

Metals & Mining Sector

New Mining Bill: Testing times...

The Group of ministers (GoM) has approved the draft Mines and Mineral (Development & Regulation) bill. The new approved draft makes a distinction between companies mining coal and other minerals. The bill proposes that coal mining companies share 26% of profits with the locals. Furthermore, for non-coal mining companies, the bill proposes an amount equal to 100% of the royalty to be shared with locals. The bill is likely to be taken up by the Cabinet within the next three weeks and is then expected to be introduced in Parliament during its Monsoon Session. If the bill is implemented, among our coverage universe we expect Hindustan Zinc (HZL), Sesa Goa, SAIL, Usha Martin (UML), Adhunik Metaliks (AML) and Tata Steel to be impacted most with the impact being in the range of ~2.0% to ~13.6%, if this bill is implemented.

Clarification needed

We believe there are a few key points which require clarity, such as:-

- Methodology to be adopted to determine the profitability of captive coal mines
- Will CSR expenses that the company incurs be allowed as a deduction/offset?
- Tax shield available if any?

Likely impact of companies if the bill is implemented

If the bill is implemented, we expect HZL to be severely impacted due its exposure to zinc, lead and silver where royalty rates are on the higher side. Royalty on zinc (metal in concentrate) is 8.4% (of LME) whereas for lead (metal in concentrate) is 12.7% (of LME) while for silver royalty is 7% of its sales value. As a result, HZL's FY13E net profit is likely to be impacted by ~13.6%. AML's earnings are also likely to be considerably impacted (by ~9.4%) due to its wholly-owned subsidiary OMMML (Orissa Manganese & Mineral), which has exposure to iron ore and manganese ore mining. Within the ferrous pack, assuming royalty rate of ~₹ 225 per tonne on iron ore and a profit of ₹ 2500/tonne for coking coal operations (in absence of clarity on the profit computation methodology). If the bill is implemented, Tata Steel's consolidated FY13E net profit is likely to be impacted by ~ 6.1%. Similarly, SAIL's FY13E net profit is likely to be impacted by 9.2%, UML's FY13E net profit is likely to be impacted by 8.5% and JSW Steel's FY13E net profit is likely to be impacted by ~2.0.

Exhibit 1: Potential impact of mining tax on profitability (no pass through, no tax benefit)

Name of the company	Mineral /Metals	Likely Impact on FY13E PAT	
		in ₹ crore	in (%)
Hindustan Zinc	Zinc/Lead/Silver	1028.9	-13.6
Adhunik Metaliks	Iron Ore, Manganese Ore	23.0	-9.4
SAIL	Iron Ore, Coking Coal	508.0	-9.2
Usha Martin	Iron Ore	21.0	-8.5
Sterlite	Copper/Zinc/Lead/Silver	724	-8.4
Sesa Goa	Iron Ore	218.74	-7.4
Tata Steel	Iron Ore, Coking Coal	540.6	-6.1
JSW Steel	Iron Ore	45.8	-2.0

Source: Company, ICICIdirect.com Research

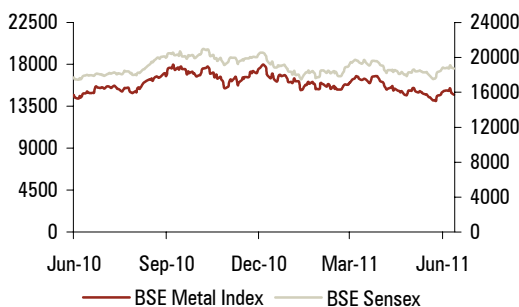
Sector View

Neutral

Royalty Rates

Mineral	Royalty Rate
Iron Ore	10% Ad valorem on sale price
Manganese Ore	4.2%Ad valorem on sale price
Zinc(Metal in content)	8.4% of LME Price
Lead(Metal in content)	12.7% of LME Price
Copper Ore	4.2% of LME Price
Bauxite	0.5% of LME Price
Silver	7% of sales value

Price movement



Analyst's name

Dewang Sanghavi
 dewang.sanghavi@icicisecurities.com

Shraddha Shroff
 shraddha.shroff@icicisecurities.com

ICICIdirect.com coverage universe (Metals & Mining)

