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Auction Mania

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FIRST PHASE OF MINERAL AUCTION BY OCT-NOV

Mining being a state subject under the Constitution, auctions will be conducted by the states and the central govt's role will be limited

The much-awaited auction of mineral-bearing mines, including with iron ore and bauxite, is expected to start from October-November with the Centre handing over a list of 58 explored blocks to 12 producing states.

"Mines auction is expected to begin from October-November. MECL has handed over reports of 58 blocks, which can be auctioned immediately, to states," Steel and Mines Minister Narendra Singh Tomar told reporters here.

Tomar said auction of minerals comes under the domain of states and the Centre has facilitated ground for auction by bringing in transparency and addressing problems in procedural delays.

The state governments will have to do field work besides other formalities before auctions, Tomar told reporters on the sidelines of a CII event here.

The Centre has spent Rs 350 crore on detailed exploration of 155 blocks. The Mineral Exploration Corporation Ltd (MECL) has identified 560 million tonnes of mineral resources in these mines.

"Mines auction in 12 states is expected to begin by October-November and the second phase will take place in another one year," Mines Secretary Balvinder Kumar said.

Tomar said the system of deemed renewal of mines have been done away with and the mines auctioned "will be given for 50 years so that they don't have to run."

Parliament passed the Mines and Minerals (Development and Regulation) Amendment Bill, 2015 in March, paving the way for auction of mines containing minerals such as iron ore, bauxite and limestone.

In the first ever sale of coal mines this year, the government garnered over Rs 2 lakh crore by auctioning just 29 blocks in two phases, surpassing the presumptive loss of Rs 1.86 lakh crore estimated earlier by the Comptroller and Auditor General (CAG) for allotment of mines without auction. Tomar said a new Mineral Exploration Policy was also on the anvil and for this the government would constitute a committee, headed by Additional Secretary, Mines.

"We will form a Committee, headed by Additional Secretary R Sridharan. That committee will hold talks with stakeholders and whatever be the conclusions, based on that we will work further. The timeframe however has not been decided but the policy will come out soon," Tomar said.

The minister said to give thrust to explorations, where barely 10 percent area could be explored in the last 68 years in India compared to 100 percent in countries such as China and Australia, special provisions have been made in the Act.

"We have made National Mineral Exploration Trust. Presently only GSI and MECL are the only two institutions which were doing explorations. We have increased the number and included the PSUs of central and state governments in this like NMDC and SAIL. But without including private sector it cannot be completed. We are thinking on this," he said.

The Minister said the National Mineral Exploration Trust is likely to get Rs 300-500 crore as investment every year.

Tomar said the government plans to increase contribution of mining sector to the GDP from present about three percent to six percent.

On percentage of royalty to Mineral Development Funds, he said, "We are discussing on percentage of royalty for Mineral Development Fund. We will decide soon."

Mining affected areas would be developed and DMF money will be used for the affected people besides development of affected states, he said.

Tomar said steel sector was facing problems but the government was serious to address these issues.On import duty on steel, he said any decision will be taken by the government in view of the prevailing situation.

Last month, Tomar had said that the Centre is working with states to start by year end auction process for about 200 mines containing minerals such as iron ore and bauxite.

As mines is a state subject, auctions will be conducted by States and the central government's role will be limited to framing the rules that are to be followed in the process.

Union Mines Ministry has identified 199 such mines that can be allocated through the auction route. They are located in mineral-rich states like Rajasthan, Jharkhand, Madhya Pradesh, Chhattisgarh, Karnataka and Odisha.

GOVERNMENT INVITES AUSTRALIAN FIRMS TO PARTNER IN DEVELOPING MINING SECTOR

Steel and Mines Minister Narendra Singh Tomar today invited Australian companies to partner with their Indian counterparts to develop the domestic mining and exploration sector.

Tomar in his inaugural address at the Asia Pacific International Mining Exhibition (AIMEX) 2015 in Sydney today said that India and Australia can forge mutually beneficial relationships, an official statement said.

The Minister is leading a delegation, comprising heads of mining organisations and ministry officials to AIMEX 2015 -- the world's largest mining exhibition, it added.

"The total trade between India and Australia in 2013-14 was to the tune of 15 billion Australian dollars. We are hopeful that by forging mutually beneficial alliances, India will go on to feature in the top ten trade partners of Australia," the statement quoted the Minister as saying.

India Day event was organised at the four-day exhibition with the objective of inviting proactive partnership of miners and explorers from across the world in the Indian mining industry, the statement said ..

Geo Science Australia (GSA) and its Indian counterpart, Geological Survey of India (GSI) today signed a MoU (memorandum of understanding) for 'Cooperation to develop short term and medium term roadmap for GSI in technology infusion, capacity building and efficiency improvement', it stated.

Under the collaboration, GSA will work closely with GSI to help it attain global benchmarks in exploration work. Acting CEO of GSA James Johnson and GSI Director-General Harbans Singh exchanged the MoU document in the presence of Tomar.

India's High Commissioner in Australia Navdeep Suri was also present at the inaugural event.

Tomar also launched an e-book on exploration, which can serve as a detailed guidebook for investors looking at India.

Presentations were also made by chiefs and senior representatives of NMDC, Coal India, MECL, NALCO, MOIL, HCL and Rio Tinto.

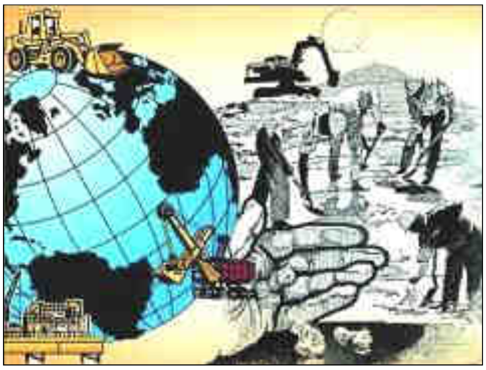
Together, 'Team India' presented the prospects of investment and partnership to a galaxy of participants attending AIMEX 2015, the stat ement said

GOVERNMENT NOTIFIES NORMS FOR NATIONAL MINERAL EXPLORATION TRUST

The government has notified the setting up ofNational Mineral Exploration Trust (NMET), which will look into the ways to encourage exploration of mines and minerals in the country.

The trust will be headed by the minister of mines.

At present, mining exploration work is undertaken mainly by GSI, Mineral Exploration Corporation (MECL), Atomic Mineral Directorate of Exploration, Department of Atomic Energy and State Directorates of Mining.



