

Rising cost to defend price softening

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Analytical Contact:

Ms. Revati Kasture - Head - Industry Research

revati.kasture@careratings.com

(D): +91-22-6754 3465

Mr. Hitesh Avachat - Analyst

hitesh.avachat@careratings.com

(D): +91-22-6754 3447

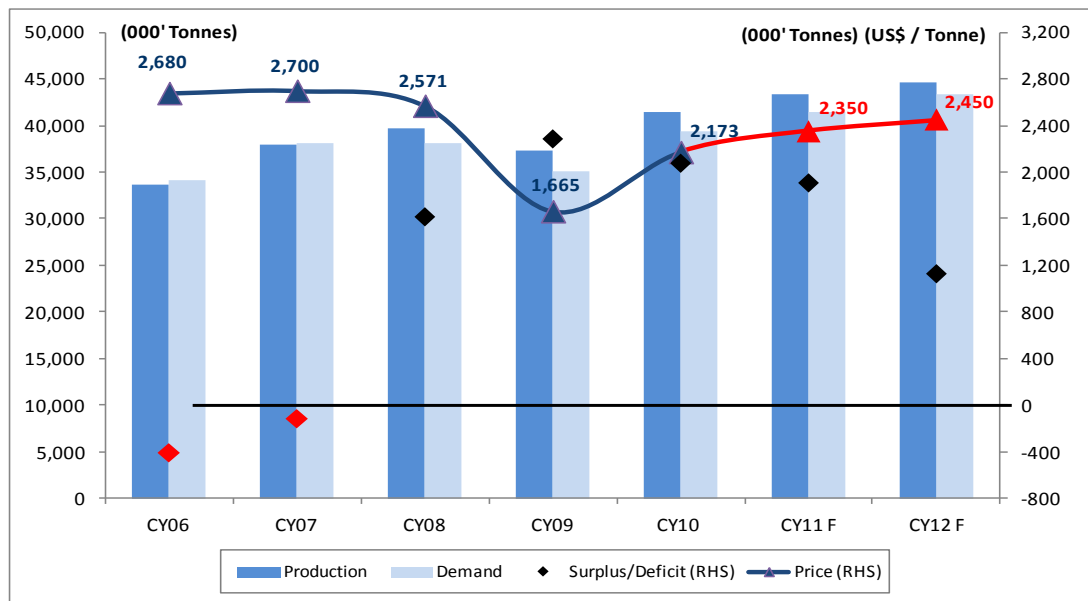
Subsequent to a sharp slowdown, global demand for aluminium during CY10 recorded a healthy growth of 12 % over CY09. The pick-up in demand and approvals of various stimulus plans by governments across the globe led to a substantial improvement in average global aluminium prices since June2010.

Apart from China and India which continued their consumption story, countries like the USA, Brazil and few of the European countries also witnessed an incisive rise in aluminium consumption. The short term bounce-back in demand and an improvement in global liquidity indicators helped aluminium prices to remain elevated until April2011. However, expectations of an uncertainty in global demand (owing to the reappearance of the European debt crises) halted the rising trend in global base metal

prices. Since then global base metal prices continued to soften and remained subdued till date.

Average global aluminium prices hovered around US\$2,300-2,400 per tonne during CY11. CARE Research expects average prices to improve further to around US\$2,400-2,500 per tonne during CY12. Increase in global cost curve, mainly on account of the rising power costs is likely to provide support at these price levels.

Global aluminium price forecast:



Note (000'Tonnes) – Thousand Tonnes. The actual prices refer to the average London Metal Exchange (LME) prices.

The RHS scale represents both the axis titles-Thousand Tonnes and US\$ per tonne.

