

# MANGANESE-BASED FERRO ALLOY INDUSTRY

## Past Perfect, Present Tense

Industry profit margins to remain under pressure as input cost increases likely to erode much of the realisation gains seen in Q4 FY2023

MARCH 2023



*While manganese-based ferro alloy realisations witnessed an uptrend in Q4 following the relaxation of Chinese lockdown restrictions, a disproportionately high increase in input costs has eroded most of the realisation gains.*

*Given the sizeable upcoming new capacities, there is a possibility of a supply glut, which can keep industry profit margins under check in the foreseeable future unless the external demand environment improves*



- Profit margins of the domestic manganese-based ferro alloy industry jumped to a record high in FY2022. However, the momentum has fizzled out in the current fiscal, as declining realisations, along with input cost pressures have squeezed margins to abnormally low levels in Q3 FY2023.
- With coal prices continuing at elevated levels, and power tariffs in key producing regions increasing by ~20% year-on-year (YoY) in FY2023, a sharp increase in energy costs has adversely impacted the industry's cost structures.
- Apart from elevated energy costs, recent increases in manganese ore and coke costs would also nibble at profit margins. Spot prices of metcoke and imported manganese ore have climbed by ~16% and ~30%, respectively, in Q4 FY2023 till date.
- While domestic ferro-manganese prices have increased by 7.5% in Q4 FY2023 till date, as easing of Covid restrictions in China helped improve market sentiments. However, a disproportionately high increase in input costs for coke/manganese ore have taken away most of the realisation gains.
- Notwithstanding falling steel production globally, exports of Indian manganese-based ferro alloys have remained strong in the current year as well, as this benefitted from supply disruption in Ukraine, which is the world's second largest exporter of manganese-based ferro alloys after India.
- A structural disadvantage for the domestic manganese-based ferro alloy industry is its import dependence on high-grade manganese ore. An increase in domestic production of high-grade Mn ore remains crucial to give a sustainable competitive edge to the domestic ferro alloy industry over its global peers.

# What's Inside?

## 1 The party comes to an end



## 2 Counting the costs



## 3 Is the worse over yet?



## 4 Trade flows: Competitor's pain leads to unexpected gains



## 5 Crystal gazing into the future





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