

Low Metal Prices Affect Upstream Aluminium

- DEBU BHATTACHARYA

Debu Bhattacharya heads the Aditya Birla Group's Metals Business, and is the Managing Director of Hindalco Industries Ltd. He is also the Chairman of Aditya Birla Minerals Limited, a wholly-owned copper subsidiary of Hindalco in Australia. Mr. Bhattacharya joined the Aditya Birla Group in 1998 as Managing Director of Indo Gulf Corporation, after a 30-year long career in Unilever, where he held various senior level positions across its global operations. Under his leadership, Hindalco's turnover has grown nearly 40 times over a decade at a CAGR of 40%.

Mr. Bhattacharya is the recipient of the prestigious "IIM-JRD Tata Award 2011" for Excellence in Corporate Leadership in Metallurgical Industries. He also achieved the "Corporate Excellence Award 2010" for his outstanding leadership & innovative approach in ensuring global excellence of The Indian Aluminium Industry. IIT Kharagpur has conferred upon him the "Distinguished Alumnus Award - 2012" on the occasion of the Institute's Diamond Jubilee completing Foundation Day. Mr. Bhattacharya has completed his B. Tech (Hons.) in Chemical Engineering from IIT, Kharagpur and B. Sc. (Hons.) in Chemistry from Presidency College, Kolkata.

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vagaries of the metal prices" says, **D. Bhattacharya, Managing Director of Hindalco Industries Ltd.** in an exclusive interview with **Metalworld**. Excerpts

How have falling metal prices affected Hindalco Industries?

- The sharp fall in metal prices has affected our upstream Aluminium business in India. Despite strong operational performance in Aluminium operations, margins have eroded on account of the decline in metal prices. However, the conversion businesses in our portfolio, i.e. Copper business in India and Novelis (global Flat-rolled products or FRP business) are largely immune to the vagaries of the metal prices. In fact, Hindalco's overall business portfolio has been consciously built over the years to have a balance between high-margin & volatile upstream business and

steady-margin conversion businesses; and this balanced portfolio approach has served us well during the downturn in commodity prices.

Metals prices are expected to remain subdued in 2016 due to the lack of demand. Have you re-worked your strategy to protect your margins?

- Actually, the demand for Aluminium has been quite healthy and is growing both internationally and in India. However, prices have been subdued because of the risk-off sentiment in the commodity markets and because of the surplus situation in the global Aluminium industry. All projections are pointing towards global aluminium demand-

supply situation turning into a deficit from 2017 onwards. Therefore, we believe that aluminium prices could be close to bottoming out now. We have been deploying various measures to protect our margins in the low pricing environment. This mainly includes savings in logistics costs and procurement costs, strong focus on operational efficiencies and conservation of cash. These measures have already started showing encouraging results.

Will you change your product mix going forward?

- Enriching the product-mix is an ongoing focus across our businesses. We have set up new facilities - Hirkud FRP factory and



Mouda Foils factory in the recent past to enhance our capacity and capability in the downstream business. These factories are in the process of ramping up and stabilization. At Hirakud FRP factory, we aim to produce canbody stock, and this will be the first facility in India to do so. We have increased our production of wire rods and billets. We have converted our Belgaum refinery from metal-grade alumina to special-grade alumina. In our downstream factories, we are continuously looking at how we can replace higher-end imports by developing in-house capabilities. Thus, the product-mix has improved over the years, and this process will continue.

Could you please throw some light on global aluminium industry and its prospects going-forward ?

- Demand for aluminium continues to grow. In fact, I won't be surprised if it accelerates further, considering the trend of light-weighting of vehicles that is deepening in the developed markets. We will see more and more aluminium replacing steel in the vehicles. Global supply has also increased rapidly over the last few years, creating a surplus situation in the market. These capacities have mainly increased in China, Middle East and India. However, with the aluminium prices ruling at very low levels, many of the old, less efficient capacities are closing down. Over the next year or so, we should see the idling of such capacities gathering momentum. That would eventually lead to a correction in aluminium prices. Therefore, notwithstanding the current situation of excess capacity and low prices, I am very positive on the long-term prospects for aluminium, particularly looking at the demand growth.

China has announced cut in copper production ? Do you see this as an opportunity for Hindalco to ramp-up smelter capacity ?

- Over the last few years, we have ramped

up the production of copper at our Dahej factory, primarily through debottlenecking. Decision to undertake further expansion of copper smelter capacity will depend upon many factors, like the raw material security, overall economics of converting copper concentrate into copper, evacuation possibilities for some of our by-products, and, of course, the overall investment appetite of the company. While we will - at some point - definitely look at ramping up our copper smelting capacity, I do not think that to happen in the immediate term.

Aluminium inventory has declined sharply over the last few years on the LME. Also, major global producers have announced production cut due to falling prices. Do you anticipate a rebound in metals prices as a consequence ?

- Yes, certainly. The ongoing closures will finally create a situation of deficit in the market and push up the prices. In fact, various analysis indicate that nearly one-third of the global capacity is bleeding at the current level of realization. Such a situation cannot be sustained for very long. We will definitely see a rebound in metal prices, especially once the macro-economic environment for the commodities improves.

Almost 70% of Indians are residing in rural and semi-urban areas. What are the key Rural Marketing Initiatives Hindalco has undertaken?

- Hindalco's "Everlast" Aluminium roofing sheet is an excellent example of our concentrated efforts in addressing the need of light weight, durable and corrosion-resistant roofing solutions to the rural market segments in India. "Everlast" is fast emerging as a popular choice of roofing for many Rice mills, Tea factories, Poultry farms, warehousing sheds, school and factories. In Assam, we

support the government initiated "Sarva Shiksha Abhiyan" – new school buildings under this scheme. Also "Mid-Day Meal scheme" for school children in Assam uses "Everlast" aluminium roofing sheets for kitchens attached to the school premises. In Bihar, Everlast is being used in Indira Awas Yojna-a government initiative.

Innovation is a new buzz word across Industries. Kindly share your views towards Innovations efforts & new product development at Hindalco ?

- Hindalco has been pioneering new products and applications' development in India over the years in all the key growth segments under the various "Market Driving Initiatives". Hindalco's business model of having a strong presence in Downstream Value Added Products along with Upstream Metal capacity helps in promoting various Aluminium applications in the country.

Hindalco has a dedicated market development team which promotes and develops new applications and products in India. The Market development team works closely with Innovation Centres in Hindalco and Aditya Birla Science & Technology Centre (ABSTC) to develop new products and applications.

Innovation, New product and Application development (INPAD), is a way of life at Hindalco. We have developed a web-based Innovation Platform for capturing new ideas to promote new Aluminium applications. Hindalco's dedicated team of Market Development, R & D and Innovation centres, works very closely with the End-User Industry and the government to develop new products and applications.

Currently, over 50 new projects have been identified which will contribute to the growth of Aluminium in India, and thereby, increase India's per-capita consumption of Aluminium.