



“Hindalco Industries Limited Q2 FY 2018 Earnings
Conference Call”

November 03, 2017



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hindalco Industries Q2 FY 2018 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. Abhishekh Rungta. Thank you and over to you, sir!

Abhishekh Rungta: Thank you and Good Evening and Good Morning, everyone. On behalf of Hindalco Industries Limited, I welcome all the participants to the Earning Call for the Second Quarter of Fiscal Year 2018.

On this call we will be referring to the Presentation that is available on our website. Some of the information on the call may be forward-looking in nature and will be covered by Safe Harbor language on Slide #2 of the Presentation.

On this call, we have with Mr. Satish Pai -- our Managing Director; and Mr. Praveen Maheshwari -- our Chief Financial Officer.

Now, let me turn the call over to Mr. Pai.

Satish Pai: Thank you, Abhishekh. Good Evening or Good Morning, everyone. Welcome to the Second Quarter of Fiscal Year 2018 Earning Call for Hindalco Industries Limited.

I will start by giving you the key highlights of the various strategic initiatives and segment wise performance. This will then be followed by an update on macroeconomics and industrial environment and highlights of the results. Later, I will be covering operating performance of all our segments in more detail and Praveen will cover the financial performance.

Let me start with the key highlights starting with Slide #5. Hindalco delivered excellent financial performance in Q2 FY 2018 driven by stable operations in the Aluminium segment and supportive macro factors for both Copper and Aluminium segments. EBT before exceptional items for the quarter was up 30% to Rs. 713 crores. As per our commitment, we continue to focus on deleveraging our balance sheet. We have prepaid project debt of Rs. 5,686 crores at Hindalco standalone and Rs. 2,280 crores at Utkal.

In FY 2018, till dated total prepayment of project loan stands at Rs. 7,966 crores, including the project debt prepaid in FY 2017, the total prepayment stands at Rs. 8,997 crores.

The Aluminium business delivered solid operating and financial performance. Standalone Aluminium business EBITDA was up by 18% at Rs. 957 crores on the back of supportive macro factors and higher volumes partially offset by increase in input cost.

EBITDA for the quarter was also impacted by about Rs. 64 crores due to increase in electricity duty in Odisha (Orissa) which resulted in higher cost of production at Hirakud and Aditya. Mahan, Aditya and Utkal continued to run at their designated capacities and efficiencies. Production of Aluminium was at 326 KT and Alumina was at 712 KT in Q2 FY 2018.

Quarterly Utkal EBITDA year-on-year grew by 18% to Rs. 201 crores versus Rs. 170 crores mainly due to higher realization partially offset by increase in input cost. Though the higher realization is positive for Utkal it results into higher input costs for the standalone Aluminium business.

During Q2 FY 2018, coal security further improved with additional new linkages of 0.2 million tonnes, taking the total coal tie-up including captive mines to 15.7 million tonnes against the requirement of about 16 million tonnes.

However, we continue to purchase 25% to 30% of our requirements through e-Auction and other sources due to tightness in coal supply on account of monsoon related disruptions. Further supplies from new linkages in current year is expected to commence from Q3 of FY 2018.

Moving to Slide #6. Our Copper business posted strong financial performance in Q2 FY 2018. EBITDA stood at Rs. 467 crores, increased 28% year-on-year due to favorable macro factors and higher byproduct realizations, partially offset by lower volumes due to operational issues. We sold 40 KT of Copper Rod in Q2 FY 2018 as against 42 KT in the previous year due to subdued domestic demand.

Novelis continues to deliver solid operational and financial performance. In Q2 FY 2018, Novelis achieved a record adjusted EBITDA and shipment. Adjusted EBITDA was up 12% year-on-year to U. S.\$302 million and shipments increased to 802 KT up 4% year-on-year.

During the quarter, year-on-year automotive shipments increased by 12% and Can shipments were up by 5%. We are seeing signs of improvement in Can demand mainly in the Asian, South American and North American markets.

During Q2, Novelis also successfully completed the Kobe joint venture transaction and received cash proceeds of US. \$314 million. The reported net income of U. S.\$307 million in Q2 FY 2018 is after accounting for exceptional gain from the Kobe joint venture.

Let us now look at the broader economic environment in Slide #8. Global economic activities continued to gather strength in the calendar year 2017.

According to the IMF, global growth is projected to rise to 3.6% in calendar year 2017 versus 3.2% in calendar year 2016 and further increased to 3.7% in calendar year 2018. Economic growth in regions like the Europe, Japan, Russia, emerging economies registered better-than-expected growth in the first-half of calendar year 2017.

Given the steady recovery in Europe, the European Central Bank in its recent monetary policy announced to cut in its bond purchases by half from January 2018 onwards.

In the U. S. unemployment rate fell to a 16 year low of 4.2% in September of 2017 from 4.4% in August 2017 and the ISM Manufacturing PMI touched a 13 year high at 60.8% in September 2017. China also continues to grow strongly in 2017. During Q3, China grew by 6.8%.

On the domestic front, RBI has revised down the economic growth forecast for financial year 2017 - 2018 to 6.7% from their previous projection of 7.3% due to sluggish demand and delay in revival of investment activities.

However, inflation in India remains in the comfortable limits of the RBI. In September 2017, retail inflation CPI registered a growth of 3.3% year-on-year.

