Primary aluminium Industry - February 2021 update

February 9, 2021 I Industry Research

Production of primary aluminium during 9MFY21 and Imports and export during 8MFY21

Table 1: Production, Imports and export of primary aluminium (Unit: quantity in Thousand Tonnes)

				Change (y-o-y)	
	Period	2019-20	2020-21	2019-20	2020-21
Production	Apr-Dec	2,736	2,657	-1.7%	-2.9%
Imports	Apr-Nov	182	146	-20.8%	-19.7%
Export	Apr-Nov	1,276	1,545	-2.9%	21.0%

Source: CMIE

- **Primary aluminium production** was not impacted much compared to other metals and fell by just 2.9% during Apr-Dec FY21 as compared to Apr-Dec FY20. While domestic demand faltered, mainly in Q1FY21 and Q2 due to the lockdown, export demand which accounts for around 50-55% of total primary aluminium production remained robust. This helped production levels from falling sharply. Besides, there was enhanced availability of coal in the domestic market due to fall in demand from the power sector as overall industrial activity remained subdued in H1FY21. This also softened coal prices which benefitted the primary aluminium companies which kept their smelter's operational. Capacity utilization rate of the industry fell to 83% in Q1 FY21. However, utilization rate improved to 86% in Q2 and reached pre-covid level of 93% in the December 2020 quarter.

Higher export demand supports production:

- Export of primary aluminium from India has seen steady rise over the years and the share of exports in total production has risen to 54% in FY20 from 46% in FY16. Increase in import of scrap and aluminium products from FTA countries have eroded market share of domestic aluminium companies. Currently less than 50% of total production is sold in the domestic market. While domestic market is seeing surge in imports of aluminium scrap which is replacing demand for primary aluminium, demand for Indian aluminium from markets such as South Korea, Malaysia, Japan has risen.
- South Korea and Malaysia together account for 60% of India's total primary aluminium exports. Demand from both these countries remained robust and grew by 19.5% and 39.7% y-o-y, respectively during Apr-Nov FY21.
- Export demand from China saw a significant jump during the first 8 months of FY21. China's share in India's total primary aluminium exports rose to 8.8% during Apr-Nov FY21 from just under 1% in the corresponding period of FY20. China's production of aluminium rose by 4.9% in 2020 from the prior year however its demand rose by a much faster 10.9% backed by higher infrastructure driven spending by the Chinese government to revive its economy. China became a net importer of unwrought aluminium from a net exporter in 2020. During January-November 2020, China's import of primary aluminium and alloys stood at 2.5 million tonnes (primary aluminium-880,000 in total), a fourfold increase compared with the corresponding period in 2019. .
- Primary aluminium exports from India surged almost 50% during the first quarter of FY21 which helped domestic producers to tackle a sharp decline in domestic demand, in the wake of the COVID-19 pandemic in Q1FY21. However domestic demand returned with easing of restrictions in Q2 and exports moderated. Exports grew by just 6.8% y-o-y in Q2 as compared to 50% growth in the June 2020 quarter. Share of export in total production also reached pre-covid level of 56% in the month of December 2020 after peaking to 78% in April 2020.
- Imports on the other hand fell by 28% impacted by lower domestic demand in Q1. However, domestic demand rebounded in the September 2020 quarter on the back of strong demand from the auto segment and higher extrusion demand. After falling yoy for six consecutive month's (March to August 2020) imports grew by 27.8% and 8.8% and 46.6% yoy in September and October and November 2020, respectively reflecting strong revival in domestic demand.

Lower coal prices help industry expand operating margin:

Aluminium is an energy intensive industry and power cost accounts for 30-35% of total cost of production. The primary aluminium producers benefitted as coal premiums in e-auctions were almost zero in Q1FY21 due to ample availability in the domestic market as demand for coal from the major end user segment – power witnessed a sharp fall due to overall subdued industrial activities owing to the lockdown. Therefore the industry's power cost fell by 10% y-o-y in the June 2020 quarter and by 22% in the September 2020 quarter. This coupled with higher aluminium realisations and pick-up in demand helped industry to expand its operating profit margin from 7.8% in March 2020 quarter to 10.6% in the September 2020 quarter.

Table: 2: Financial snapshot of aluminium & aluminium products industry

	Mar-20	Jun-20	Sep-20	Mar-20	Jun-20	Sep-20
		Rs Crore			y-o-y growth	
Net sales	2,397	1,648	2,825	-30%	-39%	-4%
Power cost	695	636	662	12%	-10%	-22%
Op pft margin (Excl OI)	7.8	8.1	10.6			

Note: sample size-15 companies, Source: Ace Equity

Trend in prices

LME aluminium prices climbed to the highest level in two years to average $ 2,019 per tonne in December 2020 after hitting bottom of $ 1,456 per tonne in April 2020, due to strong demand from China and falling stocks levels at the LME.

