

# The Sandur Manganese & Iron Ores Limited

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## CORPORATE OFFICE:

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## MINES OFFICE:

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20 July 2019

The Secretary,  
BSE Limited,  
P.J. Towers, Dalal Street,  
Mumbai – 400 001.

Dear Sir/Madam,

**Sub: Announcement under Regulation 30 of Securities & Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015 – Outcome of Analyst meet**

In pursuance of provisions of Regulation 30(6) of SEBI(LODR) Regulations, 2015, we are enclosing herewith transcript of our meeting with Mittal Analytics Private Limited on 19 July 2019.

In compliance with Regulation 46, the information is also being hosted on Company's website: [www.sandurgroup.com](http://www.sandurgroup.com).

This is for your information and records.

Thanking you.

Yours faithfully  
for The Sandur Manganese & Iron Ores Limited

*Divya Ajith*

Divya Ajith  
Company Secretary &  
Compliance Officer



Encl: A/a

**Transcript of one-on-one meeting with Mr. Ayush Mittal, Mittal Analytics Private Limited  
on 19 July 2019.**

**Q. If you see the last 6 decades in the mining industry, it has been marred with various issues. We are glad to see that the Company stands firmly by its ethics. Could you please outline the journey of the Company?**

A. Mining lease over an area of 7515 ha (29 square miles) was originally granted by the Raja of Sandur to a Belgian Company called The General Sandur Mining Company Limited. This was later transferred in favour of His Highness Yeshwanthrao Ghorpade, the former Maharaja of Sandur with effect from 1 January 1954 by the Government of Madras after the princely state of Sandur was merged with the Union of India.

M. Y. Ghorpade, Yuvraj of Sandur, founded The Sandur Manganese & Iron Ores Limited (SMIORE) and the mining lease was transferred from the former Maharaja of Sandur to the Company. Out of this, 2800 ha of area, which was largely iron ore bearing, was deleted at the time of renewal in 1973 for it to be exploited by the public sector. During the second renewal, the Company voluntarily surrendered another 1500 ha of forest area for land preservation and the lease was renewed over the balance area of 3200 ha with effect from 1 January 1994. With a view to ensure better protection and development of the forest land out of the 3200 ha, the Company obtained Forest Clearance and Lease Deed over an area of 2000 ha only.

Apart from mining, the Company has also been in the business of ferroalloy production. However, the operations were not economically viable due to erratic power supply from State Electricity Board coupled with high power tariff. The operations have stabilised after setting up a 32 MW captive power plant in 2011.

Our ethics is mainly based on the ethos set by our Founder – M. Y. Ghorpade: *“All that we get (earn) from the soil of Sandur in one form or the other should be primarily used to benefit Sandur. The Mining Lease is something that has to be held in trust for the benefit of those who are working so hard for so many years, with so much faith and determination. This (Mining Lease) is not anybody’s private property, but a sacred social responsibility, in which each one of us has to function as Trustee for the toiling work force.”*. Accordingly, the Company ensures safe, systematic and scientific mining practices, with concern and aim to preserve the environment & ecology, and uphold our reputation as a responsible mining company.

**Q. What was the reason for Company’s Sickness in the late 90’s?**

A. Withdrawal of concessional power tariffs pursuant to Power sale agreement entered into with Government of Karnataka.

The Central Government had made a special allocation of 3 lakhs units of power per day to the Company from out of its own unallocated share in the power generated by the Super Thermal Power Station of National Thermal Power Corporation at Ramagundam.

In July and August 1992, the Karnataka Electricity Board unilaterally reduced the quantum of 3 lakh units per day and levied penal charges on the alleged excess consumption. The Company contested the matter before the Courts. The Supreme Court disposed the matter in favour of the State Government resulting in the arrears of electricity charges, fuel escalation charges, along with penal and interest charges wiping out net worth of the Company.

Upon a reference made by the Company, the Hon’ble Board for Industrial and Financial Reconstruction (BIFR), vide its order dated 4 May 2000, declared the Company Sick in terms of Section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985. The Company successfully implemented the Rehabilitation Scheme. The BIFR, at its review hearing held on 10 January 2007, discharged the Company from the purview of Sick Industrial Companies (Special Provisions) Act, 1985.

**Q. Why did the Government take away mining lease areas?**

A. As mentioned earlier, the Company had 7,515 hectares (29 square miles) of area under Mining Lease No.190 effective from 1 January 1954. Government of India during 1973 had proposed to establish public sector steel plants, including a steel plant in the region where our mines are located, and the promoters preferred to hand over iron ore bearing areas for public sector exploitation.

In the second instance, in 1994 the Company voluntarily surrendered another 1500 ha of forest area for land preservation and reserved another 1200 hectares for future use.

