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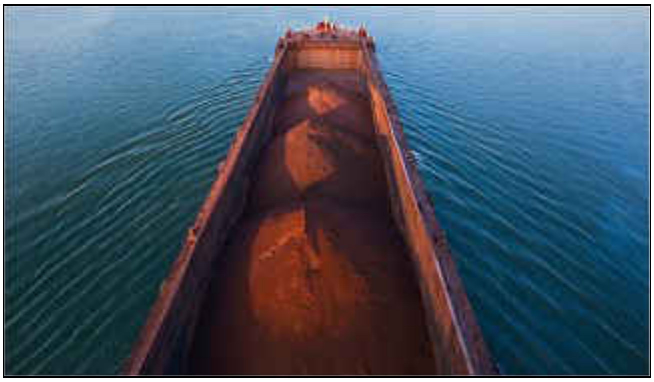
# 'PROCESS TO RESTART MINING HAS STARTED' : GOA

With national elections barely a year away and pressures mounting from the ground up, India's federal government is considering bringing in an ordinance to resume iron-ore mining in the western coastal state of Goa.

Sources say that local government is concerned over the impact of the closure of 88 iron-ore mines since March 15, at the forthcoming elections, as rising unemployment is expected to gain traction as a political issue for opposition political parties.



Various political parties and constituents of the coalition Goagovernment have sought federal government's immediate intervention in getting iron-ore mines in the region back in operation.

It is learnt that the group of Ministers, headed by Commerce Minister Suresh Prabhu, has been tasked with resolving the issue of the Goa mines and that it has sought legal opinion from the Attorney General, to come up with options, including the promulgation of an ordinance by the central government to circumvent the Supreme Court order.

The apex court in a ruling of February 2018, maintained that second renewals of mining leases of the 88 iron-ore mines were illegal as the renewals were not done through the auction route, as is mandatory under the Mines, Mineral Development and Regulation Act (MMRDA) 2015.

The court ordered that all miners stop operations from March 15, and evacuate their equipment from their respective leasehold areas.

At the time of the closure of the mines, the Goa government had committed that it would ensure that the mines were back in operation by December. With the unofficial deadline approaching and the resumption of mining operation not in sight, various coalition partners in the Goa government have threatened to pull out of the government, not wanting to risk their respective electoral base ahead of national elections, next year.

Sources say that the government is likely to promulgate an ordinance to pave the way for resumption of mining as soon as legal opinion is received from the Attorney General's Office as amendments to the MMRDA will take time through the Parliamentary process.

# AUSTRALIA'S MINING SUCCESS MATTERS FOR INDIA

In 1964 Donald Horne published his bestseller The Lucky Country. It was not an ode to Australia, it was an assault on mediocrity and complacency. Australia's prosperity, Horne argued, came from its natural bounty and its Commonwealth ties, not from its leaders.

Abound it certainly does: Australia has the world's largest economically proven deposits of iron ore, gold, nickel, and uranium, and is in the world's top five for coal, copper, tin and lithium.

Australia got lucky again when the resources boom began at the start of this century. Luck, though, is what you make of it. The cold hard truth of bringing goods to market must be confronted. Horne's error was to think that this was easy, something that could be done by second-rate leaders. That is not right. Australia has shown that its mining sector is, in fact, world leading.

It has the infrastructure, the transport and logistics, the technology and the skills to consistently deliver — and grow. In 2000, Australia produced 155 million tonnes of iron ore. We forecast that Australia will produce over 900 million tonnes of iron ore this year, on the back of a huge increase in investment in new mines, in research and development, and in digital technologies. Remarkably, it will do so at a cost per tonne lower than in 2000. Australia may not produce much steel, but a huge fraction of the world's steel is elementally Australian.

India is poised on the edge of greatness. It has gone past Japan to become the world's third largest economy. If it can lift its poorest out of poverty the way China has, India could become the largest. But it will need material resources to realise this promise, and it is unlikely to be able to do this on its own.

**Import pressures**

India has more than enough thermal coal reserves to meet its own needs. But it struggles to do so. This year it will import over 160 million tonnes, despite the government's goal of self-sufficiency. From next year India is also set to become a net importer of iron ore as its demand for steel is about to escalate and will outstrip growth in domestic supply of iron ore.

Australia can be a steady partner. Peter Varghese, former High Commissioner to India, recently set out a detailed Indian Economic Strategy to 2035 for the Australian government. Its goals are ambitious: to lift India into the top three export markets for Australian goods and services, to make India a significant destination for Australian investors and, above all, to cement the Australia-India relationship as a strategic partnership. It identifies 10 sectors and 10 Indian States where opportunities exist for greater economic cooperation.

In the mining and energy sectors there are four major opportunities to seize.

(continued on page 2)...

First, most evidently, Australia has plentiful material resources to supply. It is already the major supplier of coking coal to India. These resources can underpin the Make in India strategy.

Second, India's energy demand is set to skyrocket. Australia can provide coal, gas and uranium, as well as its expertise in deploying renewable energy. On any plausible scenario of India's future energy demand and mix, thermal coal consumption will increase considerably. What is at issue is by how much and the extent to which imports will be needed. Australian thermal coal has higher energy content than domestic coal in India and imported coal from Indonesia and South Africa. That means less pollution for any given amount of energy generated, a major issue for residents of New Delhi.

Third, Australia has an advanced mining equipment and technology services sector. India needs to dramatically improve its mine efficiency, health and safety performance and environmental management, all areas in which Australian companies have deep expertise: like Ground Probe which uses radar to detect unstable slopes in open-pit mines as it is doing with Coal India Ltd.

Fourth, Australian universities and researchers are a leading source of Australia's comparative advantage in mining. They can work with Indian mining companies to train their workforces and deepen their skills and solve applied problems. The Australia-India Mining Partnership at the Indian School of Mines provides a good template.

Australia is well-placed, willing and able to work with India to navigate its growth challenges in the decades to come.

The writer is Chief Economist in the Australian Department of Industry, Innovation and Science

## INDIA CEMENTS ENTERS INTO SHARE PURCHASE AGREEMENT FOR ACQUIRING SPRINGWAY MINING

The India Cements Ltd. (ICL) has inked a deal to acquire Springway Mining Private Limited. The share acquisition will happen in a phased manner. According to ICL, the transaction would involve a total consideration of Rs. 82.89 crore.