The government has decided to include more entities in the exploration work such as NMDC, SAIL and MOIL, a move that will help India tap potential in this area more efficiently.

The objective of NMET is to use the funds accrued to the Trust for the purposes of regional and detailed exploration in such manner prescribed by the Central Government.

As per the NMET norms, the trust will have a governing council as its apex body that will have the Mines Minister as the Chairman.

There will also be an executive committee, headed by the union mines secretary, to look after the day-to-day functioning of the trust.

As per the government notification: "Governing body will lay down the broad policy framework for the functioning of the trust and review its working. Executive Committee shall manage, supervise and administer the trust and shall also monitor and review expenditure of the trust..."

Besides the mines minister, the governing body will have petroleum minister, coal minister, minister of state for mines, five state mines minister by rotation, union mines secretary and special invitees.

Executive Committee will comprise of a Joint Secretary level officers from the Department of Atomic Energy, Coal, Petroleum, Mines, Director General of Geological Survey of India, Controller General of Indian Bureau of Mines among others.

For funds, the Mines and Minerals (Development and Regulation) Amendment Act, 2015 says: "The holder of a mining lease or a prospecting licence-cum-mining lease shall pay to the Trust, a sum equivalent to two per cent of the royalty paid in terms of the Second Schedule, in such manner as may be prescribed by the Central Government."

FIRST MEETING OF NMET IN SEPTEMBER TO DISCUSS FUND UTILISATION

The first meeting of the recently notified National Mineral Exploration Trust (NMET) will take place next month to discuss the utilisation of its funds.

Last week, the government notified the NMET, which will look into the ways to encourage exploration of mines and minerals in the country.

"We have constituted the NMET. Under the trust, there will be a governing council, headed by the mines minister and an executive committee, headed by the mines secretary

"In may be three weeks time, a meeting of the executive committee and then a meeting of governing council will be called and we will take decisions about the utilisation of funds. These funds will be levied with effect from January 12, 2015," Mines Secretary Balvinder Kumar told PTI.

The Ministry will ask states to levy two per cent of royalty for the NMET and transfer the funds to the trust, he added.

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According to sources, NMET can have funds to the tune of Rs 400-500 crore. Kumar said the Mines Ministry is also working on framing policy for mineral exploration.

"We will be announcing the National Mineral Exploration Policy very soon. For this, we have constituted a drafting committee headed by Additional Mines Secretary R Sridharan. We have given two months time to consult states and stakeholders and submit draft exploration policy," he added.

Government aims to create a policy that will encourage the participation of private sector in exploration. It seeks to increase contribution of mining to GDP to grow from 2 per cent to 6 per cent.

KARNATAKA TO ASSESS RESERVES IN 15 MORE MINES IN C CATEGORY

The Karnataka government has finalised a list of 15 more mines in C category for exploration in the second phase, while directing the state-owned Mineral Exploration Corporation...

The Karnataka government has finalised a list of 15 more mines in C category for exploration in the second phase, while directing the state-owned Mineral Exploration Corporation (MECL) to complete the exploration of reserves by June 2016.

The move comes after the Supreme Court recently allowed the state government to auction the first 15 mines in C category within 32 weeks.

“We have set in motion the process for auctioning 15 mines in C category. The preparation of tender documents are currently going on and we will complete auction as per the rules published by the government of India within the deadline set by the Apex Court,” Nilaya Mitash, secretary of mines in Commerce and Industries Department, government of Karnataka, told FE.

The central empowered committee of the Supreme Court has classified mining leases in Karnataka into three categories of which the most illegal ones have been clubbed under C category mines.

In the second phase, MECL will conduct exploration in 10 mines in Ballari, two mines in Chitradurga and three mines in Tumakuru districts. They include S B Minerals, Bharat Mines and Minerals, Mysore Minerals, Trident Minerals, Rajapur Mines, Mysore Stone Ware Pipes and Potteries and Shanthalakshmi Jayaram among others.

He said the government has asked MECL to carry out exploration in another 15 mines in the second phase and complete it by June 2016. During the third phase, exploration will be conducted for another 12 mines, while the remaining nine mines under the C category will not be explored due to small size as recommended by the Supreme Court.

According to industry estimates, these mines could possess around 200 million tonne of iron ore. The exploration is carried out basically to ascertain the exact quantity of iron ore reserves left in these mines before they are auctioned to end users through a transparent bidding process.

The Supreme Court, in its order dated April 12, 2013, had directed the Karnataka government to cancel the leases of 51 mines under C category because of rampant illegal mining.

TOUGH BUSINESS CYCLE PLAGUING INDUSTRY WILL PASS SOON, SAYS NMDC CHIEF KOTHARI

State-owned mining major NMDC Ltd is optimistic about the iron ore mining and steel industry, and says the tough business cycle it is currently going through will end shortly.

Expressing concern about the low prices ruling globally and slackened demand in the steel sector, Narendra Kothari, NMDC Chairman and Managing Director, said: "Yet we are on track to achieving the targeted output of 35 million tonnes (mt) and sales of 38 mt this financial year even though the market has been tough."

On the sidelines of a conference here, Kothari told BusinessLine: "The first quarter ended June 2015 has been tough for not just NMDC but also for all steel companies.

"This is due to two major concerns — one, there is lower demand for steel and the iron ore required for its production from steel plants, and two, the lower demand has also brought down prices to unprecedented levels."

Steel dumping

Also, the country is witness to rampant dumping of steel from markets such as China, Korea and Japan, adding to the domestic industry's woes.

With the demand coming down, the pricing power is also missing in the market. The price of iron ore has dropped from $110 last year to around $50 per tonne.

This means the overall revenues are down and the margins too have been impacted, he said.

However, Kothari is optimistic for the industry. The Centre is making efforts to boost various sectors, which would help the mining sector, too, he reasoned.

Production target

The NMDC chief added that his company is committed to the production target and will ensure adequate supplies to various customers.

"We are also exploring some potential venture with Mishra Dhatu Nigam Ltd and see how our expertise in mining could work together in developing specialised products. It is still in the exploratory stage and we are in discussions," he explained.

Asked about the steel plant coming up at Nagarnar in Chhattisgarh, Kothari said the erection of the 3-million tonne per annum steel project will be completed by December 2016 and production started soon thereafter. The plant is part of an expansion project taken up with an outlay of over Rs. 15,500 crore.

