



“Hindalco Industries Limited Q2 FY 2020 Earnings
Conference Call”

November 11, 2019



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Moderator: Ladies and gentlemen, good day and welcome to the Hindalco Industries Limited Q2 FY 2020 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Subir Sen from Investor Relations of Hindalco. Thank you, and over to you, Sir!

Subir Sen: Thank you and a very good day to everyone. On behalf of Hindalco Industries Limited, I welcome you all for this Earnings Call for the Second Quarter of FY 2020. On this call, we will refer to our latest Q2 Investor Presentation available on our company website. Some of the information on this call may be forward-looking in nature and is covered by the safe harbor language on Slide number #02 of the Investor Presentation.

In this Presentation we have covered the consolidated quarterly financials, including all segments of India business and our overseas subsidiary, Novelis to give you a comprehensive view of all our businesses. For this purpose, standard principles of consolidation have been applied as per the IndAS. For comparison purposes, all prior period consolidated financial numbers are being presented in a similar manner.

On today’s call, we have with us from the Hindalco management, Mr. Satish Pai -- Managing Director; Mr. Praveen Maheshwari -- Chief Financial Officer and CEO (Copper Business). From the Novelis management, we are joined by Mr. Steve Fisher -- President and CEO.

I will now hand over this call to Mr. Pai for his opening remarks. Thank you, and over to you, Sir!

Satish Pai: Thank you, Subir. Good evening or morning, everyone and welcome to our earnings concall for the second quarter of FY 2020 of Hindalco Industries Limited. As you know, we have now been publishing our consolidated quarterly financials, including all the segments of our India business including Novelis to provide you a broader view of the company.

Let us move on to Slide #03. I will begin with the key highlights of the company’s overall performance in Q2 FY 2020. This will be followed by an update on the macroeconomic and industrial environment. Later, Praveen will cover the operating and financial performance of all our businesses in detail.

Let me start with the key highlights of Q2 on Slide number #05. Hindalco delivered steady results driven by an excellent performance by Novelis supported by stable operations in the



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Indian businesses. This was despite a challenging business environment. This performance was a result of another record-breaking result achieved by Novelis, stable operating performance by the Indian aluminium segment, offset by the copper business performance which was impacted by lower production and heavy rains in Dahej.

Let me begin with the highlights of Novelis performance for Q2 FY 2020. Novelis reported yet another record adjusted EBITDA of \$374 million in Q2 FY 2020, up 5% year-on-year and adjusted EBITDA per tonne of \$448 in Q2 FY 2020, up 2% year-on-year.

Net income without special items in Q2 FY 2020 was a record at \$160 million, up 31% year-on-year. Overall, shipments were up 3% at 835 Kt in Q2 FY 2020, with can sheet shipments being 10% higher from the prior year contributing significantly to the overall volume.

On the Aleris acquisition, we have received a conditional approval from the European Commission on October 1st. Upon the sale of Aleris's European automotive assets, which is their plant in Duffel, Belgium. Other regulatory approvals in the U.S. and China are in progress and we expect this transaction to close by January 21st, 2020, the outside date under the merger agreement. This is of course subject to closing conditions and regulatory approval.

Moving on to Hindalco's India business, the domestic market for aluminium has shown a de-growth of 6% but was flat in the first-half of fiscal 2020. The global aluminium prices have dropped significantly by around 14% year-on-year to an average of \$1,761 per tonne in Q2 FY 2020. Stable operations have led to alumina and aluminium metal production at 667 Kt and 330 Kt respectively in Q2 FY 2020.

The metal sales were up 1% at 328 Kt compared to 326 Kt in the prior year. Aluminium value-added products, excluding wire rods, sales were up 5% year-on-year at 78 Kt in Q2 FY 2020 compared to the corresponding period last year. The aluminium business, including Utkal, reported an EBITDA of Rs. 849 crores versus Rs. 1,368 crores in the prior period. This drop in EBITDA was mainly on account of lower realization, which was partially offset by lower input costs.

Coming to our copper business on Slide #06, domestic copper market grew by 10% year-on-year and 12% in the half-year largely due to the base effect of last year. Quarterly production of copper CC rods were up by 24% at 65 Kt compared to 53 Kt in Q2 of the corresponding year. CCR-3 did a record production of 44 Kt in Q2 FY 2020. CC rod sales grew by 14% year-on-year and reached 76% of the total copper sales volume in Q2 FY 2020.



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Copper EBITDA in Q2 FY 2020 stood at Rs. 263 crores versus Rs. 408 crores in Q2 FY 2019. This was lower year-on-year due to lower byproduct realization and the impact of heavy rains in Dahej in the month of August this year.

Let me now take you through our consolidated performance for the quarter. Hindalco reported a consolidated EBITDA of Rs. 3,918 crores for the quarter compared to Rs. 4,276 crores in the prior year. The consolidated PBT before exceptional items stands at Rs. 1,748 crores as against Rs. 2,152 crores in Q2 FY 2019.

Excluding exceptional items, consolidated profit after tax was at Rs. 1,152 crores compared to Rs. 1,448 crores in Q2 FY 2019, down by 20%.