Domestic aluminium prices also rose in line with international prices and revival in domestic demand. Prices of aluminium ingots (wholesale Mumbai market) are up 19% since May 2020 to average Rs 169,850 per tonne in January 2021 and aluminium ingots (producer price-Nalco) are up 27% since May 2020 to average Rs 169,733 per tonne in January 2021.

Chart 1: LME: Stock levels and aluminium prices

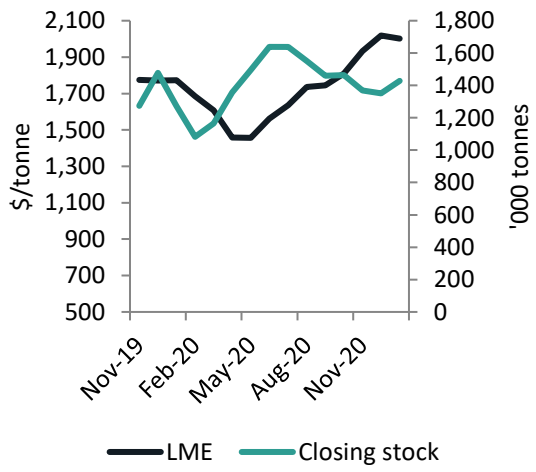
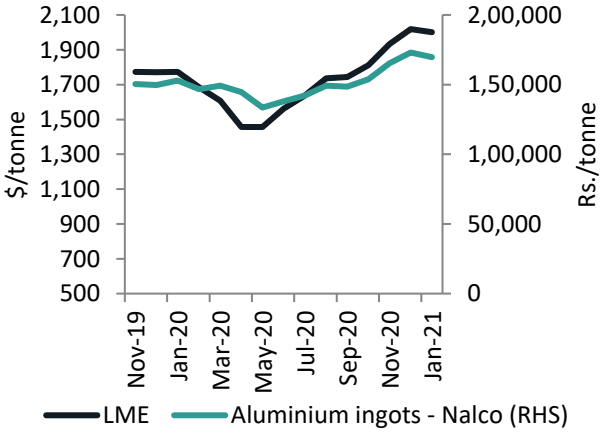


Chart 2: Trend in domestic and international prices



➔ Outlook for FY21

Prices:

LME aluminium prices crossed $ 2,000 per tonne in December 2000, for the first time in two years due to higher buying from China. However, China's domestic aluminium production has risen sharply by 8-9% in October and November 2020 as more capacities restarts production due to attractive realizations as aluminium prices soar to multi-year high. China's aluminium imports though higher than last year have declined m-o-m in November 2020.

However, going forward even if demand from China moderates to some extent other markets are likely to open up like Europe, US and India which will support demand for aluminium and keep prices in the current range. Aluminium prices are expected to average $ 1,900-2,000 per tonne in FY21 as compared with $ 1,750 per tonne in FY20.

Production:

Primary aluminium production is expected to be lower by 3.5-4% in FY21 as compared to FY20. Domestic demand for aluminium continues to remain strong in packaging (pharmaceutical & food packaging) and machinery sectors. Demand is also picking in the building and construction and automotive sectors with revival in the economy. Higher demand from end-user sectors and higher realisations will lead to increase in production in Q4 FY21.

Policy measures announced in budget:

The vehicle scrappage policy and the doubling of recycling capacity by 2024 under the "Recycling of Ships Act" would increase the availability of aluminium scrap in the country. At present, the country is 100% dependent upon imports to meet its scrap requirements and the import of aluminium scrap has grown 55% since FY16 at 1347 thousand tonnes in FY20.

The electrification of Broad Gauge Route will lead to higher requirement of infrastructure in the form of transmission lines and towers made either from copper or aluminium, which is likely to support the demand for both the base metals.

National Rail Plan has committed 1.07 lakh crores for enhancing railway infrastructure, metro rail project which aims to add another 1,016 km of metro and RRTS in 27 cities, city bus service plan will all create demand for aluminium.

Contact:

Madan Sabnavis	Chief Economist	madan.sabnavis@careratings.com	+91-22-6837 4433
Rashmi Rawat	Deputy Manager	rashmi.rawat@careratings.com	+91-22-6837 4405
Mradul Mishra	(Media Contact)	mradul.mishra@careratings.com	+91-22-6754 3573

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel.: +91-22-6754 3456 I CIN: L67190MH1993PLC071691

Connect: