

## Gloom in Goa as Ore Prices Crash, Levies Squeeze Miners' Margins



When the Supreme Court allowed mines in Goa to reopen after a gap of three years, hopes were high. Shares of Sesa Sterlite Ltd, the state's largest miner, rose nearly 5% to close at Rs.201.80 on 21 April 2014, the day the mining ban was lifted. Brokerages cheered the development, expecting miners' revenues to grow. Better days are here, asserted chief minister Laxmikant Parsekar, at the reopening of Sesa's Codli mine on 10 August.

For Vedanta and other miners in the state such as Fomento Resources Ltd. and V.M. Salgaocar Brothers, mining and exports were supposed to bring back the good old days of a commodity boom.

Perhaps the celebrations were a little premature. On 3 December, Sesa Sterlite, now called Vedanta Ltd, closed trading on BSE at Rs.92.15, less than half its April 2014 value. The companies that resumed mining in August and exports in October after the state government renewed their mining leases have been pummelled by the meltdown in ore prices and a raft of new levies.

Analysts said the price of lower quality 58% Fe grade which is mined in Goa is around \$2-3 per tonne less, although it varies for different mines. With the fall in the benchmark price of ore in the international market, the price of the Goa grade iron ore too has fallen.

"Since mining activities in Goa started after a long time and with a very low production base, the numbers have not come

out, but my guess would be that if excluding royalties and taxes etc., they can make \$15 per tonne on the selling price, then they will make money. But this might not be the case," said Rakesh Arora, head of research at Macquarie Capital Securities Ltd, a brokerage.

According to public data shared by lobby group Goa Mineral Ore Exporters' Association, mining in Goa attracts a 10% export duty on 58% Fe grade iron ore and below, a 15% royalty on the selling price paid to the state, a 30% levy on the royalty charged in the form of a district mineral foundation tax and a 10% levy on the export price of iron ore under the Goa Mineral Ore Permanent Fund Scheme.

Miners are worried that the prices seem to be steadily falling, creating further unpredictability.

"I would guess that the bottom is not far. However, in the short run, it is difficult to predict," Arora said.

Despite early excitement over the resumption of mining, reality set in by July, when all permissions to restart were in place. Analysts predicted that the profits of these companies will be stretched. Domestic brokerage IIFL Ltd had pointed out in a 30 July report that in the absence of cut in several regulatory charges imposed by the state and the central government, iron ore mining cannot be profitably sustained in Goa.

In July, however, the price of 58% Fe grade was still \$50 per tonne and Tom Albanese, chief executive officer of Vedanta

Resources Plc., had indicated that he expected Goa ore to fetch around \$45 per tonne. Vedanta Ltd, the Indian subsidiary of Vedanta Resource Plc, is the biggest iron ore miner in Goa. Apart from iron ore mining, Vedanta Ltd. also has interests in oil and gas, zinc, aluminium, copper and power.

S. Sridhar, executive director, Goa Mineral Ore Exporters' Association, said miners are selling the iron ore that was auctioned in the last two years and no fresh ore is being exported as of now.

"We expect that the 10% export duty levied on exports will be lifted soon. Then, it will offer some relief. Till then, the situation is worsening each day as mining fresh ore and exporting is a loss-making proposition currently," he said.

"With the price of iron ore now coming down to below \$38 per tonne for the Fe grade of 58%, viable operations in Goa is a big question mark," said Goutam Chakraborty, analyst with brokerage Emkay Global Financial Services Ltd, another broking house.

He said the average cost of production for miners in Goa, who produce iron ore with Fe grade of 58% and below, is around \$20-25 per tonne. When royalties and other levies are added to it, the price goes up to \$35-40 per tonne. However, with the benchmark price of iron ore, or 62% Fe grade, itself ruling around \$42 per tonne, the price for lower grades are much below \$40 per tonne. This makes exports from the state unviable, he explained.