Recently, the Government of India announced a fiscal stimulus worth Indian Rs. 7 lakh crores, which includes a bank recapitalization program of Rs. 2.1 lakh crores as well as a highway construction project of Rs. 5.3 lakh crores. The bank recapitalization is expected to spur bank lending and boost growth. We are also expecting that second-half of FY 2018 will gather momentum as it can be visible from the recent index of industrial production figures. In August 2017, it grew by 4.3% year-on-year and 0.9% in July 2017 after actually contracting in June of 2017.

Slide #9, turning to the Aluminium industry update on Slide #9. Due to Chinese supply side reforms about 3 million tonnes to 3.5 million tonnes of capacity is expected to close permanently.

Winter closures are likely to affect 2 million tonnes to 2.5 million tonnes of annual capacity in Q4 calendar year 2017 and Q1 calendar year 2018. But despite reforms in China, production is expected to grow at a robust pace of around 11% to 36 million tonnes in calendar year 2017 due to restarts and expansions. Whereas, production in the world excluding China is expected to witness a moderate growth of 1% to about 27 million tonnes in calendar year 2017 due to supply type disruption caused by operational issue.

On the demand side, consumption in China is expected to grow by 8% in calendar year 2017 whereas demand in the world excluding China is expected to grow by 4% in the same period as against 3% in calendar year 2016.

In the world excluding China, the market is expected to witness deficit of around 2 million tonnes while China is expected to witness a surplus of 1.5 million tonnes in the whole calendar year 2017 despite facing a deficit of around 53 KT in Q4 of 2017.

LME price of Aluminium grew by 24% year-on-year and 5% quarter-on-quarter. Surge LME price of Aluminium is majorly driven by implementation of Chinese reforms and higher input costs.

In slide number #10, we will discuss about the Aluminium industry drivers and factors which affected us in Q2. Implementation of reforms in China, coupled with surge in input cost, helped industry players to improve their realization.

LME in Q2 FY 2018 grew by 5.3% over previous quarters and 24% year-on-year. However, for domestic players, an elevated rupee value against the U.S. dollar in Q2 FY 2018. The rupee value appreciated around 4% to Rs. 64.65 in Q1 and Rs. 64.29 in Q2 negated the impact as compared to the previous year. The Japanese MJP premium in Q2 witnessed moderation of 24% as compared to the previous quarter due to seasonal weakness for demand.

On the domestic front, demand from user industries showed signs of improvement at the quarter end after facing softness in demand in the initial month of the current quarter. In the meantime, imports including scrap declined by 17% due to the slow demand growth in India.

Slide #11 captures the state of the Copper industry and the major external value drivers of the Copper business.

In Q2 FY 2018, LME price for Copper increased by 33% year-on-year and sequentially by 12% due to robust economic and manufacturing activities in China, Europe and the U. S. Recent PMI shows that the growth in manufacturing activities remains robust in U. S. and Europe.

Demand for financial investors also supported the Copper LME. With increase in economic activities, refined copper demand is expected to grow around 2% in calendar year 2017, although it is lower than the growth of 2.8% in the previous year.

The moderation of growth is majorly driven by the abundance of scrap availability in the global market. TCRC continues to be moderate in the current financial year. However, end of Q2 FY 2018 has started to move upwards due to moderation in concentrate demand on account of maintenance shutdown carried out in different parts of the world.

In the meantime, larger trading houses released significant quantities of Copper concentrate into the market during September 2017. We will soon get to know the TCRC for the next year once the LME weak is over. We expect the TCRC to be in the same range for the calendar year 2018.

In the domestic market, demand for Copper remains subdued in Q2 FY 2018 and duty free imports continue to pose challenge for domestic players.

Let me take you through the key highlights for the results.

Coming to Q2 FY 2018 results highlights for Hindalco standalone business on Slide #13 as compared to Q2 FY 2017. The Company's top-line grew due to higher Aluminium volumes and an increase in average realization for both Aluminium and Copper.

For the year, EBITDA for Q2 FY 2018 was higher by 6% at Rs. 1,577 crores driven by steady Aluminium operations, higher aluminium volumes, supportive macros for both the segments, higher copper byproduct realization, partially offset by higher costs and lower copper volume.

Net profit for the quarter, before exceptional items, was Rs. 461 crores. Exceptional items, post tax adjustments were Rs. 68 crores. Reported net profit after adjustment for exceptional items was Rs. 393 crores. Details for the exceptional provision will be shared in the latter part of the Presentation.

Let me now turn to the operating performance of the Aluminium business in India on Slide #15.

Aluminium operations continued to be largely stable. During the quarter, the Aluminium production increased by 2% and Alumina production (including Utkal) was down by 2% year-on-year. Alumina production was impacted due to planned maintenance shutdowns during the monsoon period. All new plants continue to operate at their designed capacities. Value-added products continue to be a key focus for the company. However, during the quarter, the production of value-added products including Wire Rod de-grew by 2% over the previous year mainly due to subdued local demand.

Against the total production of 326 KT of Aluminium in Q2 FY 2018, metal sales in all was at 329 KT mainly due to the liquidation of port stocks from the last quarter and a marginally uptick in domestic demand from September onwards.

Slide #16 talks about Utkal performance.

Production at Utkal Alumina in Q2 FY 2018 increased by 1% year-on-year to 380 KT. The plant continues to operate optimally thereby maintaining its position among the lowest cash cost producers in the world.

Moving to operating performance of Copper business in Slide #18.

During Q2 FY 2018, production of Cathodes was year-on-year lower by 10% and DAP production was down 30% due to operational issues.

Despite the operational issues, we achieved a record H1 Cathode production. CC Rod production as for the quarter was lower by 7% due to subdued market demand. Total Copper sales for the quarter was 93 KT versus 102 KT in Q2 FY 2017.