The long-term loans remain unchanged from FY 2019 end. Consolidated net debt-to-EBITDA stands at 2.83 times at the end of September 2019 as against 2.48 times at the end of March 2019.

I am happy to share with you some recent recognitions in CSR and sustainability. Hindalco has entered in 2019 the S&P Dow Jones Sustainability Index and is now one of the 98 companies in the Emerging Market Index along with the world's top three aluminium companies. Hindalco has also received the first "National Corporate Social Responsibility Award" in 2019 by the Government of India.

Let us now take a look at the broader economic environment in Slide #08. Global economic growth around the world slowed down despite accommodative monetary and expansionary fiscal policies in the developed and emerging markets. Uncertainties around Brexit, persistent trade tensions, geopolitical risk especially in the Middle East and subdued manufacturing activities were the key drivers of the economic slowdown.

Q3 CY 2019 data reveal that the U.S. economy continued to decelerate for the third consecutive quarter. In Q3 CY 2019, it grew by 1.9% versus 2% in Q2 and 2.9% in Q3 CY 2018. Personnel consumption and government spending contributed to the growth, but the gains were offset by weak investments. To negate the impact of global economic slowdown and trade war, the federal reserve reduced the interest rate thrice during the year.

Manufacturing PMI for the last three months is in the contraction phase. It is below 50 points and the business spending is falling down in the U.S. Therefore, the U.S. economy may witness further slowdown. Q3 CY 2019 saw China register a growth of 6%, its weakest performance since 1992. The country's trade war with the U.S., slowing economic growth and reduced manufacturing sector demand and investments are the key factors for the slow rate of growth.



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In a move to boost the economy, China has announced fiscal stimulus and monetary easing, including tax cuts and local government bonds to fund infrastructure projects. The Eurozone felt the worst impact of the U.S.-China trade war and uncertainties around Brexit. In Q3 CY 2019, the region witnessed a growth of 1.4% versus 1.8% in Q3 CY 2018.

However, on a sequential basis, the region recorded a flat growth. According to the IMF, global growth in CY 2019 is likely to be at its lowest level since CY 2010, that is at around 3%. Marginal recovery is expected in 2020 with growth being projected at around 3.4%.

Prolonged trade war, uncertainty around Brexit and geopolitical tensions are the key risks to the growth.

Moving to the domestic economy in India, economic growth during Q2 FY 2019 moderated significantly to a 25 year low of 5%. Subdued consumption and investments majorly drove the moderation in growth. The growth in the industrial sector moderated significantly to 2.7% in Q1 FY 2020 from a robust growth of 9.8% during Q1 FY 2019.

This significant fall in growth was due to dismal growth in the manufacturing sector of 0.6% in Q1 FY 2020 versus 12.1% a year ago. The index for industrial production also moderated in April to August FY 2020 to 2.3% versus 5.4% in the corresponding period of the previous year. The IHS Markit India Manufacturing PMI fell to 50.6 points in October 2019, the lowest since October 2017.

To generate demand and boost investment recently, the RBI has reduced the policy rate by 25 basis point to 5.15% from 5.40% with an immediate effect. The Government of India also announced various measures like corporate tax rate cut, incentives for new manufacturing units with lower tax rates, easing of funding norms for the affordable housing segment, additional income tax benefits for interest on housing loans, credit enhancements for infrastructure and housing projects, and additional liquidity by the National Housing Board of \$3 billion. Recently, RBI has revised down the economic growth for FY20 to 6.1% from the previous estimate of 6.9%.

Let me take you through the aluminium industry overview on Slide #09. The intensification of the U.S.-China trade war, uncertainties around Brexit and sluggish industrial activities across the region have dampened the global economic environment. As a result, aluminium consumption and prices were negatively impacted since aluminium consumption is more or less directly correlated to the economic growth.

In Q3 2019 demand in the world, excluding China, de-grew by 2% versus a growth of 3% in Q3 2018 owing to subdued demand in the U.S., Mexico, Latin America, Europe and Japan. Slow



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growth in auto and increasing use of scrap are the reasons for the sluggish growth in the quarter. The Chinese demand also underwent moderation in Q3 2019 to a growth of 2% year-on-year as against 5% year-on-year in Q3 2018. Chinese domestic demand remains unresponsive to the announced stimulus and construction, auto and power sectors recorded low growth during the quarter.

On the production side, the Chinese production declined by 3% in Q3 2019 versus a growth of 1% during Q3 2018, largely due to disruption at two major smelters whereas in the rest of the world, production grew by 3% in Q3 2019 as against 2% in the corresponding period in the previous year on account of production growth in Bahrain, Brazil, and the U.S.

Year-to-date 2019 global primary aluminium consumption growth has declined by 0.2% year-on-year from an increase of around 4% in the same period 2018. The world, excluding China, reported a decline in consumption growth of 1.8% year-to-date 2019 from an increase of 2% in the year-to-date 2018. Hence, overall consumption growth is expected to decline by 0.4% in 2019, lowest growth since the global financial crisis.

