Tata Steel to source iron ore from OMC for its Kalingangar unit

As its greenfield unit at Kalingangar ramps up operations to reach its rated capacity of three mln tons, Tata Steel is looking at multiple options to secure uninterrupted iron ore supplies.

Recently, Tata Steel announced its hot metal production at Kalinganagar crossed the two mln ton mark. In the first phase, the steel company is aiming to reach production of three mln ton per annum (mtpa).

Besides sourcing ore from its captive mines, Tata Steel has been buying iron ore from the merchant miners. It has participated on and off at the electronic auctions of iron ore conducted by the state owned Odisha Mining Corporation (OMC). Despite possessing its own captive mines in Odisha, Tata Steel was constrained to buy ore from external sources to meet the expanding requirement of the Kalinganagar unit. Most of the iron ore raised by Tata Steel in Odisha was catering to the requirement of its flagship operations at Jamshedpur.

Now, Tata Steel is examining the feasibility of clinching a long-term pact with OMC to secure iron ore supplies. On a trial basis, the steel maker has signed an agreement with OMC valid for one year.

"Initially, we will be sourcing 0.2 mln ton of iron ore every year on long- term linkage from OMC. We have preferred to buy ore from OMC's Daitari mines in the vicinity of our Kalinganagar facility. To start with, we have an agreement for one year. We may go for an extension depending on quality and pricing of iron ore from OMC and also logistics issues", said a Tata Steel source.

Depending on their requirement, many steel industries in Odisha were sourcing iron ore from OMC via the long-term linkage mode. OMC counts Jindal Steel & Power Ltd (JSPL), Essar Steel, Visa Steel, Neelachal Ispat Nigam Ltd (NINL) and Bhushan Steel Ltd as its key customers of long-term linkage.

For Tata Steel, seeking iron ore from OMC is fraught with risk given the high cost of the raw material. This is more so at a time when Tata Steel is positioning Kalinganagar to be the lower cost steel producer than Jamshedpur given the greenfield steel unit's proximity to the Paradip port.

Steel producers drawing iron ore from OMC through long-term linkage have been complaining about its stubbornly high pricing. They alleged the price determination for long-term linkage customers is based on the discovered price through e-auctions by OMC.

Banks agree to restructure JSPL loan

Eighteen foreign banks, including Standard Chartered Plc., Barclays Plc. and Deutsche Bank AG, have agreed to restructure loans to the tune of USD550 mln given to Jindal Steel and Power Ltd (JSPL), two people aware of the development said.

According to a press report, the lenders agreed to a moratorium of between three and five years on repayments after meeting JSPL chairperson Naveen Jindal earlier this month.

Last year, JSPL failed to meet the repayment schedule for the April-June quarter due to stressed cash flows. The firm approached the lenders sometime in July to restructure the entire debt raised by its subsidiary JSPL (Mauritius). The lenders asked the firm to furnish additional guarantees including a stake in its overseas assets, which according to the people cited above, JSPL was averse to. In August, the lenders invoked JSPL's corporate guarantees.

"The decision to restructure the debt has been done because the commodity cycle has improved since the company defaulted on repayments and the lenders feel restructuring the debt will help the company to improve cash flows," said one of the two persons cited above, adding: "Naveen Jindal's personal intervention in the discussion has also helped soothe the frayed nerves."

JSPL's consolidated gross debt stood at Rs45,175.66 crore as of September 30, against Rs46,816 crore at the end of March 2016. Its consolidated net loss declined by Rs338.54 crore from Rs745.98 crore in the quarter to September to Rs407.44 crore in the quarter to December.

Since 2014, JSPL has evaluated options including selling its mines in Africa and Australia, listing its subsidiary in Oman, and listing its power business Jindal Power Ltd in India to pare debt. These efforts did not fructify. Last May, JSPL reached an agreement to sell a 1,000MW power plant in Chhattisgarh to Sajjan Jindal-led JSW Energy Ltd at an enterprise value of Rs4,000 crore. The deal value could rise to Rs6,500 crore if JSPL manages to secure fuel supply for the plant and enters long-term power purchase agreements.