I will now cover the operational performance of Novelis in brief. Many of you may have already heard the Novelis earnings call yesterday for Q2 FY 2018.

Coming to Slide #20, we achieved a record quarterly shipment of 802 KT up 4% year-on-year. Total FRP shipments grew due to 12% increase in automotive shipments and 5% increase in



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global Can shipment. Novelis is the world's largest producer of Aluminium beverage Can-sheet and the world's largest recycler of used beverage can and we remain committed to supplying our customers in this core market.

We continued to make strong financial performance in the second quarter driven by ramp-up of automotive capacity, improvement in operational efficiencies, and favorable metal costs. We also remain diligent in driving operational excellence across our system. This focus on recovery, safety, customer satisfaction, metal mix, and quality is providing continued operational efficiencies.

Our EBITDA per tonne has improved significantly reaching U.S.\$377 in the second quarter. With that, I would like to turn the call over to Praveen for a more detailed review of our financials.

Praveen Maheshwari:

Thanks, Satish. Coming to Slide #22 straightaway.

Revenue from operations for quarter two was up as compared to previous year at Rs. 10,308 crores, driven by increase in average realization for both the segments, higher Aluminium sales, but partly offset by lower Copper sales.

But I must caution here that the revenues of this period versus previous year or even previous quarter are not comparable because in this quarter with the implementation of GST, the revenue is recorded net of GST and earlier it was gross of excise duty.

Hindalco posted record EBITDA at Rs. 1,577 crores up 6% compared to previous years, supported by stable operations, higher Aluminum volumes, supportive macro factors, higher Copper byproduct realization, partly offset by increased costs, and lower Copper volumes. Depreciation increased over previous year due to progressive capitalization.

As compared to previous year, interest expense was lower by Rs. 110 crores due to the prepayment of loans and decrease in average cost of borrowing from 8.29% to 7.66% in this quarter.

Earnings before tax and exceptional item for the quarter is at Rs. 713 crores up 30% as compared to previous year, previous quarter due to strong overall business performance and savings in interest costs.

Net profit after exceptional items and tax stood at Rs. 393 crores. The net profit for the current quarter factors the exceptional provisioning of Rs. 106 crores which is on the basis of various recent Supreme Court judgments.

To elaborate on that front, there are three exceptional items in this quarter two unfavorable and one favorable.

The first exceptional item relates to a recent Supreme Court decision in the matter of transit fee on forest produce. In our case, the fee has been levied by the states of U. P. and M. P. on transportation of coal and bauxite for about several years.

The constitutional validity of the fee and the definition of forest produce were the key issues in this matter before the court. The Supreme Court has upheld the validity of the fee and has categorically defined coal as a forest produce. Based on this judgment, a provision of Rs. 139 crores have been made during this quarter.

The second exceptional item relates to another Supreme Court decision in a matter related to Gujarat value-added tax. As per the regulations, companies are required to reverse a certain percentage of the Gujarat VAT attributable to the goods transferred out of the state under stock transfer.

This reversible required for VAT credit taken on both raw materials as well as fuel items. The revenue authorities claimed that for the items that can be classified as both such as furnace oil and natural gas, etc. This credit has to be reversed twice. This was contested, and the High Court gave a decision against its interpretation.

However, the Supreme Court reversed this decision and upheld the claim of the revenue authorities. According, we have provided an amount of Rs. 27 crores on this account which includes interest as well.

The last exceptional item is a favorable one and relates to a write back of an amount of Rs. 61 crores.

During quarter two of last year, the government had sought to require industry to deposit the contributions to the District Mineral Fund - DMF with retrospective effect. We had accordingly made a provision for this in that quarter, this was contested by the industry. The Supreme Court has held this decision of the authorities to be ultra bias As a result, this amount has been written back in the same quarter.

The standalone Aluminium revenue for quarter two of FY 2018 on Slide #23 was year-on-year up at Rs. 5,213 crores driven by increased realization and higher sales volume at 329 KT versus 319 KT in the previous year.

EBITDA was Rs. 957 crores in quarter two of FY 2018 as compared to Rs. 808 crores in quarter two of FY 2017 on the back of supportive macros like LME, higher volumes, stable operations, partially offset by higher input cost.

Coming to the financial performance of Utkal on Slide #24. During quarter two FY 2018 year-on-year EBITDA rose by 18% on the back of higher realization, partially offset by higher input



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cost. Utkal, as you know continues to be the lowest cost producer in the world as far as refinery is concerned.

Moving to the financial performance of the Copper segment on Slide #25. Revenues were up over previous year, at Rs. 5,097 crores due to higher copper LME and byproduct realization partially offset by lower volumes.

Copper sales at 93 KT versus 102 KT in Q2 FY 2017 strong year-over-year EBITDA growth by 28% at Rs. 467 crores on the back of favorable macros, higher byproduct realization but partially offset by lower volumes with the certain operational issues.

Coming to Novelis on Slide #26. The net sales increased 18% to \$2.8 billion driven by total shipments and higher average Aluminium prices. Adjusted EBITDA, excluding the metal price lag, increased 12% to U.S.\$302 million in this quarter from US. \$270 million in previous year. The year-on-year improvement in adjusted EBITDA is primarily a result of higher shipments, favorable metal costs, and operational efficiencies but partially offset by lower beverage can pricing. Adjusted EBITDA reached \$377 per tonne in the quarter which is also a record of sorts.

With this, let me hand it over to Satish for his closing remarks.

Satish Pai:

So on Slide #27 now, in line with our commitment to make our balance sheet stronger, deleveraging continues to be our key focus area. Since September 2016 till date, we have prepaid about Rs. 8,997 crores of project loans.

