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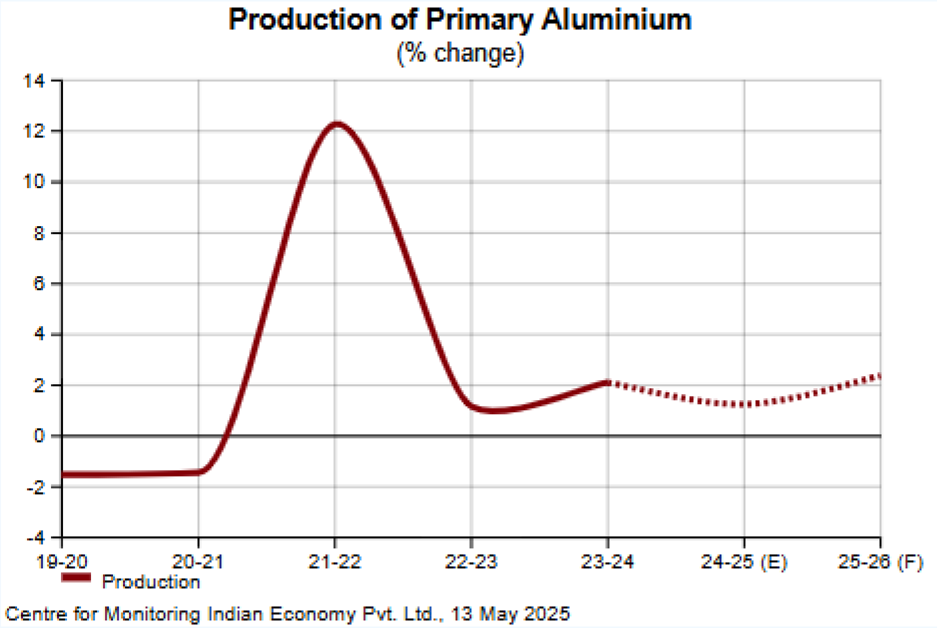
Primary aluminium production to grow at modest pace

Lower exports and increased competition from recycled aluminium to dent growth

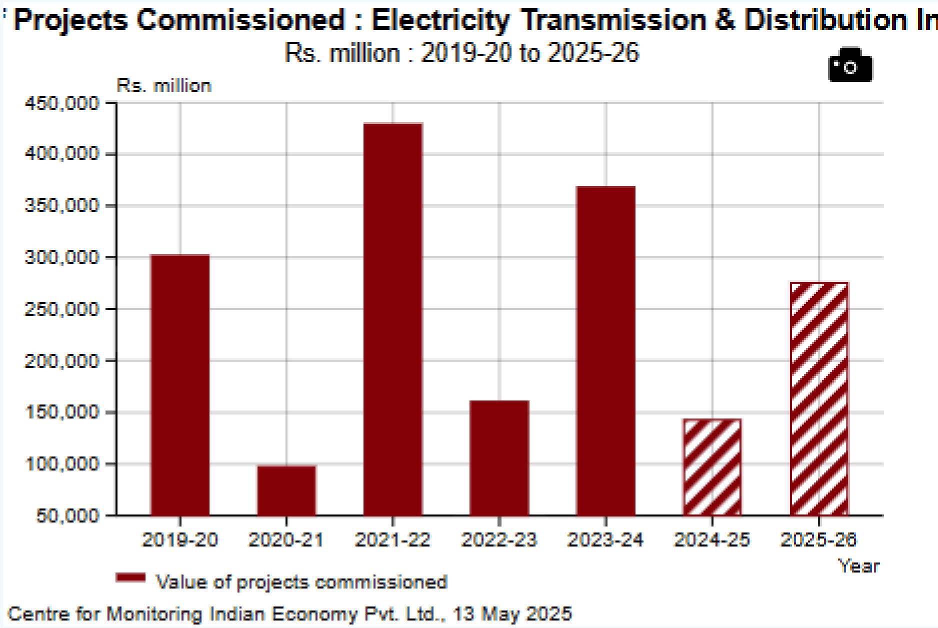


The production of primary aluminium is expected to grow at a modest pace in the financial year 2025-26. This will mark the fourth consecutive year of moderate growth in primary aluminium output. While aluminium prices continue to rise and reach new highs, the demand for primary aluminium is beginning to ease and the demand for recycled aluminium is gaining traction. An expected drop in exports is also likely to impact the production levels of the metal during the year.

