

Aluminium Industry 9M-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.

Domestic performance of the Primary Aluminium industry during 9M-FY19

- Production of primary aluminium has increased by 11.8% y-o-y during 9M-FY19 given better operational efficiencies due to stable operations and better capacity utilization. Production also increased on account of additions made to existing production capacity.

- Consumption of aluminium has risen by 1.2% during 9M- FY19. 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 20.2% while imports have declined by 10% during 9M-FY19. Globally markets faced a deficit as demand for aluminium exceeded supply. This has benefited India as aluminium is oversupplied in the domestic markets. Deficit in global market was around 1.6 million tonnes in CY18. India mainly exported primary aluminium to Malaysia (21%), South Korea (12%), Turkey (11%), Mexico (7%), USA (8%), Italy (6%), Taiwan (5%), Spain (5%), Japan (4%) and Netherlands (3%) and imported from Malaysia (35%), UAE (17%) Qatar (15%), Bahrain (9%), and Thailand (4%) during 9M-FY19.

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

	Production	Change (%)	Consumption	Change (%)	Exports	Change (%)	Imports	Change (%)
9M-FY18	2,486	18.7%	1,541	-1.6%	1,227	43.0%	282	-14.3%
9M-FY19	2,780	11.8%	1,559	1.2%	1,474	20.2%	253	-10.0%

Source: Company filings, Department of Commerce and Industry, CARE Ratings

Note: KT* kilotonnes

Challenges and Headwinds faced during 9M-FY19

Increase in alumina imports: The alumina produced is usually used for by the respective companies which manufacture it i.e. for the manufacturing of the aluminium metal. Imports of alumina have increased on account of decrease in the bauxite off-take. During FY18, bauxite mining had declined by 9.8%. Alumina imports have increased sharply by 34.5% during 9M-FY19. India imported alumina mainly from Australia (52%), Vietnam (23%), Indonesia (12%) and China (12%).

Table 2: Domestic Production, Exports, Imports and Consumption of Alumina (KT)

	Production	Change (%)	Consumption	Change (%)	Exports	Change (%)	Imports	Change (%)
9M-FY18	4,580	-0.6%	5,207	17.5%	914	-14.2%	1,541	72.8%
9M-FY19	4,814	5.1%	5,916	13.6%	971	6.3%	2,073	34.5%

Source: Company filings, Department of Commerce and Industry, CARE Ratings

Increase in the imports of scrap: Scrap imports have increased by 20.8% amidst the US- China trade wars. Aluminium scrap usually comes in discount to LME (which is also popularly known as scrap spread) and also has a low import duty of 2.5% in India. Despite increase in demand, the domestic players are struggling to gain market share as low-cost aluminium scrap imports are dominating the market and is impeding into the share of primary producers.

Despite significant presence of domestic primary aluminium capacity and potential to generate sufficient domestic scrap, India's scrap consumption is 100% import dependant. During 9M-FY19 it was imported from the US (19%), UK (12%), UAE (10%), Saudi Arabia (10%), Australia (7%), Netherlands (5%) and South Africa (3%).

Post US imposing a 10% import duty on primary aluminium, China slapped a 25% import duty on aluminium scrap originating from the US. Now China has classified aluminium scrap as a restricted import from July 2019 onwards and plans to impose an anti-dumping duty from 2022. India on the other hand does not have any such standards so as to restrict scrap imports. Aluminium scrap imports from the US have increased from it being 9% during 9M-FY18 to 19% during 9M-FY19.

Aluminium scrap is usually used by the auto sector but since the last two years because of an increase in the scrap spread a large part of its usage is getting diverted in the manufacturing other products which is leading to an increase in imports.

Table 3: Imports of Aluminium Scrap (KT)

	Imports	Change (%)
9M-FY18	839	15.7%
9M-FY19	1,014	20.8%

Source: Department of Commerce and Industry

Increase in input costs: The aluminium industry is facing a double whammy of an increase in input costs and low aluminium prices during the 9M-FY19 period. Increase in input costs period refers to the rise in coal cost and furnace oil cost.

- **High coal 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 changes in the regulations where the government has prioritized coal supplies to power stations to boost their inventories, aluminium producers have been facing coal shortages thus increasing the reliance on expensive imported coal. Domestic players also faced the problem of coal availability during the monsoon quarters (Q1 & Q2) as the availability of coal had become bleak.
- **Increase in Furnace oil:** Crude oil prices had increased by 33.2% during 9M-FY19. Increase in crude oil prices had attributed to the rise in furnace oil as well. Furnace oil is mainly used for the production of alumina, which was impacting the total cost of production.

On a y-o-y basis there has been an increase in input costs, however sequentially the situation seems to be easing for the aluminium producers with the cost of crude oil falling which has also led to the decline in prices of the carbon products. The coal availability was tight during H1-FY19 but more coal was bought in by the industry during Q3.

