

Policy Paralysis Leaves Indian Aluminium Industry Vindicated

- Metalworld Research Team

Ambitious Target

In March 2012, the Union government set an ambitious aluminium production target at 2.06 million tons for the financial year 2013 without stepping up efforts to clear the hurdles. Neither mining approval was granted to Anil Agarwal controlled Vedanta Aluminium (VAL) at its farsighted Niyamgiri Hills in Odisha, nor Hindalco Industries could commence bauxite excavation to feed its captive refinery and smelter at Mahan in Madhya Pradesh. Still, Indian aluminium producers could achieve 1.72 million tons of output in the financial year 2013, 16.5 per cent lower than the target and a marginal 3.52 per cent higher than the output recorded in the previous year. “While non-availability of bauxite on time for some of the units has crippled production, falling global prices also shared its bit for not achieving production targets,” said Dinsha Patel,

Union Minister of Mines in an interview.

“Most importantly, at the current prevailing price of aluminium on the London Metal Exchange at \$1950, most of aluminium producers in India incur losses due to higher cost of production. Hence, Indian producers reduced their activities,” he added.

With an expected recovery in price, the trend is likely to become favourable in the second half of the current financial year (October 2013 – March 2014), though.

ALUMINIUM OUTPUT (TONS)			
Producer	2012-13	2011-12	Variance (%)
Nalco	403,384	413,000	(-) 2.33
Balco	248,239	246,000	0.91
Hindalco	541,531	574,000	(-) 5.66
VAL	528,377	430,000	22.87
Total	17,21,531	16,63,000	7.59

Source: ICRA

BAUXITE OUTPUT (MILLION TONS)		
Financial Year (Apr – Mar)	Quantity	Variance (%)
2010-11	12.18	(-) 9.2
2011-12	12.95	6.3
2012-13	16.70	28.9

Source: ICRA



Future Prospects

Captive bauxite and coal mining constraints adversely affect growth of the domestic primary aluminium industry; capacity expansion projects are likely to be affected at least for a short term. The industry warrants government support urgently.

The government's inability to remove roadblocks for bauxite mining in the form of environmental clearance, Naxalism and protection of tribal rights, have hit India's aluminium industry hard. Not visible on paper, though, these hurdles are set to worsen the growth of Indian aluminium industry in future. Primary aluminium producers including National Aluminium Company (Nalco), Hindalco Industries, Bharat Aluminium Company (Balco) and Vedanta Aluminium (VAL) have reported higher output in 2012-13 despite severe problems faced by them. From closure of Nalco's pots in Odisha, Balco's deferment of capacity expansion in Korba (Chhattisgarh) to delay in Hindalco's Mahan smelter, business environment has become unfavourable for aluminium industry in India. Burgeoning current account deficit (CAD) to the level of 5.7 per cent of the gross domestic products (GDP) and depreciating Indian rupee have feared new expansions in industrial projects. Housing and infrastructure have already been facing huge shortage of fresh investments. Hence, the growth in the domestic aluminium consumption looks lukewarm. But, primary producers continued to grow. Industry insiders believe that their growth would be capped as they have reduced unreported stocks at around 5 per cent now from over 30 per cent of total production until few years ago.

As expected, the public sector National Aluminium Company (Nalco) and Hindalco Industries - reported lower metal output. Operation at Nalco's smelter in Angul, Odisha, was hit due to coal shortage as its sole supplier the public sector Mahanadi Coalfields Ltd declared closure of the plant due to an accident. Currently, this plant is operating with hardly 75 per cent of its 460,000 ton per annum of installed capacity. Nalco has not evinced interest in procuring coal either from overseas or other local suppliers at higher costs. According to Nalco's production Director S S Mohapatra, the company will review the situation and consider using imported coal to increase the output once aluminium price achieves \$2200 a ton level on the London Metal Exchange (LME). Clearly, the company would incur the loss of around \$250 a ton if it uses imported coal. Post closure of 100,000 tons old smelter, the installed capacity of

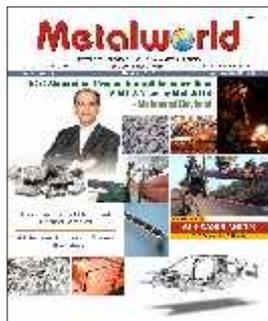
Vedanta Group controlled Bharat Aluminium Company (Balco) has reduced to 245,000 tons. The company achieved a total aluminium output of 247,000 tons as against the targeted production of 360,000 tons during the financial year 2012-13. Another Vedanta Group company Vedanta Aluminium (VAL) recorded a total metal output at 433,000 tons out of the projected production at 666,000 tons. Faced with reduced supply of bauxite from domestic miners, the company has been operating largely with imported raw material.

Hindalco Eyes Consumption Sectors

With an output at 541,331 tons against the target of 607,000 tons, the Aditya Birla Group's aluminium behemoth Hindalco Industries is eyeing consumption sectors for future growth. D Bhattacharya, Managing director of Hindalco Industries, said, "India's aluminium industry is growing at double-digits. But what is carrying that consumption is very different from the

global pattern. For instance, electrification is matured and complete in almost every developed market. Here, electrification is a big market and 40 per cent of aluminium in India goes to the conductor sector. Therefore, this growth will continue for at least seven-10 years more."

A recent report by CRU International said that urbanization in emerging nations is also boosting aluminum demand. In India, demand for the metal is growing 11 to 12 per cent a year particularly due to rapid electrical sector growth as new aluminum-bearing transmission lines are being built, said Hindalco's chief marketing officer, Sachin Satpute. Hindalco is investing \$9 billion to boost alumina output and triple its primary aluminum capacity to 1.8 million tons a year in an expansion to be completed 2015, which will also involve new rolling mill capacity to meet demand from sectors including energy, transport and packaging. ○○○



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