The global aluminium market in 2019 is also expected to be in a deficit of 1.2 million tonnes, but is expected to return to surplus in 2020 as China will ramp-up around 3 million tonnes to 3.5 million tonnes of capacity by the end of the year.

Given the subdued domestic macro environment and sentiment, growth continues to moderate in Q2 FY 2020 in India. During the quarter, demand declined by 6% to 967 Kt. The slowdown in user industries such as automotive, building and construction, and electric sectors were the primary reasons for the sluggish growth in consumption during the quarter.

Imports also recorded de-growth of around 8% in Q2 FY 2020 to 557 Kt due to decline in the import of scrap and finished products. Despite de-growth, imports maintained the market share of around 60% in Q2 FY 2020.

Moreover, the threat of scrap imports is still a cause of concern as China is getting strict on low-grade scrap imports. Government initiatives to improve investment in infrastructure and the housing segment coupled with a decline in interest rates may support demand going forward.

On Slide #10, in CY 2019 the global FRP demand continues to grow by 3%. Global demand for beverage can stock is growing strongly due to packaging material shift to aluminium from other substrates for products like energy drinks, sparkling water, crafted beer resulting in a growth of 3% in the beverage can sheet market.



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Steady demand continues for automotive body sheets for trucks, SUVs, electric and premium vehicles due to the global adoption of strong lightweight formable aluminium in vehicle parts and structures. This demand is expected to grow at a CAGR of 10% between CY 2019 to CY 2025.

Domestic FRP demand in India has de-grown by 1% year-on-year in Q2 FY 2020 due to subdued demand in the construction and transportation sector and has grown by about 1% year-on-year on year-to-date basis. Domestic Demand is expected to grow at a CAGR of 6% to 7% between CY 2018 to CY 2022.

Let's move on to the copper industry on Slide #11, an uncertain macroeconomic environment, subdued industrial activities and the trade war also dampened the demand for refined copper in 2019.

In Q3 2019, demand across the world excluding China declined by 0.8% versus a growth of 1.4% in Q3 2018 due to low consumption in North America, Europe, mainly Japan and Italy, and South Korea, whereas Japan and Taiwan witnessed growth in consumption. Availability of scrap in the European market also dented consumption of refined copper during the quarter.

Demand in China during Q3 2019 grew marginally to 0.4% from a growth of 5% in Q3 2018 due to subdued consumption from the user industries. In the current scenario, global refined copper demand is expected to remain flat in 2019 at 23.5 million tonnes as against 23.6 million tonnes in 2018.

Growth in China is likely to record a additional growth of 1% in CY 2019 versus 5% in CY 2018 whereas consumption in the rest of the world is expected to decline by 1.2% as compared to a growth of 1.3% in 2018.

On the supply side, mine disruptions in CY 2019 touched a five year high on account of disruptions in Peru, Chile, and Africa. Demand of Copper is expected to grow negligibly to 16.7 million tonnes, up by 0.3% in 2019. A balanced copper concentrate market is expected in 2019.

In the domestic market, consumption grew by 10% year-on-year to 191 Kt in Q1 FY 2020 due to the base effect. Negating the base effect, the real growth is around 6% in Q2 FY 2020. However, demand started to moderate since September 2019 due to sluggish consumption from strips and transformers, winding wires and railways.

Imports from ASEAN and other FTA countries continues to put pressure on domestic pricing. Imports grew by 31% to 92 Kt in Q2 FY 2020. As a result, the overall market share of imports in the domestic market increased from 40% in Q2 FY 2019 to 48% in Q2 FY 2020.



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Disaggregating the imports, major cathode imports were from Japan and imports of wires from ASEAN countries. Going forward, we expect the government thrust on infrastructure and housing is likely to generate demand in H2 of FY 2019.

Praveen, will now take you through the business performance highlights for each of the businesses in Q2.

Praveen Maheshwari:

Thank you. Satish. Coming to Slide #14, Novelis has delivered yet another best-ever quarterly performance with a rise in all its parameters, which is adjusted EBITDA, adjusted EBITDA per tonne and the net income in Q2 of FY 2020. This excellent performance was on the back of a strong operating performance and favorable market conditions. Global demand for aluminium FRP remained strong, as is reflected in the growth of overall shipments that grew by 3% year-on-year in Q2 FY 2020 with beverage can sheets growing at robust 10% Y-o-Y, driven by strong demand for sustainable packaging.

The automotive body sheet market also remained strong in the U.S. All the organic expansion projects of Novelis in the U.S., China, and Brazil are progressing on time and within budget. All these projects are expected to be completed as per schedule.

In addition to these projects, Novelis has recently announced a U.S. recycling expansion for automotive aluminium scrap with an investment of \$36 million in Greensboro, Georgia.

Moving to Slide #15, Novelis delivered a record-breaking quarterly performance in Q2 of FY 2020. Its adjusted EBITDA was at \$374 million and EBITDA per tonne was at \$448, the highest ever in any quarter so far, reflecting a growth of 2% and 7% year-on-year r.