COAL BLOCK WINNERS TO GET STATE MINING LEASES SOON

State governments are set to grant mining leases for all the coal blocks awarded during the first phase of auctions in next one month, paving the way for production to start from these operational mines, which have been lying unutilised in the absence of statutory clearances.

The move will be a big face-saver for the centre, grappling with clearances for the auctioned coal blocks, though it was swift in conducting the auction and allotment of producing and near-producing coal mines in February-March. The-se mines were scheduled to start production from June.

"There is no problem as far as the centre is concerned, as prior environment and forest clearances (EC/FC) were taken for all coal mines auctioned in the first phase.

The transfer of coal mines to new owners is getting delayed at the state level, but even that matter has been resolved with mining lease of at least 14 coal mines to be cleared over the next two weeks," said a top official in the coal ministry privy to the development.

The delay from states is on the grant of mining leases, clearing boundary of mines and mutation of land, pollution certificate and state-level forestry clearances.

Of the 24 producing coal blocks (schedule-II coal blocks) that were auctioned and allotted (to public sector entities) in the first round, only about six are operational with a production capacity of 2.5 mt of coal per annum or 25 per cent of coal reserve in auctioned blocks. Two to three blocks are expected to start producing in couple of week's time while others are still awaiting all clear from state governments.

All the producing coal blocks were operational when a Supreme Court order in August 2014 cancelled all captive coal block allocations. Even after cancellation, the earlier owners of the operational blocks were allowed to mine coal till March and pay Rs 295 per tonne as penalty.

"The delay is resulting is loss of coal production that could be used by power, steel and cement companies. But mining companies are helpless, as the new owners need to take about 19 clearances before any productive activity can start," said an official of private sector power company that had bid for a coal block in the recent round of auctions. (Continued on Page 5)...

According to the timeline finalised by the coal ministry, winners of coal block auctions were to secure all statutory permissions within three months of signing the vesting orders.

These orders were issued to all owners of producing mines in March. Subsequently, the block owners were required to adhere to a mining plan that was to be finalised within six months of vesting orders. "There are cases of genuine delays over procedural issues. We would consider extending this deadline on a case to case basis," said Vivek Bharadwaj, the nominated authority designated by the coal ministry for auctions.

Under the rules of auction, any delay in getting clearances on part of mine owners could result in penalties and forfeiture of performance security submitted by the winning bidders. The government is focusing on getting clearances for the 16 operational coal blocks, which have been auctioned so far, before moving to others.

Among the mines that have started production is Parsa East & Kanta Basan (this block has been allotted to Rajasthan Rajya Vidyut Utpadan Nigam), Amelia North with Jaiprakash Power Ventures, Belgaon block with Sunflag Iron and Steel, Talibara - I with GMR Chhattisgarh.

Under the first three rounds, the coal ministry has auctioned 32 blocks to private companies and garnered over Rs 2 lakh crore, surpassing CAG's loss estimate of Rs 1.86 lakh crore in allotment of mines earlier without auction.

In addition, 38 coal blocks (both producing and near producing ones) have been allotted to central and state-run utilities.

POSCO, UTTAM GALVA TO SET UP $3 BILLION STEEL PLANT IN MAHARASHTRA

South Korea's Posco on Tuesday joined Uttam Galva group to set up an estimated $3 billion steel plant in Maharashtra — the first Indian facility for the global giant whose $12 billion proposed project in Odisha has been stuck in regulatory tangles for a decade.

The 3 million tonne integrated steel plant at Satarda in Maharashtra would be set up by a joint venture (JV) where Posco will have 20 per cent stake while 80 per cent would be with Shree Uttam Steel and Power Ltd, an arm of Miglani family-run Uttam Galva Group.

Shree Uttam Steel and Power is owned by the co-promoters of Uttam Galva Steels Ltd, which is jointly owned by ArcelorMittal. Incidentally, NRI billionaire Lakshmi Mittal- led ArcelorMittal invested in Uttam Galwa after facing years of regulatory delays for its own proposed projects in India.

A pact in this regard was signed in Mumbai this morning between Shree Uttam Steel and Power and steel giant Posco.

"The MoA is the first step of a process to establish a JV between the two companies. To start with, Miglani family will hold majority stake of 80 per cent and POSCO will hold remaining 20 per cent in the JV. The terms will be revisited as the project progresses," Uttam Galva Steel deputy managing director Ankit Miglani told PTI.

The project will be set up with new technology from Posco and initially 1.5 MTPA project will cost $1-1.5 billion. It will be funded through bank financing and the company may also tap foreign sources.

A Posco India spokesperson said, "The total capacity is 3 MTPA which will be completed in two phases."

The debt equity ratio is 2:1 and the work on project will start in mid-2016, Miglani said.

The project will pave way for Posco's entry into the domestic market as it continues to battle regulatory hurdles for about a decade for its proposed $12 billion steel plant in Odisha.

Miglani said raw material - low grade iron ore — is readily available from Goa, which is near its plant.

"We have been associated with Posco across various aspects of the steel business over the years. Today's MoU signals our intention to further advance our collaboration with Posco to a higher level."

"This JV will help us to develop a world class integrated steel manufacturing facility in line with the with the government's 'Make in India' initiative," he said

ODISHA MINING CORPORATION TO FAST TRACK BAUXITE MINING TO RESCUE VEDANTA REFINERY

In its bid to rescue Vedanta's alumina refinery at Lanjigarh, the Odisha government has put its mining PSU Odisha Mining Corporation (OMC) on the job to start mining from Karlapat mines at the earliest.

Timelines have been set to achieve different critical milestones to commence bauxite mining from Karlapat which has 153 million tonne of proven reserve and 54 million tonne probable reserve. OMC aims to start mining activity from the mine from December 2016.

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"OMC has already applied for mining lease (ML) on 1800 hectares over Karlapat. The PSU has also set a mining plan of extracting five million tonne per annum of bauxite. The mining plan would soon be sent to the Indian Bureau of Mines (IBM) for approval.", said a senior government official.

The Centre, in March this year, had decided to allocate the Karlapat deposits to the state run miner following a request from the state government to reserve the mines in favour of the PSU.

The state government had sought reservation of the bauxite mines for 30 years, arguing that it will ensure fair and equitable distribution of the raw material.

Besides, the government felt such an arrangement will help accrue more economic returns for the state by way of royalty, taxes and dividend, thereby providing more funds for developmental activities.