Incorporated in 2010, Springway has a paid-up capital of Rs.20 crore. Spring way is engaged mainly in the mining and quarrying business. ICL, a leading cement manufacturer in the country, said the acquisition was done with an eye on setting up a cement plant in Madhya Pradesh.

According to sources, ICL is planning a clinker grinding unit in East Nimar district of Madhya Pradesh. The proposed 1.5 million tonne unit is expected to involve an investment of a little over Rs. 300 crore.

Vice-chairman and managing director of ICL N. Srinivasan had indicated recently that the company could be contemplating capacity expansion in view of the pick-up in cement demand in the wake of Centre-initiated spending on infrastructure projects and also due to various initiatives undertaken by States across the country.

**Capacity constraints**

The move to buy Springway must be read in this context. Mr. Srinivasan has been of the view that capacity constraints following a surge in demand would drive cement producers to expand. Availability of limestone is critical for expansion, especially to the south of Vindhyas. The ICL acquisition of a mining business in Madhya Pradesh makes enormous logical sense, according to industry sources. Modalities of funding the acquisition were being worked out, they said.

## JSW STEEL EMERGES AS PREFERRED BIDDER FOR IRON ORE MINE IN KARNATAKA

The government is looking to put on block over 100 mines in the next six months, according to the ministry JSW Steel has emerged as the preferred bidder for an iron ore mine in Karnataka, which went under the hammer last month, according to an official document.

The cumulative revenue from the block over the period of 50 years is Rs 17.05 billion with an additional contribution of Rs 14.49 billion through auction, the document added.

While the notice inviting tender (NIT) for the block was January 30 and auction took place on September 4, it said.

Beside this block, four more iron ore mines in Karnataka were auctioned in September, the steel ministry said in another document.

"In the month of September, five Iron Ore blocks have been auctioned in Karnataka," the ministry said highlighting the major activities undertaken in the last month.

(continued on page 3)...

Giving further details, the ministry said a total of 50 mineral blocks with estimated resources of Rs 2.21 trillion have been auctioned as on September 30, this year.

"The estimated revenue to the state governments over the lease period of these mines is Rs 1.81 trillion out of which the estimated auction premium is Rs 1.42 trillion," the mines ministry said.

The government is looking to put on block over 100 mines in the next six months, according to the ministry.

Of the 50 mines auctioned, 23 are limestone blocks, 17 are iron ore mines and four gold, among others.

There are 102 blocks in pipeline to be auctioned by March 2019 in Andhra Pradesh, Chhattisgarh, Gujarat, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Rajasthan, Telangana and Assam, as per a report by the ministry on progress of block auction.

These include 42 limestone, 19 bauxite, 11 manganese ore, 8 copper, 6 iron ore, 6 graphite, 3 zinc, 2 emerald, 2 gold, 1 iron ore & manganese, 1 dolomite/limestone and 1 copper ore.

As per the report, Jharkhand will auction the highest 20 blocks followed by 16 by Rajasthan and 13 each by Madhya Pradesh and Maharashtra.

## NEW ROUND OF COAL AUCTION WITH OLD AND REJECTED MINES, SAME PROBLEMS

However, the captive power producer is allowed to sell up to 25% coal if it is surplus, in the open market

he Centre has announced two new rounds of coal auction, after two failed attempts in 2016-17, to allot mines to iron, steel, cement, fertilisers and captive power units. Unlike the successful first three rounds of the coal auction in 2015, there is no mine offered for the power generation sector.

To attract bidders this time, the time period to get all clearances and begin actual production has been relaxed to 66 months from earlier 44. The earlier allotted mines faced delays due to a slow pace of receiving clearances from mine-bearing states.

Also, the companies would now be required to produce 80 per cent of the annual committed production during the first five years. It was earlier required that the meet their production target in full. Officials said the extended time period would not impact the revenue going to states during the contract period since they would have to make up for the lesser production. It would only defer penalty on mine owner.

Coal ministry officials said the price of surplus coal would be same that of Coal India.

For the upcoming two rounds of the auction of coal mines, the Centre has notified 18 mines of which 14 are the ones which were put up for auction and didn't elicit any interest.

In a marked shift from the earlier regime, the Centre has made two major changes in the coal allotment policy. First, the mine winners would be allowed to sell up to 25 per cent of the coal, if it is surplus, in the open market.

The last two tranches of the auction in 2016-17 were cancelled after no buyer came up. The mines were put for non-power sector. Steel sector said the mines are not large enough. The sector itself was undergoing stress and could not bid for new mines. Some mines were undergoing litigation.

"There is obviously a demand for coal now after 1.5 years. Time was taken in revising the tender document," said a senior coal ministry official.

Post a judgment of Supreme Court in August 2014 cancelling all coal blocks allocation of past two decades, the ministry of coal started re-allocation through transparent e-auctions.It allocated 86 coal mines to private companies through auction and to states through allotment – for both power and non-power sector. The revenue estimated to be collected is Rs 2.85 trillion over 30 years for mine bearing states.

In the first-ever e-auction of coal blocks in 2014, 34 coal blocks in three tranches went to private companies including HINDALCO, BALCO, Jindal, JSW, Adani, GMR, Essar among others. Later, five mine allocations were cancelled.

A senior coal ministry official said the coal production could have been better had the coal blocks allocated to central public

(continued on page 4)...

sector units adhered to the production schedule. "Central PSUs namely NTPC and SAIL have been behind schedule on production targets in many of the blocks allotted to them thus leading to more import of coal for power and coking coal imports," he said.

The latest tranche of coal auction is coming at a time when power plants and non-power sector are raising questions over the production of CIL. The coal ministry, however, said the coal production is on track and the current tranche of the auction is to reduce imports.

In the data shared by the ministry, coal production has increased to 676 million tonne (MT) in 2017-18 against 565.77 MT in 2013-14. "While the production target of CIL was 610 MT for 2018-19, it has been asked by the ministry to have an aspiration target of 652 MT," said an official.

He also said CIL registered double digit 10.6 per cent growth in H1FY19, which is a first for the company. The official added that the through these mines, India would achieve the target of 1 billion tonne coal, earlier envisaged only for CIL.

# THE GREAT BATTLE FOR INDIAN STEEL

A fourth of India's steel production capacity is up for grabs. Which steel magnate will come on top and why does it matter?

