

Equities

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India Iron Ore Industry

Alert: Iron Ban 2

- **Supreme Court (SC) extends ban in Karnataka** — The SC has extended the ban on iron ore mining to Tumkur/Chitradurga (~20% of Karnataka's production) on the Central Empowered Committee's (CEC) recommendation, in addition to the already operational ban in Bellary (~80%). The Bellary ban had been impacting companies like JSW Steel (JSTL), Mukand, Tata Metaliks, Kirloskar Ferrous, Kalyani Steel. The extension of the ban enhances uncertainty particularly for JSTL as it currently buys ~40% of ore from Tumkur/Chitradurga. Chitradurga accounts for ~20% of Sesa Goa's production.

- **SC to decide on inventory release** — The CEC (on 19 Aug) had recommended 25mt of iron ore inventory already extracted from Bellary/Tumkur/Chitradurga be sold to steel producers subject to certain conditions. The SC has directed the steel industry/affected parties to submit inputs to the CEC within 2 days to determine their requirement. It has directed the CEC to 1) quantify stock to be released; 2) submit the modalities of sale/transportation; 3) furnish the name of the government agency in-charge of effecting sales/keeping accounts of proceeds – by its next hearing on 2 Sep11.

- **Our concerns on inventory** — The inventory available in Karnataka is estimated at 25mt according to the data provided by miners to the Department of Mines. According to JSTL, 11mt (of 25mt) is high grade and the rest low grade. The inventory release would provide relief to steel producers, however we are still unsure about 1) the quantity that would be made available to steel producers; 2) Fe content of low grade ore (14mt) and suitability; 3) method/timing of allocation.

- **JSTL's sources of ore** — JSTL needs 14-15mt ore for ~9mtpa of crude steel output. Currently it sources ~20% from NMDC's mines in Chhattisgarh, 40% from Bellary (NMDC), and 40% from Tumkur/Chitradurga. JSTL is hopeful that the SC will order the release of inventory next week and that they would have access to a significant proportion. Currently, they have stocks for ~7-10 days. They hope to maintain capacity utilization at ~80%. While JSTL expects a resolution in a week, we are unsure about the timing of the SC's decision and await the next hearing to review our estimates.

- **SC directives so far** — The SC imposed a ban on mining in Bellary on 29 July. In its 5 Aug hearing it: 1) allowed NMDC to restart mining to provide 1mt/month (difficult near term); 2) hiked Karnataka royalty to 10% of market value, 3) asked for an Environment Impact Assessment report and a reclamation/rehabilitation plan within 3 months

- **Uncertainty prevails** — The availability of iron ore in Karnataka remains uncertain till the SC's decision. Our notes: <https://www.citigroupgeo.com/pdf/SAP48894.pdf>; <https://www.citigroupgeo.com/pdf/SAP49357.pdf>; <https://www.citigroupgeo.com/pdf/SAP49596.pdf>; <https://www.citigroupgeo.com/pdf/SAP50166.pdf>

■ Industry Overview

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