"Hindalco Industries
Q2 FY2023 Earnings Conference Call"

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**Moderator**: Ladies and gentlemen, good day and welcome to Hindalco Industries FY2023 Q2 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subir Sen, Head of Investor Relations of Hindalco. Thank you and over to you Sir!

**Subir Sen**: Thank you and a very good after and morning everyone. On behalf of Hindalco Industries, I welcome you all to this earnings call for Q2 of FY2023. In this call we will refer to the Q2 FY2023 investor presentation available on our company's 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 two of the said presentation. In this presentation we have covered the key highlights of all of our businesses for Q2 of FY2023. On a segment wise some comparative analysis of India aluminium, copper business and our overseas subsidiary Novelis. We have presented our aluminium upstream and downstream financial operational performances separately to truly reflect the individual business segment performances in Q2 FY2023. The corresponding segment information of the prior periods has also been restated accordingly for a comparative analysis.

We have with us with in this call from Hindalco's management Mr. Satish Pai, Managing Director, Mr. Praveen Maheshwari, Chief Financial Officer. From the Novelis' management we have Mr. Steve Fisher, President and CEO, Mr. Dev Ahuja, Chief Financial Officer.

Following this presentation this call will be opened to any questions you may have. Post this call an audio replay of this call will be available on our company's website. Now let me turn this call to Mr. Pai to take you through our company's performance in this quarter.

**Satish Pai:** Thank you Subir. Good afternoon and good morning everyone and thanks for joining the call. Let me start with good news that for the third consecutive year Hindalco along with Novelis has been recognized as the world's most sustainable aluminium company in the 2022 S&P global corporate sustainability assessment at the Dow Jones Sustainability Indices (DJSI). Hindalco secured an ESG score of 83 out of 100 which is 10 points more than last year. The company achieved the highest score out of 26 companies assessed in the aluminium industry and has a full score in materiality, environmental reporting, water-related risk, social reporting, human capital development and customer relationship management. This reflects Hindalco's deep-rooted commitment to maximizing sustainability across the value chain.

On slide 6 and 7 of the investor presentation you can see our progress across metrics of ESG.

We are aligned to our commitments of 2050. This is reflected in our increasing share of recycling and re-using of waste in terms of bauxite residue and fly ash. In the first half year we have achieved recycling of 82% of bauxite residue and 111% of fly ash. In addition to this we are now single use plastic free at eight of our sites being certified and shall soon attain this certification for all our plants in India. We are committed to zero liquid discharge at all our sites and 20% reduction in specific quarter consumption by 2025 from the base year of FY2019. We are on our way of achieving net water positivity by 2050. For this we are also taking steps like working with global startups to identify effluent recycling monitoring technology, implementing water audits for assessing rain water harvesting, and recycling capabilities at our plant location.

On the green cover and biodiversity front, we have cultivated Miyawaki patches across our mine sites. We have conducted studies by CII on biodiversity index and carbon sequestration at all our locations and currently we are using biomass as a coal substitute in Hirakud up to 5% and also we have started to use biomass in Aditya and Utkal. On the renewable side we are in line with our target of reaching 300 megawatt by 2025. We have implemented 100 megawatt of renewable energy in the last financial year. Of the remaining 200 megawatt 9 megawatt is already commissioned during the first half of FY23 and another 109 megawatt of renewable projects are under execution and finalization. Our large scale renewable hybrid project of 100 megawatt to 300 megawatt at our Aditya plant with connectivity to the 400 KV grid, is expected to be completed by December 2023. Aluminium specific GHG emissions at the end of the first half of FY2023 was recorded at 19.18 tonnes of CO2, per tonne of aluminium produce clocking improvement of 2.4% compared to the last financial year.

On safety we are committed to zero harm at all our plant locations. The LTIFR in India was recorded at 0.33 at the end of first half of this year. One fatality of a contract worker was recorded at our Indian operations in the first half.

Let me now give you a glimpse of consolidated performance for this quarter. This quarter performance on a consolidated basis was impacted by rising input costs, inflationary pressures and unfavorable macros which was partially offset by better operational performance of copper and the downstream businesses. Our quarterly consolidated EBITDA declined by 29% year-on-year to Rs.5,743 Crores whereas the consolidated PAT for continuing operations declined by 36% year-on-year to Rs.2,205 Crores. Hindalco at the consolidated level maintains its strong balance sheet with a net debt to EBITDA well below two times at 1.47x at the end of September 2022.

Consolidated net debt stands at Rs.42,063 Crores. At the India operations net debt stands at Rs.4,812 Crores and for Novelis it is at Rs.37,251 Crores. All our strategic capex in India as well as in Novelis are mapped with the cash flow generation in the businesses and are in line with the capital allocation policy, disclosed at the beginning of this financial year. On our India hedge position for aluminium business we are hedged at 30% for the second half of FY2023 at $2500 a tonne and at 5% at $3,000 a tonne for FY2024.

