

**Iron ore industry:
H1-FY19 update**

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Production

The production of iron ore grew at 9% Y-o-Y in FY18 reaching 210 mn tonnes. This report covers trade volumes and prices movement during H1-FY19. (We do not have the updated iron ore production numbers for FY19, as it is not available with Indian Bureau of Mines).

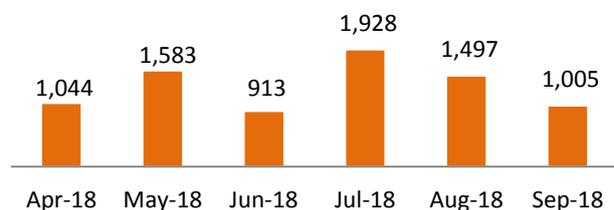
Imports

India’s imports of iron ore surged by 183% in H1-FY19 compared with H1-FY18. Out of the total imports of 7.97 mn tonnes in H1-FY19, Australia’s share was highest at 65%, followed by South Africa, Brazil, Bahrain and Oman. Current imports of 7.97 mn tonnes in H1-FY19, has already crossed 90% of the total iron ore volumes imported in FY18 (8.7 mn tonnes). In July-18, imports peaked at 1.93 mn tonnes, the highest in any month in past 5 years.

It is believed that due to differences in ore grades in various iron ore producing states, prices differ and therefore, logistics cost for steel plants located on coastal India kept increasing. Due to this, steel players started shifting to imports for sourcing the key raw material, rather than purchasing at higher domestic prices.

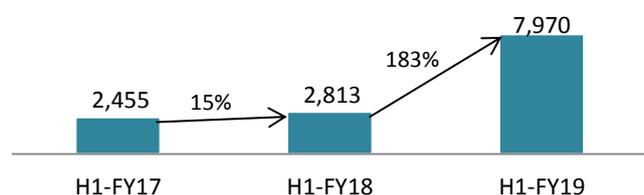
The imports saw a decline in the months of August and Sept’18. One of the reasons that could be attributed to this is strengthening of USD, which reduced spreads between landed cost and domestic prices of iron ore, making imports less desirable for Indian steel makers.

Chart 1: Monthly imports of iron ore and concentrates in H1-FY19 ('000 tonnes)



Source: CMIE

Chart 2: Imports of iron ore and concentrates ('000 tonnes)



Source: CMIE

Exports

The exports dropped sharply by 42% to 6.6 mn tonnes in H1-FY19, compared with H1-FY18. China was the principal iron ore importer from India with a 77% share or 5.1 mn tonnes, followed by South Korea, Japan and Nepal.

Chart 3: Monthly exports of iron ore and concentrates in H1-FY19 ('000 tonnes)

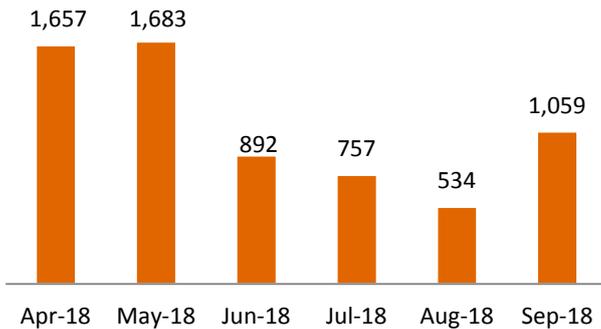
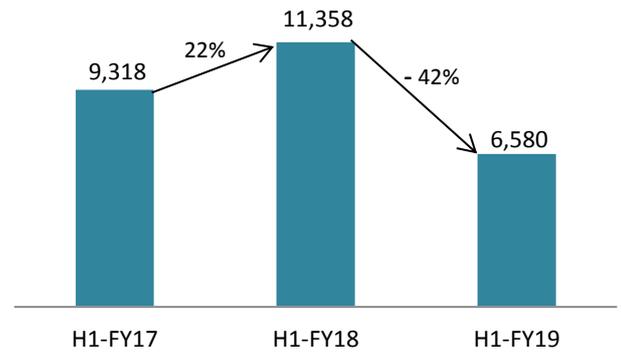


Chart 4: Exports of iron ore and concentrates ('000 tonnes)



Source: CMIE

Iron ore pellets

Iron ore pellet exports stood at 3.9 mn tonnes in H1-FY19, with China being the principal iron ore pellets importer from India with 67% or 2.6 mn tonnes. The total pellets exports have seen a decline of 10% in H1-FY19, compared with H1-FY18.

Chart 5: Indian exports of agglomerated iron ore pellets to all countries ('000 tons)

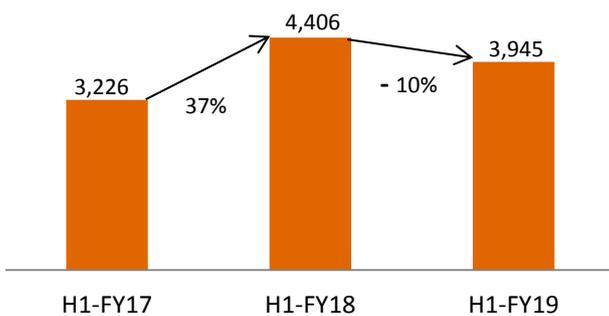
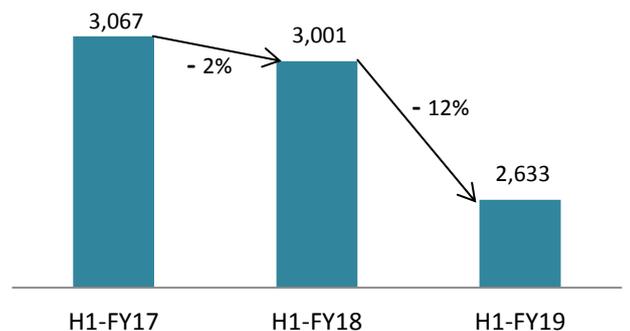


