# RINL - NMDC merger : A big bet for good reasons

- Steelworld Research Team

The public sector steel company, Rashtriya Ispat Nigam Ltd (RINL) is mulling a merger proposal with NMDC even as the chief of the state-owned miner disclaimed knowledge of it. RINL chairman and managing director P K Bishnoi told mediapersons that the proposal had been informally discussed with the ministry of steel, the parent of the two companies, and with NMDC, which had not shown much interest. He however, confirmed to have some informal discussions but, his counterpart at NMDC Rana Som has denied any knowledge of such move.

Bishnoi, who was speaking at a press conference to announce the company's performance and plans, explained that the merger would be a win-win situation for both companies since it had no captive mines and NMDC was looking at forward-integration into steel-making. All it's iron ore requirements are met by NMDC through long-term contracts. RINL has also drawn up a roadmap for the merged entity. By 2020, if the merger materialised then, the iron ore production under the new entity could be ramped up to 40-50 million tonnes and steelmaking capacity to 20-25 million tonnes.

**NMDC: An Iron Ore Leader**

NMDC accounts for 15 per cent of India's iron ore production , producing 30 million tonnes of iron ore from its Bailadila deposits in Chhattisgarh and Donimalai in Karnataka, and RINL produces three million tonnes of steel. Bishnoi said, RINL has 22,000 acres available that could be used to set up up steel plants. The merger announcement assumes significance as NMDC plans to set up a four million tonne plant in Chhattisgarh. Earlier the project was supposed to be a three-way venture with SAIL, RINL and NMDC, but the miner is now going alone. However, with or without NMDC, RINL has a corporate plan of ramping up capacity to 16 million tonnes over the next 10 years. Earlier a merger of Steel Authority of India Ltd (SAIL) and RINL had been explored but could not progress due to political resistance. RINL's move to approach the ministry is driven by the surge in raw material prices. RINL officials said, that margins were around Rs 10,000 per tonne but a raw material price increase of Rs 8,000 per tonne was in the offing and with a freeze on prices, it would eat into the margins. RINL is also a member of the special purpose vehicle, International Coal Ventures, for acquiring coal assets abroad. The other members are SAIL, Coal India, NTPC and NMDC. Bishnoi said, investment bankers' empanelment process was on and Mozambique, Australia, Canada and USA were the main targets.

**A Perfect Fit**

According to analysts Rashtriya Ispat Nigam Limited (RINL), owner of Vizag Steel, is among the country's leading manufacturers of long products needed for infrastructure and house construction. Though a government undertaking, RINL has had no luck so far in acquiring iron ore deposits, which would give it raw material security, as it expands its steel-making capacity. NMDC, on the other hand, is India's largest producer of iron ore with an ambition to move downstream in steel making. Its plan to build a 4-million-tonne steel mill in Chhattisgarh with Steel Authority of India (SAIL) and RINL as partners, however, came unstuck with SAIL crying off from the project. It is in this context of the two PSUs – RINL and NMDC – being the perfect foil for each other that their merger proposal, recently floated by RINL Chairman P K Bishnoi, should be seen. Bishnoi has mooted the idea of the merger with the steel ministry. Unless the initial response to the idea, logical by all means but audacious also given the sizes of the parties involved, has been positive, Bishnoi would not have gone public. Not very long in the past, SAIL wanted all steel capacity owned by the government under its fold, including RINL. There was logic in that idea too as we have seen how capacity consolidation, championed first by Lakshmi Mittal and later the world over, has helped change the fortunes of the steel industry. But the SAIL proposal could not be taken forward in the face of strong opposition from the Andhra Pradesh government as it sees RINL as a badge of honour for the state.

If that be the disposition of the state government, then how would Bishnoi see the denouement of his merger proposal? In this case, the advantage is that both NMDC and RINL are in Andhra Pradesh. Also, the prospect of the NMDC merger relieving RINL of worries of sourcing the most important raw material in steel making should urge the state government to support it.