Adhunik Metaliks					Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	ADHMET	CMP (₹)	76.9	FY10	1449.7	11.1	6.9	6.5	19.0	12.5
		Target (₹)	87.0	FY11	1793.4	14.8	6.9	6.7	21.0	10.9
		Upside (%)	13.2	FY12E	2042.0	15.5	5.2	6.5	18.5	10.5
MCap (₹ Cr)	981.2			FY13E	2421.4	19.8	5.6	5.3	20.0	12.6
JSW Steel										
Idirect Code	JINVIJ	CMP (₹)	849.5	FY09	16081.5	14.7	57.8	12.7	3.5	9.3
		Target (₹)	923.0	FY10	18957.2	85.4	9.9	9.3	17.3	13.0
		Upside (%)	8.7	FY11E	22907.2	69.2	12.3	8.9	9.4	10.9
MCap (₹ Cr)	19695.7			FY12E	29629.4	82.3	11.2	7.3	10.8	13.5
Usha Martin										
Idirect Code	USHBEL	CMP (₹)	52.9	FY10	2534.4	5.5	9.6	7.2	10.0	13.4
		Target (₹)	62.0	FY11	3046.6	4.5	11.8	5.3	7.6	12.3
		Upside (%)	17.3	FY12E	3614.5	6.3	8.4	4.8	9.8	13.0
MCap (₹ Cr)	1613.6			FY13E	3917.2	7.1	8.7	4.3	10.1	13.4
Visa Steel										
Idirect Code	VISST	CMP (₹)	59.0	FY10	1156.9	4.3	13.7	8.6	14.9	10.1
		Target (₹)	64.0	FY11	1286.1	4.7	12.6	10.7	14.4	8.6
		Upside (%)	8.5	FY12E	1785.7	5.8	10.1	6.0	15.3	12.5
MCap (₹ Cr)	649.0			FY13E	2125.8	8.6	6.9	4.6	18.3	14.3
Tata Steel - Cons										
Idirect Code	TISCO	CMP (₹)	587.8	FY10	101757.8	-22.7	NA	11.3	-7.1	4.2
		Target (₹)	632.0	FY11	117149.8	99.6	5.9	6.1	24.0	11.4
		Upside (%)	7.5	FY12E	124341.8	72.3	8.1	5.6	15.3	11.8
MCap (₹ Cr)	57063.7			FY13E	134430.4	98.6	6.0	4.5	17.7	14.1
SAIL										
Idirect Code	SAIL	CMP (₹)	132.0	FY10	41307.2	16.4	9.9	5.9	20.4	16.9
		Target (₹)	161.0	FY11	43418.8	11.8	13.2	8.5	13.2	10.5
		Upside (%)	22.0	FY12E	47748.7	11.1	14.1	8.6	10.5	8.6
MCap (₹ Cr)	56359.3			FY13E	50969.6	13.4	11.7	7.5	10.8	9.0
Sesa Goa										
Idirect Code	SESGOA	CMP (₹)	283.2	FY10	5858.3	31.6	8.9	6.7	33.2	30.7
		Target (₹)	300.0	FY11	9205.1	47.4	6.0	4.7	30.4	34.1
		Upside (%)	6.0	FY12E	10125.1	56.7	5.0	7.6	27.1	16.4
MCap (₹ Cr)	24486.9			FY13E	9301.5	59.5	4.8	7.3	22.4	13.7
Hindustan Zinc										
Idirect Code	HINZIN	CMP (₹)	131.1	FY10	8017.0	9.6	13.7	13.0	22.3	24.5
		Target (₹)	161.0	FY11	9912.3	11.6	11.3	10.9	22.2	23.3
		Upside (%)	22.8	FY12E	12810.4	14.9	8.8	8.2	22.6	23.3
MCap (₹ Cr)	55393.9			FY13E	14117.0	16.4	8.0	6.9	20.3	20.8
Sterlite Industries										
Idirect Code	STEIND	CMP (₹)	163.7	FY10	24410.3	11.1	14.7	7.3	12.0	15.0
		Target (₹)	210.0	FY11	30248.1	15.0	10.9	5.8	12.9	15.5
		Upside (%)	28.3	FY12E	43400.3	22.5	7.3	3.1	16.9	17.8
MCap (₹ Cr)	54922.1			FY13E	46534.9	25.6	6.4	1.9	16.5	19.7
GPIL										
Idirect Code	GODPOW	CMP (₹)	165.5	FY09	1092.0	22.8	7.3	6.7	14.6	13.6
		Target (₹)	184.0	FY10E	822.4	20.8	8.0	6.7	11.7	11.3
		Upside (%)	11.2	FY11E	841.3	25.8	6.4	4.8	12.7	13.9
MCap (₹ Cr)	519.7			FY12E	902.8	33.8	4.9	3.9	14.5	14.3

Source: Company, ICICIdirect.com Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
 ICICI Securities Limited,
 7th Floor , Akroti Centre Point,
 MIDC Main Road, Marol Naka,
 Andheri (East)
 Mumbai – 400 093
 research@icicidirect.com**

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