**Q. Please elaborate on the ₹150 crore investment made in the subsidiary company?**

A. The investment was made towards setting up thermal based 32MW Power Plant.

**Q. Please throw light on ₹100 crore paid for mining lease rights?**

A. You are referring to ₹113 crore paid towards Net Present Value (NPV) and Compensatory Afforestation Charges during the year 2005.

The Hon'ble Supreme Court, in its Judgment of 26 September 2005 in the matter of T.N. Godavarman Thirumulpad vs Union Of India & Ors upheld the payment of Net Present Value (NPV) for diversion of forest land for non- forest purposes stating that "the amounts are required to be used for achieving ecological plans, and for the regeneration of forest and maintenance of ecological balance and eco-system. The payment of NPV is for protection of the environment and not in relation to any proprietary rights'

In view the same, the Company paid NPV and Compensatory Afforestation Charges of ₹113 crore in 2005 for diversion of forest area for non-forest activities.

**Q. What is the validity of NPV?**

A. It is a one-time payment.

**Q. Please throw light on Forest Development Tax (FDT) mentioned as Contingent Liability.**

A. The State Government, pursuant to Notification No.FEE 248 FDP 2006 dated 16 August 2008 had notified to include mining lessees as a body under the provisions of Section 98(A) of the Karnataka Forest Act, 1963 for levying FDT on the sale of ores by the mining lease holders with effect from 27 August 2008.

The said matter was contested by the Company and other mining lease holders before the Hon'ble High Court of Karnataka whereby the High Court vide its Judgement dated 3 December 2015 quashed the levy of FDT by the Government of Karnataka on mining lease holders, The High Court pronounced the Judgment to the effect that the levy of FDT shall be applicable only to State Government owned entities and not others.

However, the State Government of Karnataka has, vide notification dated 27 July 2016, promulgated the Karnataka Forest (Amendment) Act, 2016, amending the provisions of the Karnataka Forest Act, 1963, inter-alia:

- Re-designating Forest Development tax with the nomenclature "forest development fee" in all places.
- Adding new proviso to section 98-A (1) making the forest development fee payable on minerals (as forest produce) at 12%.

The Company has challenged the validity of the Karnataka Forest (Amendment) Act, 2016, in a Writ Petition filed before the Hon'ble Supreme Court and also the levy of FDT. The Hon'ble SC is yet to hear the matters.

**Q. Your thoughts on the e-auction regime?**

A. Presently, both iron and manganese ore are sold through e-auction. We find this system to be both, convenient and transparent. The price discovery is fair.

**Q. Can only end users buy? Also, can buyers from other states participate in the e-auction?**

A. Yes, only end users can participate in the e-auction. Anyone who is registered as a buyer on the MSTC platform may participate, even if they are not from Karnataka State. All the end users across the country are eligible to participate in the auction and bid for the ores.

**Q. Newspapers report stock piling in Karnataka. Could you please throw some light?**

A. We don't have any stock piles. We cannot comment about other mines.

**Q. We witnessed a peculiar situation some time back, when the prices of the iron ore went up in the international market while it was stagnant in Karnataka. Why?**

A. Prices of Iron Ores in Karnataka has remained stable. Moving Iron Ores over long distances is not feasible on account of freight cost, and as export of Iron Ores from Karnataka was not allowed, Ore prices have not risen significantly.

**Q. Reason of volatility in the realisation?**

A. Iron Ore is the main raw material for Steel. Our realisation is linked to steel prices. The volatility can be attributed to volatility in steel prices either on account of excess or sluggish demand outlook. However, prices for Manganese Ore has improved.

**Q. NMDC realisation is higher. Any reason?**

A. Realisation depends on grade of Ore (Fe Content) and other constituents in the Ore. NMDC ores are of higher Fe grade than ours.

**Q. Where do we stand in cost competitiveness?**

A. We are comparable to other players.

**Q. Reason for low EBIDTA Margin?**

A. Mining segment consists of Iron Ore and Manganese Ore. While Iron Ore production is fully mechanised, our Manganese Ore deposits occur in pockets, and thus, Manganese Ore production is semi- mechanised and involves deployment of lot of manpower.

**Q. Which is easier to sell Iron Ore or Manganese Ore?**

A. Iron Ore is naturally easier to sell because of higher demand in steel making.

**Q. The Reserves value keeps changing. Please throw some light.**

A. Reserve estimation is a dynamic concept.

Earlier, Ore reserve estimations were not made in totality or in entirety, but was done by study of faces of mines, out-crops, by making trenches etc., and specifically for the period for which Scheme of Mining was prepared i.e., only 5 year of operations.