**RINL's Advantages**

RINL's biggest advantage is that it owns as much as 22,000 acres next to a modern dry cargo port facilitating import of raw materials and export of steel. Owning the huge tract of land supported by good infrastructure has given the management a "master plan", which is to take its steel-making capacity from 3.6 million tonnes to 16 million tonnes in four phases at the present location in 10 years. The smooth execution of brownfield capacity expansion at RINL shoulde be considered against the big names in the industry struggling to get land to give shape to their ambitious new steel mills. Bishnoi is, however, looking well beyond the master plan at a capacity of up to 25 million tonnes by 2020. If Tata Steel could think of finally packing 10 million tonne capacity in its cramped site at Jamshedpur, then there is no reason why RINL cannot have more than 16 million tonnes at Vizag. Still, a capacity target of 25 million tonnes would require RINL to build a greenfield plant. In case the Bishnoi merger idea sees the light of day, then the new plant would logically come up in Chattisgarh.

What must not be forgotten is that though NMDC is headquartered in Hyderabad, its iron ore mining operation is largely in the Bailadila region of Chattisgarh and also, to a lesser extent, at Donimalai in Karnataka. Like the other iron ore-bearing states, Chattisgarh also wants local value addition to the mineral and it has placed its faith in NMDC. Bishnoi says, "RINL and

NMDC have proved their credentials in their respective fields and their union will create an entity, which will be much stronger than if they continue to work separately. Besides the forward and backward linkages that the proposed merger will lead to, it will create ideal condition for growing mining and steel capacity."

NMDC, which sold 24.406 million tonnes of ore in the local market and exported 3.778 million tonnes, earned 40 per cent higher net profit at Rs 3,251 crore during 2007-08. In response to the country trying to expand steel capacity rapidly, NMDC has taken upon itself the challenge to raise iron ore production to 40 to 50 million tonnes by 2020. The company's policy now is to sell the mineral mostly here and keep a token presence in the world market. Incidentally, NMDC takes care of the ore requirements of RINL. What RINL is trying to achieve through the merger has by now become a common policy of leading steel makers here and abroad. If ArcelorMittal is always on the hunt for mineral resources, Corus, which Tata Steel bought last year, sees virtues in achieving a great degree self-reliance in raw materials. Essar and Jindals have had much success in buying large iron ore deposits abroad. By all means, the RINL proposal needs to be taken forward.

**RINL Scouting for Iron Ore**

Applications for mining leases have already been rejected by the state governments of Jharkhand, Orissa and Chhattisgarh. However, the company has asked for a review of its applications. The plant currently has a hot metal capacity of 4.15 million tonnes and had set a target of achieving 16 million tonnes by 2020. By 2008-09, hot metal capacity would be enhanced to 6.50 million tonnes. Bishnoi said, if the overseas mines development required huge investments, then RINL could rope in a partner.

The public sector steel major has sought the acquisition of the Bird Group of Companies (BGC), including Orissa Mining Development Corporation (OMDC), to secure iron ore reserves for expansion, and has said it is willing to invest Rs 500 crore to revamp OMDC. The company does not have captive mines and are forced to procure ore from the market at sky-high prices. So, it has proposed to take over the entire BCG, including OMDC, which has iron ore reserves of 130 million tonnes, to meet growing production needs. Steelmakers with the security of iron ore had a better turnover as of now. The company buys iron ore from the market at around Rs 3,000 per tonne, which is a pretty high price. According to analysts, RINL's profits could have been higher by Rs 1,000 crore if it had captive mines. A parliamentary consultative committee had expressed concern about the need to ensure availability of critical raw materials like iron ore and coking coal for present- and post-expansion needs of steel PSUs. The committee supported a curb on iron ore exports. The government is yet to take a call on the Bagchi Committee's recommendations on the BCG.

It is willing to invest about Rs 500 crore to overhaul OMDC, which is not in good shape. It would like to use its expertise in prospecting more fields to figure out additional ore reserves in OMDC. OMDC, which was incorporated in 1918, is one of the oldest iron ore mining companies. It has mines around Barbil town in Orissa. The BCG has seven companies in its fold — OMDC, Bisra Stone Lime Company Ltd, Karanpura Development Company Ltd, Scott and Saxby Ltd, Eastern Investments Ltd, Burrakur Coal Company Ltd and Borrea Coal Company Ltd. RINL's expansion plan involves a capital outlay of Rs 8,692 crore for raising the steel production capacity to 6.3 million tonnes from the current 3.4 million tonnes.

The company has evinced interest in a 2.4 billion tonne Canadian iron ore deposit. Without naming the company, Bishnoi said that a Canadian company had floated an expression of interest (EOI) and RINL participated. The deposit has ore with more than 63 per cent iron content. The ownership would be with the Canadian company while RINL, if it succeeded , would hold the licence and pay royal to the foreign company.