Can you set a price on ambition? Since the Insolvency and Bankruptcy Code (IBC) came into effect, 30 million tonnes (mt) of idle steel production capacity (about a fourth of India's total capacity) has been ripe for the picking. If you are a steel magnate with an eye on the booming Indian market, how much will you pay to be the top dog? In this battle for supremacy in production capacity—the race to sell tonnes and tonnes of steel to an infrastructure-starved nation—can you set a price on ambition?

Last week, the Supreme Court told the two top bidders for the 10mt Essar Steel plant that they would have to settle unpaid dues in related companies to qualify as bidders. For ArcelorMittal, that's ₹7,000 crore. For Numetal, it's at least ₹49,000 crore. To be sure, this is what the two rivals need to pony up just to qualify to bid for Essar Steel. The actual cost of acquisition is as yet unknown.

The intensity of this battle has been visible in several court cases for several steel assets, with companies resorting to mud-slinging and litigating back and forth, reminding one of the great telecom war that was fought for survival two years ago. The steel battle is for dominance as much as it is for survival.

A glimmer of that was visible on 14 September when in a letter to the resolution professional (RP), ArcelorMittal dug up the past of its rival bidder Vedanta Ltd, including the sensitive Thoothukudi plant issue, in a bid to present its case for the takeover of Essar Steel Ltd. ArcelorMittal portrayed Vedanta as guilty in specific areas such as environmental law violation in India, Zambia; illegal mining in Goa; disregard for safety standards; and to top them all—human rights violations. ArcelorMittal later retracted and wrote another letter to the RP asking it to ignore the previous letter. But, the damage was done.

The first letter was lapped up quickly by the media and its

(continued on page 5)...

## GAME OF STEEL

Since the IBC came into effect, 30 mt of idle steel-producing capacity (about a fourth of India's total capacity) has been ripe for the picking.

### India's largest steel producers

| Company | Current capacity (in million tonnes) | Organic capacity expansion planned (in mt) |
|---|---|---|
| SAIL | 21 | — |
| JSW Steel (including Monnet Ispat) | 19.5 | 6 |
| Tata Steel (including Bhushan Steel, Usha Martin) | 19.3 | 5 |
| Essar Steel | 10 | — |
| Jindal Steel and Power | 8.6 | — |
| RINL | 7.3 | — |

### Stressed steel assets

| Company | Capacity (in million tonnes) | Total debt as of March 2017 (Rs crore) | Resolution status | Winning bidder |
|---|---|---|---|---|
| Bhushan Steel | 5.6 | 56,000 | Resolved | Tata Steel |
| Essar Steel India | 10.0 | 50,786 | At NCLT | |
| Bhushan Power & Steel | 3.5 | 49,264 | At NCLT | |
| Monnet Ispat & Energy | 1.5 | 12,263 | Resolved | JSW Steel |
| Electrosteel Steels | 2.5 | 12,376 | Resolved | Vedanta Ltd |
| Uttam Galva Steels | 1.0 | 6,192 | At NCLT | |
| Adhunik Metaliks | 0.5 | 4,948 | Resolved | Liberty House |
| Jayaswal Neco Industries | 1.0 | 4,800 | At NCLT | |
| Visa Steel | 0.6 | 3,884 | At NCLT | |
| Jai Balaji Industries | 0.8 | 3,641 | At NCLT | |

Source: India Ratings and Research, Mint research



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impact was further magnified after Numetal, another contender for Essar Steel, shot off a separate letter to the RP, highlighting reasons why ArcelorMittal should be disqualified from the bidding process—thus making it a three-front battle.

And, if you thought this battle is limited to these three companies in a sector that was mostly dead in this decade, then take a second and look around.

Domestic rivals JSW Steel Ltd and Tata Steel Ltd have been nipping at each other's heels in National Company Law Tribuanl (NCLT) bids. So, when Bhushan Steel Ltd came up for bidding, the Tatas submitted a bid of Rs.24,000 crore initially, while JSW Steel came in with Rs.29,700 crore. To the surprise of the Bhushan Steel's lenders, its RP and JSW itself, the Tatas then revised their bid massively to Rs.35,200 crore for the company's 5.6 mt steel production capacity, the bulk of which is in Dhenkanal, Odisha.

Tata Steel acquired Bhushan Steel in May this year.

The Indian steel rush is a subset of an unfolding global game, with countries betting on growth and viewing steel as a strategic asset. US President Donald Trump recently erected steep tariffs in order to revive the domestic steel industry. China's Belt and Road Initiative is, in part, an effort to shore up its steel sector, which is facing a series of closures due to mellowing economic growth and environmental concerns. Even going by conservative estimates, most analysts expect Indian steel consumption to grow by at least 6-7% every year as growth picks up. This growth will come even as India is attempting to protect its industry from cheaper imports, through a series of anti-dumping investigations. If the Indian government succeeds in doing what it wants to do, it would only enlarge the market for domestic steel.

**Top dogs of steel**

For the two most ambitious primary steel producers currently—JSW Steel and Tata Steel—the battle for supremacy is as much about cornering new capacity as it is about keeping the others out. For the newcomers, such as ArcelorMittal and Liberty House, it is about setting a foot into a market where steel demand is expected to surge, especially in the backdrop of slowing steel consumption in the world's largest economy, China.

"For players like JSW and Tata who want to boost capacity, it's not only difficult to ignore a large existing integrated plant, but they also risk a rival getting there first," said Anand Bhageria, partner at Singhi Advisors that focuses on special situation acquisitions.

"Steel is turning into one of the better success stories in NCLT for two reasons. One, because the big bankrupt companies here have set up world-class facilities and two, because steel prices have gone up in the last couple of years," Bhageria added.

It is under these circumstances that nearly 30 million tonnes of steel-making capacity (worth over $30 billion) is currently sitting idle under bankruptcy proceedings, waiting to be picked up by the highest bidder. Creditors have a shot at getting repaid. And suitors see the potential purchases as a way to acquire a bigger share of a steel market that's forecast to produce more than 100 mt this fiscal year.

Even as the race to reach the top intensifies, ArcelorMittal's bid for Essar Steel, promoted by the Ruia brothers, showed the price for being even the third-place contender in the unfolding steel wars is quite high. ArcelorMittal had to effectively value Essar Steel at roughly Rs.5,000 crore for every 1 mt of production capacity, the highest any company has paid in India's nascent bankruptcy court. Meanwhile, a relatively unknown Sanjeev Gupta of Liberty House has joined the race to get a piece of the cake.

