
aneek.p@livemint.com

Over the last 10 years, the price of coal in India has grown at a compounded rate of 4.9% a year. It is one of the key successes of Coal India Ltd (CIL), the state-owned monopoly coal miner, according to chairman P.S. Bhattacharya.

Because CIL could manage prices well, power tariffs in India didn’t rise at the same pace as demand for electricity, says Bhattacharya.

Coal in India is now priced at $22-23 (Rs.1,023-1,060.5) a tonne, whereas coal imported from Indonesia is selling for $45-50 a tonne. Ten years ago, the situation was the opposite: imported coal was cheaper than coal mined by CIL.

Indian coal isn’t washed and so sells for less than imported coal, yet, the difference in prices shows the “inherent competitiveness” of CIL, according to Bhattacharya, who says the super-run company doesn’t increase prices unless there’s an “extreme cost push”.

Key to the turnaround of the company was the management of resources, according to another CIL official, who did not want to be named. The turnaround happened over the last 20 years.

In 1991, CIL had accumulated losses of around Rs.2,500 crore and owed the government Rs.2,300 crore.

“For CIL, which has an estimated coal reserve of 64 billion tonnes, resources were never a problem,” he says. “What has changed is how the resources are managed.”

Its reserves make CIL the world’s biggest coal miner. Reserves have been proven as extractable will survive at least 50 years if the company continues to mine 400-450 million tonnes of coal a year.

Alongside, it has at least Rs.9,000 crore in cash reserves at a time when funding is one of the key challenges for mining companies.

With bank loans becoming more complex, costlier and harder to obtain in 2009, mining companies across the world have turned to selling shares to address working capital needs and to pay down debts, according to consulting firm Ernst and Young (E&Y).

But as a result, “the focus has shifted from growth by acquisition to more balance with organic growth,” E&Y said in a report earlier this year.

With enough coal to extract from its existing mines for at least 50 years, and so much cash in hand to expand operations within and outside India, CIL expects its shares to get a valuation comparable with Peabody Energy Corp. of the US—the world’s biggest private coal miner. The Union government is selling 10% of CIL’s shares through an initial public offering.

Over the last 10 years, at least two companies—Brazil’s Vale SA and China Shenhua Energy Co.—have emerged as key global firms, whereas a decade ago they were not of such significance on the world stage.

The turn now is for Indian miners to emerge as global companies, says consulting firm KPMG, which describes India as the dark horse.

“India currently has a very fragmented public mining industry with massive state-owned mining companies and it is entirely possible that a new global player could emerge from India,” KPMG said in a report released earlier this year.

Already India, along with China, has emerged as the key driver for global commodity demand, according to KPMG.

“There are currently 1.6 billion people around the world with no access to electricity,” it says in its report.

“The International Energy Agency (IEA) is forecasting a 45% increase in global energy demand by 2030. Together, China and India represent over half of this increased demand.”

Like most other miners in India, CIL is now looking for opportunities to expand mining outside the country. “But we are conservative,” says the CIL official quoted earlier.

Recently, in consortium with another government-owned company, CIL made a “modest bid” for an asset abroad and lost out to a more aggressive bidder.

“But it wasn’t long before the bidder began ruing its decision to bid so much,” adds the CIL official.

That’s a sign of maturity and pretty much in line with what equity investors in mining companies want, says E&Y. “After experiencing the risks involved with over-leveraged investments, equity investors have begun to accept lower rates of return for more conservative balance sheets,” E&Y says in its report cited above.

But in terms of technology, CIL trails global leaders. Though it has huge virgin and easily extractable reserves, it is looking to partner global metal and mining giants to revive abandoned mines and extract coal from deeper beds.

Though the long-term prospect of India’s mining industry remains “very positive”, the sector as a whole is yet to achieve its true potential,” says Shrinivas V. Dempo, chairman of the Dempo group, in a study released by industry lobby Confederation of Indian Industry late last year.