Coming to our business wise performance for this quarter, Novelis delivered yet another strong quarter with 2% higher shipments, year-on-year EBITDA per tonne well above $500 at $514 per tonne in this quarter and a net income from continuing operations at $184 million, which was 23% lower than the corresponding period last year. Novelis broke ground on the new US recycling and rolling plant in Bay Minette, Alabama.

On Hindalco's India aluminium business performance upstream aluminium performance this quarter was impacted by rising input cost and unfavorable macros. EBITDA was 57% lower at Rs.1,347 Crores. EBITDA per tonne was at $495 a tonne whereas EBITDA margins were at 16.4 percent though they continued to be one of the best in the industry in the current challenging business environment. The overall shipments of the primary aluminium were 341 Kt, Of this third party shipments were 245 Kt and 96 Kt was transferred to the downstream business in Q2. On the project side our Utkal Alumina 350 Kt expansion is expected to be commissioned by later next year. The downstream aluminium business delivered an all time high EBITDA of Rs.200 Crores this year up 163% year-on-year, on account of better pricing. EBITDA per tonne was also up 120% year-on-year basis at $264 a tonne, with a sales volume of 95 Kt this quarter which was up 11% year-on-year. During this quarter Hindalco developed India's first aluminium freight rake for the Indian Railways. This was a big step by Hindalco towards decarbonizing in rail transportation. All our expansion projects in aluminium downstream are progressing well and as per schedule.

On the copper business, we continued to deliver improved performance with an all time high metal and copper rod sales in this quarter. Copper EBITDA was higher by 55% year-on-year at Rs.544 Crores on the back of higher volume and improved byproduct realization.

Now let me give you some glimpse of current broader economic environment. The global economy continues to face steep challenges shaped by three powerful forces, the Russia-Ukraine war, persistent and broadening inflationary pressures, and the slowdown in China. As per IMF global growth is expected to slowdown from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023 led by three large economies namely the US, Europe and China. The 2023 slowdown is expected to be broad based with almost one third of the global economy expected to contract. Inflationary pressures have been persistent and have permeated well beyond fuel and food. This has had a twofold impact in terms of the tightening global monetary condition and strengthening of the US dollar against most currencies. The IMF forecasted the global inflation to rise from 4.7% in 2021 to 8.8% in 2022 before decelerating to 6.5% in 2023. Despite global headwinds the Indian economy remains resilient. High frequency data provides a mixed picture about growth drivers. While slowdown in external demand and tightening monetary conditions are weighing down on export growth and capital flows the government's trust on capex, strong service sector activity and private consumption are expected to drive India's growth momentum. The RBI projects India's FY2023 GDP growth to be 7% year-on-year with broadly balanced risks. High domestic inflation above the RBI's target of 4% to 2% and tighter global monetary conditions has prompted the RBI to hike policy rates by accumulative 190 bps in the last six months. RBI projects FY2023 inflation at 6.7%.

On the aluminium industry, outlook in the first nine months of 2022 the global aluminium production grew 2% while the global consumption grew 1% year-on-year resulting in a marginal deficit of 0.3 million tonnes. In the first nine months the Chinese productions increased in certain provinces but there was a decline in production in Sichuan due to power supply issues, hence the overall production in China grew by only 3%. Chinese consumption was flattish due to the zero COVID policy. This has resulted in a deficit of 0.1 million tonnes. In the world ex China production grew in the Middle East whereas production declined sharply in the European regions due to rising energy price. Therefore the overall production was flattish while consumption improved by 2% due to strong demand in the packaging segment and hence the overall market balance reported a deficit of 0.3 million tonnes on a year-to-date basis in CY2022.

Now if we just look at the calendar year 2022, Q3 the global aluminium production increased by 4% while consumption improved by 1% resulting in a marginal surplus of 0.1 million tonnes. Chinese production grew sharply by 6% whereas consumption supported by strong new energy vehicle sales improved by 2%, this led to a deficit of 0.2 million tonnes in Q3 CY2022. In the rest of the world the overall aluminium production and consumption was flattish resulting in a surplus of 0.3 million tonnes in Q3 CY2022.

The global aluminium prices on an average declined to $2,354 a tonne this quarter and continued to fall to $2250 per tonne on a QTD basis in CY2022. This fall is led by worries of a weaker demand in China and Europe and recession concerns combined with hawkish monetary policy. However the domestic demand of aluminium in Q2 was 25% higher on a year-on-year basis and is expected to reach 1.178 million tonnes due to the base effect. On a sequential basis the domestic consumption is likely to be strong in the electrical and automotive sectors. There may also be some headwinds in the building and construction sector on account of rising interest rates. On an overall basis the domestic demand of aluminium is expected to remain strong supported by resilient economic growth and stable macros.