So, what prompted Tata Steel, which is struggling to set its European steel operations in order and has a debt overhang of over Rs.69,000 crore, to pay through its nose for Bhushan Steel? Why is Sanjeev Gupta, who doesn't have a past in India's business circles, stationed in Mumbai? Why is Lakshmi Mittal-led ArcelorMittal so aggressive, especially since it focused on developed markets for decades to spruce up its revenues? The big question on everyone's mind is: what happens to the Indian market when global steel magnate Mittal sets his foot in.

**NEARLY 30 MILLION TONNES OF STEEL-MAKING CAPACITY (WORTH OVER $30 BILLION) IS CURRENTLY SITTING IDLE UNDER BANKRUPTCY PROCEEDINGS**

**The India story**

Mint asked these questions to Tata Sons chairman N. Chandrasekaran at an informal dinner that he hosted for media at the inauguration of the revamped Bombay House—the group's corporate headquarters. "India story...," Chandrasekaran said, with a pause only to add, "...is yet to play out." "I could add 20mt more to my capacity," he said about Tata Steel, which has an annual capacity of 13 mt in India, and 27.5mt globally.

In September, Tata Steel beat JSW Steel, Vedanta and Liberty House to pick up the 1mt integrated specialty steel capacity of Kolkata-based Usha Martin Ltd, a power plant and a captive iron ore mine for Rs.4,300-4,700 crore. While a minor acquisition for the steel giant, it boosts the company's presence in wire and wire

(continued on page 6)...



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ropes, building capacity in value-added products. This, along with the acquisition of Bhushan Steel, has brought Tata Steel's India capacity to 19.3mt, neck-and-neck with JSW Steel with an installed capacity of 19.5mt.

Tata's current aggression also hinges on its recent attempts to build up capacity internally in order to cater to a growing demand for steel from power and infrastructure companies. It had taken Tata Steel Rs.25,000 crore and, more importantly, 10 years to build a 3mt greenfield steel plant in Kalinganagar, Odisha. In comparison, by buying out Bhushan Steel, Tata Steel managed to integrate close to twice that capacity in just a few months, that too, very close to its existing plant. A spokesperson for Tata Steel declined to answer questions for this report. However, at a press conference held in May, the company's chief executive officer and managing director T.V. Narendran said that completing capacity expansion work at Kalinganagar from 3 to 8 mt per annum is still 3-4 years away.

"The Bhushan Steel acquisition allows us to ramp up capacity immediately. In the Indian market, if we don't add a million tonne a year, you can't hold on to your market share because that's how fast demand grows," Narendran had said.

To be sure, Tata Steel's acquisition of Bhushan Steel raised its net debt from Rs.69,000 crore to Rs.1.04 trillion. This will fall to Rs.84,000 crore once Tata Steel manages to move Rs.20,000 crore of debt off the books of its European subsidiary to the new joint venture with Thyssenkrupp.

Bhageria of Singhi Advisors said the race to build steel capacity is driven by strong prospects for the infrastructure sector over the next decade, and infrastructure is primarily about steel and cement. "Players like Tata Steel and JSW Steel can ill-afford to let the other become the runaway leader," he said.

> EVEN AS JSW STEEL AND TATA STEEL BATTLE IT OUT, ARCELORMITTAL AND LIBERTY HOUSE ARE SEEKING A FOOTHOLD IN INDIA WHERE STEEL DEMAND IS EXPECTED TO SURGE

That is why the stakes are sky high. "We have been saying that our internal benchmark for brownfield expansion is Rs.3,500 crore/mt," Seshagiri Rao, joint managing director and group chief financial officer, JSW Steel, told Mint in a telephonic interview. "If that is the case, a 5mt steel plant cannot be bought for more than Rs.18,000-20,000 crore. Our bid for Bhushan Steel had been over Rs.29,000 crore, much above our benchmark. So we had been aggressive, just not as aggressive as our competition."

"Considering the opportunities available today and given the time that greenfield expansion takes, we take such calls (on valuation)," Rao added.

The bidding for these steel assets will also depend upon the iron ore reserves that these companies have, which means a company will bid big if it has the ore reserves to actually utilize the capacity that it acquires.

"That is why Tata could bid so high for Bhushan Steel and JSW couldn't," said an analyst with a foreign brokerage, requesting anonymity. "For Bhushan Power, even Tata doesn't have excess iron ore reserves, and it will either need to get more mining approvals or buy iron ore in auctions. So both Tata and JSW have even chances in this case," the analyst added.

**The low profile players**

Steel Authority of India Ltd (SAIL), the public sector steel producer with the largest steel capacity, has been conspicuously absent in these bids. According to Mahaveer Shankarlal Jain, associate director, India Ratings, this is because of the company's decade-long Rs.64,000 crore capital expenditure programme that it has just completed. After nearly two years of losses, SAIL finally turned the corner in the December 2017 quarter by curbing costs and ruthlessly cutting headcount. "SAIL is in the last leg of balancing its plants to operate at full capacity, so it isn't capable of taking on further risk, compared to JSW or Tata Steel. For SAIL, it's the right move to keep out of the bidding process," Jain said.

Over-leveraged Jindal Steel and Power Ltd, a company run by Naveen Jindal, has also stayed away. The other company that has so far maintained a low profile is Anil Agarwal-promoted Vedanta, which paid Rs.5,320 crore for Electrosteel Steels Ltd, which has a steel production capacity of 1.5mt, and did not offer a comment when ArcelorMittal took on the firms' past environmental track record.

"Vedanta hasn't been very clear on their strategy for steel in India," the analyst with the foreign brokerage firm said. "We know that if they want something, they chase it very aggressively. With Electrosteel Steels, it has a toehold in the Indian market. They might look at organic expansion from there, but it's too soon to tell."

While the fate of most of the assets undergoing the bankruptcy process remains sealed, largely due to litigation, it is already clear that the outcome of this mechanism will redefine the way business will be done. The consolidated steel sector may become far more transparent and competitive too. But for now, it's a mad dash for spoils with an uncertain end

# JSW ENERGY NO LONGER INTERESTED IN MONNET POWER, LOOKING FOR NEW GROWTH AVENUES: COO

Sajjan Jindal's JSW Energy is no longer interested in acquiring bankrupt Monnet Power, a senior company executive told CNBC-TV18 on Thursday.

