

China's Sinochem looks to rope in NMDC for joint PotashCorp bid

MUMBAI: China's Sinochem has approached the National Mineral Development Corporation, or NMDC, for a joint bid to acquire Canada's PotashCorp, the world's largest fertiliser company by capacity.

The move by Sinochem to rope in NMDC as a possible partner in what could be one of the largest deals in recent history, is backed by the assumption that an individual bid by a Chinese company could be thwarted by the political establishment in Canada, say people familiar with the development. Potash had turned down BHP Billiton's \$130-a-share, \$39-billion hostile bid in August saying it's too low, and is now open to a white knight offer, said one person, who has knowledge of the negotiations between the Chinese and Indian companies.

Sinochem is keen to join the race to acquire Potash, which controls a fifth of the world's fertiliser output, since a buy would support the Chinese farm sector. The need to join hands with NMDC is also backed by the fact that the Indian state-owned company had recently expressed its intention to invest in another Canadian company Potash One's mining project in Canada and in a rock-phosphate venture in Zimbabwe, as part of a plan to expand into fertilisers.

"But more than anything, the Chinese are aware that an individual bid by Sinochem won't be viewed favourably by the Canadian government," said the person involved in the negotiations. Media reports, late last week, said that the Conference Board of Canada, an independent applied research agency, had said it would be "bad for Saskatchewan if Potash is taken over by a state-owned company from China."

However, NMDC chairman Rana Som denied there was any such move with Sinochem. "No such effort has been made. It's not true," he told ET over the phone. At 21 mt, Potash is the world's largest fertiliser company by capacity, producing three primary crop nutrients such as potash, phosphate and nitrogen. The company has operations and business interests in seven countries.

On July 29, Potash reported its second-quarter earnings of \$1.55 per share at \$472 million, which was more than double the \$0.61 per share (\$186.2 million) earned in the same period last year. This was the second-highest second quarter total in the company's history and it raised first-half 2010 earnings to \$3.02 per share (\$921.2 million), according to data posted on the company's website.

"Such a deal would make a lot of sense for India as fertiliser consumption in the country is heavily skewed toward urea," said Sundaram Mutual Fund head (equities) Satish Ramanathan.

"Increasing potash usage would balance the fertiliser composition and is vital for our country where food security is crucial," he added.

NMDC has already voiced its intention to enter the fertiliser sector due to the growth potential. India is the world's biggest potash importer and will increase its fertiliser consumption to keep

pace with higher agriculture yields.

However, people connected with Indian fertiliser companies say that the benefits accruing to NMDC in such a deal would be marginal. "It would be difficult for NMDC to contribute anything more than \$1-2 billion, which would give it a 5% share. What will NMDC gain from such a small share?" asked a senior executive from a competing, state-owned fertiliser company.

While the \$39-billion bid for Potash is huge, financing for a competing bid will not be a problem for Sinochem which will be backed by the Industrial and Commercial Bank of China, the world's largest bank by market capitalisation.

Potash chief executive Bill Doyle is keen on convincing Canadian regulators to consider a potential bid from a state-backed company from Asia, despite apprehension from politicians and business leaders, according to media reports. "People assume the Chinese or Indians aren't business people ... You don't buy a company to destroy the value of the company," Mr Doyle said. "People think they want low potash prices so therefore they are going to drive the company into the ground ... People say: 'What do they get out of it?' They get the profits from the company, which is a natural hedge against every tonne of potash that they buy over the next 100 to 200 years."

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