NOT FOR SALE

Geonesis

(A GEMCO KATI INITIATIVE)

Indian Mining & Exploration Updates

VOLUME 2, ISSUE 11 OCTOBER 2015

"EXPLORATION FOR NATIONS DEVELOPMENT AND PROSPERITY"
- NARENDRA TOMAR

Geonesis Volume 2 - Issue 10

www.geonesis.org

Linked in /company/geonesis--a-gemcokati-company

/geonesis

GEMCO KATI

EXPLORATION AND EXTRACTION OF MINERAL RESOURCES WILL LEAD TO DEVELOPMENT AND PROSPERITY, SAYS TOMAR

"Exploration and extraction of mineral resources leads to development and prosperity," said Union Mines and Steel Minister Narendra Singh Tomar in his inaugural address at Mining Mazma 2015, held in Bengaluru, Karnataka, today.

"Allocation of mineral resources through auctions will herald a new era in the mining sector," he added.

"Early stage exploration is funded the world over by the mining industry whose technological prowess, ability to invest and deliver is better than that of the state machinery," an industry representative told reporters here.

Though 100 percent foreign direct investment (FDI) is allowed in the mining sector and global firms are permitted to bid to explore and prospect minerals in the country, the new Mines and Minerals Development Regulation (MMDR) Act, however, mandates government approvals.

"As airborne surveys are estimated to cost a whopping Rs.4,000 crore, which is beyond the scope of the state-run National Mineral Exploration Trust, the government should extend budgetary support for assessing the mineral wealth in terms of quantities for prospecting and mining," said Federation of Indian Minerals Industry (FIMI) president H. Noor Ahmed..

taken by Ministry of Mines to revive mining in the country.

He outlined the steps taken by the government to kick-start auction process by the states. He also explained how advanced technologies will be used to bring rapid and large scale changes in the sector, including use of space technology to curb illegal mining, and use of mobile apps for real time information management.

Coal Secretary Anil Swarup delineated the substantial changes in coal sector in the last one year.

He pointed out how intensive consultations with stakeholders, streamlining industry linkages and process orientation facilitated the success of coal auctions, which has helped ensure availability of coal for domestic use, and in generating revenue for the exchequer.

Mining Mazma is a mining exploration convention and trade show being organised by FIMI on September 24-26, 2015 in Bengaluru.

The convention is being attended by over 400 delegates from participating organisations, besides other visitors.

Ministry of Mines, Ministry of Coal, seven state governments, six foreign countries and over hundred private and public companies are taking part in the event.

INDIA MUST HIKE SPENDING ON MINERAL EXPLORATION, SAYS INDUSTRY BODY FIMI

Despite having good geological prospectivity, the exploration spend in India is abysmally low, said H Noor Ahmed, president, Federation of Indian Mineral Industries (FIMI).

"India figures nowhere in the global exploration budget," said Ahmed, in his welcome address at FIMI's 'Mining Mazma' — a three-day mining exploration convention and trade show.

According to Ahmed, "While 14 per cent of the total world exploration expenditure was spent in Canada, 12 per cent in Australia, 6 per cent in China, India figures nowhere." Of the $10.74 billion spent globally, about 50 per cent was on gold exploration, 20 per cent on copper, 5 per cent on lead-zinc, 9 per cent on nickel, 4 per cent on diamond, 2 per cent on PGM, and balance 10 per cent on rest of the minerals.

Given the high odds and risks in exploration, India needs an attractive exploration policy which will encourage private investment and expertise. "Government should define a timeframe for base level geological data generation of potential areas. It should also provide comprehensive geological, geo-chemical and geo-physical data sets to facilitate investment as practised in countries like Australia and Canada," he said

(Continued on Page 2)..

High tax rate

"The mining industry in India is the highest taxed. The effective charge to a miner comes to approximately 60 per cent as compared with 35-40 per cent in other countries," Ahmed said. A business-friendly tax regime, he said, will encourage exploration companies to build large inventories of mineral resource and reserves of different grades.

Technology is another area of concern. Though mining companies getting more efficient, they are expected to gain more from automation and computer-linked systems. "Accurate data representing the geology, geo-chemistry, structure, shape location and size of the resource make a successful mine," Ahmed said.

"New mines capacities have to be opened up in order to cover the increasing demand for basic industries such as steel, power and cement. Most of the exploration activities in the country have been restricted to locating minerals within shallow depths mainly by government agencies," he added

PALSATECH – NEW INNOVATIONS FOR MINERAL EXPLORATION

Palsatech Ltd is a Finnish company providing mineral exploration services and products. The company was established in 2013. Kati Ltd, one of the biggest diamond drilling companies in Europe, is Palsatechs´ main partner and co-owner.

Palsatech exploits its comprehensive range of services which consists of latest technology. Companys´ best expertise is in geology and geotechnics. Together with its partners the company can offer the best available technology in the market. These technologies are for example UAV surveys, laboratory services and mobile facilities.

”We already have operations in Scandinavia and now we are looking for new markets outside Europe", says CEO Mika Alasuutari, who has worked within the mining industry in many mining companies for more than 15 years.

Mr. Alasuutari looking at drill cores near Chandrapur.

Palsatech has an ongoing market research project which aims to find out the potential for its services and products in Indian mining sector. As a part of this study the company made a visit toIndia. During the trip they visited the FIMI fair in Bangalore and had meetings with several companies. Furthermore they met contractors and potential partners.

”This trip helped us to better understandthe Indian mining sector and how it operates. We have a great interest in developing and creating cost-effective services in India. We have succeeded to create anew kind of approachin Europe and now we are looking forward to launch it in India as well." Mr. Alasuutari says with great enthusiasm.

Palsatech visiting the FIMI fair in Bangalore.

Palsatech has developed several new innovations and cost-effective mineral exploration services. The aim of the company is to provide more value for its customers.Geonesis will be introducing Palsatechs´ products and services in the following issues.

RECOVERY WILL START IN Q4, SAYS CII CHIEF

The economy will hit the growth path, riding on demand recovery beginning fourth quarter, according to CII president Sumit Mazumder.

"I think demand will pick up in the last quarter of this fiscal. That is a feeling I get based on my discussion with various quarters, based on actions taken by the government over the last one year or so,"

he told BusinessLine here in an exclusive interview on Tuesday.

While lauding RBI Governor Raghuram Rajan for beating market expectation by cutting the policy interest rate by 50 basis points to 6.75 per cent, Mazumder pointed out that it was not the interest rate but lack of demand that was causing an investment logjam.

"Manufacturing is showing early signs of recovery. Auto demand is picking up. Agriculture is down in some parts of the country but we have enough food grains in store. Wholesale and topline inflation are down. The environment is right. The only problem was big investments are not happening," he said.

Poll promises

Mazumder holds impossible poll promises and unrealistic expectations of the industry as the main reason for low sentiment and poor demand.

"There is a feeling that a lower interest rate will trigger investment. But there I disagree. I think investments are not picking up due to lack of demand that is stemming from high expectations...Perhaps they (Modi government) committed much more than what they were able to achieve. Hence the confusion," he said.

The CII president, however, added that the Modi government has done "much better than any government in the history of India could do" in one year.

He cites the series of steps the Centre took in bringing the coal and iron ore mining sector back on the rails, the 'innovative schemes' launched to ensure social security, improving access to information through the Digital India campaign, and its efforts to enhance 'ease of doing business'.

"The biggest grouse of investors is the difficulty of doing business in India. If we can solve this we will go a long way," he said, adding that the recent ranking will trigger a healthy competition among States in putting up a more investor friendly face.

But why is the industry not stepping up investments?

"The Prime Minister said the industry has lost its risk-taking appetite. I personally feel the industry is in wait-and-watch mode, because expectation was too high, (if not) unrealistic," the CII chief said.

Mazumder further said some actions of the government have started bearing fruit.

Exit route

In the road sector for example, contractors have started opting for the exit route offered by the government.

"The road sector is the biggest driver for growth. It was suffering because all the builders had laid stress on the balance sheet. Now they have started monetising assets. This will offer them much needed cash. You will start finding them bagging new contracts beginning last quarter," he said.

VILLAGERS FLOAT FIRM TO MINE COAL IN CHHATTISGARH

In an unprecedented move, around half-a-dozen villages in a Chhattisgarh district have floated a company to mine coal found in their land.

As many as 250 farmers in six villages in Raigarh district have handed over their lands to the newly-floated company, Geo Thermal Producers Company Limited (GTPCL), they have established, to launch a coal mining project in the area.

"Around 700 acres have so far been acquired by GTPCL from the local farmers to start the project. We are planning to launch the project on October 2, coinciding birth anniversary of father of nation Mahatma Gandhi," self-styled chairman of the GTPCL Harihar Patel said on Monday.

Locals have been agitating for the past three years demanding ownership of coal resource found in their villages. They have launched "coal satyagraha" three years ago based on the theme "our land, our coal". (Continued on page 4)...

According to Mr Patel, the newly-floated company would start mining of coal in the area from October 2 this year. The coal mined would be deposited in the local panchayat office.

"We will invite state mines department officials to fix royalty on our products and lift the coal by paying royalty fixed by the government", he added.

"We will not be deterred by any punitive measure by the state government for mining coal and continue mining of coal in our land", he added.

The company has in fact already started corporate social responsibility (CSR) activities by imparting computer training to the local villagers. When contacted a senior district officer said, "We will invite the villagers for a dialogue on issue"

SHOULD YOU INVEST IN METAL AND MINING STOCKS?

District Mineral Foundation (DMF)—some relief likely from lower rates. As per unauthenticated media reports, the central government will soon notify DMF contribution at 30% of royalty rates for existing miners and 10% for new mines. The rates are lower than the maximum possible rate of 100% for existing mines as per MMDR Amendment Act and will be a relief for miners, especially Hindustan Zinc, Vedanta and Tata Steel. We cut commodity price assumptions by 3-11% and incorporate our economist's revised Fx rate. We maintain BUY on Vedanta with target price of R165 (R185), HZ with target price of R190 (R205) and REDUCE on Tata Steel with TP (target price) of R205 (R225).

District Mineral Foundation: rates for existing mines can be notified at only 30% (of royalty)

As per media reports, the central government will soon notify the DMF rates for existing miners at 30% of the royalty amount and for new mining leases at 10% of the royalty amount (against maximum of 33.3% as per the Act). The lower-than-expected rates will decrease the regulatory cost burden on miners, especially in a weak commodity cycle. We highlight that even on assuming 30% of the royalty payment towards DMF, the burden of regulatory costs on Indian miners is high and it works out to 12-50% of revenues (excluding corporate tax) for different commodities such as zinc, iron-ore, etc.

The sharp decline in commodity prices means that even many of the efficient operations globally are operating at losses.

Earnings & fair value estimate for metal names at different District Mineral Foundation costs (of royalty amount) FY17e

Base case — DMF = 100% of royalty; Commodity prices = KIE* base case

	Revenues (₹ bn)	Ebitda (₹ bn)	EPS (₹)	Fair value (₹/share)
Hindustan Zinc	171	71	17.6	190
Vedanta	830	215	18.1	165
Tata Steel	1,585	161	16.6	205
NMDC	102	49	10.0	105

Case 1 — DMF = 30% of royalty; Commodity prices = KIE* base case

	Revenues (₹ bn)	Ebitda (₹ bn)	EPS (₹)	Fair value (₹/share)
Hindustan Zinc	171	82	19.8	210
Vedanta	830	225	19.8	180
Tata Steel	1,585	168	21.5	255
NMDC	102	58	11.6	120

Case 2 — DMF = 30% of royalty; Commodity prices = Spot prices

	Revenues (₹ bn)	Ebitda (₹ bn)	EPS (₹)	Fair value (₹/share)
Hindustan Zinc	151	64	16.4	180
Vedanta	760	165	8.9	85
Tata Steel	1,565	149	9	125
NMDC	86	45	9.4	102

Source: Kotak Institutional Equities estimates

Cut commodity price assumptions by 3-11%; retain BUY on Vedanta/HZ, REDUCE on Tata Steel

The depressed prices and continued operating cash losses should logically end in supply-side response from closure of inefficient capacities and support prices. However, overcapacity, weak demand and high inventories for a few commodities can delay recovery. We discuss commodity-specific fundamentals in detail in later sections.

We cut our commodity price assumptions by 3-11% for FY2016-18e . We revise our (i) zinc price assumptions to \$2,050/ton, \$2,100/ton and \$2,200/ton for FY2016e, FY2017e and FY2018e, (ii) all-in aluminium price assumptions to \$1,850/ton, \$1,950/ton and \$1,950/ton for FY2016e, FY2017e and FY2018e and (iii) crude oil price assumptions to \$60/bbl, \$65/bbl and \$70/bbl for FY2016e, FY2017e and FY2018e. We incorporate our economist's revised INR:USD rate assumptions of R64.9, R66.5 and R67 for FY2016e, FY2017e and FY2018e. We had baked in 100% of royalty amount as DMF contribution in our assumptions, which we maintain pending a final rate notification. Vedanta. We cut our FY2016-18 Ebitda (earnings before interest taxes depreciation and amortisation) estimates by 5-7% . The lower Ebitda estimate is due to cut in commodity price assumptions by 3-11% partially offset by lower INR:USD rate. We estimate EPS (earnings per share) of R16.7, R18.1 and R23.4 for FY2016e, FY2017e and FY2018e respectively. We cut our target price for Vedanta to R165 from R185 earlier. Hindustan Zinc. We cut our FY2016-18 Ebitda estimates by 8-11%. The lower Ebitda estimate is largely due to cut in zinc price assumption by 8-11% for FY2016-18e partially offset by lower

(Continued on page 5)...

INR:USD rate. We estimate EPS of R16.6, R17.6 and R18.8 for FY2016e, FY2017e and FY2018e respectively. We cut our target price for HZ to R190 from R205 earlier.

Tata Steel. We cut our FY2016-18 Ebitda estimates by 1-2%. The lower Ebitda estimate is largely due to cut in our China HRC price assumptions by 5-8% for FY2016-18e partially offset by lower INR:USD rate. We cut our target price for Tata Steel to R205 from R225 earlier.

Lower DMF rates—Hindustan Zinc, Vedanta, Tata Steel, NMDC can benefit

Various companies provided for DMF costs in Q4FY15 and Q1FY16 at rates varying between 50% and 100% of the royalty amount. We note that Tata Steel provided for DMF costs at 100% of the royalty amount, Hindustan Zinc at 50% while NMDC has not provided for DMF costs yet.

On assuming only 30% of royalty as DMF contribution, our Ebitda estimates will increase by 5-15%. We detail the company -specific impact as follows.

Hindustan Zinc. Hindustan Zinc paid royalty of R13.7 bn (9.3% of revenues) in FY2015 given high royalty rates on zinc (9.5%), lead (14.5%) and silver (7%). On assuming 30% of royalty amount for DMF, we estimate royalty and DMF costs of R21 bn in FY2017e against R31.7 bn based on 100% of royalty amount factored in by us. Our Ebitda estimate increases by 15% to R82 bn and fair value by 10% to R210/share from R190/share.

Vedanta. The royalty on bauxite is low at 0.6% of LME prices (metal contained) due to higher conversion costs (energy costs) and hence the impact of higher DMF costs on Vedanta is mostly limited to HZ and increase in coal costs, assuming a pass-on of costs to end-consumers. On assuming 30% of royalty as DMF amount, our Ebitda estimate increases by 5% to R225 bn and fair value by 9% to R180/share from R165/share.

Tata Steel. Tata Steel's cost will increase due to DMF pay-out at its captive iron ore and coking coal mines. Tata Steel paid a royalty of R11.3 bn/R8.1 bn in FY2014/15. On assuming 30% of royalty amount for DMF, we estimate royalty and DMF costs of R17 bn in FY2017e against R24.5 bn based on 100% royalty. Our Ebitda estimate increases by 5% to R168 bn and fair value to R255/share from R205/share. However, we highlight that spot steel prices are very low and Tata Steel's fair value at spot prices works out to R125/share assuming 30% DMF cost of the royalty amount.

NMDC. NMDC paid royalty of R13.9 bn (11.2% of revenues) in FY2015 given royalty rates of 15% on iron ore (royalty rates increased from 10% to 15% from September 2014). On assuming 30% of royalty amount for DMF, we estimate royalty and DMF costs of R17.6 bn in FY2017e against R27.1 bn based on 100% royalty. Our Ebitda estimate increases by 19% to R58 bn and fair value by 14% to R120/share from R105/share.

AUSTRALIA GOVT TO ENCOURAGE ITS COS TO PARTICIPATE IN INDIA'S MINES AUCTION

Australia has assured India on encouraging its mining companies including giants such as Rio Tinto and BHP Bilton to participate in the mines auction scheduled to commence in October-November.

The topic was discussed in a meeting held on Wednesday between Steel and Mines Minister Narendra Singh Tomar and his Australian counterpart, Minister for Industry, Science and Resources Ian Macfarlane, an official statement said on Thursday. Tomar is leading a delegation of the Indian mining industry to Sydney for Asia Pacific Mining Exhibition (AIMEX) 2015, one of the world's largest mining event.

