

Goan Industry will have to Restart Painful Task of Gaining back the Confidence of Old Customers



- Prasun K Mukherjee
ED - Iron Ore Business of Sesa Sterlite



Mining in Goa – A Brief History

If one goes back to archive researching traditional businesses in Goa during Portuguese era, at forefront was agriculture then followed by mining. Iron ore deposits were discovered at the turn of the century and in 1905, the Portuguese government invited few French and German companies to carry out prospecting of iron ore and manganese ore. Many areas were surveyed and subterranean tunnels built a few years later, including at Orasso Dongor and Sonshi.

However, the sudden outbreak of World War I in 1914 brought the activities to a standstill and it was more than a decade later, (1929) that the first mining concession was granted by the government followed by many more in the next two decades. The operation commenced only in the 1940's and the early 50s was a surge in mining activities. Liberal government policy in respect of granting concession and nominal import duty on mining machinery led to the speedy development of mining. It was during fifties Goa had began to witness a change from agriculture centric economy to mining centric one.

Committed mining business houses like Sesa, Timblo, Dempo, Chowgule, Salgaoncar, and Bandekar put the industry into motion for last six decades. The next surge in the industry was witnessed after Chinese boom in the year 2000. Since then the exploitation of iron ore has drastically increased with export figure reaching 50 million tonnes per annum from Goa itself. After mining ban in Goa and Karnataka, exports of iron ore have plunged to 18mt in 2012-13 from 117 million tonnes in 2009-2010.

With mining being the biggest industry in Goa, almost 25% of Goa's population, directly and indirectly, has been badly bruised by the mining ban. As every small businessman in Goa's hinterland will tell you, there is a general slowdown in the local Goan economy. By now, be it ruling party, opposition, NGO and all business houses have finally realised that banning mining will have detrimental cascading effect on the economy.

Sesa Sterlite, a Vedanta Group company is one of the world's largest global diversified natural resource majors, with operations across zinc-lead-silver, oil & gas, iron ore, copper, aluminium and commercial power.

Sesa Sterlite is India's largest producer and exporter of iron ore in the private sector with operations in the states of Goa and Karnataka in India and a large integrated project site in Liberia, West Africa.

However, after merger with Sterlite in 2013, Sesa Sterlite becomes one of the world's largest global diversified natural resource and is chaired by Mr Anil Agarwal, Chairman of a Vedanta Group Company.

Toeplitz acquires the Orasso Dongor Mining Concession in North Goa and starts a new company called Scambi Economici Societa Anonyma, hence the much-loved acronym SESA.

For last six decade Sesa has been involved in iron ore exploration, mining, beneficiation and exports. Sesa is a part of Vedanta Resources plc, the London-listed FTSE 100 diversified metals and mining major.

A fellow of the Institute of Chartered Accountants of India, Mukherjee is a Bachelor of Commerce (Hons) from Calcutta University. He is also an Associate Member of the Institute of Cost Accountants of India. Mukherjee joined SGL in April

1987 and held various positions in internal audit, taxation, finance and accounts before assuming charge as Director – Finance in July 2000 until 1 April 2006, when he took on the mantle as its MD. He was the first Indian to become the MD of Sesa Goa Ltd when its promoter group was Mitsui of Japan. He led the company during a defining period in history with its global presence in iron ore business getting firmly established. It is during his tenure that Vedanta Resources plc acquired a 51% controlling stake in Sesa Goa from Mitsui and subsequently merged with Sterlite to become one of the world's largest global diversified natural resources company. He has been instrumental in diversification of investment, with the company acquiring 20% stake in Cairn India Limited and establishing its footprint in Liberia by acquiring a stake in Western Cluster Limited. He gave shape to acquisition of Goa's oldest mining house Dempo was the biggest mining acquisition in the history of Goa. With his 33 years of experience in mining sector have good hold in key financial