Monnet Power, which owns and operates coal fired thermal power plant in Odisha, is an unlisted company owned by the Jajodia family. The firm ran into trouble when the Supreme Court cancelled multiple coal mine licences in 2014.

(continued on page 7)...

JSW Energy chief operating officer Sharad Mahendra said while the company was not moving forward with its planned acquisition of Monnet Power, it remains committed to taking over Prayagraj Power, a thermal unit located in Uttar Pradesh near Allahabad.

Media reports suggested JSW Energy has promised lenders to sweeten the offer for Pragyaraj Power in an attempt to trump Tatas backed Resurgent Power.

The power sector is buzzing with potential acquisition opportunity. Over the past few months, banks have referred 18 power sector accounts to the bankruptcy court following the RBI's February 12 circular.

The circular required banks to finalise a resolution plan in case of a default on large accounts of Rs 2,000 crore and above within 180 days, failing which insolvency proceedings will have to be invoked against the defaulter.

JSW Energy is waiting for lenders to send power assets to the National Company Law Tribunal for insolvency proceedings before jumping into the fray in a big way.

The company's next big avenue of organic growth is likely to come from the launch of its electric vehicle, which it has tentatively pushed to 2021 from the original 2020 deadline.

Mahendra did not comment on reports that the company was looking to buy General Motors's manufacturing plant in Pune, but reaffirmed that the first offering would be in the passenger vehicles space.

A more detailed plan on the company's EV foray is likely to be revealed to the public over the next 2-3 quarters, according to Mahendra.

In the hydroelectric space, the company is looking to commission another 240 megawatt (MW) plant in Himachal Pradesh over the next 4 years. JSW Energy already has a capacity of 1300 MW of hydro power in the state between its Karcham Wangtoo and Baspa plants. It is also hoping that the central governments hydro policy, long-awaited by industry players, will give incentives on tax and the way depreciation of hydro plants is currently accounted for.

On the solar power side, which has been a relative outperformer in India's power space, Mahendra is of the view that tariffs being discovered at solar power auctions are too aggressive, and unsustainable for long-term players in the space.

JSW has focused its solar power efforts on the B2B (business to business) space and is likely to stay on that course, with Mahendra saying that 8-10 percent returns are not attractive enough for JSW Energy.

Solar and wind-based power are emerging as the outperformer in the debt-laden power space, but experts and industry players alike are worried about what they see as over-aggressive, unsustainably low tariffs being discovered in auctions.

For JSW Energy, the challenge is to find a balance – move too slowly and it runs the risk of missing out on great assets at throwaway prices, but move too fast and it might end up finding itself in the same position as so many Indian power companies are in right now.

# SC APPOINTS JUSTICE PATNAIK TO OVERSEE MINING FUND USE

The Supreme Court has appointed Justice Ananga Kumar Patnaik, a retired judge of the apex court, as the head of the oversight body to monitor the utilisation of fund collected from erring mining companies in three districts of Odisha.

A three-judge bench of Justice Madan B Lokur, Justice S Abdul Nazeer and Justice Deepak Gupta said Monday that the Odisha Mineral Bearing Areas Development Corporation will have to report to Justice AK Patnaik regarding the utilisation of the fund collected as fine from mining companies. It has to submit its first report in three months and after that every six months.

"Justice AK Patnaik will be the overseer of the Special Purpose Vehicle (SPV). Patnaik may appoint one or two persons for his assistance," said the bench.

Notably, the state government has collected around Rs 14,000 crore as penalty from lease holders after the Supreme Court judgement dated August 2, 2017.

The SC also made it clear that the state government cannot utilise the fund in other districts. However, Justice Patnaik can take a decision on the utilisation of money in other districts after completing development works in the three affected districts.

"As per our order, the money is originated from Mayurbhanj, Keonjhar and Sundargarh districts. You are collecting DMF from other districts you utilise if for them," the bench said in oral observation.

The SC accepted most of the prayers of the lessees. "We have prayed that the fund should be utilised for the provision of piped drinking water supply project, improvement of health services, mobile medical vans, eye clinics, hospitals, tie ups or referral systems with major hospitals. Improvement of education services including the infrastructure of educational institutions, technology-based alternative learning," said advocate Naveen Kumar, counsel appearing for lessees.

Meanwhile, the state government affidavit, filed October 20, proposed that the Chief Executive Officer of the SPV must be a competent, senior officer of the IAS, IFS or any other service, who has an understanding of the issues of tribal welfare and area development. However, lessees prayed that "the said recommendation may also have the concurrence of the overseer appointed by this court."

Lessees cited the 2018 status report of Centre for Science and Environment (CSE) on the district mineral fund (DMF) which said

(continued on page 8)...

that the DMF administration is heavily dominated by bureaucrats and political representatives and there is no representation of mining – affected people. It further stated that the worst affected areas and people have been left out from the scope of investments.

Senior advocate Gopal Subramanium made submission in the court that there is definite need for a special overseer to be appointed by this court to oversee the work and progress carried out by the SPV. "The objective of SPV should be achieved," said Subramanium.

## COURT ORDERS CONFISCATION OF MINING FIRM BPME'S ASSETS

The District Magistrate court (DM) which had been hearing cases regarding the confiscation of properties of mining firms that had defaulted on penalties, ordered confiscation and auction of movable and immovable assets of BPME, a mining firm Saturday.

The BPME was imposed a penalty of nearly Rs 873.44 crore for illegal mining as assessed by the MB Shah Commission. The court also held hearing of 13 of 23 cases regarding mining firms again Saturday.

The Supreme Court had directed the state government to recover penalties from the scam-tainted mine owners. Many miners have deposited penalties while some others have not.

The Mines Department had moved the DM court for confiscation of their assets. Cases are going on against 31 mines owned by 23 agencies.

The court had served notices on nine miners to depose before it Saturday. Representatives of 13 firms were present in court while firms like Sharda, BC Dev Agrawal, DS Pradhan, BD Patnaik, BK Mohanty, TB Lala, Arjun Lodha, Mineral Trading Syndicate and Facor Mines did not turn up.

The next hearing will be held November 3. Some mining firms are waiting to get documents of their legal heirs. The cases will come up for hearing November 24.

Meanwhile, SC Padhi has deposited Rs 10 lakh online. It has totally deposited Rs 1.93 crore with the Mining Department. Notices have been served on BK Mohanty and Arjun Lodha mining firm, but they have not appeared in court.

Collector Ashish Thakre said that following the SC directive, hearing of 23 cases was completed under the OPDR Act. Miner Basudev Agrawal has died and the legal notice issued to him has returned. Meanwhile, his legal heir was notified to file a reply September 15.

Hearing of cases on Gandhamardan Sponge Industries, BPML, HG Pandya and Mala Ray was held September 1. Similarly, the case of Narayani and Sons was heard August 25.

It is learnt that as the hearing was underway, mine owners like Mala Ray, SC Padhi and MR Das deposited Rs 2.88 crore as penalty online.

The cases against eight mine leaseholders – SC Padhi, Mesco, Bhanj Minerals, Facor, Narayani and Sons, Mineral Trading Syndicate, BD Patnaik and SN Dasmohapatra –were heard August 8.

## SC ADJOURNS MINING PENALTY UTILISATION CASE

The Supreme Court is likely to pass an order Monday on utilisation of fund recovered as penalty from erring mining companies for the development of the mining affected areas of the state. A three-judge bench of Justice Madan B Lokur, Justice Abdul S Nazeer and Justice Deepak Gupta Friday adjourned the matter for Monday after hearing the argument of the parties.

During the hearing, senior advocate Rakesh Dwivedi, appearing for Odisha, contended that the state has agreed on most of the suggestions made by the lessees. The counsel appearing for Central Empowered Committee said in the court that they would submit a report on the suggestions made by lessees related to the utilisation of fund in mining affected areas and appointment of retired judge as chairman of special purpose vehicle (SPV). The apex court is likely to give directions on the utilisation and monitoring of fund recovered from the erring mining companies as fine, said sources. Earlier, the SC September 28 had directed the state government to file its reply within two weeks.

## OMDC SETTLES CREDITOR DUES, COMES OUT OF NCLT

Orissa Minerals Development Company (OMDC), a subsidiary of state-owned Rashtriya Ispat Nigam Ltd, has been able to settle dues of creditors.

The company has now come out from National Company Law Tribunal (NCLT) even after the initiation of bankruptcy proceedings process under the Insolvency and Bankruptcy Code, making it one of the first such cases allowed through an amendment to the regulations introduced in June this year.

OMDC, which owns several iron ore blocks but doesn't have existing mining rights, was earlier dragged to the Kolkata-bench of NCLT by its creditors.

The court accepted the bankruptcy case and even appointed a resolution professional to execute the process which would have resulted in either change in ownership or liquidation.

The management then approached the National Company Law Appellate Tribunal (NCLAT),

(continued on page 9)...

which in May suggested "amicable settlement of the claimants".

OMDC then entered into negotiations with operational creditors and over June-July settled Orissa Stevedores's Rs 13.07 crore dues by paying Rs 11 crore. Dues of Rs 21 crore to another individual creditor were settled at Rs 15 crore.

This was communicated to the Committee of Creditors which met in July and decided to allow application for withdrawal under the new provisions of Section 12A.

The application was made before NCLAT, which on September 7 directed dismissal and withdrawal of the insolvency case against OMDC.

"This is a welcome development and first such case, at least before the Kolkata-bench of NCLT under Section 12A. The decision by the Committee of Creditors had received 90% of the vote in its meeting as required by the provisions. Also, no expression of interest was floated by that time," Bijay Murmuria, resolution professional appointed for OMDC.

# INDIA FRAMING FUNDING OPTIONS FOR GLOBAL JUNIOR EXPLORATION COMPANIES

Globally, exploration is done by JECs, which are standalone exploration firms that specialise in exploration but not in mining.

To involve the private sector in mines exploration, the Central government has developed various models through which these companies can collaborate with different government entities and get easy funding.

Under one such model, Indian start-ups can collaborate with Indian or international junior exploration companies (JECs) and put forward an "innovative" proposal for priority funding by National Mineral Exploration Trust (NMET). However, such a proposal should be prepared with the help of a government-notified exploration agency.

Under the second model, an Indian mining company can undertake exploration activity in collaboration with government-notified exploration agency itself as a joint venture. However, according to Ministry of Mines, priority funding can be given to the proposals submitted by such joint venture mining companies only if the proposed greenfield exploration falls nearby the area of its operational mines.

Globally, the exploration is done by JECs, which are standalone exploration companies that specialise in exploration but not in mining. Across the world, exploration is largely funded by private enterprises as they have the technology and the expertise to carry out such a risky and capital-guzzling activity.

NMET is a state-run non-profit body with the primary objective of promoting regional and detailed mineral exploration in the country. The Central government had established NMET under the Mines and Minerals (Development and Regulation) Amendment Act, 2015 and notified its rules on August 14, 2015.

Under the third model, public sector units, which are engaged in exploration activities, would be encouraged to form joint ventures with JECs or start-ups.

Under the fourth model, the state government and state mineral development corporations can undertake greenfield exploration activity in collaboration with JECs or start-ups. However, it is not clear how projects will get priority funding under third or fourth model.

As per the 2015 mining law, the holder of a mining lease or a composite licence shall pay to the NMET a sum equivalent to two per cent of the annual royalty paid to the respective state government.

NMET has a two-tier structure. The apex body is the Governing Body (GB), chaired by the Minister of Mines. It holds the overall control of the Trust. The Executive Committee (EC), chaired by Secretary, Ministry of Mines, administers and manages its activities. To implement mandated activities, an NMET Fund has been established.

The Central government is currently revamping the National Mineral Policy (NMP), 2008. During discussions regarding this policy last year, the Niti Aayog told the mines ministry that in order to boost mineral exploration, companies need to be given the "right of first refusal" over the mining area that is being explored.

# EXPLORING A NATION'S NATURAL WEALTH

The reality is extraction technology improvements and substitution overcome scarcity of material

Every government dreams of increasing the money available for fiscal spending without increasing taxes or borrowing. It is not impossible; imagine if a government took Rs. 450 crore of tax revenue and spent it at the world's casinos and won. Given the odds at a casino, this would seem improbable and probably reckless. But this is analogous to what the Indian government has done with its exploration and mining policy over the last few years. Needless to say, it has not had a win against the odds.

