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Aluminium Industry Q1-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 Aluminium industry during Q1-FY19

Primary aluminium

- Production of primary aluminium has increased by 18.2% y-o-y during Q1-FY19. Production has increased on account of better operational efficiencies due to better capacity utilization & stable operations and also additions in existing capacity. (Vedanta's aluminium plant underwent a ramp up of additional pots at the Jharsuguda-II smelter and BALCO-II smelter).

- Consumption of aluminium has risen by 15.1% during Q1- 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. Consumption of aluminium has also increased as it continues to replace copper in the wiring and electrical equipment segments.

- Exports have risen by 15.9% whereas on the other hand imports have declined by 6.9% during Q1-FY19. Globally markets faced a deficit as demand for aluminium exceeded supply. This has benefited India as aluminium is oversupplied in the domestic market. During the quarter, India mainly exported primary aluminium to South Korea (18%), Turkey (16%), Mexico (13%) Italy (7%), USA (6%), Japan (5%) and Greece (5%) and imported from Malaysia (34%), Qatar (21%), UAE (16%) and Bahrain (9%).

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

	Production	Y-O-Y Change	Consumption	Y-O-Y Change	Exports	Y-O-Y Change	Imports	Y-O-Y Change
Q1-FY18	774	19.8%	506	-9.7%	364	97.8%	95	-2.7%
Q1-FY19	915	18.2%	582	15.1%	422	15.9%	89	-6.9%

Source: Company filings, Department of Commerce and Industry

Note: KT* kilotonnes

Challenges and Headwinds

Increase in alumina imports: The alumina produced is used for domestic consumption i.e. by the respective companies which manufacture it, for the manufacturing of the aluminium metal. The share of alumina imports has increased sharply by 94.7% during Q1- FY19. India imported alumina mainly from Australia (66%), Vietnam (26%) and Indonesia (7%). Growth in production of alumina in the domestic markets has been growing at a stable growth rate but the increase in demand for the aluminium metal has led to the increase in imports of alumina.

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

	Production	Y-O-Y Change	Consumption	Y-O-Y Change	Exports	Y-O-Y Change	Imports	Y-O-Y Change
Q1-FY18	1,553	3.1%	1,741	19.9%	260	-26.9%	448	49.3%
Q1-FY19	1,603	3.2%	2,131	22.4%	345	32.8%	873	94.7%

Source: Company filings, 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 the production of primary aluminium. Cheap imports of aluminium scarp are challenging the market share of domestic producers. India imports aluminium scarp from United Kingdom (14%), United States of America (12%), UAE (12%), Saudi Arabia (11%), Australia (7%) and Netherlands (5%) during Q1-FY19.

Table 3: Imports of Aluminium Scarp (KT)

