India likely to face major iron ore crisis

The country is likely to face a major iron ore crisis due to the lapse of key operating mines by March 31, 2020. The deficit in domestic iron ore supplies after March 2020 is seen at around 80 mln ton. This, in turn, is bound to put brakes on building India's steel-making capacity as it targets an ambitious 300 mln ton output by 2030.

Supplies in iron ore would be more pronounced in Odisha, the largest producing state where 17 mines are set to run out of operations. The combined annual capacity of these mines is estimated at 66 mt. The shortfall from Odisha would especially hurt the domestic steel companies as the state's iron ore is

predominantly used in within the country as opposed to the export-oriented ore in Goa and Karnataka. "We had earlier requested the government to extend the validity of such mines. There will be chaos if the mines are thrown out of operations. Steel plants without captive iron ore sources will suffer the most, they will have to fall back on imports", said R K Sharma, Secretary General, Federation of Indian Mineral Industries (Fimi).

Data by the Indian Bureau of Mines (IBM) suggests that 250 such mines are going to expire by March 2020. Of this, barely 50 are currently in operations. The Union ministry has been issuing reminders to states asking them to work on a roadmap to enable auctioning of such mines. No roadmap is, however, ready yet. By 2020, the demand for domestic iron ore is pegged at 234 mt which is further projected to escalate to 447 mt by 2030.

As per the provisions of the amended Mines and Minerals (Development & Regulation) Act, the validity of existing non-merchant mines has been extended till March, 2020 while those of captive leases have been extended till 2030. Major mining leases that will lapse by 2020 include Rungta Mines, KJS Ahluwalia, Serajuddin & Co, Kaypee Enterprises, Kalinga Mining Corporation, Mid East Integrated Steel Ltd, KN Ram, RB Das, Tarini Prasad Mohanty, KC Pradhan and Lal Traders.

Fitch affirms JSW Steel long-term rating at 'BB'

Fitch Ratings has affirmed JSW Steel's Long-Term Issuer Default Rating at 'BB', and the outlook remains Negative.

The agency has also affirmed JSW Steel's senior unsecured rating and the rating on its USD500 mln 4.75% senior unsecured notes due 2019 at 'BB'. In determining JSW's rating, Fitch said it has factored in an improved industry outlook which is partly offset by higher estimated spending.

JSW's leverage had jumped in financial year 2016 from FY15, as the company suffered from weak steel prices which hit profitability. High leverage in FY16 was also driven by JSW's debt-funded expansion of capacity, which increased by around 25%, the ratings report said. "The downside risks for steel-industry profitability are lower - based on recent developments - while JSW Steel's plans to boost capacity further through a mix of organic expansion and acquisitions may result in relatively high leverage and negative free cash flow over the next two years, weakening its credit profile.

Hence, it maintained a Negative Outlook," Fitch added.

Fitch said while risks persist as to a sustained improvement in JSW's profitability, it believed they have been mitigated due to several recent developments. "International spot coking coal prices have almost halved from their peak of around USD300/ton in late November 2016, due to greater supply. Both global and Indian steel prices have also beenraised since then - by more than 10% - to partly offset the impact of high coal prices," it said.

JSW aims to more than double its steel output to 40 mln tons by 2025. In order to increase capacity, the company is considering organic expansion as well as acquisitions in India and overseas. It has submitted binding bids for two assets, as per recent news. The results of the bids are likely to be known over the next few months. "We have assumed capex on organic capacity expansion in our forecasts. A higher-than-forecast spending on expansion presents a risk to JSWS's credit profile, apart from an unexpected deterioration in profitability," Fitch added.

The rating agency said while JSW Steel currently needs to purchase both iron ore and coking coal, resulting in highertotal costs than some of its peers, it should be able to meet part of its iron-ore needs from FY18, after winning bids for five mines in Karnataka state. The company aims to produce 4.7 mln tons of iron ore, or about 15% to 20% of itsneeds, by FYE18, thus benefiting its margins.

Fitch also said the company has a dominant market share in southern and western India where its plants are located, and its market position is supported by a rising share of value-added products. "Its highly efficient operations and low costs for energy and labour result in one of the lowest conversion costs globally," the report said.