Slide #17 shows the details of the performance of the Indian aluminium business including Utkal. Alumina production in Q2 FY 2020 was at 667 Kt. Aluminium metal production was at 330 Kt in Q2 reflecting a stable operation. Value-added products, excluding wire rods recorded a production of 76 Kt in Q2 FY 2020 versus 79 in Q2 FY 2019.

Coming to Slide #18, aluminium metal sales volumes grew 1% at 328 Kt in Q2 versus 326 Kt in the previous year. The value-added products sales including wire rods were up 5% year-on-year at 78 Kt in Q2 FY 2020. Share of VAP in total sales volume was 24% in Q2 FY20.

Moving on to the financial performance of the aluminium business including Utkal on Slide #19. This segment recorded a revenue of Rs. 5,526 crores in this quarter versus Rs. 6,135 crores a year-ago on account of lower global aluminium process EBITDA stood at Rs. 849 crores versus Rs. 1,368 crores in Q2 FY 2019. The EBITDA margin was still a healthy 15.4% of revenue in Q2.



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Moving to Slide #21, the overall copper metal production was higher by 17% year-on-year at 84 Kt in Q2 compared to 72 Kt in the last year same quarter. Quarterly production of copper rods was at 65 Kt in Q2, supported by CCR-3. The CCR-3 achieved a record production of 44 Kt in quarter two of FY 2020. DAP production was lower at 50 Kt in Q2 FY 2020 versus 88 Kt last year.

Coming to Slide #22, on sales volume of copper and its VAP. Copper metal sales were at 82,000 tonnes in quarter two, CC rod sales in Q2 FY 2020 were higher by 14% Y-o-Y at 63,000 tonnes.

The financial performance of copper segment is on Slide #23. Revenue stood at Rs. 4,449 crores in this quarter compared to Rs. 4,730 crores a year ago. This was marginally lower Y-o-Y due to lower by-product realizations. EBITDA stood at Rs. 263 crores in this quarter versus Rs. 408 crores in Q2 of last year. This was comparatively lower due to again lower by-product realizations and the impact of monsoon related issues on operations.

Let me now hand over the call to Satish to give you a brief on our consolidated results and a summary.

Satish Pai:

So on Slide #24, the company reported a consolidated revenue of Rs. 29,657 crores, an EBITDA of Rs. 3,918 crores, a PBT before exceptional items of Rs. 1,748 crores and a profit after tax of Rs. 974 crores in Q2 FY 2020.

The detailed quarterly comparative financial numbers are attached as an annexure to this presentation on Slide #28.

Hindalco standalone including Utkal reported a revenue of Rs. 9,966 crores, an EBITDA of Rs. 1,251 crores and a profit after tax of Rs. 167 crores in Q2 FY 2020. These details are also provided as an annexure to this presentation on Slide #29.

So let me now summarize on Slide #25. Hindalco delivered a sustainable performance in the second quarter FY 2020 despite global headwinds and uncertainties. Nearly 80% of its EBITDA in Q2 was LME de-linked, reflecting the strength of its sustainable business model. This performance is backed by Novelis's continuous focus on improving its operational efficiencies coupled with innovations leading to operational excellence. Hindalco's recent inclusion in the Dow Jones Sustainability Index, is providing a steady path towards our commitment to deliver high value.

In terms of growth opportunities, Hindalco's expansion plans in Utkal Alumina and downstream is well focused to leverage on market opportunities in India. Novelis organic and inorganic



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expansion will not only enhance its product mix. But will also lead the way for Hindalco's sustainable business model.

On the outlook, given the challenging current market environment, there are likely chances that global aluminium prices may remain under pressure but demand for beverage can sheet with rising consumer demand for sustainable products in beverage packaging remains strong.

The domestic market demand in consumer durables and packaging sectors is also expected to remain firm.

Going forward, the key risks are: a weakening of global demand led by China, a U.S. - China trade war escalation, rising imports of aluminium and copper into India and the impact of Brexit.

So with that, I thank you very much for your attention and the forum is now open for questions that you may have.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We have our first question from the line of Indrajit Agarwal from Goldman Sachs. Please go ahead.

Indrajit Agarwal: Can you highlight what has been the progress on Muri. Are we updated ramped-up on production over there? So what I wanted to understand is for the alumina production this year or this quarter, how much is Utkal, and how much is ex-Utkal?

Satish Pai: Muri plant startup has not happened yet. We are expecting that we will probably get the clearances by the end of this month. So the production of 667 Kt of alumina in Q2 is all from Utkal and Renukoot.

Indrajit Agarwal: All right. Thank you so much. And any cost of production guidance for 3Q and rest of the year?

Satish Pai: So I guess the cost of production guidance is on the aluminium side. So we were flattish Q2 to Q1, remembering that Q2 is a monsoon quarter with the coal tightness, etc. And our guidance for Q3 is flat to slightly down.

Moderator: Thank you, sir. We have next question from the line of Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh: This is a follow-up question from the Novelis conference call, and this relates to the Aleris transaction. Now sir, what we understand is that of the three approvals so far only we have clarity on Europe there is nothing on China and on the U.S., the DoJ arbitration will be known after the



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acquisition is completed. And in the worst case basis Novelis might have to divest off Lewisport. Now we understand it is a low probability event, but it is not a zero-probability event. Back in 2018, when the acquisition was announced, there were three pillars of the acquisition one was a strong demand environment, the China optionality and the Lewisport. Now sir, how do we wrap ourselves around the potential risk that after the transaction is done, Lewisport may have to be divested and the valuations may not be the same as to what Novelis is right now paying for Aleris?

Satish Pai: So I am going to let a Steve answer that question. But Pinakin your analysis is absolutely correct so far of all what you stated. So Steve, you want to just take the last part on what could happen in the U.S.?

Steve Fisher: Yes, Pinakin, you recapped from the Novelis call very well where we stand in all the jurisdictions. We have conditional clearance in Europe, we have clearance in the U.S. subject to the arbitration and then we still await the China whether for approval that we expect in the near future. As we said on the call, we think it is an unlikely with that we were to lose an arbitration. We feel our arguments of steel versus aluminium are very strong and arbitrating the market definition in the U.S. And when you start to think about the pillars of the transaction, the pillars of the transaction were the integration in Asia were product diversification into aerospace segment, B&C and further customer diversification and growth in automotive. We are hopeful that as we said before that that will still occur. In the unlikely event that Lewisport is not part of Novelis on a longer-term basis we also reiterated that we are still committed to the \$150 million worth of synergies that we announced over a year-ago and we still see this as a value accretive transaction going forward. And all efforts on our part are to get the approval from China and then ultimately be able to bring in the Lewisport automotive facility, in after winning the arbitration.

Pinakin Parekh: Thank you. So just to clarify, the \$2.6 billion remains as it is and whatever has to be divested and whatever incremental inflows that Novelis sees will be over and after the transaction is done?

Steve Fisher: Yes, for both the Duffel asset and in the unlikely event of Lewisport both of those would be post-closing of the \$2.6 billion with Aleris.

Moderator: Thank you, sir. We have next question from the line of Rajesh Lachhani from HSBC. Please go ahead.

Rajesh Lachhani: My question is with regards to the Copper segment. So if we see on a quarter-on-quarter basis, copper EBITDA has remained broadly flat. In fact, it is slightly reduced. However our production of DAP is higher, our sales of cathodes are higher and CC rod are almost flat. So just trying to understand what is the reason for the EBITDA being largely flat for Copper?



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Praveen Maheshwari: So, just to refresh, quarter one we had a longish shutdown of this smelter and quarter two, the by-product realization has gone down, that is one. And partially our operations were impacted because of the floods in that area. So Copper is a mix of many value drivers, certain drivers go positive, certain drivers go negative. But at the end, we have remained at the same level as Q1 and we expect going forward this to be better.

Rajesh Lachhani: So the by-product realisations were even lower sequentially?

Praveen Maheshwari: Yes. So sulfuric acid for example is lower compared to Q1 as well and DAP also is marginally lower than Q1.

Rajesh Lachhani: Understood. And my second question is with regards to approval from China, with regards to Aleris acquisition. So are we seeing any issues or concerns with regards to getting the China approval?

Steve Fisher: Yes. We continue to proactively work with the regulatory authorities in China and anticipate a clearance of our transaction in the near future.

Rajesh Lachhani: But Steve, the Chinese approval has taken a much longer time and we understand that in Europe and the U.S., there were issues with regards to automotive sheet capacity but in China, what is the reason for this getting delayed?

Steve Fisher: Yes. And I think first, China typically wants to see the clearance occur in the other jurisdictions. So I think that is number one. There is a very small bit of overlap of automotive body sheet that was coming in from the Duffel facility that we are now divesting from Europe, that was coming into China. Outside of that, there are industrial plate in Aerospace business inside of China and we are automotive body sheet player inside of China. And again, see the overlap and we anticipate overall from competition, we anticipate hopefully to see the clearance come through in the next few weeks.

Moderator: Thank you, sir. We have next question from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: Thanks for taking my question, sir. I have two questions, the first one is on power and fuel cost, which was up almost 12% in this quarter. I mean I am talking about standalone one, it is up almost 12% Y-o-Y. So I just wanted to understand the drivers behind it and your coal mix for the quarter and as compared to last year?

Satish Pai: So let me just give you the coal mix. So the coal mix for this quarter was, linkage coal was 60%, e-auction was 25%, our own mines was 4% and the imports was 9%. So the imports sharply



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went up in Q2, because the international prices of coal dropped. So we lowered the production of our own coal mines and we imported cheaper coal. So that was the coal mix, so there is not... you want to...

Praveen Maheshwari: Yes. So I think you are referring to the published SEBI results. In this case what happens is, if you purchase coal and use it, it goes into the line of power and fuel, whereas actually speaking if you use your own mined coal then large portion actually goes into the other expense so it is a classification issue. It is as per the accounting standards. Power and fuel does not include if you incur costs on mining your own coal that goes into the other expenses other respective lines. For example, your employees cost will go into employees and so on.

Satish Pai: So really the coal costs from Q2 to Q1 was flattish. So our power costs have not gone up.

