Domestic demand for non-ferrous metals set to rise 8-9% in FY27

DEVANGSHU DATTA

Elevated metal prices, supply constraints, and healthy domestic demand are all positives for non-ferrous industrial metal producers. Icra estimates domestic demand for non-ferrous metals will rise by 8-9 per cent in financial year 2026-27 (FY27), and higher metal prices may support a 400 basis points (bps) expansion in operating margin to around 35 per cent for the sector on aggregate.

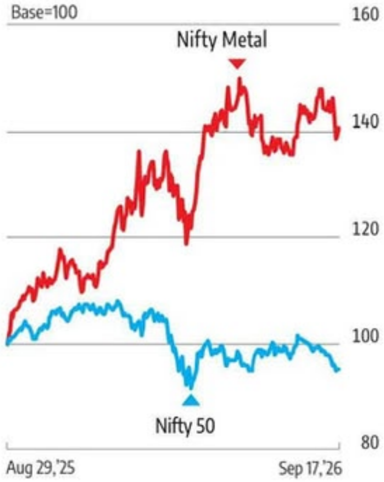
Global supply disruptions and low inventories have triggered a rise in prices by 30-40 per cent across April-August 2026. The London Metal Exchange (LME) July prices were strong compared to June, while August saw LME spot prices for aluminium, copper, zinc, lead, and nickel all rise month-on-month (M-o-M). Inventories at LME dropped M-o-M for aluminium, copper, zinc and lead, though nickel inventory rose.

For aluminium, low LME inventories and tight global supply due to damaged facilities in West Asia imply further upside. But Chinese exports may offset the situation. Copper prices are near record highs due to the US tariff war. Zinc is driven by fears of disruption because of flooding of key China facilities. Lead has moved up on strong Chinese demand and projections of tighter supply. Nickel prices are supported by the weak US dollar (USD) but demand may not be very strong.

Global aluminium production increased 4 per cent M-o-M in July but declined 2 per cent year-on-year (Y-o-Y) to 6.2 million tonnes (mt). China alumina prices are weak, declining 1 per cent M-o-M and 13 per cent Y-o-Y in August. LME aluminium prices increased 3 per cent M-o-M to $3,251/tonne in August, which is 25 per cent up Y-o-Y. Spot at $3,345/tonne indicates more strengthening in September. Zinc and copper were up 8 per cent and 6 per cent M-o-M, respectively, while lead and nickel prices rose 1 per cent M-o-M each in August.

The first quarter (Q1) of FY27 was strong for non-ferrous producers. Hindustan Zinc sustained Ebitda (earnings before interest, taxes, depreciation, and amortisation) margins of over 58 per cent, driven by higher zinc and silver prices. Hindalco reported good performance across businesses, with India benefiting from strong LME prices. Novelis' operational position improved with better shipments and higher Ebitda/tonne after restart of the Oswego facility. Nalco enjoyed good aluminium realisations and lower operating costs.

The Q2FY27 is looking good across the sector, given the price trends, ongoing capacity expansion projects,



integration of captive sources, etc. Key monitorables include price trends, energy costs, and execution timelines for projects. Management commentary across the space was confident, given favourable outlook for aluminium, zinc, and silver. Aluminium producers expect supply-side disruptions due to ongoing geopolitical tensions.

Hindalco and Nalco are optimistic about aluminium realisations. Nalco hopes rising alumina prices will offset higher raw material costs. Hindustan Zinc has structurally low costs, and has invested in renewable energy usage, improved mined grades, and derived better by-product realisations. Many companies are expanding capacity through new smelters, refinery additions, downstream projects, and captive resource development.

Hindustan Zinc maintained its FY27 production guidance in Q1, with management reiterating confidence in achieving its 1.1 mt refined metal target. Although silver production stood at 149 tonnes in Q1FY27, management highlighted that the metal recovered during the period will eventually be 158 tonnes. Management is confident of achieving FY27 guidance of 680 tonnes of silver, 10 tonnes more than FY26.

The cost of production (CoP) of zinc, excluding royalty, dropped to a record $851/tonne, with better mined grades, higher production, increased renewable power usage (now meeting 22 per cent of demand), and stronger by-product realisations. Higher imported coal usage did increase costs somewhat.

There are multiple projects such as a hot acid leaching (HAL) plant and phosphoric acid plant due for commissioning in Q2FY27. The fertiliser plant is expected to be commissioned by Q1FY28. A proposed 650 kilotonne (kt) integrated zinc smelter expansion is expected to receive board approval in Q3FY27. This expansion will be carried out with an estimated capex of ₹2,400 crore and a timeline of 36 months. The FY27 capex guidance was unchanged at $500-600 million.

Hindalco Industries says the aluminium outlook is constructive with stronger pricing supported by supply-side disruptions. It highlighted that the global market will remain in 1 mt deficit in calendar year 2026 (CY26), primarily due to the West Asia conflict and closure of the Mozal smelter. The India aluminium business is delivering industry-leading profitability.

Copper profitability is also resilient with record Ebitda in Q1FY27, supported by stronger sulphuric acid realisations. Copper concentrate availability is secure. The Novelis recovery is progressing, with adjusted Ebitda improving in Q1. Structural cost savings have reached an annualised run-rate of $225 million, with management reiterating a target of $350-400 million by FY28-end. Favourable scrap spreads are expected to provide additional margin support. The Oswego hot mill has restarted successfully and is moving towards normalisation. FY27 will be a high-capex year for India, limiting meaningful deleveraging. Novelis leverage is expected to peak during Q2FY27 before declining. All major upstream projects, including alumina refinery and aluminium smelter expansions, were on schedule.

The writer is a New Delhi-based independent journalist