Chart 6: Indian exports of agglomerated iron ore pellets to China ('000 tons)



Source: Department of commerce

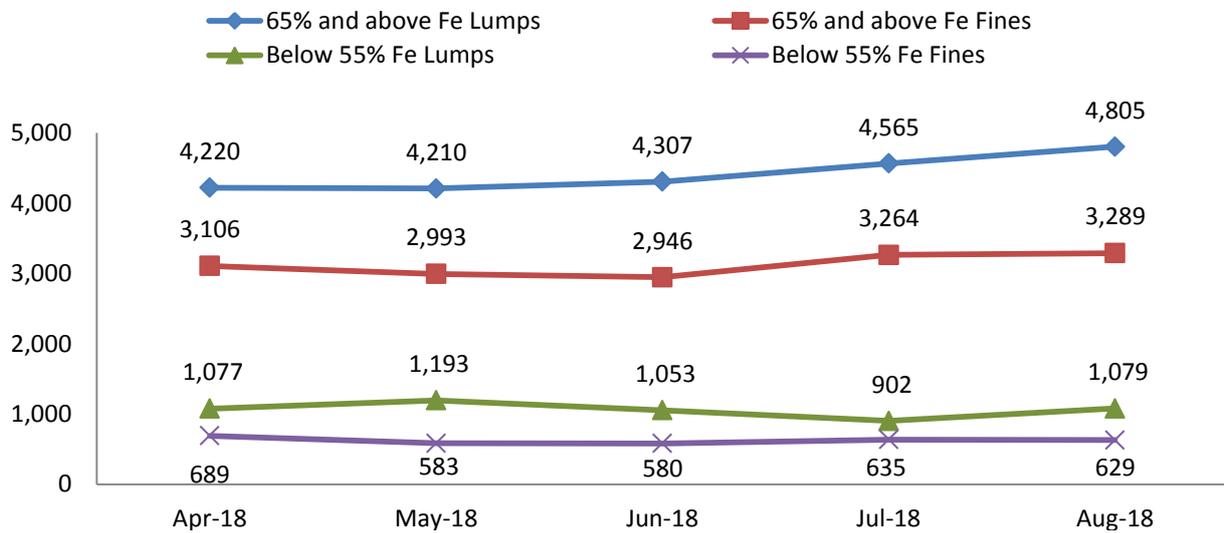
Domestic price trend

A good steel demand in FY18 sustained high iron ore prices in H1-FY19, where high grade lumps and fines reached a 4 year high of Rs. 4,805/tonne and Rs. 3,289/tonne respectively in Aug-18, rising 14% and 6% from Apr-Aug'18, compared with corresponding period last year. A surge in domestic prices led to increase in imports in the country.

Largest Indian iron ore producer, NMDC, raised prices twice in Sept-18 to reach Rs.3,850/tonne for lumps and Rs.3,310/tonne for fines. The rise in price was due to rains and surging demand for the ore.

WPI based inflation in the iron ore industry has raised by 34% in H1-FY19, compared with H1-FY18.

Chart 7: Domestic price trend (Rs./tonne)

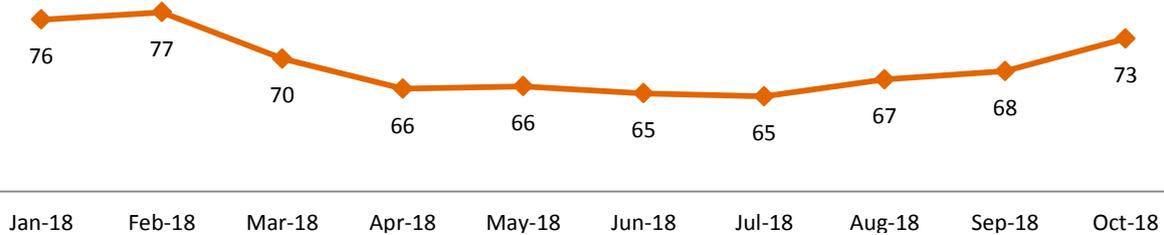


Source: CMIE

Global iron ore prices

Global iron ore prices have remained stable in H1-FY19, with a marginal rise in Aug and Sept'18.

Chart 8: Iron ore (any origin) fines, spot price, c.f.r. China, 62% Fe in USD/dmtu*



* 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 majorly dependent on domestic steel demand, which is expected to see a strong growth, given the rapid developments in infrastructure and auto industries. Domestic demand is expected to be met with the large iron ore inventory piled up at the mines pit-head, in addition to new production during the year.

- We lower our expectation of export of Indian iron ore pellets to 8-9 mn tonnes by 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.
- Domestic iron ore prices are expected to hover between Rs.3,500 - 4,000 for lumps and Rs.2,900 - 3,400 for fines, in H2-FY19. NMDC's decision to halt iron ore mining at Donimalai, Karnataka would adversely affect yearly production raising prices further in H2-FY19.

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