Exploring the earth for economically viable (high-grade) mineral

(continued on page 10)...

deposits is a high risk improbable activity. To understand exploration, here's a scenario: Imagine flying over Delhi in a spacecraft and trying to spot humans. Now imagine that you can only see down to Delhi via a super long eyepiece, no wider than your eye and you are not only trying to find humans, but specifically, rich humans. Would you spot Delhi's tony neighbourhoods or the rich who live there? Mineral exploration is attempting to do this, but with the added complexity that it doesn't even know where on the map Delhi is.

Over the long term, the return on investment on exploration on average across the world is very poor. The exploration industry uses sophisticated capital market speak to raise risk capital, but despite the sheen, in rational probabilistic terms, they are 'gamblers'. The Indian government created the National Mineral Exploration Trust Fund in 2015, which is currently worth approximately ₹450 crore (and rising via a dedicated charge). This money is designated for exploration (aka 'gambling'). The money has been allocated to the state mineral resources departments who have no record of exploration success. Fortunately, thanks to the workings (if not inefficiency) of the government, much of the money is yet to be spent.

So, what do clever countries do? They don't gamble, they act as the casino and entice gamblers, generally small junior exploration companies, to spend global capital in their country. However, for this to work, the host government has to tolerate a few jackpot winners, who make major finds of tier-1 assets and are able to profit from their luck. But just like a casino, these jackpots are smaller than the total sum of failed exploration projects.

While the Indian government has decided to gamble taxpayer money on exploration, it has not outlawed private sector exploration. In the last couple of years, it has introduced auctions to transparently enable explorers and miners to be allocated land to explore or gamble with. This is arguably better than the pre-existing system; whereby in practice most believe that a lack of transparency was problematic. The Indian government has also publicly made available online geophysical survey data. This is commendable, but in gambling terms is akin to publishing the casino floor plan.

While the policy seeks to encourage private sector exploration, the fine print of the law in practice is very different. Existing mining law provides that any discoveries (winnings) made by an explorer will be handed back to the government and the government will reimburse the explorer for the funds they expended. How many gamblers would go to a casino where their best chance was to win the right to have their gambles reimbursed (only after an Indian government audit) and little chance of winning meaningfully more?

Thinking about it in more business terms—imagine if Apple did most of their research and development in India but when these efforts led to the development of the next generation smart phone or device, the Indian government seized the technology, auctioned it to the highest bidder and only reimbursed Apple for their costs incurred, at best with a small regulated return (and Apple had to justify these costs to a government auditor).

Such a scenario is untenable. In India, the number of prospecting licences the government has issued annually has dropped from 360 a couple of years ago to only 21 in the last 12 months and the number in which the actual work has been undertaken has dropped from 156 to 5 in the same period. The gamblers/ explorers are clearly going to other places.

Some argue mineral resources are finite and their extraction should be saved for future generations. The reality is extraction technology improvements and substitution overcome scarcity of material such that the real price of minerals declines on average, year by year. After all, "The stone age didn't end because we ran out of stones." This means, for every year the existing ineffective policy remains, the real value of associated tax revenue from India's geological minerals declines. That tax reduction for India is lost and an equivalent gain is made by countries that enable mineral production today.

There are also broader trends at play over rare-earth minerals, which may be of extreme value, even if they are of lower volumes than common commodities. These may require state-of-the-art technologies but could help India's ambitious clean energy plan. To get there, India needs to rethink how it apportions risks and rewards, and brings in the private sector not as a subordinate contract follower but as a capital risk taking wildcatter. After all, the biggest risk is an opportunity cost of doing nothing.

## WHAT ESSAR STEEL BRINGS TO THE TABLE FOR ARCELORMITTAL

ArcelorMittal emerged as the preferred bidder for Essar Steel Ltd., bringing billionaire Lakshmi Mittal a step closer to taking control of one of India's largest insolvent companies.

Essar Steel, India's third-largest steelmaker, has the sole integrated steel mill in the western region with an annual capacity of 10 million tonnes a year, according to data compiled by BloombergQuint. "A big capacity, locational advantage and a diversified product portfolio within flat products makes Essar Steel an attractive bet," said Jayanta Roy, senior vice-president at ICRA.

BloombergQuint looks at what ArcelorMittal gets and the challenges it will face:

**Hazira Unit: Large Capacity, Locational Advantage**

Essar Steel runs a gas-based 10 MTPA fully integrated facility at Hazira, Gujarat. It also has processing and distribution centres in

(continued on page 10)...

Hazira, Pune, Chennai, Indore, Bhuj, Delhi-National Capital Region, Kolkata, besides three overseas locations, according to its website.

Since it's a fully-integrated plant—raw material to finished products— that helps the company save costs. Moreover, access to a dedicated port ensures easy movement of raw material and finished goods. That also reduces the cost of expansion for any potential acquirer, according to Rakesh Arora of Go India Advisors.

The Hazira facility is the only plant in the world to have three crucial iron-making technologies at a single location—blast furnace, direct reduced iron or midrex, and corex or smelting reduction process. It has the world's largest direct reduced ironmaking plant with a capacity of 6.8 MTPA. The unit is fed by slurry pipelines carrying iron ore from Essar Steel's mines to its pellet plants.

**Product Mix**

The company produces flat steel products, including slabs, hot-rolled and cold-rolled coils, plates, galvanised products and pipes, among others, that are used from automobiles, construction to warships. These higher-margin value-added products constitute the entire portfolio of Essar Steel. Flat steel products form 74 percent of JSW Steel's and 72 percent of Tata Steel's portfolio.

**Captive Iron Ore Supply**

Essar Steel won a 99.6-million-tonne Ghoraburhani-Sagasahi iron ore block in Odisha—ensuring better profitability when prices of the steelmaking raw material are higher globally and at home. Over the last six months, domestic iron ore prices increased 40-45 percent.

To be sure, Goldman Sachs said any fall in domestic iron ore prices will benefit partially integrated steelmakers like JSW Steel.

**Slurry Pipelines**

Essar Steel's Paradip and Vizag pellet plants are linked to iron ore mines through 253-km and 267-km slurry pipelines from Dabuna to Paradip (Odisha) and Kirandul to Vizag (Andhra Pradesh). These lines transport the beneficiated iron ore slurry to the pellet plants and then export it to the steel plant at Hazira.