There’s need for significant inbound investment for Indian miners to improve efficiency, say analysts.

For instance, IEA has projected India could be importing as much as 220 million tonnes of coal a year by 2030 if things didn’t change.

“With its regulations and rules on local ownership of resources, India has been a difficult market to invest in, but it needs inbound investment and there needs to be some regulatory sorting out of hurdles in the long term,” says SeanTierman, partner at KPMG’s UK firm in a recent report.

“At the long term, we should see more outbound listings from Indian groups and Indian groups buying non-Indian assets,” he adds.
INNOVATION FOCUS HOLDS THE KEY

The Indian metals and mining industry is competitive if financial performance is the key determinant. While the global mining industry has had a history of 15-20% net profit margins in the last five years, the best being 26-27% during the boom times of 2007-08, Indian miners had their margins up at 35%. A similar performance is seen in shareholder returns. Metal companies with captive mines have also performed better than global peers and some Indian firms have set the benchmark for low-cost production.

However, this does not bring much cheer when underlying factors are analysed. The competitiveness of Indian mining is primarily factor-driven and that of the metals sector, to a certain extent, efficiency-driven. Low-cost labour has been the fulcrum of this competitiveness. There have been nuts-and-bolts types of innovation that have led to extended equipment life, but none that can qualify as a driver of competitiveness.

Unfortunately, lower environmental and social compliance costs have also been the reason for the current level of high competitiveness in the industry. However, if recent events are any indicators of future policy and legislative initiatives, the cost of sustainable development for mining and metals projects is likely to rise substantially.

The mining sector, which has been dominated by government-owned firms, has had easy access to reserves and has focused on shallow deposits, extracting them with surface mining method. Deeper resource bases and environmental concerns will force the industry to go largely underground. Technology adoption will not be an option. The relatively more efficient metal sector, too, has realized the need for technology improvement and that is reflected in the spike of joint ventures formed with Japanese and Korean manufacturers. The metals sector, too, has been clamouring for captive mines, duties on ore exports, lifting of import duties on raw materials and other incentives. Some of these may be justified to keep Indian metal products competitive, but a hard look at the resource optimization and process improvements may do the sector long-term good.

Competition has been skewed in the metals and mining industry. Statutes and policies have kept competition at bay from the large government-owned companies. Foreign mines have been waiting in the wings eternally for entry into lucrative coal and iron ore mining. In coal mining, captive mining will have led to inexperienced power generation companies, many of them state-owned financially weak utilities, getting coal blocks. This has led to sluggish development of coal mines.

The recently approved competitive bidding process for resource allocation is likely to result in transparency, but will keep the degree of competition low until the restriction on captive consumption is abolished. A large number of participants with no restrictions on fair transactions will help large-scale private and foreign investment, and help build global competitiveness. The enactment of the Coal Mines (Nationalization) Amendment Bill, 2000, may be a step in that direction.

The metals and mining industry can be truly competitive if the long term, given the large pool of natural resources, keen entrepreneurial spirit, healthy financial position and availability of talent. The industry, however, needs to focus on innovation, to be agile enough to adopt stringent sustainability standards and respond to the opportunities that growth presents.

Dipesh Dipu is an independent metals and mining sector consultant, a mining engineer from the Indian School of Mines and a chartered financial analyst.
**Decision on Vedanta, Cairn in 4-6 weeks**

*New Delhi* : India will take a decision on whether to approve Vedanta Resources Plc's deal for control in Cairn India Ltd in four-six weeks, oil minister Murli Deora said on Monday.

Last month, Vedanta said it had agreed to spend up to $9.6 billion (₹44,460 crore today) to buy a majority stake in Cairn India from UK-based Cairn Energy Plc. The deal needs government approval because Cairn India has production-sharing contracts with the government for oil and gas exploration blocks. According to the agreement, any ownership change will need federal approval. **REUTERS**