OMC producing bauxite from Karlapat would also perk up raw material prospects for Vedanta whose Lanjigarh refinery is headed for closure mainly due to high sourcing cost of bauxite. The PSU has an agreement with the Vedanta Group for supplying 150 million tonne of bauxite for the Lanjigarh refinery.

To offer immediate relief to the refinery, the state government had also decided to approach aluminium producers like National Aluminium Company (Nalco) and Aditya Birla Group promoted Hindcalco Industries to arrange interim bauxite supplies.

ADANI LOSES KEY CUSTOMER FOR CARMICHAEL MINE IN AUSTRALIA

In a fresh setback for Indian mining giant Adani in Australia, one of its key customers Korean major LG said that it will not purchase coal from its controversial 16 billion dollar project while reports emerged that a leading bank may not fund the venture. LG had signed a letter of intent (LoI) to purchase four million tonnes of coal last year.

However, LG issued a statement yesterday saying, "The LoI concluded by and between LG International Corp and Adani Mining Pty Ltd was non-binding and is invalid as of July 21, 2015 in accordance with the expiration of the LOI".

The withdrawal of LG leaves just Korean group Posco as the only other external buyer, with a prospective 5 million tonne demand. More than half the production is earmarked for the Indian upstream company Adani Power.

Meanwhile, a Fairfax report claimed that National Australia Bank (NAB) has confirmed that it had no plans to be involved in the financing arrangements for Adani's Carmichael coal mine development. "NAB looks at all financing project proposals on a case-by-case basis," a NAB spokesperson was quoted as saying.

"We have a role to play in transitioning to a low carbon economy, we also believe we have the responsibility to fund projects that will secure Australia's energy needs now and into the future and coal has an important role to play in this," he added. Commenting on Fairfax report, Adani spokesperson said.

Adani emphatically rejects every aspect of Fairfax's characterisation of either the company's position or indeed that of NAB."

"NAB has indicated to Adani that the characterisation of its responses that 'you have related to Adani do not reflect the bank's position'," he said adding, "We again note that Adani has not sought funding from the NAB".

This latest setback to Adani's plan to build the world's largest thermal coal mine follows announcement by Commonwealth Bank of Australia last month that it was no longer financial advisor to Adani.

The latest moves by LG and NAB has been welcomed by several conservationists and other anti-mine groups. Green activists have criticised the project, arguing it could hurt marine life in the Great Barrier Reef because the coal would have to be shipped out of a nearby port.

Adani's Carmichael project has been stuck in the approvals process for the past five years.

It suffered a huge, unexpected blow last month when its federal environmental approval was set aside by the Federal Court.

VEDANTA IN A TIGHT SPOT AS GLOBAL METAL PRICE CONTINUES TO FALL

Not long ago, metal magnate Anil Agarwal said he dreamt of building Vedanta Resources into an integrated resources conglomerate in the mould of BHP Billiton and Rio Tinto, the world's largest miners, which have assets spread across continents. What a difference a few months make.

That dream and the empire's own fortunes are being seriously tested by a meltdown in global commodities and bureaucratic hold-ups in India.

The crash in global commodity prices — aluminium, iron ore and crude have fallen to their lowest since the financial crisis — threatens the viability of Vedanta's aluminium plants in India.

The company has already been forced to mothball its units in Chhattisgarh's Korba and Lanjigarh in Odisha (the sudden glut that ensues after a sustained price fall means commodities will take time to be absorbed). If that wasn't bad enough, a grand plan announced in June to merge Cairn India, the crude oil producer, with Vedanta is facing resistance from some minority shareholders. Vedanta also faces a tax demand of $3.2 billion by Indian authorities over its listing in 2007, which it has challenged in court.

Now Agarwal, a one-time scrap metal dealer who built his empire from ground up in less than three decades, faces a deluge of gloomy forecasts. True, he is no stranger to bumpy rides . But the collapsing metal and oil prices presents him with an unprecedented challenge. Blame it on China At the heart of Vedanta's troubles is the slowdown in China. In an interaction with ET on Friday, Tom Albanese, CEO of Vedanta, said: "China is not more than 20% of the world's economy. But when you think about commodities, it's (China) about 50%. So when China catches a cold, the world catches pneumonia."

The problem for Albanese, a former CEO of Australian miner Rio Tinto who joined Vedanta in September 2013, is that the Chinese shadow might loom for some time. In an August 27 note to clients on Vedanta titled 'Challenging Times Ahead', Dewang Sanghavi, a research analyst with ICICI Securities, wrote that the decline in London Metal Exchange base metal prices over the past months was signifi cant (see 'The Great Metal Crash').

The price meltdown is reflected in the plummeting share prices of Vedanta and Cairn. Another pressing concern is the rising Chinese exports to India. "In addition to muted prices, rising imports have adversely impacted prospects of the domestic aluminium sector," Sanghavi wrote in the same note to clients.

Vedanta has approached other shareholders in Cairn who hold 40% stake by offering one share of Vedanta for every share of Cairn, along with a 7.5% redeemable preference share, which implied a 7% premium then. This calculation looked feasible in June when the announcement was made but not so now because the Vedanta stock has been hammered to half its value and Cairn lost just half of what Vedanta lost in the recent market meltdown.

"Markets change," said Albanese, who believes that the deal is as important now as it was in June, when oil was at $65 a barrel. "We will continue to engage with our shareholders. The process will continue at the pace we had expected." People then called the company opportunistic, he said.

So did Agarwal get the timing wrong on restructuring? Monish Chatrath, a corporate restructuring specialist, said there is never any good time or bad time for restructuring and this is particularly relevant for the current scenario. "A completely different landscape is emerging globally. This may well be a good time for companies to consolidate."

Vedanta also faces a bureaucratic nightmare in Odisha. It has so far invested nearly `52,000 crore in Odisha on the specifi c understanding that the state will give it bauxite mines to make aluminium.

The mines never changed hands and the company was forced to import bauxite from West Africa. Albanese let slip in the conversation that he will spend time in Odisha this week to take stock of the immediate future of the group's manufacturing units.

When a copper smelter plant in Maharashtra earned the ire of environmentalists in the early nineties, he quickly shifted the manufacturing base to Tuticorin in Tamil Nadu. He was rebuffed by Canadian aluminium maker Alcan, which preferred to sell its Indian subsidiary, the then Indal, to Kumar Mangalam Birla's Hindalco.