Stable operations at Aluminium plants across Hindalco is the result of our operational excellence, all the new plants continue to operate at their designed capacity. In Q2 FY 2018, stable operations and supportive macros delivered strong results. Securing continuous supply of key raw materials is the backbone of the commodity business globally. Hindalco has secured majority of the annual coal requirement via captive mines and new linkages. We also have a total of about 28 bauxite mines located in close proximity to the refinery which played the key role to maintain cost competitiveness.

On the Copper side, we normally plan to secure 70% to 80% of Copper concentrate requirement by getting into long-term contracts before commencement of next year. By virtue of being a strong Aluminium integrated player, it provides us overall cost benefits for the company, especially during the times when input cost are inching up.

We maintained a very positive view of the growing demand for automotive Aluminium sheet globally with a growing demand for electric and hybrid vehicles and we aim to reinforce our market leading position by adding capacity to meet customer needs.

Further, we maintained a positive view on the global can market, especially after seeing the revised demand from Asia and the Americas although we are expecting steady but slow single-digit growth over the next several years.

Going forward in India, we see positive growth momentum to continue although there are some key concern areas like continue low cost imports of Aluminium and Copper which are hurting the domestic players and also there is an increase in domestic Aluminium production.

Further, any delay in the pick-up of domestic demand could also hamper overall growth. We are also keeping a close eye on input cost movements as it may affect us adversely.

With that, I would like to thank you all for your attention and open up the forum for Q&A.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with a Question-and-Answer Session. First question is from the line of Saumil Mehta from BNP Paribas Mutual Fund. Please go ahead.

Saumil Mehta: Sir, couple of questions from my side. One is, what is the gross and net debt at Utkal for September 30th and how has that changed from March, if you can give that data?

Praveen Maheshwari: Yes, we had about INR 4,700 crores.

Saumil Mehta: That is gross or the net debt?

Praveen Maheshwari: No, I am just talking about long-term project loan. The debt, otherwise in Utkal is very small the borrowing limit is very small. I think, you need to focus on the project loans which was at about Rs. 4,700 crores and we have prepaid about Rs. 2280 crores out of this. So the balance will remain about Rs. 2,300 crores - Rs. 2,400 crores of the remaining loan for Utkal as of 30th of September.

Saumil Mehta: That would be the gross or the net debt number?

Management: So the treasury is not big there. There is a small operating cash which is available.

Management: You can take that as a net debt because...

Management: A couple of hundred crores is what we keep as a cash and it is not a big amount.

Saumil Mehta: Sure. My second question is with respect with coal cost efficiencies. Now, we done a very good job in terms of getting cost under control with caustic soda price is rising and also the crude derivatives is rising and expected to rise. How should we look at the cost efficiency playing out over the next two quarters? And wanted to check on the other manufacturing expenses, it also seem to have coming up for the last three - four quarters? Is it any one-offs of any hedging gains in that?

Satish Pai: So let me take the first part of the question. I think, I have answered this before. So coal costs are still under control they have not really changed over the Q1 to Q2 and we do not expect that much movement in Q3 - Q4. The Alumina, for which world market prices have gone up, we are fully integrated. So, the only real exposure that Hindalco has is really to the carbon related costs. If you remember, I had said it is about 15% - 16% of our COP so the CP coke and pitch, these are the ones that have moved up the most. In fact, they have moved up by 50% - 60% from last year's period. So, if you look at our cost of production, when I look at it Q1 to Q2 the total cost of production went up by 3%. I am projecting for Q3, it will go up another 3% to 4% and this is largely due to this one carbon sector. Now what also is going up is furnace oil and caustic which affects the sort of Alumina prices more but we have still got a lot of efficiencies helping us. So it is really carbon prices that is affecting us.

Saumil Mehta: Okay. And the last question is with respect to the external sales for Alumina if at all for this quarter and on a Y-on-Y and Q-on-Q how that number have changed?

Satish Pai: So this quarter there were zero external sales, so we are running at full Aluminium capacity. So my feeling is that maybe in Q4 we may do one ship about 30kt to 40kt sales. We did not sale anything in Q1 neither in Q2, and in Q3 also we may not be selling. So because our Aluminium production now is at full capacity, so really we do not have much space to sell anymore.

Saumil Mehta: And on the other manufacturing expenses which have been coming off for other cost efficiencies or there are any hedging gains if at all?

Satish Pai: No, we will have to take this offline. But our other manufacturing expenses are flat. So when you say coming off, I suspect you are saying they are going up. So let us just take that offline, the numbers I have showed is flat.

Saumil Mehta: No. It has been coming off if I do it on per tonne basis?

Satish Pai: Okay, that could be because this quarter we sold a little bit more tonnes than last quarter and if you remember the Q1, I have said we had about 6 KT to 7 KT stuck at the port which is why the sales of last quarter were lower. That line where you are talking about is really packaging and sales expenses, so it could just be because of the tonnage going up in Q2.

Moderator: Thank you. Next question is from the line of Mitesh Jain from Mitesh Jain. Please go ahead.

Mitesh Jain: Mr. Pai, I have two questions. Number one, if I look at the Slide #24 of the Utkal standalone EBITDA. So if you can explain what is the main reason for the Q-on-Q decline in EBITDA? And the related question is if you can just broadly quantify, we do not want any specific number, how much is the caustic soda price costs have gone up on a Q-on-Q basis? This is question number one. And question number two is, if you can just tell us broadly, what is the Aluminium and Copper demand growth in India for Q2 industry as a whole?



