India is one of the few countries globally which produces both iron ore as well as steel in large quantities of more than 100 mn tonnes. With India being the 4th largest iron ore producer, its total production in FY18 stood at 200.95 mn tonnes. In Q1-FY19, it grew by 51.58 mn tonnes, as depicted in chart 1.

![Chart 1: Iron ore production in Q1-FY19 ('000 tonnes)](chart)

Source: Indian Bureau of Mines

**Imports**

Iron ore imports by India (chart 3) surged 157% in 9M-FY19 compared with 9M-FY18. Out of the total imports of 11.75 mn tonnes in 9M-FY19, Australia’s share was highest at 57%, which has more than tripled compared with corresponding period last year. The other countries from which India imports iron ore and its shares are South Africa (19%), Brazil (15%) and Bahrain (5%).

In July-18, imports peaked at 1.93 mn tonnes, the highest in any month in past 5 years.

Surge in imports can be attributed to varying ore grades in multiple iron ore producing states, which leads to price differences. While the logistics cost for steel plants located on coastal India rose, steel players shifted to imports for sourcing their key raw material, instead of buying at inflated domestic prices. In addition to this, a significantly low import duty of ~2.5% encourages iron ore imports in the country.

A decline in imports was witnessed Aug’18 onwards, which can be due to the strengthening of USD, which reduced spreads between landed cost and domestic prices of iron ore, making imports less preferred by Indian steel makers during the period.

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Exports

Indian iron ore exports declined 32% to 12.7 mn tonnes from Apr’18-Jan’19, compared with a fall of 17% from Apr’17-Jan’18. China was the principal iron ore importer from India with 74% share or 9.4 mn tonnes, followed by Japan, South Korea, Oman and Malaysia. Export duty in India for iron ore is high at ~30% currently.

Iron ore pellet exports

Iron ore pellet exports stood at 6.5 mn tonnes in 9M-FY19, a decline of 12% in 9M-FY19. China is the principal iron ore pellets importer from India with 74% share or 4.8 mn tonnes during the period. Exports to China have also declined 18% in 9M-FY19, compared with corresponding period last year. Uncertainty of winter output cuts in China and slow inquiries from non-Chinese market resulted in a drop in pellet exports from India.
Domestic price trend

Prices of high grade lumps and fines rose ~65% and ~25% in FY19 (up to Nov-18) and reached its highest level in past 5 years. Domestic prices are largely dependent on the Indian steel market, rather than the international iron ore prices.

NMDC, the country’s largest iron ore producer undertook 4 price cuts in past 3 months — 2 in December, 1 in January and 1 in early February. February onwards, after a ~5% hike was seen in varied products of domestically produced steel, NMDC decided to hike its prices of fines and lumps by Rs.400/tonne in Feb end. Though the domestic iron ore price rise has negatively impacted cost structures of domestic steel producers, they coped up by raising steel prices supported by healthy domestic demand.

![Chart 8: Domestic price trend (Rs./tonne)](chart8)

Source: CMIE

Global iron ore prices

As seen in chart 9, while global iron ore prices were stable in the range of USD 65-75/ dmtu up to Dec-19, they peaked in Jan and Feb-19 to reach USD 88/dmtu, the highest since Aug-14, which can be attributed to the Vale’s mine dam collapse in Brazil in Jan-19. Worries on global iron ore supply crisis inflated the global prices of the ore.

![Chart 9: Iron ore (any origin) fines, spot price, c.f.r. China, 62% Fe in USD/dmtu*](chart9)

* dry metric ton unit (dmtu) is the internationally agreed-upon unit of measure for iron ore pricing.
dmtu has the same mass value as a metric tonne, but the material has been dried to decrease the moisture level.

All prices are monthly averages
Source: World Bank
Outlook

- We maintain our outlook for FY19 where production of iron ore is expected to grow by ~2.5%. Domestic iron ore demand will be dependent on domestic steel demand, which has seen strong growth during the year. Domestic demand is expected to be met with the huge iron ore inventory piled up at the mines pit-head, in addition to new production during the year.

- We expect export of Indian iron ore pellets at 8-9 mn tonnes by the end of FY19. China will continue being the largest importer of Indian pellets, seeing its preference shift from Indian iron ore fines to pellets, due to pressures of controlling pollution emissions.

- Vale’s dam collapse and suspension of operations at Brucutu mine is expected to inflate global prices in the short period. While this calamity is expected to bring an annual production loss of ~70 mn tonnes, it forms a minimal ~3% of the global production. However, Brazil being one of the largest producers of high grade iron ore, could impact its supply.