Unfazed by these setbacks, Agarwal doggedly pursued growth by aggressively bidding and acquiring controlling stakes in state-owned Hindustan Zinc and Balco when the Vajpayee government put them on the block between 2001 and 2003. Under Vedanta, Balco and Hindustan Zinc ramped up production multi-fold (Agarwal has repeatedly expressed a desire to buy the remaining government stake in the two companies).

But this time Agarwal has little room to manoeuvre. The decision on mine allotment is taking time and prices of most commodities that his group produces are falling precipitously. complete ownership of Hindustan Zinc and the merger with Cairn would assuage some of the anxieties gnawing at his empire. Hindustan Zinc generates huge cash and Cairn has signifi cant cash reserves. That

(Continued on Page 8)...

cash could be used to pare debt at the least.

But Vedanta requires complete ownership of Hindustan Zinc and the merger with Cairn to be completed to access the cash. Given that the decision over Hindustan Zinc is stuck in a bureaucratic maze, it makes sense for Agarwal to press ahead with the Cairn merger, according to analysts. That's not to suggest Cairn India is without struggles. A cess on crude is hurting the company especially when prices are so depressed, according to Albanese. The company has been knocking on government doors to reduce the cess burden and allow it to export crude oil to get a "fair value" for its output. The government is reluctant to allow exports because 80% of India's energy needs are met by imports. A bright spot in this darkened backdrop is the go-ahead Vedanta has obtained from the courts to resume iron-ore mining in Goa, albeit in limited quantities

During the days of unbridled iron ore exports, the Goa operations generated huge cash for the group. A ban on mining put paid to those efforts. The resumption will be low-key as the company will keep production at a "relatively low level" until the courts relax the limits.

"If we operated at the cost structure at the time when mines were closed down, we couldn't afford to reopen," Albanese said. The company is engaging with its erstwhile Chinese importers of the ore, and is banking on its long relationship with China.

Albanese also called for a further reduction in export duty. "Restarting the iron ore business is not just to pay export duty or taxes but also to create jobs in Goa," he said, referring to the 10% duty on ore exports. The duty may force its erstwhile Chinese customers to opt for richer Australian ore at a more competitive price.

JSPL SUSPENDS WORK AT AUSTRALIA'S OLDEST COAL MINE

JSPL-controlled Wollongong Coal Limited (WLC) owns and operates Russell Vale Colliery and Wongawilli Colliery in the Southern Coalfields region of New South Wales in Australia.

Jindal Steel and Power Ltd (JSPL) on Tuesday said it is suspending work at the Australia's oldest coal mine, Russell Vale Colliery, due to "significant financial losses" and "operational difficulties". JSPL-controlled Wollongong Coal Limited (WLC) owns and operates Russell Vale Colliery and Wongawilli Colliery in the Southern Coalfields region of New South Wales in Australia. "Mining operations at the Russell Vale Colliery will be suspended and placed into 'Care and Maintenance', which will result in a reduction of the workforce by approximately 80 employees," WLC said in a regulatory disclosure. When contacted, a JSPL spokesperson said,

"Work force restructuring and rationalisation of man power has been undertaken at WCL, keeping in mind the present and emerging work load requirements." The acquisition of WCL is strategic to the Jindal Group in fulfilling its metallurgical coal (coke) requirements and the group remains optimistic about commencement of operations in the colliery in the near future, she added. "WCL is confident of obtaining the requisite approvals for longwall extraction in the Russel Valle Colliery and would soon commence operations," the spokesperson said. JSPL acquired a major controlling stake and management control of WCL in 2013 and has invested over USD 400 million in the mine in the last two years. On the decision to suspend work, WLC chief Executive Milind Oza said:

"This decision is not taken lightly and we have continually attempted to avoid this unfortunate situation by undertaking a series of workforce restructuring." With partial extraction of longwall 6 at the 128-year-old Russell Vale Colliery complete and the firm experiencing significant losses, ongoing operations at the Colliery are simply not sustainable at this point in time, he added. Oza said the firm continually attempted to avoid suspending work at the mine, which started operations in 1887, by undertaking a series of workforce restructuring.

"Wollongong Coal has been facing a tough operating environment for some time including ongoing delays in the approval of the company's Underground Expansion Project (UEP) and significant financial losses," Oza said. According to reports, the closure of the mine has come amid the company's failure to gain approval for expanding underground mining operations by state's controversial Planning Assessment Commission in April. WCL reported a loss of USD 199.2 million in the financial year to March 31, following USD 169.4 million loss in the previous year, media reports said. A small team will be maintained at the Russell Vale Colliery to undertake care and maintenance activities. WLC said it expects the UEP will be referred back to the Planning Assessment Commission for determination later this year.

COAL MINISTRY HAULS UP PUNJAB, KARNATAKA POWER UTILITIES

The Union ministry of coal has issued showcause notices to Karnataka and Punjab power utilities which were allottedcoal blocks for unauthorised appointment of a mining development operator (MDO).

Karnataka Power Corp-oration Limited (KPCL) and Punjab State Power Corp-oration Limited (PSPCL) appointed EMTA (formerly Eastern Minerals & Trading Agency) as their MDO to execute the mining of coal for power production rather than selecting through a tender process.

EMTA was also the MDO for these two state utilities when they owned the coal blocks, allocation of which was cancelled by a Supreme Court order in August last year. "We have asked the state to provide an explanation for taking such step. The guidelines for re-allocation of coal blocks have clearly mentioned that the MDOs are to be hired through a transparent process," said a senior coal ministry official. (Continued on Page 9)...

The Union government is also planning to issue advisory guidelines for appointment of MDOs this week. Under allocation guidelines, "public sector allocattee are allowed to hire MDOs for technical assistance in mining. However, a joint venture (JV) of any kind with a private company is not allowed." The guidelines also suggested MDOs be selected through a fair and transparent tender process. However, KPCL and PSPCL decided to appoint an EMTA as their MDO.

In some cases, while the mine was allotted to the states, the holding stake of the JV was with the private MDO. EMTA had around 74 per cent stake in the joint venture with these two state power utilities, when the Supreme Court order struck down the arrangement.

EMTA held the second largest tranche of coal blocks as MDO when it was allocated earlier through a screening committee route. Ujjal Upadhayay promoted EMTA signed JVs with seven states and held close to 74 per cent share. The coal reserves were estimated to be close to 1.7 billion tonne. EMTA is one of the key accused in the coal scam case for allegedly ignoring the clauses for forming JVs and getting pecuniary gain through the arrangement. MDO was supposed to be hired on contract.