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- Satish Pai:** Yes, okay. So look, first the Alumina prices with Utkal we do it on a trailing quarter basis for transfer pricing. So whatever Alumina Utkal transfers to Hindalco standalone comes as a Q-1. So in Q1, we used Q4 Alumina prices which was \$339. In Q2, we used the Q1 which was \$297, that is why it goes from \$291 to \$201. You with me, and then, in Q3 we will be using Q2 which is about \$340. And Right now, Alumina prices have gone through the roof (+\$400). So we will have to see how it is in Q3. But this EBITDA just gets rolled into the Aluminium business of Hindalco.
- Mitesh Jain:** Yes, got it.
- Satish Pai:** So the second part of your question, H1 Aluminium growth H1 to H1 is a (+2%) and Copper is actually a de-growth.
- Mitesh Jain:** Sorry, sir, I have to note it down. So you said Aluminium growth is?
- Satish Pai:** 2%. H1.
- Mitesh Jain:** 2%. Okay. And Copper?
- Satish Pai:** Is a de-growth.
- Mitesh Jain:** Is a de-growth.
- Satish Pai:** Yes.
- Mitesh Jain:** And lastly on this caustic soda sequentially, how much is the cost for Utkal had gone up, in percentage is also okay?
- Satish Pai:** On caustic prices, there is couple of things first to know. That there is an Indian caustic price that we use so ours is on based on our domestic, we import caustic only a little bit. So for us, I saw that the cost has gone up about 5% - 6%.
- Moderator:** Thank you. Next question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.
- Pinakin Parekh:** So my first question is, you mentioned that on a sequential basis you have seen around 3% cost of production increase. Now on coal, sir, obviously there is an issue in terms of Coal India and diverting even material from linkages to the power plant. So just trying to understand, sir, would the 3% cost increase in Aluminium, does it build in any coal purchase in the e-Auction market or is it all going to be met from the captive mines and the linkage supplies?
- Satish Pai:** So Pinakin, if you remember remarks I just made, I think, that for us we are always buying about 25% to 30% on the e-Auction market because whatever you win on linkages, whether it is monsoon, whether it is these things, we always never get 100% of the full linkage. So for us, we are always buying about 25% on the e-Auction market and that is what we are factored in. The

second thing to say is that post-Diwali the situation has got completely better actually we are right now completely comfortable with our coal situation.

Pinakin Parekh: Understood. And when you said 3% aluminum cost of production this is on integrated basis including Utkal?

Satish Pai: Yes, that is why we are saying that this 3% is coming Pinakin, largely because of CP coke and pitch. And CP coke and pitch have really-really gone up a lot, a lot because of China - environmental shutdowns not just been for Aluminium, it has also gone to CP coke and RPC production. If I can put it so all that has made the international prices of CP coke and pitch go up. And India is a net importer in both these items and also combined with that domestic demand of Vedanta all has gone up. So we are seeing a big increase in prices there. The good news for us is that our COP is only affected by this 15% - 16%. Hence the 3% to 4% increase.

Pinakin Parekh: Understood, sir. And sir, my second question is that obviously, there has been a very large deleveraging by Rs. 8,000 crores. There was also held partial by the equity raising. Now, sir, if you were to make a forecast for the debt that the company would prepay or look at deleveraging over the next 12 months sir, what would you hazard to get broad range?

Satish Pai: Well, Pinakin, all I will say at this stage is that we are roughly around the sort of low-3s from a net debt EBITDA level. And I think that at this stage, we will take a pause from any more prepayments. Our EBITDA will continue to slightly go up, net debt EBITDA hence will continue to go down. We think that by the end of the year, we will be around the 3 mark. And hence, at this stage, we do not have any firmed plans on prepayment. We will basically take a look and we got to pause right now.

Moderator: Thank you. Next question is from the line of Amith Dixit from Edelweiss. Please go ahead.

Amith Dixit: My question relates to deleveraging. We have actually reduced the debt by around Rs. 8,000 crores. So I mean, in balance sheet the long-term borrowing have gone up by I mean, almost Rs. 1000 crores. So what I am missing here?

Satish Pai: No, so long-term borrowing, you are saying or generally the total borrowing?

Amith Dixit: Generally, in fact, if you see short term borrowings, they have in fact gone up?

Praveen Maheshwari: See, what we have done in the last say couple of quarters is, while we have repaid the long-term loans, we found an opportunity that the short-term borrowings is available at a cost, which is lower than our treasury earnings. So we have borrowed at short-term at this point in time this is as through CP's and WCP, etc., and this will have to be paid by March, before the end of the year. We make about a percentage of arbitrage in this whole thing. That is all we have funded right now but we have enough treasury to be able to repay whenever the repayment becomes due.



