OMC's Iron Ore Price Hurts Steel Makers

Steep iron ore prices quoted by state run miner Odisha Mining Corporation (OMC) in its e-auctions has left the steel makers in the lurch. The steel industry that is passing through a challenging phase and incurring losses due to cheaper imports from China and exorbitant ore prices in the domestic market, has called for correction in prices by OMC. While finished steel prices have slid by a quarter from Rs 36,000 to Rs 27,000 per tonne in six months, global iron prices have also plunged to $50 a tonne from the level of $120 a year back.

Steel companies feel the downtrend in global prices should prompt OMC to cut its unacceptably high floor price amid its dwindling ore dispatches."In a falling market, OMC is piling up inventory by refusing to cut its auction floor price. We believe that floor price of lumps should fall by at least Rs 1,000 from the present price of Rs 2,600 a tonne. In the latest auction, OMC received bids for hardly 10 per cent of lumps whereas there were no bidders for fines. Amid glut in supplies by China and slump in global iron ore prices, no steel maker would be willing to pay the price quoted by OMC," said a senior official of a major steel company. "There is

no logic or rationale in high floor prices of OMC. The miner can take a cue from Karnataka where the floor price is fixed at a rate equal to 50 per cent of the last bidding price," said he.

At a meeting chaired by chief minister Naveen Patnaik in April, the government decided to reduce floor price during e-auction of iron ore by OMC to ease raw material supply to mineral based industries. Chief secretary G C Pati agreed that iron ore price escalated in the state as production fell 30 per cent in 2014-15 while price of imported ore actually fell in the same period. A month later, when the chief minister reviewed the status of large industries, the steel & mines department said, OMC has been gradually rationalising its floor prices. But OMC's auction price still continues to be prohibitive for buyers. Analysts feel market dynamics would force OMC to cut prices.

“OMC is behaving in a similar way NMDC was operating three months back. However, market forces led NMDC to reduce iron ore prices in line with market prices. Normally, we have observed over past years that producers are reluctant to cut prices immediately after fall in international prices as they wait for prices to stabilize, however, as prices have stabilised at lower levels, OMC don't have any choice other than cutting iron ore prices," said Giriraj Daga, portfolio manager at SKS Capital & Research Pvt Ltd.

The inventory of iron ore lumps and fines at Daitary, a major mine owned by OMC, has more than trebled from 57,641 tonne (in October 2014) to 171,473 tonne by the end of May this year. Rajdeep Mohanty, resident director, JSL said, "The government needs to revise the auction price formula of OMC in the interest of steel companies and ferrochrome makers who are losing money. The price discovery can be based on prevailing market prices of sponge iron, steel and ferrochrome.”

Vedanta Looks to Regain Iron Ore Market Share

Vedanta Limited, which has managed to retain 80% of its earlier mining capacity in Goa after state government's renewal of the leases, is now looking to regain the lost market share, a senior official said. "Since mining activities were shut in Goa, several new Australian mines were started and others expanded substantially. This means we will need to fight hard to regain lost market share. Goa brand will prevail, but we will have to compete against a strong set of suppliers," Tom Albanese, Chief Executive Officer, Vedanta Resources said in Goa.

The company, which has decided to shift its registered office from Goa to Mumbai, is now keenly awaiting the restart of mining in Goa post the monsoon season by October. "Majority of the approvals are in place and we are working to secure remaining approvals. Under the present cap of 20 million tonnes in Goa, we have been allocated an interim capacity of 5.5 mtpa of saleable ore in Goa," he said. "It is a good start. We expect that in the days to come, we will be allowed to extract more, given our innovative and sustainable mining solutions," Albanese added.

The CEO said that the company has intense faith in the union and state government to clear the uncertainty over the industry."The NDA government at the Centre has been proactive in ensuring that the MMDR Act is passed and issues of the sector are resolved," he said. "Although at a broader level, commodities are in a down cycle and we believe that as and when the investment cycle kick starts, India's domestic markets will drive the demand. This will benefit ferrous and non-ferrous miners not only in India, but across the world," he said.

The company faced bad times during last three years since the closure of the mining industry in the state."Over most part of the financial year (2014-15), activities in our iron ore assets in India have remained suspended as several statutory clearances were to be secured.

During November-January period, mining leases in Goa were renewed. In Karnataka, mining activities resumed in February post renewal of our lease there and we have the permission to mine 2.29 mtpa of iron ore in the state," he said.