Amit Dixit: Great, understood. The second question in cash flow, where in you know there is significant amount of Rs. 1575 crores locked up in payables, it seems payables have gone down, so I just wanted a bit more clarity on that.

Praveen Maheshwari: Yes. So standalone, you see it is a mix of two businesses first of all aluminium and copper. In aluminium, there is not much of a change between in the quarter or in the half-year. In copper, what happens is many times you have the large copper concentrate which arrive at a single instance and there are payments, which get made or get deferred even if there is a two days - three days delay. I think in place of looking at purely payables, just look at the overall working capital and I can tell you in aluminium business, we have actually reduced the working capital by reducing the coal advances but that is a couple of hundred crores. And in copper business compared to March, the working capital has gone up primarily because in March it was significantly low and in September, it was significantly higher, and it is also related to the production related issues because of the floods and all. So we had copper concentrate in large quantities and which was not consumed. This will get balanced out by in the next couple of quarters. So as far as working capital is concerned, we have no major concerns as of now.

Moderator: Thank you, sir. We have next question from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.

Ashish Kejriwal: Sir, my question is on Aluminium. Is it possible to give a breakup of our geographical mix in Aluminium, means how much we have sold domestic this quarter versus first quarter FY 2020?

Satish Pai: Sir roughly, I think Q1 exports were around 50-52% and in Q2 FY20, this was around 60% which was a little higher on account of lower domestic demand with a 6% de-growth YoY in Q2 as said in my earlier remarks.



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- Ashish Kejriwal:** Okay. And sir, is this the reason because of which our blended Aluminium realization was lower than what it was as compared to the fall in LME price?
- Satish Pai:** Well, I think that our aluminium price is reflected in the nearly 2% decline that we had in the LME, but it is also true that the discounts domestically were a bit higher in Q2 versus Q1, because the market was very weak.
- Ashish Kejriwal:** So is it possible to quantify the difference what we are selling in the export market and domestic market?
- Satish Pai:** So generally between the export and the domestic market we have about Rs. 4,000 - Rs. 5,000 per ton gap but along with the GST impact, that delta between export and domestic is in the range of Rs. 1,000 per ton.
- Ashish Kejriwal:** Okay. And sir about your hedging policies going forward? Second-half how much volume we are going to hedge?
- Satish Pai:** So for the remaining quarters of FY 2020, Q3 and Q4, we have 18% of the total commodity hedged at \$2,150 per tonne. The 11% is at rupee LME of around Rs. 1,54,000 a tonnes and 7% only commodity at around \$2,130 per tonne and the currency overall hedge is 36% at Rs. 75.14, so that is our second-half hedging position as on date.
- Ashish Kejriwal:** Fair enough sir. Thank you, sir. And sir lastly on Muri are we expecting any more one-offs like we have seen in the first-half around Rs. 38 crores?
- Satish Pai:** So look even this quarter, yes, we put about Rs. 31 crores because the evacuation and repair is largely completed. So no, but just for complete transparency, we still have fixed cost going on in Q3. So till my plant starts, we have roughly Rs. 20 crores to Rs. 30 crores of fixed cost of keeping the mines and the plant going. So that is why we are hopeful that we will be able to start the plant by the end of this month. But there is no one-time charge anymore.
- Ashish Kejriwal:** Fair. So when we are talking about cost of production being flat to lower, we have included that fixed cost going forward?
- Satish Pai:** Yes, we have. The thing is the alumina prices have been going down, that is the reason why.
- Ashish Kejriwal:** Yes. But do you think that even after the start of the Muri plant, our cost of production will be higher than the imported price which we are buying right now?



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- Satish Pai:** Well, the imported price sort goes between an FOB of \$290 to 300 odd per ton . So landed, we still think Muri will be a bit cheaper, because of the logistics cost involved.
- Moderator:** Thank you, sir. We have next question from the line of Vikash Singh from Phillip Capital. Please go ahead.
- Vikash Singh:** Sir, just wanted to understand this Belgium plant as well as Lewisport. Have you any idea how much their contribution in terms of the Aleris EBITDA?
- Steve Fisher:** Yes. So as it relates to the Duffel facility in Belgium, we are actively pursuing signing a definitive agreement and working with a number of parties. The overall EBITDA estimate is approximately on an annual basis about \$50 million. And again on Lewisport we are very comfortable with our positioning as to winning the arbitration. So we are not going to get into any further details as it relates to the Lewisport facility.
- Vikash Singh:** Okay. And my second question is, we have talked about a lot of synergy between Aleris and Novelis. In case if we have to part with Lewisport also, because we are supposed to use certain portion from Lewisport in our Novelis also how does that synergy or the cost efficiencies is expected to change?
- Steve Fisher:** Yes. So what we have said even answering your question earlier on this call is that we are comfortable with the synergy amount that we announced just over a year ago of 150 million, regardless of whether we retain Duffel and in the unlikely event of not being able to retain Lewisport. So we are still committed to the 150 million of synergies. If when we complete the arbitration and bring Lewisport into Novelis, we think there is potentially some further upside to the 150 million.
- Vikash Singh:** Okay. Just one last question. This quarter how much is the incremental cost because of the purchase outside Muri was closed?
- Satish Pai:** So the incremental cost outside Muri was roughly about Rs. 26 crores, because most of those purchases were actually made in Q1 but actually got consumed in Q2. So the largest hit was actually in Q2.
- Moderator:** Thank you, sir. We have next question from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead. Mr. Kamlesh Jain, sir your line is unmuted. Please go ahead and ask your question.
- Kamlesh Jain:** Yes. Sir, in the last concall you had mentioned that our aluminium COP would be down by 3% to 4% as compared to Q1 levels in H2. So now you are saying that in the Q3, we are going to



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see flat quarter-on-quarter cost in aluminium. So are we going to see the benefits in the Q4 alone or we are reducing down our cost assumptions?