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- Amith Dixit:** Great, sir. The second question is in relation to there were several media reports suggesting that you might be interested in Aleris. So any thoughts on the same?
- Satish Pai:** I think that we have not comment at this stage. I think, we stick to our stated objective that Novelis has got a strong balance sheet. There we see very clear organic opportunities which I think they highlighted on their call yesterday and we are working on the organic opportunities and anything else, we will take it as it comes, so no comment on that.
- Moderator:** Thank you. Next question is from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.
- Dhruv Muchhal:** Most of my questions are answered but if you can help me with this, if you see what 2Q and 3Q of last year, the LME is about (+\$200) versus if I include Utkal our EBITDA per tonne for Aluminium is only about \$50. So I believe, our cost have not changed much. So what explain this price pressure? Is it the domestic oversupply? Is it hedging? Or what is it?
- Satish Pai:** No. I think there are a couple of factors there. One part is, of course, the input cost which I have highlighted. And the second part also, which I think, I was quite transparent in the last quarter we do have roughly 50% of our Aluminium in the closed quarter hedged and we were neutral at that around the \$2,000 range. So yes, there is certain of that part of the hedging also showing up that we are not able to realize the full potential of the LME.
- Dhruv Muchhal:** Sure. Sir, is it possible to split it up with your effective and LME realization in this quarter, so we can compare what the number on Bloomberg is or let us say what the quoting number is and what the actual this?
- Satish Pai:** No. I do not think we give for competitive reasons what is the price that we are achieving on the market because by the way, we think it is better than some of our competitors, the actual realization. But I think, again, giving you the number I think, at around \$2,000, our hedges was breakeven and we are roughly 50% hedged.
- Dhruv Muchhal:** 50% of the volumes at the end of the quarter?
- Satish Pai:** Yes.
- Moderator:** Thank you. Next question is from the line of Bhaskar Basu from Jefferies. Please go ahead.
- Bhaskar Basu:** Just two questions. One, just following-up on the last question. If we were to look at the integrated EBITDA per tonne on a sequential basis, it is down about \$60 per tonne. Obviously, costs have gone up.
- Satish Pai:** Your number is wrong. I do not think it is down \$60 a tonne. It is actually up.



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- Bhaskar Basu:** On an integrated basis, which I mean adding Aluminium EBITDA plus the Utkal Aluminium, Utkal EBITDA divided by the sales? So basically, it kind of gives you underlying picture of the Aluminium business, you are adding Aluminium standalone EBITDA plus the Utkal EBITDA. My question is that while we know that there is a cost increase, you did about 3% but realizations have also gone up. I mean, the LME prices were much higher. So is it the entire delta has been negated by the hedge?
- Satish Pai:** No. Look. I still think, we are having a little bit of trouble reconciling your numbers. The way we see it, the EBITDA for the Aluminium business or the EBITDA per tonne is flat.
- Bhaskar Basu:** If you include Utkal as well on a per tonne basis?
- Satish Pai:** I guess, your question is the EBITDA on an absolute basis is flat. The tonnage is 329 versus 299 the previous quarter. Hence, the EBITDA per tonne you are saying is looking lower.
- Bhaskar Basu:** Yes, I mean I calculated the EBITDA per tonne so it works out to \$604 per tonne in 1Q versus about \$540 per tonne in 2Q.
- Satish Pai:** Yes. So the impact of the input cost as I said has gone up 3% quarter-on-quarter, so that is certainly one impact. The hedging loss compared to Q1 to Q2 has also gone up because the LME was higher in Q2 versus Q1. So these are the two reasons.
- Bhaskar Basu:** So is it fair to assume that the large part of the realization in LME has been negated by the hedge because LME was actually up by almost \$100?
- Satish Pai:** No. So it can be a combination of the input cost and the hedge, not only the hedge.
- Bhaskar Basu:** Okay, just following on the hedge. There was also currency hedge, have you seen any benefit from that coming through in this quarter? It was supposed to be an offsetting benefit against the Aluminium hedge.
- Satish Pai:** Exactly, that is why if you take my previous comment, I said it is an LME of \$2,000 we are breakeven. That is because our commodity hedge was at a lower number, but the rupee hedge was at the higher number. That is why I sort of made it easy and said that the \$2,000 Aluminium we are breakeven.
- Bhaskar Basu:** My second question is more on Novelis, actually, I just wanted to understand the increasing guidance which was announced yesterday. What were the drivers for it? What really has changed between 1Q and 2Q, which had led to the increase in the guidance? Which part of the business probably surprised positively?
- Satish Pai:** So I think, that the automotive was more or less as we were expecting growing strongly but I think, the positive part has come on the can side and the can shipments have grown. Asia has

been very strong, North America was strong and we were a little bit worried whether the pick-up in Brazil will happen or not. Actually, the pick-up in Brazil has happened. So really the new thing from Q1 to Q2 is the strength in can.

- Bhaskar Basu:** And is the widening Aluminium scrap spread also a driver for that?
- Satish Pai:** Absolutely because between Q1 and Q2, it goes from \$1,911 to \$2,011. So \$100 more means that much scrap spread benefit goes to Novelis.
- Moderator:** Thank you. Next question is from the line of Salil Desai from Premji Invest. Please go ahead.
- Salil Desai:** Sir, on the coal supplies disruption due to the monsoon. Was it just on the linkages or was the captive production also hit it?
- Satish Pai:** Actually, the captive production saved us and I think, even last monsoon, the same call I made that comment, that we are actually very blessed to have three of our mines running now. We do not import coal anymore because whenever there is a bit of disruption, our own mines are there to fill the gap. So, first thing is that India has a monsoon every year and every monsoon, there will be a little bit of disruption because heavy rains in Jharkhand or somewhere the mines will flood a bit. So normally, we do the planning. We keep about 30 days inventory during monsoon compared to the normal 20 days. So this monsoon, as I was just telling someone I actually slept much better than last year's monsoon.
- Salil Desai:** Okay. That is good. But sir, when you specifically mentioned that there was some disruption with the normal coal?
- Satish Pai:** Nothing to get excited about. No, not for us at least.
- Salil Desai:** Sure. And sir, secondly, the premium number auction for the captive mine that you pay that is accounted on quantity basis is what I want to clarify so every quarter how much you mine?
- Satish Pai:** It is on a per tonne basis.
- Salil Desai:** Okay, great. And so finally, this is although a non-cash entry in the other comprehensive income, can you explain Rs. 945 crores provision is?
- Praveen Maheshwari:** This is the OCI and this is basically the MTM losses on the hedges.
- Moderator:** Thank you. Next question is from the line of Rajesh L. from HSBC. Please go ahead.
- Rajesh L.:** Sir, just wanted to ask what is your strategy going ahead on hedging like how much percentage of production we are planning to hedge going forward?
- Satish Pai:** I think, we answered this question last quarter. For next year, we are only about 20% hedged.



