

Aluminium Industry H1-FY19 update

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The Aluminium industry in India is primarily dominated by 3 companies: Hindalco and Vedanta which are privately owned and NALCO which is a public sector undertaking having a Navratna status.

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Domestic performance of the Primary Aluminium industry during H1-FY19

- Production of primary aluminium has increased by 14.9% y-o-y during H1-FY19. Production has increased on account of better operational efficiencies due to better capacity utilization & stable operations and additions in existing capacity.
- Consumption of aluminium has risen by 13.1% during H1- FY19. Development of smart cities, rural electrification, focus on building renewable energy projects and growth in the transportation segment has augmented the consumption of aluminium. Aluminium consumption in India is driven by its use in the power (48%), automobiles (15%), construction (13%), packaging (8%), industrial (7%) and consumer durables (7%) sector.
- Exports have risen by 12.1% whereas imports have declined by 6.1% during H1-FY19. Globally markets faced a deficit as demand for aluminium exceeded supply. This has benefited India as aluminium is oversupplied in the domestic market. Deficit in global market is expected to be around 1.8 million tonnes in CY18. India mainly exported primary aluminium to South Korea (16%), Turkey (14%), Malaysia (11%), Mexico (10%), USA (7%), Italy (7%), Japan (5%) and Taiwan (4%) and imported from Malaysia (34%), UAE (19%) Qatar (14%), Bahrain (10%), Thailand (4%), South Korea (3%), Oman (3%) and Australia (2%) during H1-FY19.

Table 1: Domestic Production, Exports, Imports and Consumption of Primary Aluminium (KT*)

	Production	Change (%)	Consumption	Change (%)	Exports	Change (%)	Imports	Change (%)
H1-FY18	1,607	18.5%	1,022	-4.2%	774	53.6%	189	-12.0%
H1-FY19	1,845	14.9%	1,156	13.1%	867	12.1%	178	-6.1%

Source: Company filings, Department of Commerce and Industry, Ministry of Mines

Note: KT* kilotonnes

Challenges and Headwinds faced during H1-FY19

Increase in alumina imports: The alumina produced is used for domestic consumption i.e. by the respective companies for the manufacturing of the aluminium metal. The share of alumina imports has increased sharply by 52.1% during H1- FY19. India imported alumina mainly from Australia (61%), Vietnam (22%), Indonesia (8%) and China (7%).

Table 2: Imports of Alumina (KT)

	Imports	% change
H1-FY17	976	50.4%
H1-FY18	1,485	52.1%

Source: Department of Commerce and Industry

Increase in the imports of scarp: Low import duty on aluminium scarp (2.5%), has led to an increase of its imports. Producers find this an issue as it impedes with the production of primary aluminium. Cheap imports of aluminium scarp are lowering the market share of domestic producers. India imports aluminium scarp from United States of America (15%), United Kingdom (13%), UAE (10%), Saudi Arabia (10%), Australia (7%), Netherlands (5%), Hong Kong (3%) and South Africa (3%) during H1-FY19.

Table 3: Imports of Aluminium Scarp (KT)

	Imports	% change
H1-FY17	488	-
H1-FY18	541	10.9%
H1-FY19	655	21.1%

Source: Department of Commerce and Industry

Increase in input costs: Domestic players rely on coal-fired captive plants for power and fuel requirements. Aluminium is a highly power-intensive industry in which power accounts to 45% of the total production cost. With the recent change in the regulations where the government has prioritized coal supplies to power stations to boost their inventories, aluminium producers are facing coal shortages thus increasing the reliance on expensive imported coal. Domestic players also usually face a problem with coal availability during the monsoon quarters (Q1 & Q2) as the availability of coal becomes bleak. Rising crude oil prices has attributed to the rise in furnace oil. Furnace oil is mainly used for the production of alumina, which is impacting the total cost of production.