Typically, the slurry is transported from mines to port through railways or trucks. Slurry pipelines are environment friendly and cheaper than the other modes of transportation.

**The Challenges**

**Committed Natural Gas Supply**

Nearly 70 percent of Essar Steel's production is through direct reduced iron-making technique. Direct reduced iron, or sponge iron, is created when iron ore is reduced to metallic iron using natural gas or coal. A disruption in the committed gas supply for the company will lower its capacity utilisation.

"Essar Steel requires 6 million standard cubic metres per day of natural gas as feedstock for the steelmaking," according to rating agency Crisil.

In 2016-17, it used 2.23 mmscmd for functioning at 55 percent of its capacity, Rahul Prithiani, director at Crisil Research, said. While the acquirer can import gas through the port in absence of domestic availability, he said, this can eat into its cost of production.

**Higher Cost Of Production**

Essar Steel's realisation per tonne is higher than JSW Steel's but lower than that of Tata Steel Ltd., according to Crisil. But its Ebitda per tonne is significantly lower because of account of higher cost of production due to greater energy and logistics costs, according to Crisil's Prithiani.

The acquirer may face challenges to efficiently manage the plant given its past financial performance compared to peers JSW Steel and Tata Steel, according to data provided rating agency Crisil.

**Non-Cooperation From Essar Port**

Essar Steel's port facilities are run by Essar Port—the country's second-largest private port company with a total capacity of 110 MTPA. Located on the western coast, the port is used to import iron ore, pellets, limestone and other dry bulk cargos, and export finished products.

Essar Port is also a creditor to Essar Steel and is required to take a haircut for its exposure to the insolvent company. So, if the port operator decides not to extend full its cooperation, the acquirer may face some trouble.

**Ongoing Litigation On Odisha Slurry Pipeline**

In 2015, Essar Steel sold its holding in Odisha Slurry Pipeline Infrastructure to Srei Infrastructure, a transaction which was objected by banks who challenged it in the court. The Reserve Bank of India was also against the move. Lenders had moved both the Calcutta High Court and the National Company Law Tribunal with a plea to reverse a sale and leaseback last year. Again, in February 2018, lenders to Odisha Slurry Pipeline moved the Delhi High Court seeking a stay on the sale of a 70 percent stake in the pipeline. Hence, a lack of ownership of slurry lines or a delay in

(continued on page 12)...

judgement on the ongoing litigation may be an operational risk for the company.

Also, any disruption in slurry pipelines as seen during the Maoist attack on Essar Steel's Kirandul-Vizag line in October 2011 can add to the operational costs.

**Employee Costs**

Clearance of dues to employees, statutory liabilities and any additional expenditure by the successful bidder to turn around Essar Steel's operations will pose a challenge, according to Abhizer Diwanji, partner and national leader-financial services at EY India.

## TATA SPONGE IRON TO ACQUIRE USHA MARTIN'S STEEL BUSINESS FOR UP TO RS 47 BN

Tata Group company had announced the execution of definitive agreements for the acquisition of the steel business of UML through a slump sale on a going concern basis

TATA Steel subsidiary Tata Sponge Iron will acquire the steel business of Usha Martin Ltd (UML) for Rs 43-47 billion.

With the acquisition, Tata Sponge Iron Limited (TSIL) will enter the steel business.

Meanwhile, TSIL in a regulatory filing said it has been evaluating various strategic options beyond the manufacturing of sponge iron, to enhance its product portfolio and "has identified an entry into steel manufacturing in long products as a route to ensure sustainable long-term value creation for all its stakeholders".

Last month, the Tata Group company had announced the execution of definitive agreements for the acquisition of the steel business of UML through a slump sale on a going concern basis.

On the cost of acquisition, TSIL said: "It is proposed that the steel business of UML will be acquired subject to transaction closing, for a cash consideration of between Rs 43-47 billion (subject to various transaction adjustments)".

Earlier in May, Bamnipal Steel Ltd, a wholly-owned subsidiary of Tata Steel, had acquired a controlling stake of 72.65 per cent in Bhushan Steel Ltd (BSL). Tata Steel had won the bid to acquire debt-laden BSL in an insolvency auction.

"...we hereby inform you that, Tata Sponge Iron...will now carry out the Acquisition. Consequently, definitive agreements signed between Tata Steel and UML in relation to the Acquisition shall be adapted accordingly," Tata Steel said in a regulatory filing.

The closing of the acquisition remains subject to execution of definitive agreements between Tata Sponge and UML and fulfilment of various conditions, including regulatory approvals required for the transfer of the steel business.

Earlier, UML had said the sale of steel business to Tata Steel will help the company in "significant reduction" of its debt. The deal is expected to be completed in 6-9 months, it added.

UML's steel business comprises the specialised 1 mtpa alloy based manufacturing capacity in long products segment based in Jamshedpur, a producing iron-ore mine, a coal mine under development and captive power plants.

Tata Steel Group is among the top global steel companies with an annual crude steel capacity of 27.5 million tonnes per annum (MTPA) as on March 31, 2018.

Usha Martin is amongst the largest wire rope manufacturers in the world and a leading speciality steel producer in India.

Tata Steel further said that long products comprise an important part of the overall market for steel and demand for them in India, is expected to grow significantly in the future, especially in value-added customer segments like construction, automotive and engineering.

Tata Sponge has a debt-free capital structure and free cash reserves of around Rs 6.7 billion and it is therefore ideally placed to enter steel manufacturing with a focus on the attractive speciality long products portfolio, the company said.

"Considering the alignment in the views of Tata Steel and Tata Sponge with regard to the latter's strategy of focusing on long products, Tata Steel as the promoter shareholder of Tata Sponge, has agreed to support Tata Sponge's strategy and has identified it as the strategic vehicle to undertake the acquisition of the steel business of UML," said Tata Steel.

The Board of TSIL has adopted a financing plan for the acquisition where along with its internal cash and cash equivalent resources it would raise financing by way of a combination or part of rights issuance (up to Rs 18 billion), external borrowings (up to Rs 25 billion), and issuance of non-convertible redeemable preference shares (up to Rs 10 billion) Tata Steel further said it has noted the financing plan and confirmed its support, in-principle to the overall financing structure.

Once Tata Sponge finalises the specifics of the above plan and approaches Tata Steel for investment support as may be necessary, the same will be considered by the Board of Tata Steel at the appropriate time, the release added.