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- Rajesh L.:** And for the remaining second-half?
- Satish Pai:** The second-half, Q3 will be around 50%; Q4 is around 48%.
- Rajesh L.:** So it is around 50% in second-half?
- Satish Pai:** Yes. As the LME has run up for the next year, normally our strategy is 20% to 30% before the next year starts. We are seeing the run-up of the LME. So this time for next year, we are taking a little bit of a wait and watch, probably till about December - January because we want to see whether the restarts will happen in China or not post-winter.
- Rajesh L.:** Understood. So sir, this hedging is at around USD 2,000 per tonne for the second-half as well?
- Satish Pai:** No, no. I repeat again, it is at the 2,000 LME and rupee that we are breakeven because the commodity is at lower but the rupee which we have got is at a much higher level. Are you getting me?
- Rajesh L.:** Understood, sir.
- Satish Pai:** Okay. So in fact the \$2,000 Aluminium, we are breakeven as a combination, it is a rupee LME hedge that we do. We always have the commodity and the rupee together.
- Rajesh L.:** Understood, sir.
- Satish Pai:** This year we benefited because the rupee is very strong, whereas our hedges were at 71 - 72, whereas the commodity is at lower.
- Moderator:** Thank you. Next question is from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.
- Ashish Kejriwal:** Sir, your Copper business, we have seen a sharp jump in EBITDA from Rs. 322 crores in first quarter to around Rs. 466 crores. So have you benefited from any participation clause or how do we look at it going forward?
- Satish Pai:** I will let Praveen answer, but I will just tell you the Rs. 322 crores in Q1 was slightly on the lower side. So it should have been Rs. (+350) crores but I will let Praveen answer.
- Praveen Maheshwari:** Yes, so first of all, there is no participation clause that we have in any of our contracts for concentrate procurement. The other point is that this quarter's performance financially is much better on various reasons. One of them an important one is, as you know Copper is fully offset hedged as far as we are concern. So when we buy physically, we sell on the exchange and then we sell physically, it is the reverse, it is unbound. So this on a longer-term basis neutralizes any gains or losses on account of both currency and commodity. But what happens is when there are sharp movements of commodity either way in a short period of time you will see some noise,

some kind of gains and losses flowing into the P&L because of that reasons because the MTM of the derivatives which are not designated into the P&L. It is a little more technical but just to give you simply when you have big movements of LME you will see some commodity related positives or negatives flowing into the profit and loss that was one reason on this. And the second is, also in the currency side the way we hedge is by using a dollar-denominated debt which is typically called buyers credit. So we use the buyers credit as a borrowing to provide the currency hedge against the currency exposure that we have on the physical buying. Now, the movement of buyers' credit hedges and the actual physically they do not necessarily move in the same direction in the same period. So just to give you an example, some of the buyers' credits that we took six months were at Rs. 67 - Rs. 68 and they got paid us Rs. 64 - Rs. 65 in the current quarter. That results in a positive gain for us. It gets offset because of the physical sale we would have done the same and sales will be at a lower price compared to the one that we had bought at. But they do not come in the same ratio, in the same amount in the same month or quarter and that is why sometimes you have some positives or some negatives coming out of that. So these are the principal reasons for these one-offs you can say which may be compensated in the future or which may have been compensated in the past. But on a longer-term basis, this Copper offset hedge does not provide any gains or losses in a quarter you can see that. In addition to this, of course, we had better realization on our byproducts for example, the sulfuric acid and the DAP fertilizer market has been good. So we had a good quarter as well as far as the realization is concerned. LME being up also helps us in terms of our free metals that we get about 1%, 1.5%, 2%, so you get a better realization on that, so some of those factors have also helped.

Ashish Kejriwal: So sir, is it fair to assume that in the third quarter, we will have income back to around each of these levels?

Praveen Maheshwari: So yes, what I would say is the current level seems to be influenced by the factors that I mentioned. It is quite possible that these factors no longer remain in Q3 or may actually be adverse and therefore, the EBITDA could be significantly lower than what you see today for Q2. So the current quarter EBITDA is not representative of continuous earnings in that level.

Ashish Kejriwal: Secondly, again on hedging because hedging loss, we are recording through OCI. So when we look at our revenue part of Aluminium, it has increased by 4% quarter-on-quarter, whereas our volumes has increased by 10% and LME prices have also increased by 5% to 6%. So the point here is LME Aluminium price average price for the quarter was also around \$2,027. So my point only is that even if we are seeing that around 2,000 will be breaking even then where is the incremental benefit of increase in LME prices from first to second quarter gone.

Praveen Maheshwari: No. See, the first thing you should clarify is that what goes into OCI is the hedges which are not matured. The hedges which are matured, which were designated on the sales that took place on this quarter they flow into the P&L. So that point you should understand clearly between the two types of hedges those which are maturing in the quarter and those which are not which remain outstanding. Those remain outstanding, the benefit or loss goes into the OCI. Coming to your question, which has already been answered earlier by Satish is, in this quarter the positive of

course, were LME. But still positive does not come to us because of 50% we are hedged so the prices are fixed there. The input cost increased significantly, so that is where the industry lost out because of that. You will see everybody else's profit and loss statement as well and in the end, we have been able to maintain at the same level of EBITDA between Utkal and Hindalco as it was for the previous quarter.