The MDO appointment guidelines are suggestive and not mandatory, the government would come out with a proper advisory on MDOs. "We will issue suggestive guidelines, which are not mandatory on the states, to follow but abiding by these would prevent any legal ire or tussle later," said a ministry official.

KPCL was allotted a cluster of mines - Baranj I-IV, Kiloni and Manora Deep in Maharashtra - and PSPCL got Pachwara Central in Jharkhand. These mines would help the state power utilities run their power plants.

MDO GUIDELINES

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WINNERS BE DAMNED

The much-touted success of coal block auctions may turn winners, lenders and the economy into losers in the near future. It may even derail future auctions.

It was the classic win-win situation. The government raked in Rs 4,00,000 crore through the auction and allocation of coal mines early this year. The states would receive the bulk of this money over the next 30 years. India gained as the coal produced would lead to higher production of power, a key sector that could rev up theeconomy. The winning bidders felt confident that the allocations would not be unilaterally cancelled like the Supreme Court did with the previous allotments.

For the people, the auction hinted at the advent of transparent and non-corrupt governance, which then boosted the now-dented image of Prime MinisterNarendra Modi. Everyone seemed pleased with the results of the auction. The coal minister, Piyush Goyal, claimed that the government got the “honest value of the coal”. He added that the auction was “an open marketplace, the most transparent thing, all of you saw it minute by minute, second by second”.

Within months, however, the mindset and attitude changed. Private players hinted that the aggressive bidding would lead to problems in a few years. It would make some projects unviable, put further stress on banks’ bad loans, hike the cost of power (which used coal as fuel), and force policy changes. More important, the lessons learnt from the auction would change the nature of future bidding, and impact the proposed auctions of iron ore and other minerals.

A few critics said that the auction was as opaque as the previous regimes’ allotment on a discretionary basis. The auction, like the earlier policy, was restricted to a few bidders, there was lack of transparency in valuations, and it led to confusion in the coal and power (user) sectors. As one of them said, “UPA-1 and 2 were about crony capitalism that helped individuals. NDA-2 is about policy-led crony capitalism that will show its horns over the next few years.”

Why is the once-hyped auction being flayed? What changed the manner in which select sections thought about the auction? Why did it become difficult for the government to defend the auction? And how will the experiences in coal impact the auction of other mines?

Stress over viability

There were several factors that could transform the captive coal blocks, and the allied power plants (as users), into unviable entities. The first was that in some cases, the bidders went overboard, especially in the case of reverse auction. Reverse bidding was one when there was a ceiling price that reflected the notional value of the coal, say, Rs 500 a tonne. The bidders offered discounts on this price, say, Rs 100 or Rs 200. In simple terms, they priced the coal at Rs 300 or Rs 400.

If the discounts were manageable, the situation wouldn’t be grim. Some bidders went crazy. An article in www.scroll.in argued that Essar Power, a winning bidder, not only discounted the national

(Continued on Page 10)...

GEMCO KATI

value to zero but, in addition, offered to pay Rs 1,110 per tonne extra to the government. Its cost of coal came to Rs 1,500 a tonne if one assumed the actual expenses to be Rs 400 a tonne. Clearly, it would soon become unviable, or its power tariff would soar through the sky.

Second, the idea of a captive block is to have it near the user plant to cut down on transportation and other costs. However, in the coal auction, several bidders got coal blocks that were situated far away from their power units. Since the government does not allow sharing or swapping of coal among the miners, the fortunes of such coal-power entities would be the same as that of Essar Power. They would soon become unviable or forced to hike their tariff.

Finally, there were several business groups, which had several coal blocks, before the Supreme Court cancelled over 200 allocations in 2014. Some of these groups had invested in the allied user units, like power and steel. During the 2015 auction, they failed to win the earlier blocks; for example, Jindal Group's hold over coal blocks came down from 7-8 to just 1. It was obvious that several investments that it had made in the past few years would turn sticky.

Stress over bad loans

The Jindal case brings us to the larger question of looming and increasing nonperforming assets (NPAs) in the banking sector, especially in public sector banks. According to the finance ministry, the magnitude of gross NPAs stood at Rs 2,67,000 crore as on 31 March 2015. Credit rating agencies predict the quantum to rise by March 2016; they estimate the situation to get worse before it gets better. The central bank has issued several warnings on NPAs.

If one includes stressed debt, or loans that could go bad in the near future, the scenario is worse. Standard and Poor's, a global rating agency, has estimated that the level of stressed loans would zoom to over Rs 8,00,000 crore by March 2016. A sizeable percentage of this amount would turn into NPAs since corporate balance sheets in India are highly leveraged. Public sector banks are more vulnerable as their NPAs' levels were over 30 percent higher than their private sector counterparts.

Banks are especially concerned about the money they have lent to crucial sectors such as coal, power and steel. An estimated Rs 1,50,000 debt in the power sector could become NPAs over the next 12 months. A similar thing may happen in the coal sector, where the loans at over Rs 2,50,000 crore. The coal auction might prove to be another nail in the NPAs' coffin.

To begin, there was no clarity on how the banks would deal with loans given to coal miners who failed to win these blocks during the auction. Such owners would not be in a position to repay since they lost the mines. In such cases, the banks could not transfer the loans to the new owners, who would obviously not wish to be saddled with them. The banks could not insist that the old owners repay their loans from earnings from the coal-user plants, like power or steel.

MECL EYEING COMMERCIAL MINING FORAY, MINES AUCTION

Mineral Exploration Corporation Ltd (MECL) is looking to enter the commercial mining segment through joint ventures with public sector undertakings (PSUs) and also planning to participate in the mines auction. As part of its diversification plans, the government's mineral exploration arm aims to expand portfolio of services in the mining sector by preparing Feasibility Report (FRs), Detailed Project Reports (DPRs), mining and implementation of Lump Sum Turn Key (LSTK) projects .

"MECL is planning to expand its portfolio of services and is planning to make foray into the commercial mining sector by entering into JVs with other PSUs and participate in the upcoming mines auction expected to start later this year in October-November," he added.

Confirming the development, an official said MECL is looking at making geological reports for exploration projects on commercial and competitive basis as well as undertake geological, geo-chemical and geophysical surveys to establish exploitable reserves of various minerals.

Confirming the development, an official said MECL is looking at making geological reports for exploration projects on commercial and competitive basis as well as undertake geological, geo-chemical and geophysical surveys to establish exploitable reserves of various minerals.