Other members include Director General of Geological Survey of India, CMD NMDC, CMD MECL, and other senior officers from PSUs and Mines Ministry. "Through AIMEX, we want to showcase the mineral richness of India before a global audience. Further, we want to harness Australia's leadership in mining technology and exploration ability to strengthen mining in India," Tomar said in the statement.

The minister added that by year end, India will put up 82 blocks for auction, which includes minerals such as iron ore, gold and bauxite, among others.

"We urge you (Macfarlane) to identify and encourage Australian companies to participate in these auctions," Tomar said.

Responding positively to Tomar's proposal for enhancing exploration capabilities in the hitherto underexplored India, Macfarlene assured him that all support will be extended to Indian exploration and mining by both Geo Science Australia and Commonwealth Scientific and Industrial Research Organisation (CSIRO) Australia. Macfarlene assured Tomar that he will encourage Australian companies to participate in the upcoming mineral auctions in India. He also applauded the legislative reform carried out by the Indian government, the statement said.

"The reforms are happy news for our manufacturing industry because India is their focus," the statement quoted Macfarlene.

Expressing confidence in the Indian democracy and judiciary, the Industry Minister said that even the Australian private industry would look forward to collaborate with India. This is the third meeting between Tomar with an Australian statesman during his visit to the island nation.

Prior to this, he met Premier of New South Wales Mike Baird and Minister for Trade and Investment Andrew Robb.

ORISSA HOPES TO GENERATE RS 2000 CRORE AS MINES FEE

BHUBANESWAR: The State Government is expected to generate a revenue of about `2,000 crore by way of stamp duty and registration fees from the 26 mines whose lease period was extended as per the MMDR Amendment Act, 2015.

The State Government has executed supplementary lease deeds in favour of 10 iron and manganese ore mines in Sundargarh district and the remaining mines have been sent to the the Government for approval, official sources said.

After calculation of stamp duty and registration fees by the deputy directors of mines of respective mining circles, the same will be sent to the Revenue department for approval. Lease deed will be executed only after obtaining approval of the Government, the sources said.

During execution of the supplementary lease deed, the miners have to pay 5 per cent stamp duty on the royalty accrued out of highest annual extraction of mineral permitted under the mining plan to the lessees at the time of registration of the leased land.

Since the operation of the Indian Stamp (Odisha Amendment) Act, 2013, Rules and the consequent circulars issued by the Government for closure of mines over non-payment of the duty has been stayed by the Orissa High Court, the lessees have to give an undertaking that they would pay additional duty which is subject to the outcome of the final order of the court.

In the amended Indian Stamp Act of 2013, the State Government has revised the rate from 5 per cent to 15 per cent. This was challenged by more than 40 mining companies, including Federation of Indian Mineral Industries (FIMI), Steel Authority of India Limited (SAIL), Mahanadi Coalfields Limited (MCL) and Tata Steel.

Other conditions to operate mines include payment of net present value (NPV) dues and complying with the Supreme Court order to be pronounced in the final disposal of the cases relating to these mines as well as pending orders on recommendations of the MB Shah Commission of enquiry and the central empowered committee (CEC) on illegal mining in the State, the sources said.

The State Government has issued orders to extend the lease validity of 29 mines- 21 captive and eight non-captive mines. The Government has given three months time for execution of supplementary lease deed.

STATES STRUGGLE TO AUCTION EXISTING MINING BLOCKS

Finding new mining blocks is not the only challenge. States are struggling to auction even those blocks that have already been identified, the union mines ministry has said.

In a status report sent to the Prime Minister's Office (PMO), the ministry has said states need hand-holding and central PSUs would be roped in to fasttrack auctioning.

"We assessed the progress of different mineral-rich states, and found that most have neither the required manpower nor the technical expertise to carry out auctioning of identified blocks of major minerals in the near future," said a ministry official.

he ministry has identified MECON, a central PSU, for survey and documentation. MSTC and the Mineral Exploration Corporation Ltd (MECL), both Central PSUs, will help in providing auctioning platforms.

"Three states-Rajasthan, Maharashtra and Chhattisgarh-have moved ahead considerably and do not require our support in the initial stage. We expect that 80-90 blocks of major minerals would be put on auction in the first phase (mid- November 2015 onwards). We're monitoring the exercise on a weekly basis," the official said.

The blocks are of iron ore, Bauxite (for aluminium), lime stone (for cement), Manganese (for steel) and gold. Once they are auctioned, it would mean revenue worth thousands of crores of rupees to states, besides boost to jobs and exports.

Currently mining firms together pay Rs 20,000 crore as royalty to states where they are carrying out their mining activities. Commencement of new mines will also check costly imports of minerals and enhance exports of value added products.

In March this year, the Centre passed MMDR Amendment Act, which allows states to auction iron ore and non-coal mineral mines. States have also identified another 96 blocks, which will be taken up in Phase II.

THE GREAT INDIAN GOLD RUSH: MINES MINISTRY PUSHES TO RE-OPEN KARNATAKA'S KOLAR FIELDS AND EXTRACT GOLD WORTH RS 25,000 CRORE

All that glitters may soon be gold, and worth Rs 25,000 crore!

That's what the ministry of mines has set out to extract by reworking the grey-white waste hillocks at the abandoned Kolar Gold Fields in Karnataka.

Part of this treasure will also come from the mines themselves, still believed to have gold-bearing veins.

The ministry is pushing to revive India's only world-class gold mining operation, shut in 2001 because of mounting losses and depleting reserves.

But the government is buoyed by the latest assessment it has conducted on the extractable gold.

India is the largest importer and consumer of gold in the world with the imports of the metal standing at around 800 tonnes last fiscal.

But domestic production has dropped to a mere 1.43 tonne.

Reviving India's dormant gold mining industry is key to cutting the rising gold import bill and boosting the economy.

Started by British firm John Taylor and Sons in 1880, these mines were nationalised in 1956.

In 1972, they were handed over to the PSU Bharat Gold Mines Ltd (BGML).

Nearly 800 tonnes of gold worth lakhs of crores of rupees were extracted from these mines, located about 100 kilometres from Bengaluru.

"The ministry will place within a month a proposal before the union cabinet for the revival of some of the world's oldest and deepest mines. Details are being worked out with help from the law ministry," union mines secretary Balvinder Kumar told Mail Today.

"We're looking at gold worth more than Rs 25,000 crore from the dumps as well as the mines. These hill-like dumps made up of waste soil from the mines and milled remnants of gold-bearing ore are spread over an area of 2-3 km and weigh millions of tonnes. We would float global tenders to extract gold out of them. It's a challenge, but we will do it," Kumar said.

Legal route

BGML employees and others took the legal route after the closure.

In 2006, the union cabinet allowed the ministry of mines to sell, through a global tender, BGML assets, and invite bids to run the mines.

A tender document was prepared in 2008.

In 2010, the Karnataka High Court asked the Centre to revive KGF on its own.

In 2013, the Supreme Court allowed the Centre to float global tenders to revive the mines. The non-operational but yet to be wound up BGML is spread over an area of 12,173 acres at Kolar Gold Fields in Karnataka and 78 acres in Ramgiri mines in Andhra Pradesh. Miners and their families have lived at KGF, now a ghost township, for generations.

The mines ministry has received a large number of representations from various quarters for exclusion of housing colonies from the global tender.

BGML has 25 colonies comprising mainly hutments in 3,753 acres.

"The issue needs to be addressed properly as it might lead to civil unrest in the area. The colonies along with common facilities for policing and transport need to be excluded from the global tender," said a ministry official.

Also, the Mines and Minerals Development and Regulation (MMDR) Amendment Act passed by Parliament early this year means that there can only be a fresh auction of these mines, a move that may upset the federation of erstwhile BGML employees.

KM Divakaran, a major voice among former BGML employees, said, "The 3,100-odd people who lost jobs in 2001 still have to be technically considered as employees. The mines cannot be auctioned. The best way forward is to identify a suitable partner which along with us can revive the mines."

The Bharat Gold Mines Employees Union (BGMEU), affiliated to the Centre of Indian Trade Unions (CITU), seeks revival of BGMl mining activities either by Centre or the state government.

The Karnataka government has also said it would renew the mining leases but not in favour of any successful bidder in case of sale of BGML assets.

In that case, the Centre will be left with only the surface right of the land.

Past employees of Bharat Gold Mines Ltd (BGML) say the Kolar mines cannot be auctioned. They say the 3,100 people who lost jobs in 2001 when the mines were shut must still be treated as "employees" when mining begins.

They also say the government must revive the mines on its own. KM Divakaran, president of a BGML employees' union, said,

(Continued on Page 8)......

"The mines ministry cites the amended Mines and Minerals Development and Regulation (MMDR) Act to back their auction plans. Auctions can be done only in case of fresh land allotment for mining. When the BGML is already in possession of the land, how can the same be auctioned to a new company?"