	Imports	Y-O-Y Change
Q1-FY18	251	9.3%
Q1-FY19	312	24.6%

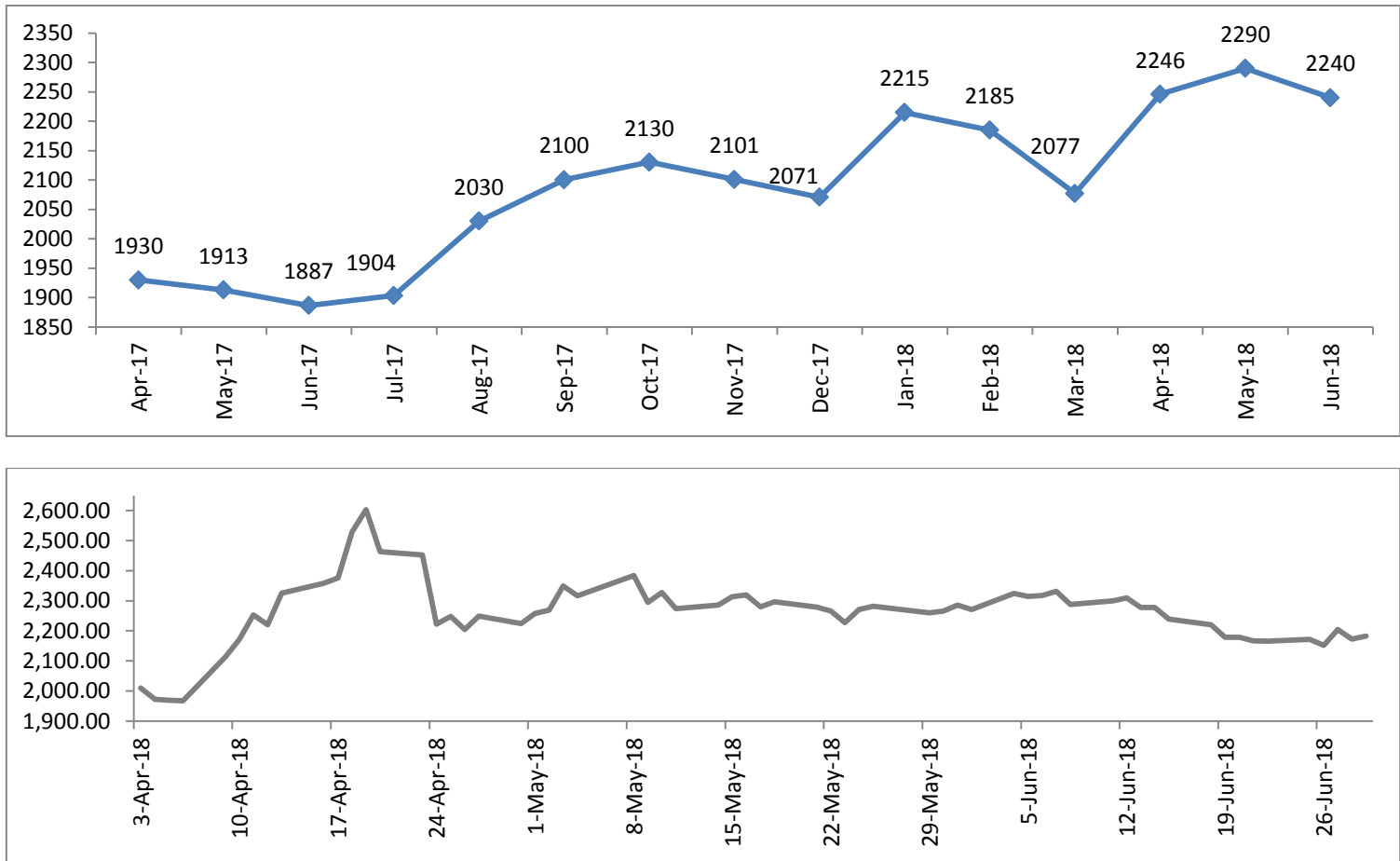
Source: Department of Commerce and Industry

Availability of coal/ Problems with the coal linkage policy: 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.

Increase in the prices of furnace oil: 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.

Global Aluminium Price Movements

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



Source: LME

Global aluminium prices have risen by 18.3% y-o-y during Q1- FY19 compared with the prices prevailing in the corresponding period in the previous year. The imposition of sanctions on United Co. Rusal (largest aluminium producer outside of China) by the US government 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 flatish due to the trade/tariff war tensions in the global economy.

CARE Ratings Views and Opinion

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 during FY18 was 3,392 KT.

- Production to be stable during Q2 and pick up further during Q3 & Q4.
- We can expect further capacity ramp-ups of aluminium smelters only when the coal availability and coal pricing becomes more stable.

Aluminium has been continuously finding new applications due to rising price competition 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 during FY18 was 2,088 KT.
- The growth in consumption is likely to be driven by the growth in power transmission and the automobile sector. Demand from the building & construction activities to pick up due to the affordable housing for all program whereas demand from the packaging sector is 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. Given the latest developments in the global markets with the sanctions imposed on Rusal and the embargo on Alunorte, **India has the opportunity to expand its aluminium and alumina exports 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 2,110-2,200 per tonne during the short to medium term period on a monthly basis.

- The aluminium prices will continue getting affected due to changing macros on account of trade/tariff wars which will impact the global demand supply dynamics.
- We can expect a price rise during the winter months as China will prepare for the 2018 winter cuts, to curb the on-going pollution problem in the country.

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