Global Aluminium Price Movements

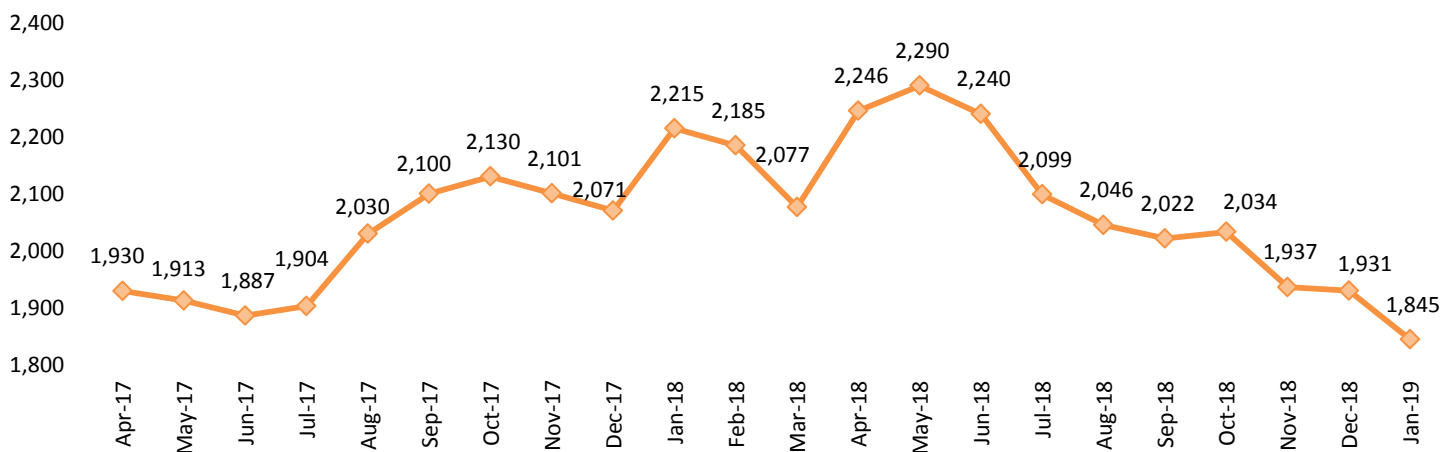
Global aluminium prices had risen in the start of the fiscal year because of the imposition of sanctions on United Co. Rusal (largest aluminium producer outside of China) by the US government which had caused a rally amidst the fears of facing a shortage in the global markets.

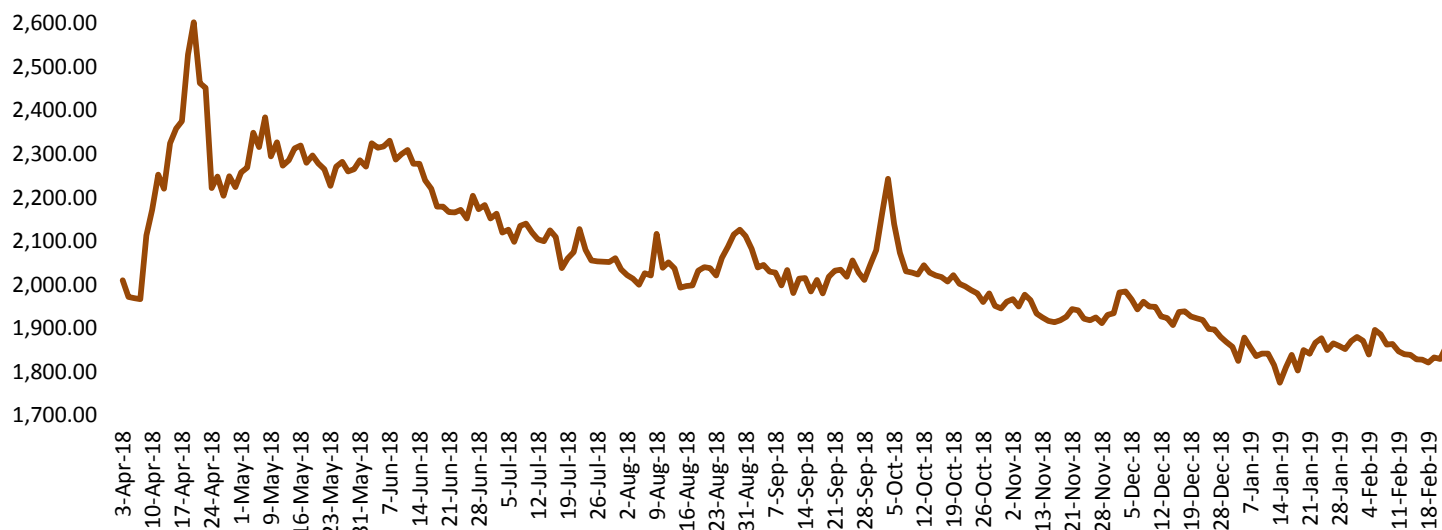
The US government had imposed sanctions on Rusal during April’18, post that the prices have been falling due to the tariff wars between China and the US.

LME prices during Q3-FY19 remained muted and fell by 6.4% on account of moderation in Chinese demand and intensifying trade tension between US and China. On the other hand prices global aluminium prices have risen by 4% during the 9M-FY19 period.

Fears of a global slowdown and appreciation of the US dollar were also responsible to drag the global aluminium prices to a 2 year low. Prices of aluminium in January were at its 2 year low.

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





Source: LME

CARE Ratings Outlook

India's aluminium production is to be stable at around 3,425 KT during FY19 as all the domestic smelters are now operating at full capacity. Aluminium production till 9M-FY19 has been 2,780 KT.

- Production to be stable during Q4.
- We can expect further capacity ramp-ups of aluminium smelters.

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 development of 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 by around 5% to 2,200 KT during FY19.** Consumption of primary aluminium till 9M-FY19 has been 1,559 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.

Going forward global aluminium prices to hover around **USD 1,900-1,950 per tonne** during the short to medium term period.

- The global aluminium prices are to gain traction as there seems to some sort of settlement between the American and Chinese economies.
- China has announced a series of stimuli that are specifically focused on infrastructure development, boosting demand in automotive and consumer durables. These measures are likely to support Chinese aluminium industry going forward.

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