Most BGML employees have taken up alternative employment in Bengaluru, as Kola Gold Fields is well-connected by train to the state capital.

A self-sustaining city during its glorious days, the local municipality is now responsible for the housing colonies and the amenities in the KGF.

Divakaran, former chief engineer of BGML, said: "We have been part of this mining culture in Kolar Gold Fields. We are optimistic about the mines' revival. But how can the government revive the mines before settling contentious issues? The government has not addressed our concerns in the last 10 years."

He is now the president of the BGML Employees', Supervisors' & Officers' United Forum, which has taken up the cause of the revival of the company as well as protecting the interests of the employees.

The forum says that the 3,100 people, who were given VRS in 2001, have to be technically considered as "employees", as their back wages are yet to be cleared by the Centre.

"We have still not accepted the VRS settlement because wages were not revised as required. Various courts have ruled that the settlement has to be done in accordance with the rules," he pointed out.

The forum also contends that it is imperative for the government to revive the mines on its own.

"We know that these days the government is not in the business of running mines. Therefore, the best idea is to identify a suitable partner and join hands with our Forum to revive the mines. All we need is some kind of financial assistance from the government. We have the best of the technology and the skill-sets to extract gold from the dumps and underground mines," Divakaran said.

NALCO AIMS TO BE GLOBAL PLAYER IN MINING, METALS, ENERGY: CMD

BHUBANESWAR: Firm on making its mark as a global player, National Aluminium Company (Nalco) is keen to strike a balance by consolidating in domestic market where the Nav Ratna PSU is planning a series of new projects and expansions.

Chairman-cum-Managing Director TK Chand on Saturday told mediapersons that the PSU major is aiming to make a mark in the international scene by focussing on mining, metals and energy sectors. Nalco, he said, is evaluating the opportunities to set up a Greenfield overseas smelter and has listed Iran, Oman and Indonesia as its possible locations.

The aluminium major has lined up a slew of ventures in Gujarat where its pursuing a 0.5 tonne per annum alumina refinery apart from a caustic soda plant and a 100 mega watt power plant at Dahej at an estimated cost of Rs 1,789 crore in a joint venture with Gujarat Alkalies and Chemicals. Similarly, a joint venture with Nuclear Power Corporation is underway at Kakrapar Atomic Power Project.

Nalco, Chand said, is bullish about making a strong presence in green energy sector as it is pursuing projects in Rajasthan, Andhra Pradesh and Maharastra for wind and solar power projects.

While strengthening its presence in the international as well as domestic markets, Chand said, Odisha will remain Nalco's first choice of investment and expansion. It has planned a total investment in the range of Rs 32,000 crore to Rs 35,000 crore in the State.

A Smelter and Power Complex at an estimated cost of Rs 22,000 crore is envisaged at Sundargarh, where it has advantage of cost effectiveness. Similarly, as part of its third phase expansion of alumina refinery, the company is also planning its fifth stream of one million tonne per annum capacity at Damanjodi with an investment of Rs 5,540 crore.

Nalco, which has received the Utkal D and E blocks is also expecting consent from the State Government for Pottangi Mines, key for its refinery expansion.

Interestingly, the PSU major submitted a Rs 300 crore CSR plan to the Government on Saturday and is hopeful that the State will grant sanction for the mines at Pottangi.

"The CSR plan and the Pottangi mines consent are not tied up but we are hopeful of a positive move from the Government," Chand said when queried.

The PSU which recorded a net profit of Rs 1,322 crore and grossed a recod turnover of Rs 7,771 crore has announced a dividend of Rs 451 crore

NMDC TO INVEST RS40,000 CRORE IN NEXT 8 YEARS FOR CAPACITY EXPANSION

Iron ore miner NMDC Ltd has set an ambitious plan to invest Rs.40,000 crore in the next eight years to reach the mining capacity of 75 million tonnes per annum (mtpa) by 2018-19 and 100 MTPA by 2021-22.

Of this, around Rs.7,800 crore would be invested between this and the next fiscal year, chairman and managing director Narendra Kothari said at the company's annual general meeting on Tuesday.

Iron ore demand has been subdued in domestic and global markets, primarily because of weak demand in the wake of excess steel capacity globally, which is estimated to be around 2 billion tonnes per annum. Also, there has been weak demand from China which impacted the pricing.

Notwithstanding the current subdued demand, Kothari said, the company hopes there would be an improvement in the steel demand domestically because of increased infrastructure activity.

Right now, NMDC produces 30 million tonnes per annum of iron ore, while it has a capacity of 48 MTPA. Last year, the company had to resort to steep cuts in iron ore prices because of subdued global demand. "Prices are difficult to predict but it will remain more or less at $55-65 per tonne. If the company is able to sell the product at higher prices we will, if it needs correction we will reduce the prices, but we have to sell in any case," Kothari said.

The company had delayed price cuts in the past as global iron ore prices fell rapidly and it could not align to it quickly. This had resulted in loss of volumes." The company has not disclosed mine -wise details for achieving the 75 MTPA and 100 MTPA capacity targets. In view of the weak demand and potential increase in local supply in the coming years, these plans look very optimistic," said IIFL Institutional equities in their September research report.Of the total capex outlay, the company would spend Rs.3,800 crore this fiscal and Rs.4,000 crore next year.

Around 70% of NMDC's iron ore comes from its plants at Chattisgarh and the rest from Karnataka. "Going forward, on the back of additional mines expected to come on stream, we expect an iron ore sales volume growth of 7.1% in FY15-17," ICICI Direct said in its NMDC results update report in August.

To revive exports, it also talking to a Japanese customer. " Our exports have not been good, infact they ran into losses because of higher export duties. But we are now talking to the government to bring it down to the lowest level or to zero," Kothari said. Last fiscal year, exports stood at 8% of production.

NMDC had earlier guided volume projections of 35MT in FY16, which it is unlikely to achieve." Their production/dispatches declined by 18% in August 2015 on a year-on-year basis. Even after assuming acceleration in domestic dispatch and cut in export tax, NMDC's volume guidance will not be met," said the IIFL report.

STAMP DUTY STUMPS OPERATIONS IN RE-AUCTIONED COAL MINES

The new formula of stamp duty and registration fee calculation for the coal blocks re-allocated had resulted in the non-execution of lease deed, stranding the mining operations even as nearly six months had passed after the mines were handed over to the new owners.

In September 2014, the apex court had cancelled the allocation of the 214 coal blocks; facilitating for the Narendra Modi government to auction the mines. The companies participated in the bid and purchased the mines at higher price. The new owners took control over the operational mines on April 1 but failed to continue with the production. The mining lease deed could not be executed as the stamp duty and registration fee had increased to over 100 folds.

Prior to coal block auction and enforcement of new Mines and Minerals (Development and Regulation) Act 2015, stamp duty was calculated on the basis of royalty of mineral commodity. For example, stamp duty for any coal mine with production capacity of 1 million tonne per annum (MTPA) was Rs 3.9375 crore and registration fee Rs 0.2953 crore considering Royalty as Rs 100 per tonne. Now, since the mines had been purchased by quoting the price, the stamp duty would be applicable on the basis of bid price. For a coal block with production capacity of 1 MTPA and purchased for Rs 3000 per tonne as bid amount, the successful bidder now has to pay Rs 300 crore as stamp duty and Rs 225 crore as registration fee. This would amount to Rs 525 crore in place of Rs 4.23 crore. Considering the old stamp duty calculation, companies prepared its financial model and went for aggressive bidding.

Vedanta-controlled Bharat Aluminium Company Limited (Balco) that purchased Chotia coal block from Prakash Industries at Rs 3025 for a tonne now had to pay Rs 536 crore as stamp duty and registration fee while its predecessor paid just Rs 5 crore for the same. "It will be very difficult to operate the mines by paying heavy stamp duty and fee as the company had already quoted higher price to bag the block," Balco spokesperson B K Sriwastwa said. Similarly, Hindalco that bagged two operational mines in Chhattisgarh by quoting over Rs 3000 per tonne rate had to pay over Rs 2000 crore. The company however did not respond to an

(Continued on page 10)...

e-mail sent for its version on the issue. A senior company official here, willing anonymity, said they would prefer to surrender the mines as it would not be viable to operate after paying heft amount.

The companies are now mounting pressure on the state government to exempt or relax the stamp duty. None of the companies that bagged mines in Chhattisgarh had executed the lease deed that would allow mining. In Madhya Pradesh, Jharkhand and Odisha also, the issue had posed a big challenge for the authorities. A senior official in the Chhattisgarh government said officials from all the four states were in touch to find a solution.