Indian Bureau of Mines (IBM) had vide its communication dated 9 October 2010 mandated estimation of reserves as per United Nations Framework Classification (UNFC) system. Accordingly, estimation of reserves in our entire mining lease area was started in 2011/12 with diamond core drilling. By 2014/15 reserve estimation was 75.71 million tonnes of iron ore. Since then, drilling has been completed in almost the whole lease area of 2000 Ha, (about 1350 bore holes, for depths ranging from 40 to 80 Mt, totalling more than 71,000 meters, and has established an estimated reserve in our mining lease of 114 Million Tonnes of iron ore.

**Q. What is the present status of Environment Clearance (EC) for enhancement in Iron Ore Production?**

A. We presently have Environment Clearance for 1.6 MTPA for Iron ore and about 0.6 MTPA for Manganese Ore.



**Q. What is the constraint on enhancement of EC for Iron Ore production? What is the timeline for securing the same?**

A. Environmental Clearance (EC) dated 24 January 2007 was granted for production of 1.60 Million Tonnes Per Annum (Mtpa) Iron Ore and 0.6 Mtpa Manganese Ore. During 2009 we had applied for enhancement of EC from 1.60 to 3.85 MTPA of iron ore. Though the proposal was considered by the Expert Appraisal Committee of the Ministry of Environment, Forests and Climate Change (MoEFCC), the processing of the same was suspended consequent to suspension of all mining operations in Karnataka by the Orders dated 29 July and 26 August 2011 of the Hon'ble Supreme Court. Processing of the said application has once again been taken up recently and is under process.

**Q. How involved is the promoter family in the operations?**

A. Our founder nurtured and developed the Company into one of the finest professionally run company. It continues to be run like this.

**Q. We are looking at a huge capex. Please elaborate.**

A. The Board of Directors has, at its meeting held on 31 March 2017, accorded approval for implementation of Stage 1 & 2 of the proposed Pig Iron Project at an estimated total financial outlay of ₹1500 crore.

The Company has embarked upon implementation of Stage I of the Project entailing inter-alia, (1) setting up 0.4 Million Tonnes Per Annum (Mtpa) Coke Oven Plant (COP); (2) 30 MW Waste Heat Recovery Boilers (WHRB); (3) upgradation of Ferroalloy Plant; and (4) essential infrastructure development at Mines for a total outlay of ₹600 crore. This outlay will put our ferroalloy business on a very competitive position, as it will reduce the cost of power generation. At the same time, upgradation of ferroalloy furnaces will provide flexibility on manufacture of different types of ferroalloys, in addition to increasing productivity and furnace uptime. Mines projects are aimed to create certain infrastructure that are statutorily required (downhill conveyor) and for cost optimisation (tarring and concreting of roads), together with providing better housing facilities for our employees.

**Q. Coke business is volatile and its impact on profitability**

A. The Coke Oven plant, which is under construction is a vertical type non-recovery coke oven and will be coupled with 30 MW waste heat recovery boilers (WHRB), which will supply the steam to the turbo generator of the existing power plant. On account of lowering in power generation cost, the Ferro alloy business will become highly profitable. In coke we expect to make about 8 to 10% margin.

**Q. Internal timelines for stage 2 and 3.**

A. We are looking at stabilising stage 1 first, which is expected to be fully completed by 31 March 2020. We will take up next stages after stabilising Stage 1.

**Q. Are there any off-take arrangements for Coke?**

A. There is huge demand for coke in the region where the plant is located as most of the coke is imported currently. We don't foresee any problem in selling the coke production.

**Q. The Company has been debt free for last decade and why suddenly there is appetite for debt?**

A. Yes, the Company has been debt free for long time. However, we are now consolidating our existing businesses and borrowing is required to leverage the available opportunity in completing the Stage 1 of the Project in a short time frame of 24 months.

**Q. Impact on profitability, post completion of the Project**

A. Post implementation of the project, the EBIDTA is expected to be in the range of ₹220-250 crore.

**Q. Why not go for beneficiation plant?**

A. Economics not viable for a merchant miner. Works better for a steel plant since steel makers have the option of buying ores of different grades.

**Q. Why not go for Pelletisation?**

A. Pellets are used in Direct Reduced Iron (DRI) plant as part of the process to make sponge iron or export if the plant is close port. Blast Furnace based steel plants prefer to use fines by sintering and lumps.

**Q. Please throw some light on the Steel plant you plan to put up.**

A. We have obtained an Environment Clearance for setting up an integrated 1 MTPA Steel Plant. We need to work out the configuration and time frame for the same.

**Q. What kind of sustainable margins are we looking at in steel business which is expected to come in the future?**

A. As per industry norms.

**Q. Does the Company believe in Value creation for Shareholders?**

A. The Company believes in value creation for the shareholders in the long-term.

**Q. Can we expect improvement in communication by the Company addressing the concerns if any of the shareholders**

A. The Company will have more interactions with the analysts and participate in investors call for addressing the concerns of the shareholders.

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