Primary aluminium output rose by 12.3 per cent to almost four million tonnes in the year 2021-22. The production volumes rose after falling in the previous two financial years 2019-20 and 2020-21 on account of lower demand and shutdown of operations at aluminium plants due to the Covid-19 pandemic lockdown. As industrial and construction activities resumed following the lifting of Covid restrictions, the demand for aluminium surged, resulting in a significant 12.3 per cent growth in primary aluminium production during 2021-22.

In the subsequent years, 2022-23 and 2023-24, output grew at a modest pace, ranging between 1-2 per cent. A similar growth trend is estimated for 2024-25. Primary aluminium production is expected to grow at a steady rate of around 2.4 per cent in the current financial year 2025-26.

Demand for aluminium in the domestic market is expected to remain strong in the ongoing financial year 2025-26. Demand for aluminium stems from sectors such as electrical, automobile & transport, construction, consumer durables, machinery & equipment and packaging. According to the Ministry of Mines, these sectors hold around 48 per cent, 15 per cent, 13 per cent, seven per cent, seven per cent and four per cent share, respectively, in the overall aluminium consumption in the domestic market.

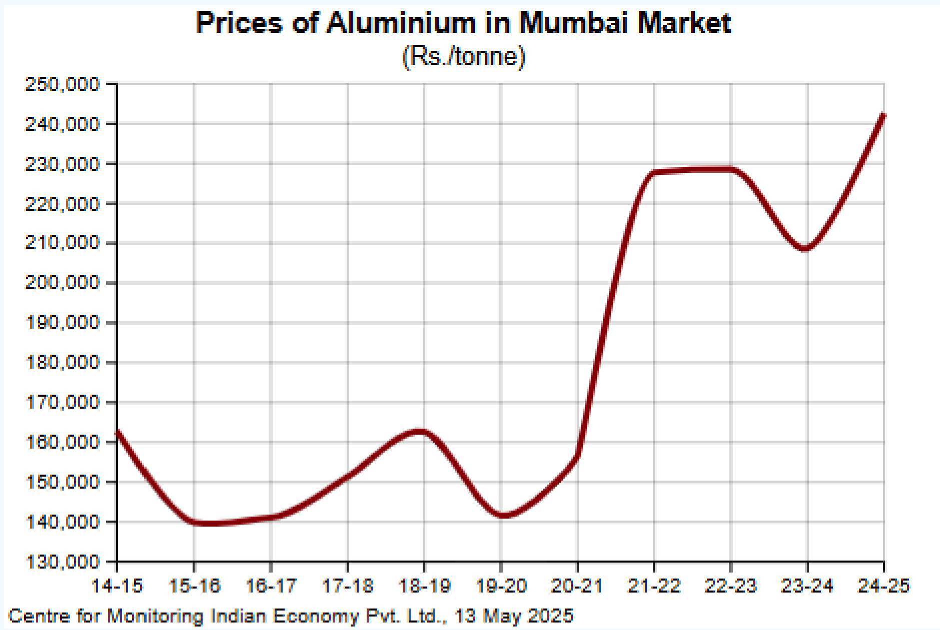


Nearly half of all aluminium production is consumed by the electrical sector, which uses the metal in the making of overhead conductors, power cables, switchboards, coil windings, capacitors and other electrical equipment. The electricity generation industry, especially the renewable energy sector, will witness a surge in capacity additions this year. Renewable energy sector is expected to add 18.1 gigawatts of capacity this year, higher than previous year's estimated capacity addition of 12.3 gigawatts. Meanwhile, project completions in the power transmission and distribution sector are expected to nearly double to Rs.275.3 billion in 2025-26 when compared to last year. As India is the third-largest producer and consumer of electricity in the world, the demand for electrical equipment is set to remain high going forward, benefiting the aluminium market.