Chhattisgarh's industry and commercial tax minister Amar Agrawal refused to talk on the issue. The state government had earlier sought law department's opinion on the issue. The department remark was in negative. Since the state government would incur a huge revenue loss of over Rs 3000 crore, no one want to take the risk. After all, it would not be a notional loss but an actual deficit.

The exemption of stamp duty, at least in the BJP-ruled state, would put the Narendra Modi government on back foot. For, the Manmohan Singh government was put under the scanner for the alleged underpriced coal mines resulting in windfall gains to the companies—a major poll plank in the last general elections.

GOVT MAY MAKE TRANSFER OF MINES EASIER

Within a few months of the amended mining law being operational, the Centre may push another amendment in to the new legislation to allow transfer of captive mines allotted in the past to new owners in case of a merger or acquisition deal.

The move will immediately benefit deals entered into by Lafarge and Ultratech Cement where the new mining bill has put a question mark on whether the associated limestone mines would also be transferred in favour of the new entity.

Highly placed sources in the mines ministry said a cabinet note proposing the necessary amendment to the legislation would be finalised by the government.

This, however, would be done on reaching a consensus after wide consultations as the government fears that a quick amendment to the new law could face strong political opposition.

"The law department is very clear that we cannot transfer any existing mining lease under the new law. This is an impediment for consolidation in the sector and government is working to resolve it," the source quoted earlier said.

The Mines and Minerals (Development and Regulation) Amendment Bill, 2015 became law in March this year replacing the older version of the legislation enacted in 1957.

Among other things, the legislation proposed allotment of mines of major minerals only on the basis of auctions. It also permitted transfer of mines allotted under auctions but did not specify how to deal with transfer of captive mines allotted in the past.

Industry experts said a lot of deals were in the pipeline, especially in sectors such as steel, cement and aluminium and these would be abandoned if the government did not remove such restrictions.

"The provisions on the new mining law would severely hamper M&A deals in the metal sector as concluding deals in absence of associated captive mines would be difficult," said Abhisar Jain, senior vice president- metals and mining, Centrum Broking.

"A number of smaller companies such as Usha Martin, Godavari Power with captive mines may be looking at opportunities in M&A deals, but could not move forward in the absence of any clarity," Jain added.

It is expected that the government would move slowly on processing the proposal on amending the mining law as the two impacted deals (Larfarge and Ultratech Cement) are also expected to conclude over a period of few months. "A clarity over the issue may emerge before the start of winter session of Parliament," said a government official privy to the development.

In August, Lafarge Holcim announced sale of its two cement-making units to Birla Cements for Rs 5,000 crore. Earlier, UltraTech announced a Rs 5,400 crore deal for purchase of Jaypee Group's cement units in Madhya Pradesh. The two deals would become unviable if associated limestone mines are not transferred to the new owners.

A concerned industry has also asked the government to allow the acquirer of an asset with attached mines the right of first refusal to match the highest bid in the auction process for such captive mines. But the proposal has not found wide-scale favour in both the industry and the government.

Such a right is allowed under the provision of MMDR Act but only in cases where the lease has expired and the original lease-holder wants an extension.

The new mining law has changed the way mines have been allotted in the past. All existing captive mines were allotted to companies without auction. A mines ministry committee did this allocation. A similar process for the coal sector was earlier declared illegal by the Supreme Court that cancelled all captive coal leases forcing the government to conduct auction for all cancelled mines.

OMC WRITES TO ENVIRONMENT MINISTRY SEEKING GUIDANCE ON NIYAMGIRI BAUXITE DEPOSIT

The Odisha government hasn't quite relinquished its right to mine the controversial Niyamgiri bauxite deposit, originally identified to supply ore to Vedanta Resources' nearby alumina refinery. State-owned Orissa Mining Corporation (OMC), which was granted mining rights for 30 years in 2004, has written to the Union Ministry of Environment, Forest and Climate Change (MoEF), seeking "guidance on how to proceed" with the matter.

Two years ago, a dozen villages in southern Odisha invoked their right to worship the Niyamgiri hilltop, warding off government plans to open a bauxite mine in their neighbourhood.

The historic and exceptional referendum ordered by the Supreme Court was cited in January of 2014 by the then Congress-led union government to refuse final forest clearance to the proposed mine, critical to Vedanta's refinery at Lanjigarh - about 4 km from the 72-million-tonne deposit.

Environmentalists world over celebrated the victory of the Dongariah and Jarnia Kondhs primitive tribal groups from one of least developed corners of the country, in the "David versus Goliath" battle against London-listed Vedanta.

Vedanta recently said it cannot continue running the loss-making plant for much longer in the face of low global aluminium prices and lack of cheap bauxite.

While OMC's letter to the MoEF remains unanswered, the state plans to write again to the Centre, placing the ball in its court. "We would like the Government of India to clarify on whether the stage I clearance holds, we start all over again or the verdict (based on the referendum) is binding forever," said Odisha Chief Secretary Gokul Chandra Pati.

Environment and Forest Minister Prakash Javdekar didn't respond to an email seeking comment. Jairam Ramesh, who was the environment minister when early clearances granted to the project were withdrawn, said the decision based on the referendum was final. "It is foolish on Odisha government's part to try again after the SC verdict," Ramesh said.

Environment lawyer Ritwick Datta was also surprised over the state's move. "But, neither OMC nor the state has filed an appeal against the SC order. Nor have they moved the National Green Tribunal against MoEF's decision to deny them final, stage II clearance," he said. If OMC, despite the SC order, seeks so desperately to revive the Niyamgiri project, it must seek again not just forest clearance but also environmental clearance from scratch, Datta said. The order that allowed the Kondhs a say in 2013 though was "exceptional", guided by the fact that it was both a Fifth Schedule area (an area populated by tribes), attracting Panchayats (Extension of the Scheduled Areas) Act provisions, and inhabited by primitive tribal groups, like the Dongariah Kondhs, he said.

Curiously, the Niyamgiri case hasn't been called upon as a precedent in any matter, while rights provided under the Forest Rights Act continue to be ignored in many subsequent cases, said Datta.

The Modi government has been accused by green and tribal activists of diluting such provisions. The MoEF, according to media reports, was stopped in its tracks from waiving off the requirement of gram sabha consents even in tribal dominated areas for certain projects only by the tribal affairs ministry.

The latter was strongly opposed to any move to change the 2009 guidelines that made it compulsory for all projects requiring diversion of forest to obtain consent of affected village councils.

In July last year, Niyamgiri's inhabitants reiterated their objections to mining of the deposits, during a public hearing to complete a sixfold expansion of the Lanjigarh refinery. Vedanta, which had embarked on the expansion in 2009, has in its submissions to the state pollution control board cited a deposit 3.7 km from the plant as the source of raw material. Company executives have on record said that they wouldn't make any move on Niyamgiri without local consent.

Niyamgiri is one among the many bauxite deposits scattered over these parts of the Eastern Ghats that account for 60 per cent of the country's known reserves.

For investors such as Vedanta and Aditya Birla Group who ventured to set up plants here, the added proximity to coal - aluminium being a power intensive business - promised to change the world order of aluminium producers.

Now, with aluminium makers battling falling global prices, Vedanta suffers also from the disadvantage where bauxite is concerned.

GOVT DIFFIDENCE HITS INDUSTRY, STATE PSUS

The recently-released World Bank ranking, which puts Orissa in the seventh position with regard to ease of doing business is a reflection of the policies of the state government, which has not been able to create confidence among industry honchos, according to experts.

This is evident in the ongoing coal block allocations for captive mining and the expectations for the upcoming auctions for commercial mining that hint at the lack of drive in the government in attracting industries to the state. In the last few months, the state has lost some coal blocks to PSUs of other states or other entities. Had these been allocated to private players in the state or state PSUs, it would have benefitted the state.

However, the Orissa government's lack of persuasiveness with the Centre for more coal blocks seems to have hampered the state's industrial and financial growth.

(Continued on page 12)...

Experts said it is imperative for the state government to advocate for more coal blocks from the Centre. "Advocacy with the Central government for coal allocation is imperative. It is necessary for the states to tell the Centre about their needs and demands. If the Centre is convinced about the demands, it will take a decision after assessing the ground realities," Subhasri Choudhuri, secretary general of the Coal Consumers Association of India told Orissa POST. Those in the know of the government's role in the coal block allocation believe not much has been done by the government for industries in Orissa. Many feel that the government is treading cautiously in the aftermath of the coal scam. However, the government's reluctance to bat for industries in the state has been giving outsiders a free hand. In March, the Naini coal block, which the state government was eyeing for the Orissa Thermal Power Corporation in Dhenkanal, was allocated to Singareni Collieries Company Limited of Telengana. Later, the Chhendipada and Chhen-dipada II blocks were taken from Orissa, which the state government was keen to have through one of its PSUs. Orissa is the second-largest coal bearing state in the country with a reserve of 75,073 million tonnes of coal. However, this repository of wealth seems to be exploited by outsiders. "Just because some charges were leveled in the coal sector does not mean the state government should shy away and not bat for industries that can help the state in terms of employment and investment and also help in supply of material to local industries," said another mining expert on condition of anonymity.