"It is also looking at taking up exploration, development mining projects in association with other companies, which are likely to be from the public sector, but there are talks if the private sector can also be roped in," the official added.

Last fiscal, MECL carried out 4.09 lakh metres of drilling for minerals such as coal, lignite, iron ore, gold, copper, lead, zinc, limestone etc, which is the highest ever exploratory drilling in the company's history. Its financial performance was also highest since the inception.

(Continued on Page 11)...

In 2014-15, the PSU reported a net profit of Rs 26.24 crore and a revenue of Rs 234.31 crore. In the current fiscal, MECL expects a net profit of Rs 30.33 crore and a revenue of Rs 266 crore.

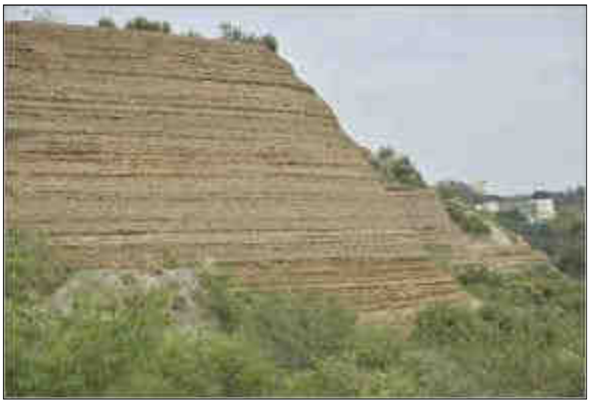
Since its inception, MECL has completed over 1,321 projects and established more than 1.5 lakh million tonnes of ores such as coal, lignite, bauxite, copper, gold, lead-zinc, iron ore, limestone, manganese, magnesite, chromite, among others.

It has also carried out exploration for coal bed methane (CBM), which can be effectively used in various sectors such as fertilisers and steel, and has diversified into mining and beneficiation of minerals, well drilling for CBM and sampling and analysis of coal stocks.

C'DURGA UNIT OF HUTTI GOLD MINES MAY BE REVIVED

The State government will revive the Chitradurga unit of Hutti Gold Mines if it is a financially viable option, Chief Minister Siddaramaiah said on Tuesday.

Replying to a query by G H Thippareddy (BJP) in the Assembly, Siddaramaiah said that ore from Ajjanahalli gold mine in Sira taluk of Tumakuru was being brought to the processing plant in Chitradurga for extracting pure gold. However, the plant was shut down in 2002 due to losses, after which 504 employees were provided financial assistance through a voluntary retirement scheme.



The government is ready to revive the Chitradurga unit if it is made a financially viable option through the use of new mining and extraction techniques, the chief minister said. He informed Congress member G S Patil that there was no formal communication from the Centre on the setting up of a Rs 5,000-crore steel manufacturing facility - a project planned by Steel Authority of India Limited (SAIL) and ArcelorMittal in Dharwad. SAIL and ArcelorMittal had signed a Memorandum of Understanding (MoU) in London this May for setting up a steel plant under a joint venture. Siddaramaiah said that the government would provide all support as per the provisions of its new industrial policy if the venture was set up in the State.

In a written reply to a query by S N Narayanaswamy (Congress), the chief minister said that MoUs had been signed with 245 major and medium industries for setting up units in the State. The total investment was to the tune of Rs 27,071 crore with a potential to provide employment to 29,500 people, he stated. In reply to a question by JD(S) member B B Ningaiah, Law Minister T B Jayachandra said that more than 12.5 lakh civil and criminal cases were pending in the Karnataka High Court and subordinate courts.

As many as 2.2 lakh cases are pending in the High Court and 1.19 lakh cases are pending in the chief metropolitan magistrate court in Bengaluru.

POWER PRODUCERS ALLOWED TO SOURCE FUEL FROM COAL INDIA VIA E-AUCTION

With pithead stock piling up at Coal India's mines due to lack of demand from contracted power sector buyers, the Centre has further relaxed norms for the power sector to source the domestic fuel.

By a notification issued on August 21, the Coal Ministry allowed CIL to open a dedicated window for e-auction of fuel to the power sector. A total of 10 million tonnes of coal, capable of generating nearly 2,000 MW, will be sold through the window this fiscal.

Any generation utility — including those having a fuel supply pact (FSA) with the coal major and the awardees of the recent auction of coal blocks — can buy the fuel through e-auction backed by sales contracts of varying tenure to either discoms or traders or power exchanges.

Coal India currently offers to supply up to 75 per cent of the fuel required (annual contracted quantity) by a utility to run the power station at 80 per cent plant-load factor (PLF) for a 15-year period. This is for utilities commissioned after March 2009. The FSA is given effect only against long-term power purchase agreement (PPA) entered by the generation company. And, since discoms are not showing much interest in entering long-term PPAs, many such plants are denied access to domestic coal.

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कोल इण्डिया
Coal India

Market making

Discoms are, however, showing interest in term buying to capitalise on low tariff opportunity in the open market. With huge capacities idling due to lack of demand, many private producers are ready to sell electricity at rates that merely recovers the fuel cost. However, non-availability of domestic fuel is further squeezing their survival opportunity.

The new coal e-auction window hopes to address the demands of both these segments. (Continued on Page 12)...

The gencos having long- and medium-term electricity sales contracts (beyond one year) are allotted half of the total e-auction quantity, at a minimum of 20 per cent premium (reserve price) over CIL's notified price. The rest will be offered to utilities having short-term contracts (less than one year) at a minimum of 40 per cent premium.

"The excess supply of electricity and projected growth in coal production make it imperative to steadily relax norms for availing domestic fuel," said an analyst associated with a multinational bank. He, however, warned that the success of the policy will rest on CIL's ability to push up production.

"Even if CIL reaches 850 million tonnes production mark (in five years), there will be sufficient fuel to meet domestic growth," he said.

Meanwhile, the auction will create an opportunity for CIL to boost profits that have been declining due to increasing quantities of low-margin sales through FSAs to the power sector.

A back-of-the-envelope calculation suggests 10 million tonne sales at an average premium of 30 per cent over the average CIL price of ₹1,295 a tonne (June 2015), will fetch the company an additional ₹300-crore revenue. The actual profits would vary depending on the quality of fuel sold.