Other user industries such as automobile, construction, consumer durables and packaging are also expected to record growth in their production and project completions in 2025-26. Automobile production is projected to grow by 4.2 per cent this year over an expected 8.4 per cent growth in 2024-25. Project completions in the real estate sector are expected to almost double to a whopping Rs.910 billion in 2025-26, reflecting a rise in construction activities. Consumer durables and packaging billion in 2025-26, reflecting a rise in construction activities. Consumer durables and packaging sectors, too, are likely to perform well due to factors such as growing population, rise in income levels and increasing government initiatives to support local manufacturing.

With user industries performing well, demand for aluminium and aluminium products is deemed to continue its upward march in the year 2025-26.

Despite high demand, the output of primary aluminium is likely to grow at a modest pace this year. This is due to the record-high prices of aluminium in the domestic market, which will subsequently drive demand for recycled aluminium or secondary aluminium in place of primary aluminium.



Domestic prices of aluminium ingots peaked in March 2025, recording a staggering 25.6 per cent rise when compared to the year-ago month. The primary aluminium prices surged by 16.2 per cent to Rs.242.6 per tonne during 2024-25.

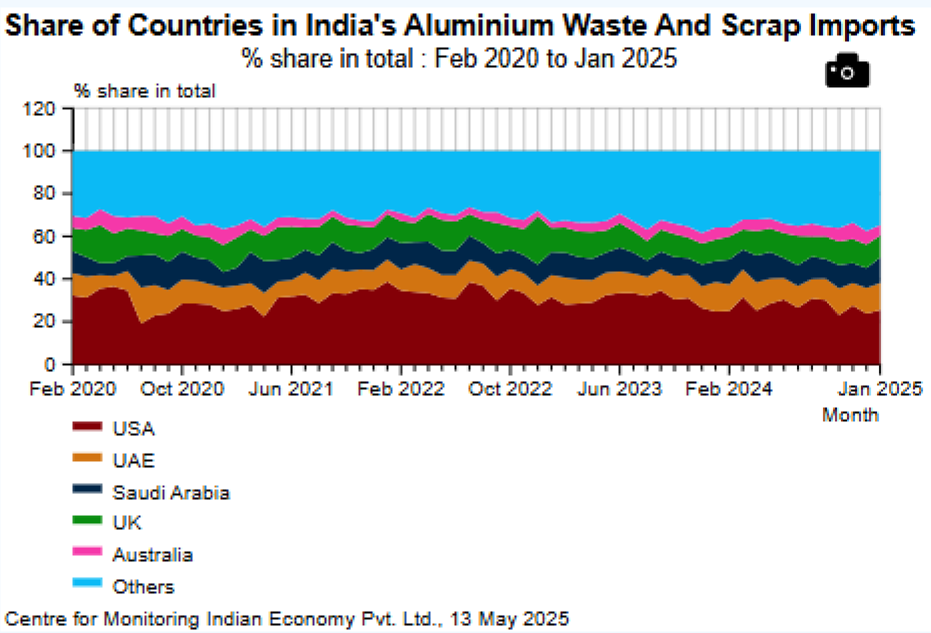
The demand for aluminium in India is either met through primary aluminium or secondary aluminium. While primary aluminium is produced from alumina which is refined from bauxite, secondary aluminium is produced from aluminium waste and scrap.

Recycling of aluminium offers a low-energy and emission-free alternative to primary aluminium production. Secondary aluminium can be produced from aluminium scrap with only five per cent of the total energy used to produce the metal from bauxite ore. Recycling process also saves the direct and indirect greenhouse gas emissions associated with primary production of aluminium, according to the International Aluminium Institute (IAI).