In February 2010, Chief Minister Naveen Patnaik wrote to then Prime Minister Manmohan Singh for allocating 10 coal blocks for the state. However, now the state has demanded only one coal mine from the Centre for commercial mining for state PSUs, according to sources in the government. Many believe the soft stance of the state government is adversely impacting revenue and investment prospects of the state. Phone calls and emails sent by Orissa POST to state government officials dealing with coal mining and energy did not garner any response.

KARNATAKA SITTING ON PERMITS TO REOPEN 93 IRON ORE MINES

Two and a half years after the Supreme Court allowed 117 iron ore mines in Karnataka to reopen, only two dozen have become operational. The state government has been sitting on lease renewals and clearances for the remainder, leaving mining companies in a tizzy and forcing steel makers to import an unprecedented 15 million tonnes (mt) of iron ore from countries as far as South Africa in 2014-15.

The BJP-led central government, which imposed a 20 per cent safeguard duty to protect domestic steel industry last week, has urged Karnataka chief minister Siddaramaiah to expedite the mining permits to shore up domestic iron ore output, which shrank in five of the first seven months of 2015. Iron ore is a key ingredient in making steel.

Officials and industry players blame the lack of clearances on a combination of bureaucratic paralysis, political factors (the BJP is considered close to sections of the state's mining lobby) and onerous conditions that made the mines unviable.

"Last year, India imported 15 mt iron ore, out of which we imported 10 mt," said Seshagiri Rao, joint managing director and group CFO of JSW Steel. He said many steel plants had come up in Karnataka due to its rich iron ore reserves and are finding it difficult to procure the raw material from outside the state or abroad.

"One of the biggest competitive strengths of the Indian steel industry is domestic iron ore reserves. If that's not available, we become less competitive," he said.

Congress president Sonia Gandhi has reportedly summoned chief minister Siddaramaiah to discuss, among other things, the state's poor ninth rank in the recent Ease of Doing business survey and the clamour for him to divest some of the eight portfolios he holds, including mines and geology.

"Though the SC allowed re-opening of 117 mines in early 2013, just 24 are operational as the state government hasn't been pro-active in getting leases executed thanks to a bureaucratic paralysis and the lack of political will," said Basant Poddar, vice-president at Federation of Indian Mineral Industries (FIMI) and managing director of Mineral Enterprises, a midsized mining company in Karnataka.

A senior mines ministry official said Mines Minister Narendra Singh Tomar, during a recent visit to Karnataka, had told the CM to fast-track the renewal of leases for the remaining 93 mines. "In states, the process is not as transparent as it is required. A few people have raised this. Wherever documentation is involved, a state can argue that documents are not complete. All sorts of issues, including political, could be at play," the official said.

In 2011, the apex court had banned all 168 iron ore mines in Karnataka for violations of the law and environmental damage. In April 2013, it allowed 117 mines involved in minor violations to re-start and cancelled licences for 51 mines that had committed serious violations, requiring their permits to be auctioned.

Poddar said 35-40 medium and large mining firms are eligible to restart operations, but are stuck in red tape. Another 45-odd smaller mines have become unviable due to the restrictions on the quantum of mining.

"These mines have been told they must operate for at least 20 years if they are in a forest area. With about 1 million tonnes in reserves each, that works out to just 50,000 tonnes of ore output a year and is unviable," the FIMI vice-president said.

VEDANTA ON MAJOR COST CUTTING DRIVE AT GOA IRON ORE BIZ

Mining conglomerate Vedanta has started a major cost cutting drive at its iron ore business in Goa amid subdued market sentiments and depressed prices of the commodity in global markets. The firm led by NRI billionaire Anil Agarwal is expected to resume iron ore mining, after a gap of three years, at its Codli and Bicholim mines in the state next month. It has been allowed to produce 5.5 million tonnes (MT) of the commodity. "Vedanta has gone on a major cost cutting drive at its Goa iron ore business. This includes cutting 400-450 jobs through Voluntary Retirement Scheme (VRS) and is also looking for buyers for non-productive land and other properties," a person in know of the development said. While, around 400-450 jobs have been cut, which includes close to 100-120 permanent positions, the source said there could be more job cuts in the pipeline. According to an industry source, Vedanta is looking at prospective buyers to dispose-off its non-productive land assets to cut losses. "They (Vedanta) are also looking to rent two-three floors at their Goa head office in Panaji -- Sesa Ghor. Besides, it has lot of land assets that are not of use and it is looking at liquidating them to adjust costs," the source added.

When contacted, a Vedanta spokesperson said: "Since Sesa Goa Business of Vedanta in Goa is allowed to mine only 5.5 MT as against 12 MT environment clearance that it was operating before suspension, as per Supreme Court directive, restructuring and VRS initiatives to reduce cost per tonne have been forced on the company to suit the new operating level." The spokesperson added, "Global cost curve has to be kept in mind as we work in unified competitive environment. Cost reduction has become need of the hour so as to remain competitive in a global melt down condition which all of us have to face." Market insiders also attributed the major cost cutting drive to the three year-long mining ban in Goa as well as the weak market for commodities. Almost all the miners in the state are under huge losses. "Vedanta took a huge hit due to the mining ban. The firm maintained most of its workforce and had paid them wages which again impacted its top and bottom line," they said. That apart, the global metals market is facing one of its toughest times due to subdued economic sentiment and weak prices and almost all the miners and firms dealing with metals are going through a rough phase, they added. Market uncertainty and falling prices have already led the company, part of the London-based Vedanta Resources, to cut production and shut down plants in its aluminium division. Yesterday Balco, part of Vedanta Ltd, said it has started the procedure to shut down its aluminium rolling business in Korba (Chhattisgarh), which will see 1,000 people losing jobs. Last month, Vedanta Aluminium said it is shutting down one of its streams at Lanjigarh (Odisha) that will reduce its output by half and impact up to 2,000 jobs.

AFTER THE MINING BOOM, FIRMS FACE THE FALLOUT

year and in the first half of 2015 has reopened the debate as to whether many of them would have done better by not acquiring assets, paying what now look fancy prices at the high point of the commodity cycle preceding the financial crisis of 2008. Had they not further compounded their miseries by committing billions of dollars in capital and exploration expenditure for rapid capacity expansion?

More than anything else, the unprecedented Chinese demand for metals and minerals that lasted for two decades was the reason for the "insanely" high prices that companies of the stature of Rio Tinto and Anglo American paid to broaden their asset portfolios.

Some Indian groups too made premium deals at the last cyclical peak. Thus, in January 2007, Tata Steel would engage in an eight-hour bidding fight with Brazilian Siderurgica Nacional to acquire Corus for about $8 billion. The acquisition in one shot made Tata Steel the world's fifth biggest steelmaker, but there is no end to its pain in running a steel business in Europe in the present environment.

Ian McVeigh of Jupiter Asset Management of the United Kingdom has coined the expression "top stinkers" for the "deals in the mining sector we believe should never have happened." Top stinkers, according to McVeigh, make a long list. But the worst offender till date remains Rio Tinto, which in November 2007, throwing all caution to the wind, engaged in a bidding contest with Alcoa of the United States and Vale of Brazil for Canadian aluminium maker Alcan. Rio won the Alcan trophy in what till now is the biggest deal in the history of metals by paying $38.1 billion.

Earlier, in June 2006, Lakshmi Niwas Mittal paid $33.84 billion for Arcelor. The price in this case too was high. The acquisition cost rocketed as Mittal had to put up with the Arcelor management's bare-knuckled defence strategy and Severstal of Russia which appeared as the white knight. But he stuck to the target as in Arcelor he saw a technology treasure trove as also a route to global leadership in tonnage.

Post the Arcelor buy, Mittal could, therefore, move into pole position of fending off substitution threat from aluminium and

(Continued on page 14)...

composites, particularly in automobiles. Even then, Mittal has not been spared the pain of servicing a mountain of debt, still well over the targeted $15 billion, and write down.

Misreading China and warning bells about the country falling till recently on deaf ears of mining groups - read their CEOs' statements till a year ago defending their massive capital investments to principally meet future Chinese demand - have left them with such large capacity that they are now doomed to sell their production at continuously falling prices.

Going all out

The person who got it all wrong about China was the former CEO of Rio Tinto, Tom Albanese, who, in the belief that China would need to import growing quantities of aluminium to support its infrastructure development and manufacturing industries, didn't think twice while paying a share price premium of 65 per cent to acquire Alcan. Albanese must have believed like many others that for China, not rich in bauxite, aluminium imports would always be the right choice.