JSPL LIKELY TO SELL CONTROLLING STAKE IN OVERSEAS MINES

The company would raise about $300 million in the next two quarters by selling such stakes, estimate analysts

The Naveen Jindal-led integrated steel producer and power company had debt of overRs.44,000 crore as of 30 June. Photo: Hindustan Times

Debt-laden Jindal Steel and Power Ltd (JSPL) is looking to sell a controlling interest in its Botswana coal mine in Africa and a mine under Australian subsidiary Wollongong Coal Ltd as it looks to reduce debt and not commit further investments in "development stage" assets, a company spokesperson said.

"The overseas assets where the divestment is envisaged are primarily the development stage assets which will require substantial further capex and the company is not committing any further capex," said a JSPL spokesperson in an email response to a query.

The company would raise about $300 million in the next two quarters by selling stakes in its overseas mines at a time when uncertainties in both iron ore and coal prices hurt its profitability, analysts estimate.

The $300 million amount would include $46 million in a settlement with the government of Bolivia for its assets there and $70 million for sale of an aircraft, wrote Barclays analyst Chirag Shah in his report.

Despite stress on commodities, the company is progressing well in efforts to divest the identified assets at a fair valuation, said the spokesperson.

The Naveen Jindal-led integrated steel producer and power company, which had debt of over Rs.44,000 crore as of 30 June, has since last year evaluated options including selling its mines in Africa and Australia, listing its subsidiary in Oman, and listing its power business in India to reduce debt.

Finding buyers for its overseas assets in a market that has seen global power producers face severe financial constraints will be a challenge for the company, analysts said.

JSPL, which last week reported its third straight quarterly loss, operates a 3 million tonne per annum (MTPA) coal-based sponge iron plant. It is faced with a lack of captive coal as its mines were deallocated from 31 March, forcing it to buy external coal at higher prices. Two-thirds of the company's 3,400 megawatts (MW) power capacity is either idle or running at very low plant load factor (PLF).

Sale of non-core assets and listing of subsidiaries are few of the options which "the company is vigorously pursuing to reduce debt in FY16", JSPL said in a statement last week without giving further details.

"They have been trying to sell these (overseas assets) for the past six to eight months. With more and more news of slowdown coming in from China, the sale call gets tough," said one analyst, asking not to be named as he is not authorised to speak with media.

"While it is good that JSPL has initiated the process to deleverage, given that commodity prices are at a multi-year low and coal producers under tremendous stress, it will be quite a challenge to sell these assets," said a second analyst, also requesting not to be identified.

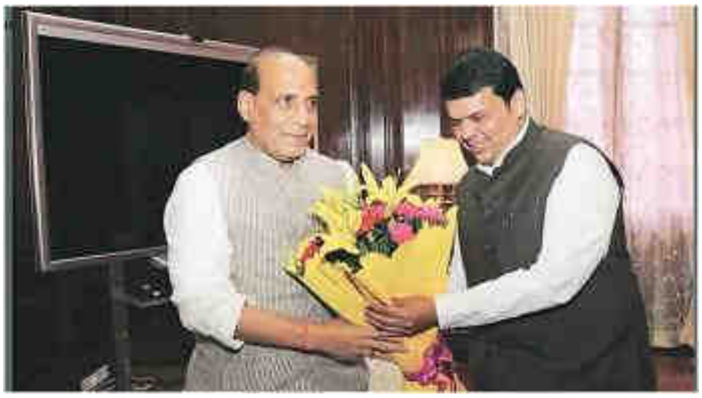
This month, the second largest US coal producer Alpha Natural Resources Inc. filed for bankruptcy protection. At least four other US coal producers, including Walter Energy Inc. and Patriot Coal Corp., have filed for chapter 11 bankruptcy protection in the past year alone.

Global thermal coal prices are at a five-year low amid a glut of the fuel and slowing demand from China, the world's biggest buyer; Australia's Newcastle coal, which is an Asian benchmark, has slumped to about $60 a tonne from as much as $136.30 in early 2011, Bloomberg reported last week.

TO SECURE MINING SECTOR, DEVENDRA FADNAVIS ASKS CENTRE TO INCREASE PARAMILITARY DEPLOYMENT : GADCHIROLI IRONORE MINES

Three major players - Lloyd Steel, Jindal Steel Works (JSW) and Ajanta Minerals - have lined up their projects in Gadchiroli's mineral rich regions of Surjagarh hills, Damkodvadavi hills and Agri Maseli. Locals are protesting the projects on the grounds that they will wipe out majority of forests without much social and economic benefit.

In a bid to push the stagnant iron ore mining sector in Naxal affected Gadchiroli district, Maharashtra chief minister Devendra Fadnavis on Thursday asked union home minister Rajnath Singh to increase deployment of security forces in order to secure the iron rich region. Naxal violence affected Gadchiroli has a forest cover of nearly 78 per cent which has 180MT of iron ore deposits out of the total 270MT iron ore reserves in the state.



Fadnavis met the home minister along with union transport and shipping minister Nitin Gadkari, union chemical and fertilizer minister Hansraj Ahir, Gadchiroli MP Ashok Nete and the region's guardian minister Raje Ambrish Atram. Speaking to reporters after their meeting, Fadnavis said, "Gadchiroli is mineral rich and along with mining we also want to push for setting up of industries to process the minerals. For that, we discussed as to how much additional security is required." The CM added, "We also want to impart skill training to local tribal youth to include them in this development process and along side a strong road network should also be in place."

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The naxals inflicted a body blow to mining companies in the region in June 2013, when they shot dead Lloyd Steel Vice President Jaspal Singh Dhillon, 61, a contractor and a Surjagarh resident at Surjagarh, near the company's steel plant. According to local activists who did not wish to be named, the Surjagarh resident Raju Sedmake was killed as he was seen a conduit of the company, who was trying to persuade villagers to give a nod for the mining project.

At present, only Lloyd has obtained licences to mine while JSW is yet to obtain licences to begin work. In the past few weeks, the CM also carried out a review meeting with top police officials, collectors of Gondia and Gadchiroli along with Nitin Gadkari. This meeting was a prelude to the CM's meeting with the home minister to present the action plan for making an industrial push in Gadchiroli.

Speaking to the dna after Thursday's meeting, Gadchiroli collector Ranjit Kumar said, "Our plans will focus on inclusion of locals in the mining and processing sector by way of providing them employment and skill training. We are trying to push for job creation by attracting investment for steel plants. Along side, we are also extending rail heads and connectivity between the district and Andhra Pradesh."