Secondary aluminium is produced at lower costs compared to primary aluminium which uses coal to power smelters. Hindalco Industries' power cost as a percentage of sales accounted for 11 per cent during 2023-24. For smaller peers like National Aluminium Company (Nalco) and Bharat Aluminium

Secondary aluminium is produced at lower costs compared to primary aluminium which uses coal to power smelters. Hindalco Industries' power cost as a percentage of sales accounted for 11 per cent during 2023-24. For smaller peers like National Aluminium Company (Nalco) and Bharat Aluminium Company (Balco), power costs accounted for almost 26 per cent of their net sales. On the contrary, the power cost of companies like CMR Green Technologies and Can-Pack India, which use recyclable aluminium, was much lower at 1.8 per cent and 9.8 per cent, respectively, during 2023-24.

The current differential duty structure is further causing a shift from using primary aluminium to scrap aluminium. Aluminium scrap is majorly imported as it is not available sufficiently in the domestic market. The customs duty on imported aluminium scrap is 2.5 per cent, while the duty on primary aluminium stands at 7.5 per cent. As a result, it is more cost-effective to import aluminium waste and scrap rather than using primary aluminium for production. Import quantity of aluminium waste and scrap increased by 1.8 per cent in 2023-24, after rising by 4.4 per cent and 21.4 per cent in the previous two financial years 2022-23 and 2021-22, respectively. The import quantity rose by 0.8 per cent year-on-year in the first 10 months of the year 2024-25. The slow down in growth was due to a 12.4 per cent fall in aluminium waste and scrap shipments from the US.



The United States (US) government increased the tariff on aluminium imports from 10 per cent to 25 per cent for all countries, with effect from 12 March 2025. This move is expected to tighten the supply of aluminium within the US, given the country's heavy reliance on foreign sources for the metal. According to a Reuters' report, roughly half of all aluminium used in the US is imported. A tariff-induced reduction in metal supply will increase the US's reliance on domestic aluminium scrap to meet internal demand. This will reduce the volume of aluminium scrap available for export. The US accounted for nearly one-fourth of India's total aluminium waste and scrap imports in the first 10 months of the year 2024-25. We expect a year-on-year reduction in aluminium waste and scrap shipments from the US going forward. However, to total aluminium waste and scrap imports in the first 10 months of the year 2024-25. We expect a year-on-year reduction in aluminium waste and scrap shipments from the US going forward. However, to meet the growing demand for secondary aluminium, India might increase aluminium scrap imports from other countries like UAE, Saudi Arabia and the UK.

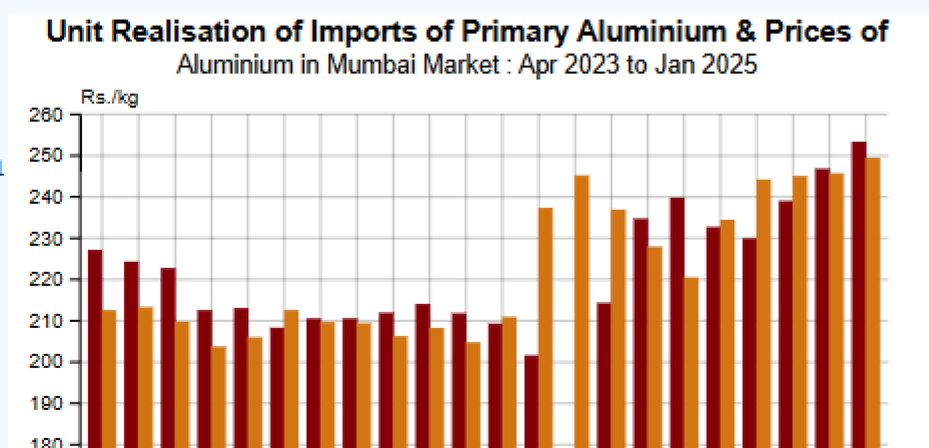
The unit realisation of imports of aluminium waste and scrap rose by 10.7 per cent year-on-year in the first 10 months of the year 2024-25 to an average of Rs.181,700 per tonne. Meanwhile, domestic price of aluminium ingots surged by 14.1 per cent in the same period to an average Rs.238,440 per tonne. Metal prices are expected to continue to keep rising in the financial year 2025-26. Thus, Indian companies find it cost-effective to import aluminium scrap for producing aluminium and aluminium products instead of buying high-priced aluminium in the domestic market. This will impact demand for primary aluminium, thereby restricting growth in its production volumes in the current year.