Satish Pai: Yes, fair point. I think that you know I do see that Q3 will be slightly lower but whether it will be down more than what we have seen in the past is what we need to see. Therefore, this is the reason I am somewhat slightly more hesitant to give any number as the coal situation in India has gone extremely tight, currently. So this is the only reason why I am a little bit hesitant because all the other cost, CP coke pitch, all that is largely as per our expectation but if the coal price is domestically and if you are on the e-auction suddenly jump up, you may have realized that a lot of coal mines in Odisha and all are going through lots of shutdowns and problems. So this is the only reason why I am a little bit hesitant of what will happen to the coal prices.

Kamlesh Jain: And lastly, sir on the part of the tax rate, so in this quarter we have seen sharp fall in the current tax rate like say from a 19% level to 1% and in the notes we have mentioned that we have not took a decision on whether to adopt the new tax rate or not. So why there is some such a sharp fall in the tax rate? And in the consol we have not seen the such a sharp fall, like say including Utkal?

Praveen Maheshwari: No. so, when you are saying fall you are saying in the standalone results compared to quarter one or last year?

Kamlesh Jain: Quarter one, sir?

Praveen Maheshwari: Quarter one, there is no fall.

Kamlesh Jain: If I see the total tax rate, it was 35% in last quarter, now it is 25% in this quarter?

Satish Pai: Yes. So the India part just so that we are clear, we do not see any impact of the new tax rate because we will continue with the old regime because of existing MAT credits and accelerated depreciation. Novelis has seen a tax rate reduction in this quarter and maybe Steve, you want to just clarify the Novelis tax rate, why it went down?

Steve Fisher: Yes, sure. So the Q2 ETR for Novelis was about approximately 27% versus last year, approximately 36%. We had a more positive regional mix of where there is higher statutory rates and then we have both currency re-measurement and translation in Brazil that was favorable to us. But overall, we continue at Novelis to find new opportunities to continue to find ways to lower the ETR and I think you have seen that as a trend over the last several quarters.

Kamlesh Jain: Thanks, sir. And lastly sir, on the copper business. So how do we see that going forward like say in the H2 the ramp-up and the volume levels and by-product realization?



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Praveen Maheshwari: So in copper business, the positive is that the operations are expected to be better in H2, so it will be more stable, we are not looking at any shutdown in Q3 nor do we expect any operational issues because the floods are over and everything is over. So I think Q3 will be better than Q2 operationally. The cloud is on the market side, a little bit because as we talked about earlier in the call that both aluminium and copper businesses in India domestically are seeing slower growth. So that may be a point, but at the end of the day, we are able to sell everything. The impact comes if you have to export then the realization is slightly lower. So I would guess overall financially the performance should be better than what you have seen in H1.

Moderator: Thank you, sir. We have next question from the line of Vishal Chandak from Emkay Global. Please go ahead.

Vishal Chandak: The first question is with respect to again on the Aleris deal in China. So the Regulatory Commission have found that there is an overlap in U.S. as well as in Europe. Is any similar finding is there in China as well or they are just waiting for the decision in U.S. and in Europe?

Steve Fisher: Yes. So there is a small overlap in auto body sheet as Aleris has had some small imports from their Duffel facility in Belgium, being imported into China. That is from what we see the only overlap in competition. Obviously, with our commitments in EU to divest Duffel in the event that when we close the transaction with Aleris, that would eliminate the overlap of competition between Novelis and Aleris inside of China. And so we just continue now that both the EU and U.S. have made their rulings to work very actively with the regulatory authorities in China to get the final clearance and hope to get that over the next few weeks.

Vishal Chandak: Got it. Second question is with respect to your CAPEX programs. If you could just help us walk through the timelines of various projects. As you mentioned, all the projects are on times if you could just walk us through the timelines for various projects?

Satish Pai: Okay. So before I hand over to Steve, the Utkal Alumina 500 Kt expansion is on time. We should be doing the mechanical commissioning somewhere in Q3 of next year. So by December of next year, we should be up and running. So that is the Utkal. So I will let Steve talk about the Novelis projects.

