

Price volatility takes sheen off aluminium firms' capex

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Companies in the aluminium sector like Vedanta and Novelis, which is Hindalco's US subsidiary, are pruning their capital expenditure (capex) needs for the current financial year (FY23) as high cost of production and volatility in global aluminium prices force players to redraw their plans.

Vedanta's investor presentation for the September quarter shows that the company has trimmed its capex guidance for the aluminium and power division by 40 per cent (\$1 billion to \$0.6 billion). This has impacted Vedanta's overall capex guidance for FY23 which is down by 20 per cent (\$2 bn to \$1.6 bn).

Novelis, which makes aluminium products for the packaging, automotive and construction sectors in the US, has reduced its FY23 capex outlay from \$1.3-1.6 billion to \$900 million-\$1 billion, a 30-37 per cent drop, amid high energy prices as well as a fall in global aluminium prices.

The price of aluminium has come down from the highs of \$4,000 per tonne in March 2022 to nearly \$2,400 per tonne, a slide of 40 per cent, according to data sourced from the London Metal Exchange (LME).

High energy prices, on the other hand,



have taken a toll on the profits of most commodity-led firms including base metals in the July-September period. Experts say that while management commentary of most firms suggests that the second half of FY23 could be better than the first half in terms of cost of production, the ongoing Russia-Ukraine war and its impact on supply chains

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Vedanta capex guidance for FY23 (in \$ bn)

Units	Original guidance	Revised guidance	% change
Aluminium & power	1.0	0.6	-40

Novelis capex guidance for FY23 (in \$ bn)

Units	Original guidance	Revised guidance	% change
Aluminium	1.3-1.6	0.9-1	-30

Hindalco capex guidance for FY23 (in ₹ cr)

Units	Original guidance	Revised guidance	% change
Aluminium	3,000	2,500	-16.66

Novelis is the US subsidiary of Hindalco
Hindalco capex is for the domestic or India aluminium business
Source: Company/Analysts

offers little respite.

The domestic business of Hindalco, meanwhile, which had lined up a capex of around ₹3,000 crore at the start of FY23, will now achieve a capital expenditure of ₹2,500 crore, the company said. This comes amid a delay in getting clearances and equipment for projects, Satish Pai, managing director,

Hindalco, said.

"There has been no cancellation of capex projects in India as domestic demand is extremely strong. In the US too, demand is holding up quite well, especially in aluminium beverage cans, which is recession-proof. Having said that, we are recalibrating our capex needs in line with our free cash flows as we do not intend to borrow for expansion," Pai said.

In a call with analysts, Vedanta's Chief Executive Officer Sunil Duggal said that the company was on course to touch an overall aluminium capacity of 3 million tonnes per annum (MTPA) by the second half of FY24 from 2.4 MTPA now. He pointed to an expansion of 1.8 MTPA that the company had recently completed at its Jharsuguda aluminium unit in Odisha to drive home the point of steady capacity enhancement by the firm.

But analysts remain cautious in their outlook on aluminium for the future. Vishal Chandak, research analyst at Mumbai-based brokerage Motilal Oswal, says that the challenging macro environment globally may weigh on overall aluminium prices for now. "A slowdown in China does not bode well for commodities, while fears of recession in Europe will only compound the problem," he said.