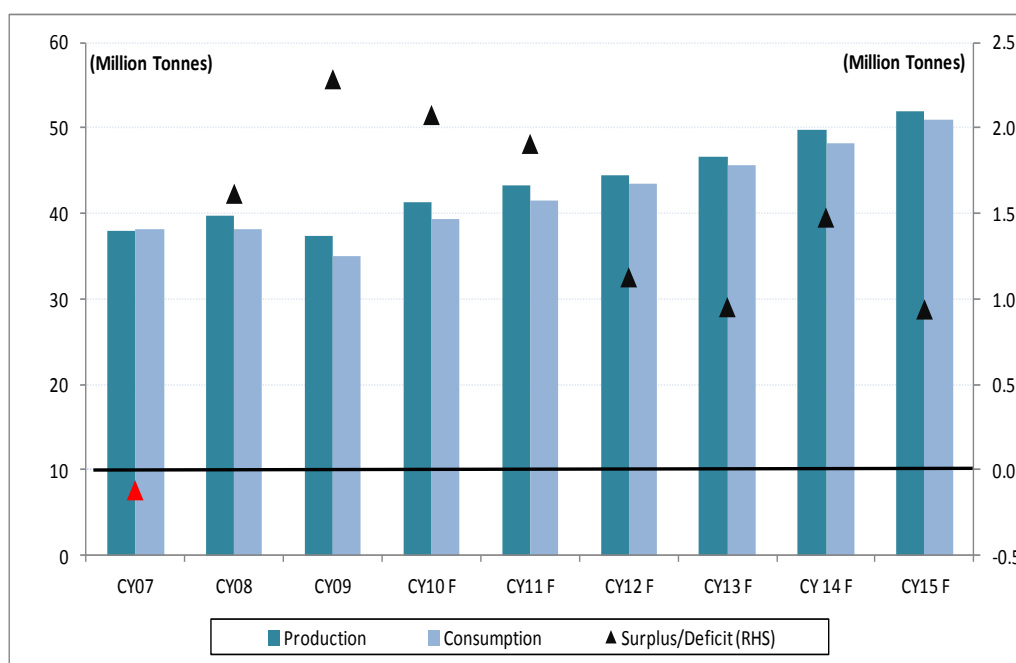
Source: CARE Research

Global demand growth to outpace growth in supply...

Swiftness of recovery in demand during CY10 significantly reduced the gap between global production and consumption of aluminium. The earlier fall in global metal demand, which prompted many companies to idle their capacities, gave an opportunity to the same players to restart their operations either fully or partially. In line with the robust growth in demand, the industry also witnessed a substantial increase in global production of aluminium. CY10 recorded a rise in primary aluminium production by about 11% when compared with CY09.

CARE Research foresees the global demand for primary aluminium to increase at a Compounded Annual Growth Rate (CAGR) of 5.3% during CY10 to CY15. China continues to dominate the global aluminium industry accounting for more than a third of both the global demand as well as the primary aluminium production. However, unlike the double digit growth recorded in the past few years, Chinese demand for aluminium is likely to get slower on account of tightening up of the monetary measures taken by the Chinese government to tame down inflation.

Global primary aluminium demand-supply balance:



Source: CARE Research

The fall in global demand of about 8% (CY09 over CY08) which caused global aluminium prices to plummet to as low as US\$1,260 per tonne (daily average spot prices) during CY09, witnessed a sharp cent percent correction on the upper side during CY10 with prices peaking as high as US\$ 2,460 per tonne (daily average spot prices). Witnessing an Y-o-Y (year on year) increase of about 30%, average global prices of aluminium increased from about US\$1,664 per tonne in CY09 to about US\$ 2,173 per tonne in CY10.

Since then, with the reoccurrence of uncertainty over the European debt crises and the rising inventory levels at the London Metal Exchange (LME), global aluminium prices have corrected from the yearly highs of US\$2,700 per tonne (April2011)

and are currently hovering at around US\$2100 per tonne. More than half of the producers who had cut down on their production during the recessionary phase have now already unwound themselves, thus increasing the metal supply.

India counts on exports, domestic growth to moderate

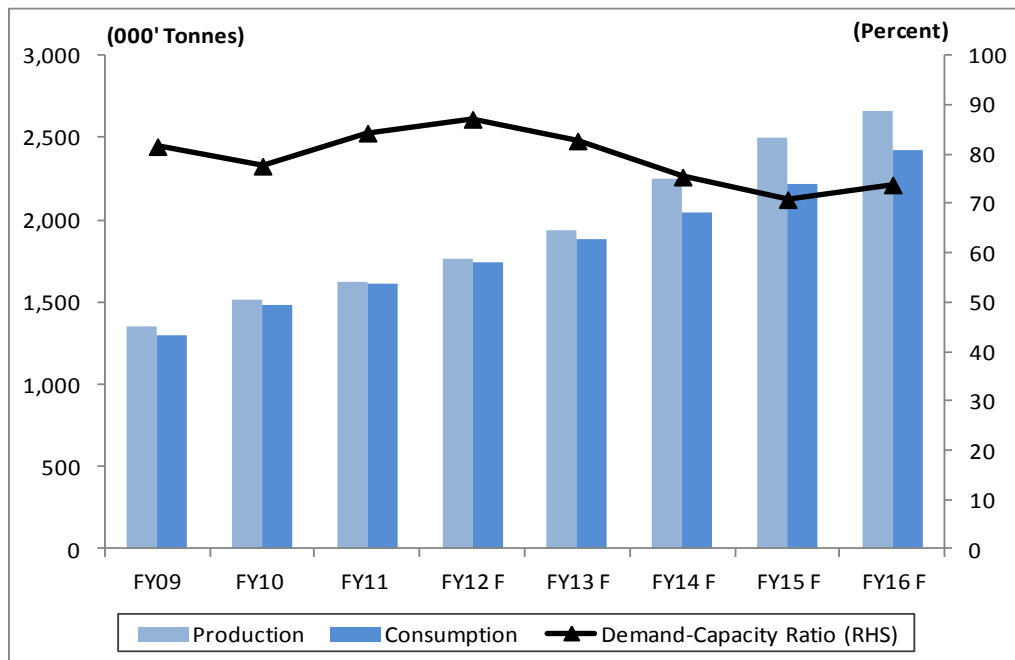
Domestic Demand drivers:

