

NON – FERROUS METALS

Sector Outlook - Neutral

Background

	International Prices (US\$/tonne)					
	Q1 FY09	Q2 FY09	Q3 FY09	Q1 FY10	Q2 FY10	Q3 FY10
Aluminium	2,937	2,787	1,822	1,485	1,812	2,002
Copper	8,436	7,680	3,910	4,663	5,859	6,649
Zinc	2,114	1,770	1,185	1,473	1,762	2,213
Lead	2,309	1,912	1,246	1,499	1,958	2,293

Source: London Metal Exchange (LME)

- International prices of most of the base metals which started falling since July 2008, bottomed up in December 2008, in line with the global slowdown.
- However, from Q1FY10, prices started recovering largely on the back of the spurt in imports by China, and the stimulus packages announced by various governments, which also resulted in funds renewing their interest in these commodities. Resumption in demand has been aided by positive supply-side effects, like production outages as in copper or better global supply discipline as in zinc.
- Indian non-ferrous metal producers have witnessed lower profitability in the past few quarters as compared to the corresponding quarters of the preceding year, primarily because of subdued demand and prices, and appreciation of the rupee. Margins of copper smelters have been affected by low treatment and refining charges (TC/RCs) and by-product credits.
- However, with the improvement in prices since Q2FY10, the players have witnessed an improvement in profitability over the past three quarters on a sequential basis.

Budget Proposals

1. Excise duty on all non-ferrous metals increased from the current 8% to 10%.
2. Surcharge on customs duty on domestic companies reduced from 10% to 7.5%.
3. Allocation of 46% of total plan allocations to infrastructural developments and increase in allocation to power sector from Rs.2,230 crore to Rs.5,130 crore.
4. A levy of cess on all coal produced and imported in India at Rs.50 per tonne.

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• Bauxite	5	5
• Alumina	5	5
• Aluminium Products	5	5
• Aluminium Scrap	0	0
• Copper Concentrates	2	2
• Refined Copper	5	5
• Copper Scrap	5	5
• Zinc Concentrates	2	2
• Refined Zinc	0	0
• Lead Concentrates	2	2
• Refined Lead	5	5
• Non-Coking Coal	5	5
• Caustic Soda	7	7
• Calcined Petroleum Coke	0	0
EXCISE DUTY		
• Alumina	8	10
• Aluminium Products	8	10
• Copper Concentrates	8	10
• Refined Copper	8	10
• Zinc Concentrates	8	10
• Refined Zinc	8	10
• Lead Concentrates	8	10
• Refined Lead	8	10
• Non-Coking Coal	0	0
• Caustic Soda	8	10
• Calcined Petroleum Coke	8	10

Excluding 2% Education cess and 1% secondary & higher education cess

Budget Impact: Industry

1. Increase in excise duty is expected to be passed on by the manufacturers as there is no overcapacity situation prevailing in the markets. However, the increase, which is expected to be passed on, is unlikely to impact the domestic sales significantly.
2. Reduction in surcharge on customs duty is likely to marginally offset the rise in prices on account of the excise duty hike. Impact on the competitive position of the domestic industry is likely to be negligible.

3. Levy of cess on coal at Rs.50 per tonne is likely to marginally increase the power cost, and the cost of production per tonne.
4. Allocation of 46% of total funds to the infrastructure segment and increased allocation to the power sector is likely to increase the demand for base metals, especially aluminium and copper.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
Hindalco (a)	Aluminium	42	1,2,3,4	◄►
	Copper	58		
NALCO	Alumina	26	1,2,3,4	◄►
	Aluminium	74		
Sterlite Industries (b)	Aluminium	18	1,2,3,4	◄►
	Copper	50		
	Zinc	23		
	Lead	3		
Hindustan Zinc	Zinc	70	1,2,3,4	◄►
	Lead	10		

Legends:

▲▲	Highly Positive	▼	Negative	◄►	Neutral
▲	Positive	▼▼	Highly Negative	∅	No Proposals