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In our previous update, we highlighted the reasons on why ban on Pet Coke isn't sustainable in the long run. We are happy to share that the Supreme Court has uplifted the ban on petcoke with certain caveats discussed in the report.

### **Note of Caution:**

Primarily, the judgment augurs well for all the industry players in the short term due to the continuation of production activity without any delay as the stored inventory levels were declining with the calciners.

In the long term, it will reduce competition from Chinese imports where there is overproduction of CPC and acted as the major deterrent to margins of calciners.

But one need not jump to a lot of conclusions yet as the Fine Print of the verdict is yet to be uploaded on the Supreme Court Website. The verdict will give us further clarity on how the total import of 1.4 million tonnes would be further divided among the calciners and other important announcements that is made.

## **Supreme Court allows import of Petcoke: Relief for Aluminium and Calcining Industry**

The Supreme Court provided relief from its ban on import of pet coke but has put a cap on import of petcoke. On a preliminary basis, this might raise question that the Supreme Court is trying to limit business by putting cap on imports. But, if we analyse the Aluminium Production numbers and CPC and GPC requirements, it can be fairly understood that the judgement is balanced.

## Verdict:

- i. The aluminium industry can import 0.5 million tonnes of Calcined Petroleum Coke (CPC).
- ii. The Calcining Industry can import 1.4 million tonnes of Petroleum Coke(Raw Material for making CPC).

**Note\*:** It is assumed that the petcoke mentioned for aluminium industry is CPC. Petcoke import for calcining industries is Green Petroleum Coke. Fine Print of the verdict will provide us with further clarity.

According to an article in Business Standard, The judges restricted the import even as senior counsel Kapil Sibal and P.Chidambaram urged the limit to be relaxed. They settled for the limit as their plea was opposed by amicus curiae Aparajita Singh. The court is open to hearing the matter if they wanted imports above the limit.

## Impact:

### ▪ Calcining Industry

On prima facie, the judgment reveals that the calciners will be able to fulfil their requirements with import cap introduced for the industry.

The following are the major calcining companies who are completely dependent on import of Green Petroleum Coke:

Companies	Capacity	85% Capacity Utilization	GPC Requirement*
Rain Industries Ltd.	580,000	493,000	657,333.33
Goa Carbon	240,000	204,000	272,000
Sanvira Industries	240,000	204,000	272,000
Atha Group	100,000	85,000	113,333.33
India Carbom	100,000	85,000	113,333.33
<b>Total</b>	<b>1,260,000</b>	<b>1,071,000</b>	<b>1,428,000.67</b>

Note\*

-1 ton of GPC makes 0.75 tonne CPC

-Requirement at 85% capacity utilization

Analysis of these numbers, give us an idea that the import cap of 1.4 million metric tonnes is adequate for the Calcining Industry. The industry imported around 1.3 million tonnes of GPC last year. If any further needs, the court is open to hearing the needs of calciners as mentioned above.

Indian Calcining Industry gets affected by Chinese Exports of CPC to India. Surplus supply in India by China puts downward pressure on the CPC prices. By limiting imports, foreign competition gets eliminated implying more bargaining power with calciners. So, the calcining industry would be further benefitted.

▪ **Aluminium Industry**

If we analyse the production numbers of Aluminium in India and requirement of CPC, it can be inferred that the judgement is balanced and aluminium industry will not face shortfalls.

Companies	Capacity	Production(2018)	CPC Requirement	GPC Requirement
<b>Nalco</b>	460,000	425,515	170,206	226,941
<b>Hindalco</b>	1,300,000	1,291,000	516,400	688,533
<b>Vedanta</b>	1,750,000	1,106,000	442,400	589,867
<b>Balco</b>	570,000	569,000	227,600	303,467
<b>Total</b>	<b>4,080,000</b>	<b>3,391,515</b>	<b>1,356,606</b>	<b>1,808,808</b>

According to CMD of Nalco, Aluminium Industry sources 65-70% of CPC requirements domestically. Currently, the situation is not as worrying.

Particulars	CPC requirement	GPC Requirement
65% Domestic	881,793.9	1,175,725
Import Allowed	500,000	666,667
<b>Total</b>	<b>1,381,793.9</b>	<b>1,842,392</b>
<b>Total Import Allowed</b>		<b>1,400,000+500,000 =1,900,000</b>

## Impact on Rain Industries Ltd.

Primarily, the judgement removes the uncertainty and is on time so as to not affect the volumes of production for the year which is very positive but how is the policy taken ahead needs to be seen

1. The CPC Plant with a total capacity of 580000 would be able to source its raw material needs for that plant adequately. Rain Industries Ltd. is the largest producer of CPC in India. With desulphurisation plant installed, the company has the ability to produce at lowest cost amongst the competitors. This would be an added advantage to the company among the peer set on the back of higher bargaining power with the calciners.

## 2. New Expansion in India

The company is expected to commence its new plant with a capacity of 3,70,000 tonnes per annum next year. The sourcing of raw material for this plant is yet to be understood. But, the judgement understanding gives us a sense that the court would give permission in case of any shortfall.

The following table highlights the expected incremental demand of CPC in India:

	Incremental Aluminium Production	CPC demand
<b>Expansion Plans (FY 2020)</b>		
Nalco	600,000	240,000
<b>Expected increase in capacity utilisation (FY19)</b>		
Vedanta	325,000	130,000
<b>Total</b>	<b>925,000</b>	<b>370,000</b>