Besides aluminium scrap, a rise in imports of primary aluminium is also expected to impact the domestic production of the metal in the current financial year 2025-26.

Cheap imports to continue to impact output

The import volumes of primary aluminium are expected to grow by a modest 2.4 per cent in the current financial year 2025-26. This growth will come over an 8.7 per cent growth expected in the previous year. Over one-third of the total primary aluminium shipments come from Malaysia, with whom India has a free-trade agreement. The unit realisation of imports of primary aluminium from Malaysia rose by 3.2 per cent year-on-year in the first 10 months of the year 2024-25 to an average Rs.222,200 per tonne. Meanwhile, domestic price of aluminium ingots surged by 14.1 per cent in the same period to an average Rs.238,440 per tonne. This year, too, is expected to witness an influx of cheaper imports.

More than half of the aluminium used in the U.S. is imported from Canada. The UAE, Argentina, Bahrain and South Africa are other major suppliers of raw aluminium to the US, according to the Observatory of Economic Complexity (OEC), an online data visualisation and



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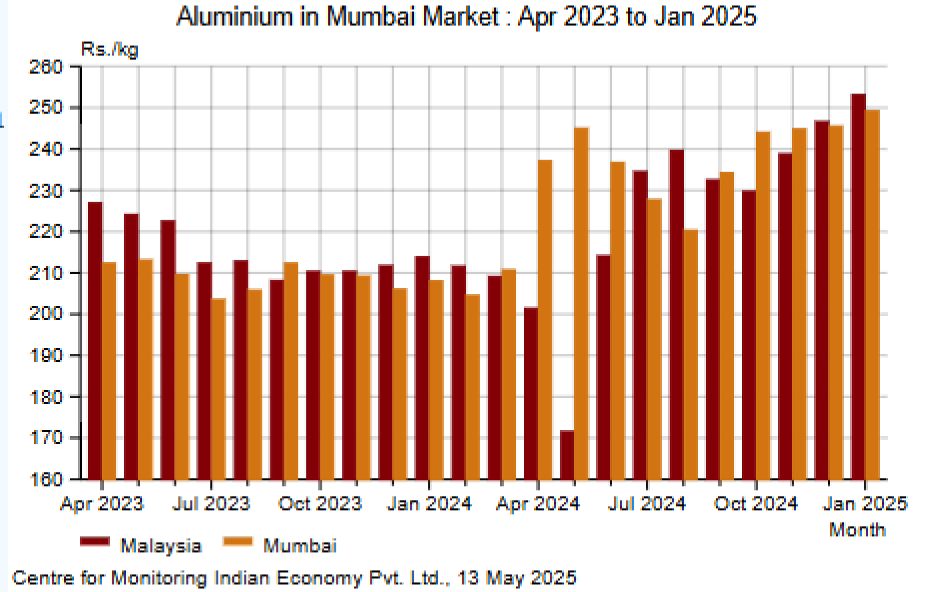
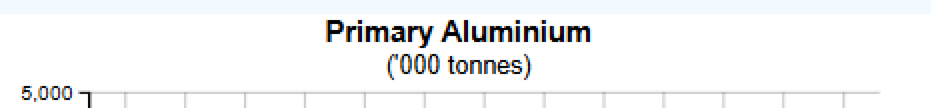