Much to the disappointment of Albanese, China went on a smelting capacity building spree to become a net exporter of the metal, changing the market dynamics of heavily traded aluminium. For the first seven months of 2015 up to July, the country exported a record quantity of 2.87 million tonnes of aluminium.

Undaunted by its large-scale dependence on bauxite imports, China raised its aluminium production by 14 per cent in 2014 to 28.3 million tonnes. In the current year, the country's aluminium production is running at an annualised rate of over 30 million tonnes- more than half of the world output.

What is further causing anxiety to the globally surplus aluminium industry is the 6 million tonne smelting capacity in the Chinese pipeline. No wonder, Rio's Alcan-related write downs have reached $25 billion. In a cruel repartee, Dick Evans, who in his capacity as Alcan chief had lured Rio into the deal, described the Anglo-Australian group's acquisition as "one of the worst corporate decisions ever".

Any number of mining groups who, enticed by China, decided to extract as much minerals as possible out of the ground through takeovers and capacity expansion have now been found guilty of large write offs. The lasting slump in commodity prices has forced Anglo American, which in 2008 bought Minas Rio iron ore project in Brazil and then suffered major cost overruns in completing it, also to go for major write down.

A recently-released study by The Boston Consulting Group shows that of 101 mining companies with market values of more than $3 billion at 2014 end, all but 11 had lost investors' money on a total shareholder return basis. BHP Billiton, Rio and other big miners are out to reassure their shareholders that by progressively reducing capital and exploration expenditure, raising production through stretching productivity and cutting costs all around, they will ride out the slump in commodity prices with minimum possible injury.

The long commodities slump will leave many assets sick, making them ripe for takeover. But will the mining groups, having already written off billions of dollars and angering investors in the process, still have the appetite to buy these assets?

Prospects for value addition trigger the hunt for assets. In the current environment, that trigger is missing. Rio Tinto's chief executive of copper and coal, Jean-Sebastien Jacques, said in a conference presentation: "We will not see significant consolidation. This is because there is now greater scrutiny of the real value creation of big bang merger and acquisition and the potential value-destructive premium needed to secure tier-one assets."

What is likely to happen is the emergence of partnerships among miners and trading houses to acquire assets and share the risks.

BIG-TICKET DEALS

- Lakshmi Niwas Mittal's 2006 acquisition of Arcelor for $33.84 billion. The price in this case was too high.
- Rio Tinto's 2007 acquisition of Canadian aluminium maker Alcan for $38.1 billion. Rio had to take a huge beating after the deal as aluminium demand plummeted globally
- Tata Steel's acquisition of Corus in 2008 for $8 billion. It has struggled with its European business ever since
- Anglo American's 2008 buyout of Minas Rio iron ore project in Brazil. It suffered major cost overruns in completing it

LAW HELPS TAINTED FIRMS TO CONTINUE MINING

Mining giants who were accused of illegally siphoning off iron ore worth thousands of crores are back in business. And they are not flouting the law, but are actually being aided by it.

Accused of massive violations in a scam worth Rs.1.5 lakh crore, the miners have been aided by the Mines and Minerals (Development and Regulation) Act, 2015, enacted on March 27, 2015, and touted as a masterpiece of Prime Minister Narendra Modi's reform agenda.. Section 8A (clause 5) of the bill, originally pushed as an ordinance, allows the red-flagged miners to continue mining till 2030. The bill calls this 'deemed extension'. Those without captive mines have been allowed to mine till 2020.

(Continued on page 15)...

According to government sources, miners have been allowed to mine till 2030 because they have made "heavy investments" in the sector. Most of the severely indicted miners including the big names like Rungta Mines Pvt Ltd, Tata Steel Ltd, Kalinga Mining Corporation, Aryan Mining and Trading Corporation, Bonai Industrial Company stand to gain from the government's new law.

While the ban on mining continues in 11 of 17 mines in Jharkhand, it has resumed in Goa, Odisha and Karnataka. In a few days, Karnataka and Odisha will be auctioning 15 and six iron ore blocks respectively. However, the mines of the companies that allegedly extracted ore illegally for decades will continue to remain in the same hands.

Of the 792 iron ore mines in the country, according to the Indian Bureau of Mines, 197 are working. Most of these are run by big miners accused of indiscriminate plunder, an official said.

Illegal iron ore mining, as pointed out by the central government appointed MB Shah Commission, is a scam of scary proportions suffixed with enough zeroes to eclipse all scams in India's history.

It's business as usual for the companies accused by the Shah Commission of rampant illegal mining without requisite clearances in India's iron ore rich belts. There are also other indicted companies, including Sarda Mines, Sirrajuddin & Company and KJS Ahluwalia, in the queue seeking permission to mine again after getting necessary environmental clearances.

"While amending the law, the government didn't take the past track record of these companies into the account. They robbed the state exchequer and now instead of punishing them, they have been rewarded," says Duskar Barik of the Keonjhar Integrated Rural Development & Training Institute (KIRDTI).

The Shah Commission and the Supreme Court appointed Centrally-Empowered Committee (CEC) have accused these companies of serious violations including corruption, under-invoicing, evasion of taxes, export duties and illegal transfer of mining leases.

"Punishing is a function of the government and it may come from either state or central government. But if you allow or permit illegality to go further forever then it would be tough to have democratic rule in government," Justice Shah told dna.

Calculating the loss

The Shah Commission had estimated that unlawful extraction of iron ore and manganese totals a staggering Rs.59,203 crore in Odisha alone.

Add the amount of iron ore plundered from states like Goa, Karnataka and Jharkhand and the scam tops Rs.1 lakh crore.

According to Defence Minister Manohar Parrikar's conservative estimate, illegal mining in Goa cost the state over Rs 4,000 crore. The CEC had estimated that Karnataka had lost close to Rs.7,000 crore every year for a decade as miners continued to under-report iron ore extraction, paid pittance as royalties and brazenly avoided paying taxes to the government.

In the states

In Goa, where mining was resumed earlier this year, companies like Vedanta-owned Sesa Goa and VS Dempo are back to mining. Others like Salgaocar, Chowgule, Timblo have also been allowed to mine till 2020 without any restriction or penalties imposed on them. The Shah Commission had detailed how all these miners enriched themselves by exporting more iron ore, primarily to China, than they were showing as actual production.

The report pegged the loss from the illegal exports between 2000 to 2010 at Rs.2,747 crore and suggested recovering this amount from the miners with an interest rate of 24 percent. The report also noted that none of the miners had paid royalty to the state government for the iron ore that they were exporting. This cost the state exchequer Rs.2,756 crore.

The money is yet to be recovered from any of the companies and many have resorted to legal suits to avoid paying the amount. The Commission had also pointed out that these miners were producing far more than the limits imposed on them by their respective environmental clearances. The scale of the 'big Indian loot' in Odisha, which accounts for over a half of India's iron ore production, is even bigger. Miners like Sarda, Tata, SAIL, NMDC, Rungta, KJS Ahluwalia and Usha Martin – have been accused of causing huge losses to the state through illegal mining. Many of these companies have taken the legal route against the decision to penalise them.

Rattled by the Shah Commission report, Jharkhand shut down 12 of its 17 iron ore mines in 2014. One of them, Tata Steel, managed to get a reprieve from the Jharkhand High Court for its mine at Noamundi and resumed production earlier this year. It has been estimated that the scale of illegal mining in Jharkhand exceeds Rs.20,000 crore. Other companies like Rungta MIning Co and public sector behemoth Steel Authority of India (SAIL) still continue to mine in the Sarandha forests of Jharkhand. Rungta was allowed to quadruple its production under the previous UPA government despite the fact that it did not have necessary environment and forest clearances for its Ghatkuri mines in the pristine Sarandha forests of Jharkhand. The Shah Commission recommended recovering Rs.14,403 crore for illegal iron ore mining in addition to Rs.138 crore for illegal manganese mining in Jharkhand from a handful of companies in the state.

In addition to Rungta, the Commission has also questioned the environment clearance given to brothers Naveen and Sajjan Jindal's companies Jindal Steel and Power Ltd (JSPL) and JSW by former minister Jayanthi Natrajan in 2013.

The CBI, which is probing the managements of both companies as well as officials of the environment ministry, is yet to to file a preliminary enquiry report or register FIRs. The CBI, it is learnt, suspects that the process of granting Stage 1 approvals to both Rungta Mining Ltd and JSPL in addition to Usha Martin Ltd were fraught with corruption.

(Continued on page 16)...