elements of business - accounts, costing, taxation, legal and general management he established his name in the industry. Perhaps, that could be the reason that industry acknowledged him with as one of India's Best Chief Financial Officers (CFOs) in the year 2005 by Business Today. His passion towards his work was acknowledged at highest level by business fraternity, when he was declared India's most 'Value'able CEO in year 2009 by Business World magazine. Subsequently, in 2010, Star Ananda conferred on him the "Sera Bengali" award in the business arena. "It's not that Goan miners have developed the market overnight. It took us decades to develop the confidence of overseas customers. There is huge loss of trust in the sector. Even though, Industry is able to gain back the customers they would permanently look at our supply with uncertainty due to frequent changes and knee-jerk reactions in policy making in India." says **Prasun K Mukherjee, Executive Director - Iron Ore Business of Sesa Sterlite** in an exclusive interview to **Steelworld**. Excerpts

Could you explain us the business potential lost by the Sesa Sterlite due to prolong mining ban in Goa ?

- In terms of revenue and customer reliability it is huge loss. Besides, entire human capital, all stake holders have gone through tremendous agony. The impact would remain for a very long period. However, just to simplify I would say that 'Wheel has turned backward'. In terms of profit, our annual production was little more than 14 million tonne from Goa, if we considered profit per tonne it would be between 250 to 300 million dollars per annum after tax, provided there is full production and after considering current market price. The biggest losers are the state and federal government. In simple calculation nearly 40 per cent mining revenue goes to national treasury on two accounts - export duty and corporate tax. Besides that, approximately 10 per cent towards royalty to state treasury, revenue collected by government ports, tax collection from trucks and barges for transportation of ore etc.

Can we expect some movement in iron ore sector business as Supreme Court verdict is likely to come sooner or later and how much time is required for the company to put things in order once mining ban is lifted ?

- Section of media is reporting that Supreme Court is likely to give its final verdict by next month. We cannot predict on court proceeding. In the past court took one year just to commence the hearing. We can only hope for the best. Even though, SC asks to resume mining, after all approval and clearance from MoEF and state government, we will be



able start the production within 2 month if it is not during the monsoon. But to regain the actual number of production it would take three to four months.

It appears that capping on mining is inevitable now. What's your view on concept of capping on export of iron ore ?

- One must understand that mining is science. Do we know how many scientific studies and explorations have been done so far to ascertain the actual natural resources? Furthermore, have we ever taken point of view of geologist and mining engineers? Except geologist and mining engineers everyone is talking about cap on mining industry.

Similarly, ore exhaustion theory in Australia is also rejected long ago. In 1940s Australia had imposed a ban on the export of iron ore in order to conserve the meagre iron ore resources for domestic consumption. Their Iron ore resources in 1959 were around 350 million tonnes. Yet in 2013, the iron ore exports from Australia are estimated to have stood at a massive 581 million tonnes and expected to rise further to a whopping 709 mt in 2014.

Let the scientific study, Engineers and Geologists who know about Iron ore have final say.

Even though, iron mining is resumed shortly, how difficult it would be for mining companies to gain back the confidence of iron ore consumers from China, Japan, Europe and other iron ore importing countries ?

- More than mining resumption, biggest worry is to gaining back the confidence of old buyers. When mining was banned in Goa, production in China, Japan, South Korea and Europe did not stop. By now these countries have substituted Goan ore supply with new suppliers.

However, with prolong mining ban it is certain that Goan Industry will have to restart painful task of gaining back the confidences of old customers. It's not that Goan miners have developed the market overnight. It took us decades to develop the confidence of overseas customers. There is huge loss of trust in the sector. Even though, Industry is able to gain back the customers they would permanently look at our supply with uncertainty due to frequent changes and knee-jerk reactions in policy making in India.

Since it is election year, can mining companies expect positive changes after new government in New Delhi ?

- Our operations have been suspended for almost 2 years. Any change in this situation can only be for better. More than a lakh mining dependent from mining Industry are eagerly waiting for restart of mining. Our nation requires an operating and thriving industry.