Peak capacity utilisation and steady growth in demand for primary aluminium are likely to further increase imports of the metal in 2025-26. Vedanta, which holds around 43 per cent of the share in the total aluminium smelting capacity, is expected to have breached the preceding year's production level in 2024-25. The company produced 1,781 thousand tonnes of aluminium as against a capacity of 1,800 thousand tonnes in 2023-24, thereby working at almost 99 per cent of its installed capacity. Vedanta's production volumes rose by 2.8 per cent year-on-year in the first 11 months of the year 2024-25. Similarly, Hindalco Industries is also expected to have breached its preceding year's production level in 2024-25, working at almost 98 per cent of its installed capacity. Alike the preceding year, Balco and Nalco are likely to have worked at 100 per cent of their capacities in 2024-25. The companies' production volumes remained at their year-ago levels in the first 11 months of 2024-25.

An expected rise in cheap imports will directly impact the demand for primary aluminium, thereby restricting the production growth of the metal in 2025-26.

Surplus in global market to reduce aluminium exports



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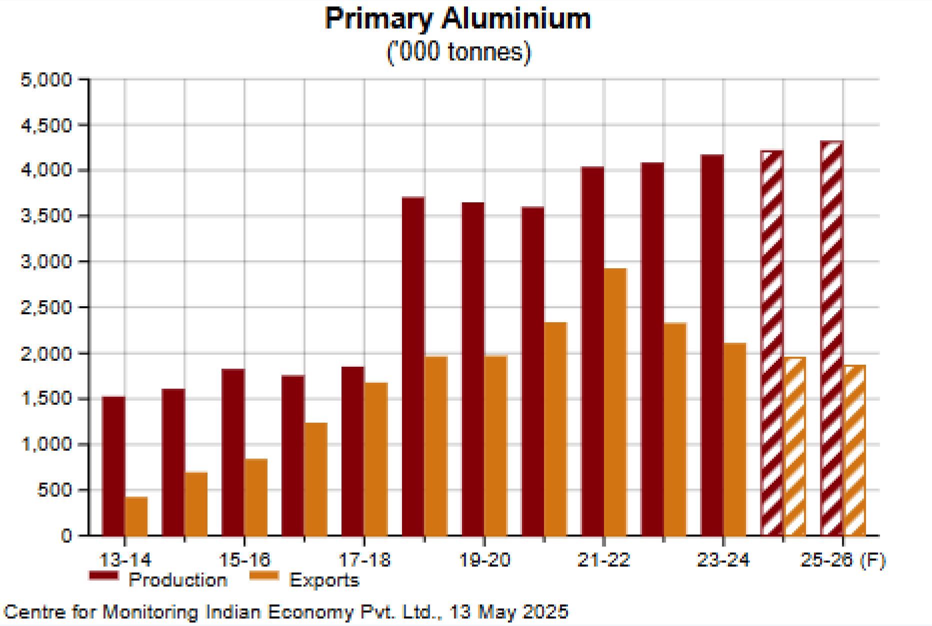

India, the world's second-largest producer of aluminium, exports almost half of its total production to other countries. However, the share of exports in total primary aluminium production has declined over the past three years. The industry exported 72.4 per cent of primary aluminium produced in the year 2021-22. The share fell to 56.8 per cent and 50.5 per cent in the following years 2022-23 and 2023-24, respectively. The share is likely to further drop to 46.3 per cent in 2024-25. Export volumes plummeted due to global factors such as excess supply over muted demand, sanctions on Russia following the Ukraine war in 2022, the introduction of the Carbon Border Adjustment Mechanism (CBAM) by the European Union in 2023 and an increase in supply from China.

The United States (US), European Union (EU) and other countries imposed sanctions on Russian aluminium following its invasion of Ukraine in February 2022. In 2023, the EU launched the transitional phase of the Carbon Border Adjustment Mechanism (CBAM), a policy wherein the importers in the EU must pay additional charges on certain goods imported from carbon-intensive producers outside the EU. As aluminium production is a carbon-intensive process, the CBAM policy reduced India's exports to EU countries such as Greece, Netherlands, Italy, Spain and France to name a few. India exported almost 28.6 per cent of its total primary aluminium shipments to EU countries in 2022-23. The share of these countries is expected to plummet as the policy's definitive phase kicks in 1 January 2026. During the definitive phase, EU importers will be required to purchase and surrender CBAM certificates to cover the embedded emissions in imported goods.