- Ashish Kejriwal:** Sir, I am talking about revenue side, not the EBITDA side.
- Praveen Maheshwari:** The revenues are not comparable. As I said in the beginning in my script, that revenue compared to last quarter is not comparable to this one. But revenue has gone up still after that excise versus GST impact that we talked about. Earlier it was gross, and now it is net. But it has gone up because the LME has gone up.
- Ashish Kejriwal:** So sir, if we do a like-to-like comparison from first quarter to second quarter in terms of Aluminium sales net of GST we are seeing that Aluminium revenue has increased by more than 15%?
- Praveen Maheshwari:** No, I would not say 15%. I mean, we do not have that number here but it will be more than what is appearing on the face of it.
- Satish Pai:** Because we sold the 328 Kt this quarter and we sold 299 Kt last quarter.
- Ashish Kejriwal:** Yes, 10% increase in volume.
- Satish Pai:** Yes, so and it was 1,911 versus 2,011. So you should see that revenue increase.
- Praveen Maheshwari:** Rs. 400 crores because of this volume increase.
- Satish Pai:** So we had Rs. 400 crores in the top-line because of the volume increase.
- Praveen Maheshwari:** Volume increase.
- Ashish Kejriwal:** My question is if I am looking at the segmental revenue break-up where we are seeing Aluminium revenue it has increased by 4% quarter-on-quarter.
- Satish Pai:** Yes.
- Ashish Kejriwal:** And at the same time, our Aluminium volume has increased by 10%. And LME Aluminium prices has also increased by around 4% or 5%. So when we are seeing that we are breaking you even at around \$2,000 then also the
- Satish Pai:** But it has got nothing to do with the hedge the revenue line.
- Ashish Kejriwal:** The point which we are trying to look at is how our Aluminium blended realization has moved?



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- Satish Pai:** Okay, yes.
- Praveen Maheshwari:** Are you talking the realization per tonne or you are talking of the gross realization?
- Ashish Kejriwal:** Realization per tonne for Aluminium as compared to first quarter, how it has moved, whether it has declined or it has gone up?
- Satish Pai:** The realization per tonne has gone up. The realization per tonne has gone up but that full realization that has gone up is available only for 50% of the metal. The remaining 50% of the metal is fixed at the hedge price. So you are seeing half the benefit of the increase in realization.
- Praveen Maheshwari:** But you are not factoring in the issue that the previous quarter is including Excise Duty and the current quarter is without that. So that itself is about 12% impact. These are not comparable. But I mean, if you really like, you can use 12% of the factor for excise duty which was there last quarter and then calculate.
- Satish Pai:** I guess, Abhishek will discuss this offline.
- Ashish Kejriwal:** And sir, lastly, is it possible to give net debt of company as compared to what it was last quarter?
- Satish Pai:** Yes, sure. The net debt of Hindalco standalone at the end of this quarter is Rs. 18,605 crores including Utkal and on 31st March 2017, it was Rs. 18,928 crores. Of course, the difference comes in the treasury which was much higher than.
- Praveen Maheshwari:** So net debt is about Rs. 18,000 crores.
- Moderator:** Thank you. Next question is from the line of Abhishek Poddar from Kotak Securities. Please go ahead.
- Abhishek Poddar:** Just one question on the Utkal Alumina refinery, could you share also what are the cost inflation in this quarter compared to previous quarter?
- Satish Pai:** Actually, on an overall basis cost plus production in Utkal hardly moved much. And I think that, you know as I said, because we had such a high level of efficiencies coming through. That the slight increase in caustic prices did not on a per tonne basis impact the cost of production in Utkal much and taking into account that this is a monsoon quarter, we are quite happy with that performance.
- Abhishek Poddar:** Okay. You said that caustic cost escalation was not much from this quarter. So do you see in third quarter and fourth quarter that will change?
- Praveen Maheshwari:** Look, I also should point out one thing. The Utkal bauxite is gypsitic so the percentage of silica is less than 2%. So generally, the big increase in caustic price hits me and Muri and Renukoot more than Utkal. Since in Utkal it is a very low silica bauxite. The silica is the one that you need



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the caustic for, the impact in Utkal, I do not see in Q3 and Q4 much. It is in Muri and Renukoot where I see the bigger impact. So we produced about nearly 2.7 million tonnes of Alumina per year one and half it comes from Utkal and the remaining comes from Renukoot and Muri. They get hit a bit more because they have got opaline where the silica is around 4%.

Abhishek Poddar: Okay. The second question on the interest expense in the standalone operations? Do you expect that to decline in third quarter and fourth quarter and by what percentage, if yes?

Praveen Maheshwari: Yes, third quarter and fourth quarter should see some decline because of also the interest rate movement and Utkal would have seen itself in this current quarter itself because a large portion of debt has been paid in Utkal in this quarter.

Abhishek Poddar: Yes. Sir your borrowing costs or whatever decline, if you can give us some idea of what decline you are seeing in percentage basis points?

Praveen Maheshwari: The interest rates will be reset at about 8% MCLR for the large loans which is currently at about 8.9%. So we expect about a percentage or so to come down from the middle of this current quarters.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. For any further queries, you may reach out to Abhishek Rungta or Romi Talwar. On behalf of Hindalco Industries Limited, that concludes this Conference Call. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.