Steve Fisher: Yes. And so as Praveen had mentioned or Satish, I do not remember all of our projects are on time and on budget. The first project will be the 200 Kt auto finishing facility to come online in Guthrie, Kentucky here in the U.S. It will start to commission late this fiscal year, so March 2020 and begin to sell coils to customers in fiscal 2021. The next project to come online from there is our 100 Kt auto finishing expansion in Changzhou, China. It will begin the commissioning process in the first quarter of fiscal 2021 and qualifying with customers. And then finally, our third project, which is the expansion of both rolling and recycling capacity in



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the facility in Brazil is on track and will come up for commissioning in March of 2021. And then finally, as I mentioned on the call, we have just begun the recycling expansion in Greensboro, so that is just underway.

Moderator: Thank you, sir. We have next question from the line of Rahul Jain from Systematix Shares & Stocks. Please go ahead.

Rahul Jain: Yes. Could you also quantify the amount that is required for these expansions for this year and for next year?

Satish Pai: You mean the CAPEX?

Rahul Jain: Yes.

Satish Pai: CAPEX this year will be Rs. 700 crores for the Utkal expansion. Steve, the CAPEX for the three projects for this year for you is?

Steve Fisher: Yes. I do not know the exact dollars for this year, but we are guiding for total CAPEX at the Novelis level of USD650 million to USD700 million, which would approximately USD200 million of maintenance, so the rest would be the strategic projects, so roughly in the USD 450 million range for this year.

Rahul Jain: So, you think USD450 million this year and USD650 million next year?

Steve Fisher: No, USD650 million total CAPEX for this fiscal year of which USD200 million is maintenance. So that would imply about USD450 million for strategic projects this fiscal year.

Rahul Jain: And would you give any guidance for next year?

Steve Fisher: We have not given any guidance for next year but for the projects that we have announced, it would be less than USD450 million spent this year.

Rahul Jain: Right. And for Utkal, could you also specify how much the reserve life of bauxite do we have?

Satish Pai: It depends on whether we do any further expansion, but if we continue with the \$2 million, we have roughly I think another 30 years - 35 years of reserve life.

Moderator: Thank you, sir. We have next question from the line of Akshay Ajmera from Nirzar Securities. Please go ahead.



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- Akshay Ajmera:** Just a small book-keeping question I have. In the standalone financials, we have Rs. 1,043 crore charge in the P&L in the OCI. And I wanted to know how much is this is related to our investment in Vodafone Idea at all?
- Praveen Maheshwari:** So it is basically a notional adjustment in OCI, depending upon the market price, but roughly it is about Rs. 500 crores for Vodafone Idea.
- Akshay Ajmera:** Okay. And are we envisaging any plans to put in further equity or any launch of corporate guarantee to Vodafone Idea?
- Satish Pai:** No.
- Akshay Ajmera:** Not at this point. All right.
- Moderator:** Thank you, sir. We have next question from the line of Rajesh Lachhani from HSBC. Please go ahead.
- Rajesh Lachhani:** Sir, my question is with regards to the auto capacity expansion in China. If I remember correctly, we already have auto facility in China, which is not running at full capacity. So I just wanted to know what is the current capacity utilization in China and what is the objective of expanding this capacity if we are not running our earlier plant at full capacity?
- Steve Fisher:** Sure. So you are absolutely correct. We currently have approximately 100 Kt of auto body sheet in production and we are doubling that to 200 Kt. We are not running at full capacity as we sit here today because of the pullback in auto builds, generally in China due to consumer sentiment, probably driven mainly by U.S. - China trade disputes. As we look forward, we have sold significant amounts of both lines of the 200 Kt and we believe that the overall market conditions for auto will not continue at the levels that they are at, I mean we will see recovery and expect at some point in time some significant recovery which will utilize both lines. Again, reminding everyone on the call that inside of China, this is the leading new energy vehicle, electric vehicle market from a production standpoint, which is a higher use of aluminium and something that we see a tremendous amount of demand in China for.
- Rajesh Lachhani:** Sure, Steve. Steve, can you just quantify what is the capacity utilization of the Chinese auto plant currently?
- Steve Fisher:** Yes. Currently we are running just over 50% in the current market conditions. But that, as I said can change quite dramatically.



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Rajesh Lachhani: Understood. And my second question is to Mr. Satish. Sir, once we have this Utkal Alumina project expansion completed, since Muri is anyway the high cost plant. If the alumina prices stay below 270 or below 300 is there option that we can close Muri forever and then continue with Utkal expansion, can source the Alumina from Utkal expansion rather?

Satish Pai: So look, Rajesh, I think we evaluate those options as we go along because you also have to make sure that you have a risk mitigation plan in place. The last thing I don't want is that all my alumina comes from one place because that can be a little bit risky as well. So I think that what you mentioned, we are also aware of it but we would take a call when that happens. I think we would also want to do some upgrades on the Renukoot refinery as Step one, because Muri is relatively a new plant whereas the Renukoot refinery also we would want to take some shutdowns and fix some things once Utkal expansion comes online.

Moderator: Thank you very much, sir. I would now like to hand the conference over to the management for closing comments. Sir, over to you.

Satish Pai: Yes. Thank you very much. As you said, I think that we for Hindalco, our balanced business model between the downstream and upstream is where in these challenging times, it comes out because compared to our competition it allows us to weather the tough commodity conditions better. So thank you very much for your attention everyone. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Hindalco Industries Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.