Domestic primary aluminium consumption growth witnessed a robust growth phase during FY02 to FY06 growing at a CAGR of 15%. During FY06 to FY11, the compounded annual growth in demand decelerated to 9.3% owing to the impact of global financial crises. The Indian primary aluminium industry has been closely following the robust growth in demand by increasing the domestic capacity at a CAGR of about 13% during FY02 to FY11. Domestic production also increased at a CAGR of 11% during the same period

CARE Research expects domestic aluminium demand to grow at a CAGR of about 8.5% during FY11 to FY16. Domestic demand is likely to grow to about 2.4 mn tonnes by FY16. Power, automobiles and the construction sectors, which contribute to about 50% of the domestic end-use consumption pattern, are likely to drive the domestic demand, followed by packaging and white good sector.

CARE Research expects the domestic aluminium smelter capacity to increase at a CAGR of about 11.4% during FY11 to FY16. The increase in domestic demand growth (upto 2.4 mn tonnes in FY15p), enables India to export around 50 to 200 thousand tonnes of aluminium annually in the next 3-4 years.

Domestic Supply exceeding demand:



Source: CARE Research

India counts on exports:

During FY02 to FY11, domestic primary aluminium smelter capacity increased at a CAGR of about 13%, while domestic consumption increased at a CAGR of about 12%. Owing to its competitive cost advantage rendered by its bauxite resources, most of the domestic aluminium producers are undertaking huge expansion of their smelter capacities.

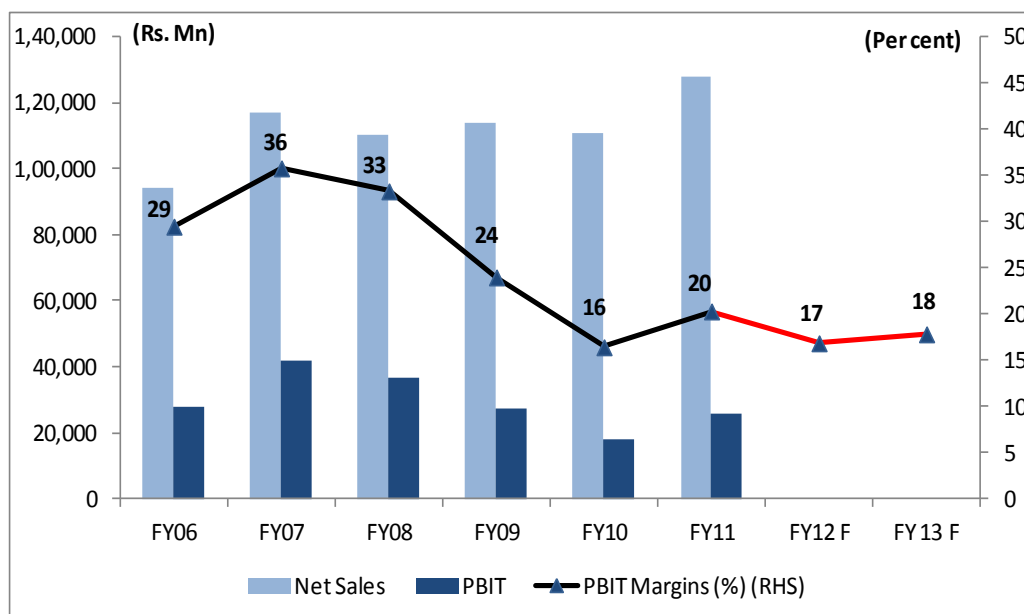
High quality bauxite ore, low labour and power costs, establishes India as one of the least cost producers of primary aluminium across the globe. Indian companies lie in the least quartile of the global primary aluminium cost curve.

Profitability to remain under pressure

After having peaked in FY07, margins (Profit before Interest and Tax) of the domestic aluminium producers witnessed a declining trend until FY10. The pick-up in global prices, helped producers better their margins during FY11. (domestic aluminium prices tend to follow the international aluminium prices as the domestic prices are based on the landed cost parity to the international prices).

Despite an expected average increase in the global aluminium prices, CARE Research expects the profitability of the domestic aluminium producers is likely to remain under pressure during FY12. Apart from an increase in raw material prices, increasing power cost mainly on account of the rise in coal prices continues to remain a major concern for the domestic aluminium industry.

Domestic player profitability:



Source: CARE Research

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