"It is disappointing that one goes scot-free despite being indicted by several inquires. The errant companies have been allowed to mine again without paying any penalties or fines imposed on them," said Rabi Das, a petitioner in the SC who is credited with exposing the scam in Odisha.

INDIA TO AUCTION 80 GOLD MINES

Despite all efforts to curb its citizens' appetite for gold including punitive import taxes and regulations and monetization schemes, Indians still prefer to get their hands on the real thing.

India's gold bullion imports more than doubled to $4.95 billion or 140 tonnes in August making the country's imports for the month roughly the equivalent of the last 6 months' net redemptions of physically-backed gold exchange traded funds by investors in developed countries.

The country's purchases is set to top 1,000 tonnes again this year and gold is India's top import after crude oil. Gold makes up a third of the country's chronic current account deficit. All of which makes it surprising that the local gold mining industry is so underdeveloped.

The Guardian reports that this may be about to change and quotes Balvinder Kumar, of the mines ministry as saying studies by state governments have uncovered "some very deep and old mines" with gold worth more $3.9 billion existing in the Kolar region in the southern state of Karnataka alone. The ministry will put about 80 mines to auction within two or three months.":

Kolar was first mined by British companies at the end of the 19th century, said Bridget White-Kumar, a local author and historian. In 1850 a retired Irish soldier who had fought in the army of the East India Company during its campaigns to seize the princedom of Mysore investigated reports of mines in the region. Over the decades that followed, the project and a thriving community grew.

But most of the gold was sent back to London, White-Kumar said. Kolar's mine was nationalised in 1956 and finally shut down in 2001. White-Kumar said: "The glorious period was until the mid-1970s. There were a lot of unions that couldn't agree with each other and costs were mounting. The gold was sold under the market rate. As a community, we haven't come to turns with it even now. This news is what we have been waiting for."

ESSAR POWER MAY BEGIN PRODUCTION AT JHARKHAND COAL MINE NEXT YEAR

NEW DELHI: Essar Power is likely to begin the productionat its Jharkhand coal mine early next year.

"Production (from Tokisud North coal block in Jharkhand) will start in the last quarter of the current financial year," Essar Energy's Chief Executive Officer Sushil Maroo said on the sidelines of a coal summit here.

"We are going ahead with the opening of the mine... we are in dialogue with the state government," Maroo said.

Essar Power MP Ltd, an arm of Essar Power, had bagged the Tokisud North mine in Jharkhand in the auctions held earlier this year.

Essar Power MP had earlier announced signing of the Coal Mine Development and Production Agreement with the central government for the Tokisud North coal block in Jharkhand.

In March, Essar Power had said in a statement that it will commence mining at its Jharkhand coal block in next few months to help the company restart its Mahaan power plant, lying idle due to lack of fuel since last 18 months.

Essar Power MP owns and operates the 1,200 MW coal based power plant in Mahan, Madhya Pradesh, which has been set up with an investment of Rs 8,000 crore.

"With this coal mine acquisition, the company will commence mining operations to power the Mahan plant within a few months," it had said.

With Tokisud North coal mine coming on stream, 1,200 MW of power from the plant would soon be available to the country.

The company is in the process of signing long-term Power Purchase Agreements (PPAs), it had earlier said.

The mine, which has all necessary clearances to begin operations, has extractable coal reserves of 52 million tonnes (MT), it had added.

RAJASTHAN GOVT MOVES SC TO TAKE POSSESSION OF MINE

Rajasthan Government has moved the Supreme Courtchallenging a High Court order declining its plea to restore to it the possession of a mine, the lease of which was transferred allegedly in contravention of rules by a private company to cement major Ultra Tech.

The appeal against the order of the division bench of Rajasthan High Court is listed for hearing tomorrow before a bench of Justices A R Dave and Adarsh Kumar Goel.

(Continued on page 17)...

The state government has raised several grounds challenging the High Court order setting aside the decision of its mining department to take back possession of the mine, located in 10 sq km area near Gotan town in Rajasthan's Nagaur district.

The Ultra Tech cement has purchased the mine from Gotan Limestone Khanji Udyog Pvt Ltd, the shareholders of which were four brothers who were booked by Anti -Corruption Bureau in August 2014 for the lease transfer.

The state's Mines Department on December 16 last had cancelled the mining lease granted in favour of Gotan Limestone Khanji Udyog Pvt Ltd, which was set aside by the single judge bench of the High Court on March 25 this year.

Rajasthan Government's appeal against the single judge order was also dismissed on May 14 by a division bench which said there was no contravention of the 1986 rules in the transfer of the lease of the mine in question.

However, the state government and J K Cement Ltd, which also filed the appeal, contended that the High Court had failed to take note of the fact that Gotan Limestone had not even "come into existence when it asked for or made an application seeking transfer of the lease, the same by no stretch of imagination can be termed as legal as at the relevant time the Gotan Pvt Ltd was not a legal entity and hence had no existence in the eyes of law".

Further, the petition by Rajasthan Government said the partnership firm of four brothers was converted into private limited company and forged documents were allegedly submitted to transfer the lease in a short duration of time.

It said 100 per cent shares were sold to the Ultra Tech cement allegedly without taking permission from the state's mining department at around Rs 160 crore.

Rajasthan contended that the action of the Gotan Limestone amounted to sale of the lease in contravention of the 1986 mining rules, and after an inquiry, the order of cancellation of lease was passed.

NTPC GIVES PAKRI-BARWADIH COAL BLOCK CONTRACT TO THRIVENI-SAINIK

NTPCBSE 2.27 % has appointed a joint venture of Thriveni Earthmovers and Sainik Mining to develop a key Jharkhand coal deposit into a 15 million tonne per annum mine and run it.

The contract to develop the Pakri-Barwadih block, which had earlier been assigned to an Indian subsidiary of Australian company Thiess, is worth close to Rs 27,000 crore.

Thriveni Earthmovers holds 51% of Thriveni-Sainik, with Sainik Mining owning the rest. It won the contract by quoting the lowest amount to develop the filed, beating a dozen others including Adani EnterprisesBSE 2.02 % and AMR India in the process.

With the Narendra Modi government keen on seeing the over Rs 2 lakh crore auction of coal blocks translate quickly into actual production, several more of such mine developer and operator opportunities are expected soon. "This JV will be participating in other such opportunities as Coal India, SAIL and NTPC tender out new mines," said B Prabhakaran, managing director of Thriveni Earthmovers.

The company is a contractor to several Odisha-based iron ore companies.

According to NTPC's Director (Finance) Kulamani Biswal, the contract at Rs 850 a tonne for coal is cheaper than what NTPC would have paid, considering the escalation costs as per it older contract with Thiess. Biswas told ET that the power major, which has ten coal blocks now, would be tendering out four more coal blocks for development soon.

Back in November 2010 NTPC had announced with great fanfare its Rs 23,000 crore, 27-year contract to Thiess Mines. The latter though ran into stiff local resistance which, according to former executives of the company, could have been resolved if NTPC, which was to hand over the land to them, hadn't been so rigid about what it was offering the affected people in its proposal. In May 2014, NTPC cancelled the contract. Thiess has appealed to an arbitration tribunal.

NMDC TO SET UP A GOLD REFINERY IN TANZANIA NEXT YEAR

Public sector iron ore mining company NMDC Limited is planning to set up a small gold refinery in Tanzania next year.

"Tanzania exploration is going to complete. We will start mining of gold ore and set up a small refinery next year. We will do a joint venture there and we are in final stage of negotiations in this regard," Narendra Kothari, chairman and managing director of NMDC said on Tuesday. He however did not divulge the details of investment that was going into the project.

It may be recalled that NMDC was granted mining leases for a ten year period at Bulyang'Ombe gold prospect in 2012 across a total area of 38.83 square kms.

Earlier reports suggested that the company had plans to invest at least $ 50 million in the development of these gold mines. It had carried out exploration in the southern region of Lake Victoria and north-western part of Tanzania more than ten years ago before delineating the mining lease areas.

Speaking on the sidelines of the company's annual general meeting here, Kothari said the company had drawn up plans to invest Rs 40,000 crore in the next eight years primarily to reach iron ore production target of 100 million tonne as compared with the 30.4 million tonnne capacity .

Apart from developing new mines the the company would also invest in steel plant, its Legacy Iron Ore company in Australia and slurry pipeline among other things, according to him.

The company has so far spent Rs 7,730 crore on the upcoming 3 million-tonne Nagarnar Steel Plant in Chattisgarh. In the recent times the company had set up several special purpose vehicles with other public sector and state government entities in the mineral rich states of Chattishgarh, Jharkhand, Karnataka and Odisha for the develeopment of

Responding to a question on the commodity prices, Kothari said Iron ore prices are expected to hover in the range of $ 55-$65 per tonne for some time due to the subdued global demand for steel.