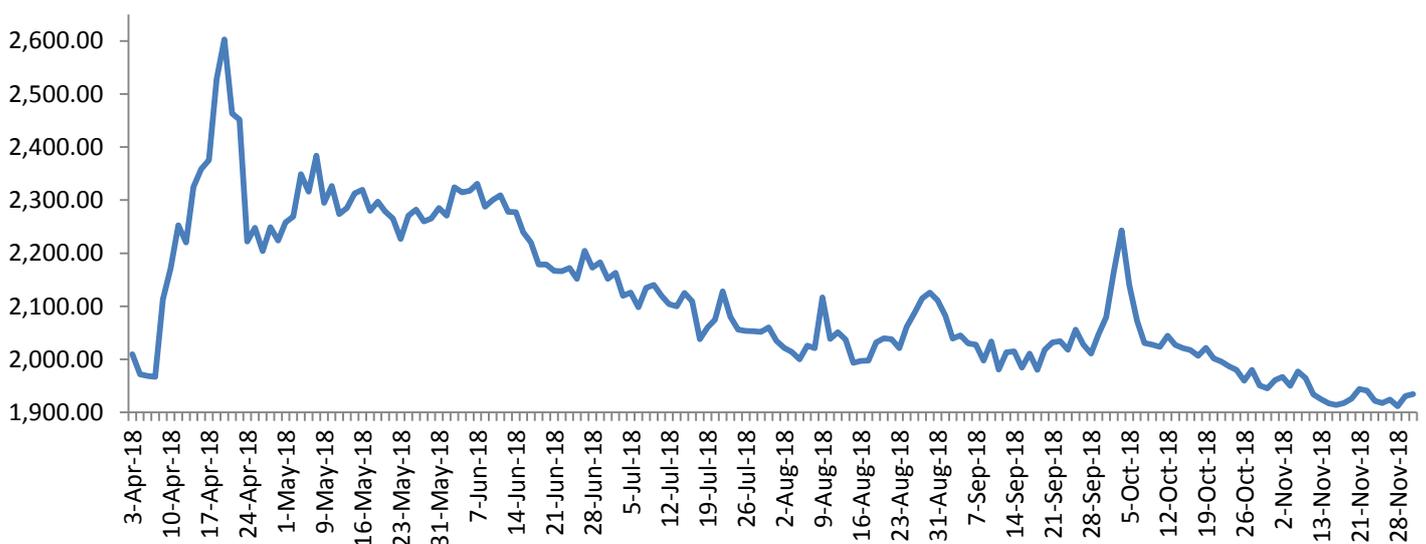
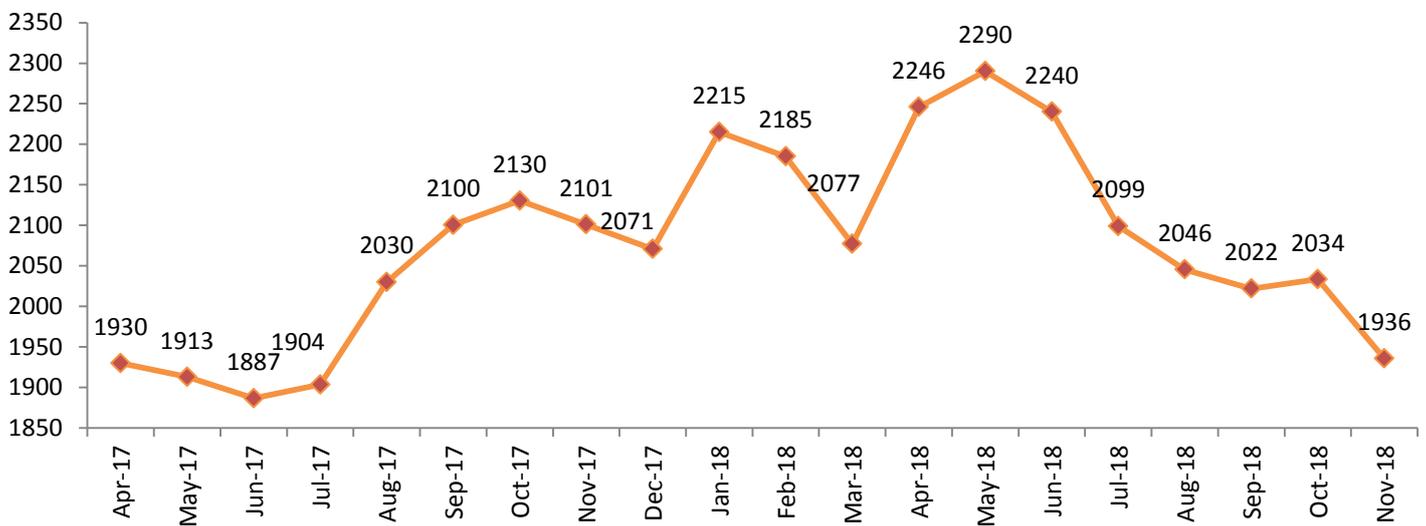
Capacity Additions

