

Hoda Panel Seeks Segment In Bourses For Mining Cos

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The Anwarul Hoda committee set up by the Planning Commission to review the country's minerals and mining policy has recommended that the Government set up a new mechanism in the stock exchanges for fund-raising by companies engaged in prospecting and mining activities as these industries require substantial amount of risk capital.

The committee, which is expected to submit its recommendations to the Prime Minister, Dr Manmohan Singh, in a few days, has urged the Government to follow the London Stock Exchange model or the Toronto Stock Exchange model and have a separate sub-segment within the Indian stock exchanges dedicated to such companies.

The report also states that the mining sector has the same potential for growth as other identified sectors such as IT, ITES, media, telecom and lately, commercial real estate.

Pointing out the necessity to have a unique window for borrowers and lenders in the mining sector, the committee has recommended that "the Ministry of Finance in consultation with the SEBI and the major stock exchanges examine the possibility of providing a special dispensation for the mining sector, so that investment in prospecting companies is encouraged."

The report states that there is a particular class of risk-oriented investors that can be tapped by setting up a separate sub-segment for this purpose as is done by the Toronto Stock Exchange in the form of Toronto Venture Exchange, and by the London Stock Exchange in the form of Alternative Investment Market.

Justifying the setting up of such a sub-segment in the stock exchanges, the committee said: "The logic for the sub-segment is the understanding that the early stage companies (ESCs) cannot afford the relatively stricter listing guidelines applicable to the existing large companies and applying the same to the ESCs will restrict their ability to raise capital and stunt their growth."

It adds: "With appropriate exit route in place it is possible for prospecting companies to be brought over or acquired (in different forms of merger and acquisition) by mining majors."

According to the report, once a find is announced and verifiable data is offered for sale with or without a mining lease, the market capitalisation of the company rises.

This in turn provides "spectacular capital gains," which risk funds need to cover for uncertain returns on prospecting projects.

Free export of iron ore

The Hoda committee has also recommended that all qualitative and quantitative restrictions on iron ore exports should go.

Currently, iron ore with less than 64 per cent iron content is freely exported while high-grade ores with more than 64 per cent iron content is canalised through the MMTC.

The committee has said that the supply of high-grade ores is more than the demand.

"The fact that MMTC has entered into long-term agreements for export of high-grade ore on a continuous basis confirms that there is a surplus of high-grade iron ore in the market."

India was exporting high-grade ore only to Japan and Korea under long-term contracts. Of late, it has entered into a similar contract with China. The domestic steel industry, however, has been demanding a total ban on all iron ore exports.