India's total primary aluminium exports fell by 4.2 per cent in the first 10 months of the year 2024-25. During the year, the US government imposed a 25 per cent tariff on aluminium imports and the

India's total primary aluminium exports fell by 4.2 per cent in the first 10 months of the year 2024-25. During the year, the US government imposed a 25 per cent tariff on aluminium imports and the Chinese government ended its export tax rebate policy for the metal. Although India's primary aluminium exports to the US are marginal, an expected dumping of the metal from tariff-affected countries will reduce India's overall exports. China, which accounted for over six per cent of India's primary aluminium exports in 2023-24, is expected to increase aluminium scrap usage and its imports due to the elimination of export tax rebate and bauxite shortages. These factors, along with the EU's CBAM policy and the ongoing Russia-Ukraine war are likely to affect the high-priced primary aluminium demand in the global market.

Political tensions between major global shipping hubs such as China, the US and Russia will continue to impact prominent logistics and transport routes worldwide like the Panama Canal, Red Sea, and Silk Route. The supply chain disruptions will continue to keep freight costs higher, thereby impacting the total exports of the metal going forward.

We expect the primary aluminium shipments from India to drop by 4.5 per cent in 2025-26, on top of a 7.1 per cent drop expected in the previous year 2024-25.

Aluminium prices to remain elevated in 2025-26

Reduced metal supply from China and geopolitical issues are likely to put upward pressure on aluminium prices. China has ended its export tax rebate policy for aluminium, with effect from 1 December 2024. Further, the country's annual aluminium production averaged 44 million tonnes from January to March 2025, just a million tonne short of the 45 million tonnes cap set in 2017. This leaves limited growth potential for Chinese production in the future. The capacity cap also means that the country will become a net importer of aluminium. These changes are likely to result in reduced aluminium supply from China, the world's largest exporter of the metal, resulting in a global shortfall. This will drive aluminium prices higher in the ongoing financial year.

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Record-high prices of alumina, a key input used to produce aluminium, led to the surge in the prices of aluminium in 2024-25. After peaking at USD 803 per tonne in 2024, alumina prices fell from USD 672 per tonne at the beginning of the year 2025 to USD 425 by the end of March 2025, according to the data published by the London Metal Exchange (LME). In 2025-26, alumina prices are expected to be lower compared to the previous year due to the ramp-ups in new refinery capacities across Asia. Alumina supply is set to increase in the global market with the commissioning of new alumina refineries in Indonesia, Vietnam and China. This will restrict the increase in aluminium prices in the current financial year.

Prices of Aluminium in Domestic Market

Year	Mumbai Ingot Prices	
	Rs./tonne	% change
2020-21	156,732.7	10.72
2021-22	227,703.3	45.28
2022-23	228,528.3	0.36
2023-24	208,675.0	-8.69
2024-25 (E)	242,558.9	16.24
2025-26 (F)	247,684.0	2.11

The domestic price of aluminium ingots is projected to rise by 2.1 per cent in 2025-26. This growth will come over and above the 16.2 per cent growth seen in the previous financial year.

Production, Imports and Exports of Primary Aluminium

Year	Production		Imports		Exports	
	'000 tonnes	% change	'000 tonnes	% change	'000 tonnes	Y-o-Y % change
2020-21	3,586.0	-1.44	265.1	-0.51	2,324.3	18.52
2021-22	4,026.0	12.27	213.6	-19.43	2,914.6	25.40
2022-23	4,073.0	1.17	279.5	30.83	2,314.2	-20.60
2023-24	4,159.0	2.11	363.0	29.89	2,099.6	-9.27
2024-25 (E)	4,210.9	1.25	394.7	8.74	1,950.1	-7.12
2025-26 (F)	4,310.8	2.37	404.2	2.41	1,862.7	-4.48