The Odisha government cleared 6 large manufacturing projects of aluminium makers. **The six large projects are worth Rs.258.5 billion.**

- Vedanta has received approval to ramp up its Lanjigarh alumina refinery in Odisha from one to six million tonnes at an investment of Rs.64.9 billion.
- Hindalco’s plan to expand its aluminium flat rolled products unit at Lapanga too got cleared. The project would come up at an investment of Rs.50 billion.
- Nalco has received approval to spend Rs.55.2 billion on a mega downstream aluminium complex at Kamakhyanagar near Dhenkanal.

Global Aluminium Price Movements

Chart 1: Trend in price movements of Aluminium (USD/tonne)



Source: LME

Global aluminium prices had risen in the start of the fiscal year because of the imposition of sanctions on United Co. Rusal (largest aluminium producer outside of China) by the US government which had caused a rally amidst the fears of facing a shortage in the global markets.

The US government had imposed sanctions during April'18, post that the prices have been falling due to the global on-going trade wars, appreciation of the US dollar and fear of a global slowdown.

CARE Ratings Outlook

India's aluminium production is to be stable at **3,426 KT during FY19** as all the domestic smelters are now operating at full capacity. Aluminium production till H1-FY19 has been 1,845 KT.

- Production to be stable during Q3 & Q4.
- We can expect further capacity ramp-ups of aluminium smelters by the second half of the year.

Aluminium has been continuously finding new applications due to rising price competence since it is cheaper than copper, due to its superior weight to strength ratio, corrosion resistance, formability, dampness etc. Reforms proposed by the Government of India like the Make in India Campaign, Smart Cities, Rural Electrification and a focus on building renewable energy projects under the National Electricity Policy have augmented the usage of the metal during FY18. Buoyant demand and market recovery across businesses in India is to further increase the demand for aluminium.

- **Aluminium demand is to grow around 5% to 2,200 KT during FY19.** Consumption of primary aluminium till H1-FY19 has been 1,156 KT.
- The growth in consumption is likely to be driven by the growth in power transmission and the automobile sector. Demand from the packaging sector is also likely to support the domestic demand.
- Aluminium to continue replacing copper demand from the electrical and the consumer durable segment.

Global aluminium markets faced a deficit during CY17 as demand exceeded supply and there has been a continued deficit in CY18 as well (Deficit in global market is expected to around 1.8 million tonnes in CY18). **India has the opportunity to expand its aluminium trade in the global markets.**

- EU is expected to generate robust demand majorly driven by transport and construction sectors.
- China is focusing on increasing the intensity of aluminium usage in electric vehicles which will generate additional demand for aluminium in China.

Global aluminium prices to hover around **USD 2,000-2,100 per tonne** during the short to medium term period.

- The aluminium prices are to gain traction as there has been a temporary truce announced between China and the US. The on-going trade/tariff wars between both the economies were bringing the prices of aluminium down.
- The Chinese winter cuts are on the way.
 - Shandong local government has ordered China Hongqiao Group to shut around 550 KT pa of aluminium smelting capacity in the province between November, 2018 and March, 2019.

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