The global FRP demand is expected to grow at about 3% in CY2022 compared to a growth of 11% in CY2021. The market demand for resilient beverage can sheet is expected to remain stable. Automotive demand segment is led by elevated levels of pent-up demand supported by growing consignment demand for vehicles that use a higher share of aluminium. The demand in specialty segment is expected to remain strong with high order backlog in the B&C segment while some softness is seen on account of seasonality and the macroeconomic environment. The aerospace segment is expected to remain strong with the resumption of air travel and the long order backlog with OEMs. Domestic FRP demand is expected to grow by 37% year-on-year in Q2 FY2023. This growth is supported by strong demand in the packaging and B&C segments.

Talking about the global copper industry, the global production of copper grew by 2% whereas consumption grew by 6% in the first nine months of this calendar year. Chinese production grew by 3% year-on-year whereas consumption grew by 8% year-on-year. In the rest of the world, production of copper increased by 1.9% whereas consumption grew by 3.6%. On a quarterly basis global production of copper has increased by 3.1% year-on-year whereas consumption has grown by 7.7% year-on-year. Chinese production of copper increased by 6.5% whereas consumption growth was at 8.4% on a year-on-year basis. In the rest of the world production increased by 0.7% year-on-year whereas consumption grew by 6.9% year-on-year. During Q2 of FY2023, the spot TC/RCs showed improvement compared to the previous quarter on account of lower spot purchases by smelters globally and several Chinese smelters taking their maintenance shutdown along with the expectations of new mines coming on stream. The spot TC/RC has improved to 21.5 cents per pound levels, currently from the 18 cents per pound during June to July 2022. On account of new mines coming in, and improved availability of Clean materials the spot TC/RC is expected to remain elevated during Q3 and Q4 of FY2023. On the domestic side the overall market demand grew by 18% year-on-year at 188 Kt in Q2 of FY2023 whereas imports grew by 6% year-on-year at 45%.

Further details of our operational and financial performance in each of our business segments this quarter compared with the corresponding period of last year and prior quarters are covered in the slides and annexure to this presentation.

So, I will now conclude today's presentation with our strategic priorities and way ahead. Our top most priority is maintaining a robust capital structure with a strong balance sheet to fuel the next phase of our growth. Our value enhancing growth is directed towards expanding capacities in various business segments and diversifying our portfolio to provide not only products but solutions and expanding downstream businesses in both aluminium and copper organically. Our focused approach on the 2050 ESG commitments to become industry leader in sustainability. Our portfolio enrichment strategy of advancing from a manufacturing company to manufacturing solutions provider in the long run is in line with our downstream strategy. I also want to reiterate that we are committed to all our ongoing projects and we will moderate and take new strategic capex both in India and Novelis to be in line with our generated free cash flows.

Thank you very much for your attention and we will now open the forum up for questions you may have.

**Moderate:** Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Indrajit from CLSA. Please go ahead.

**Indrajit:** Good evening. Thank you for the opportunity. Two questions from my side. First what is your outlook for aluminium prices going into next year and with that in mind does it make sense to increase our hedging for FY2024 right now?

**Satish Pai:** I think the way to look at how the aluminium can perform is to say that on one hand the fundamentals of supply and demand of aluminium is extremely tight, so there is no way of surplus anywhere. European smelters are down and inventories are at 15 year lows, so it is less than 10 million tonnes of aluminium in inventory. So supply demand is tight so I guess what happens to the LME now ,is dependent on these macroeconomic factors that everybody is watching and I think that the most important ones, are as to what happens in China, will the zero COVID policy be eased and will the economy start to grow because that is 50% of aluminium production and consumption. The second thing is the state of the

US economy and third is in some ways what happens in Europe with the War, will it drag Europe down a deeper or not so as you can see from what happened yesterday the slightest positive news that comes that US inflation, is sort of not as high immediately the dollar dropped and all commodity prices today have jumped up so I think it is a fairly volatile situation and the market is waiting for the broader economic volatility to go out, and see are other economies going to be okay or is there going to be a recession and I think the LME is going to depend on that. Now one thing is very clear is that it does look like the $2200, $2300 a ton is sort of a baseline based on the high cost of production that has emerged and it is from that level it can go up or down. We intend not to hedge at current level and wait because we think that there could be upside next year.

**Indrajit:** Sure thank you and on copper are we at a stage of determining the TC/RC negotiations for next year or is it too early?

**Satish Pai:** That is going on in China. Normally in November it happens so it should be declared any time, but we are fairly confident we are going to see a number somewhere between 18 cents and 20 cents per pound for next year, much higher than this sort of 16 to 17 we saw this year.

**Indrajit:** Sure and lastly any color on aluminium cost of production what was the increase this quarter and any guidance for the next quarter?

**Satish Pai:** So look the cost of production in Q2 was it went up by 20% and I think now we have sort of peaked and it will start to go down as coal prices and all are going down. Now I think in Q3 the decrease will probably be in the order of 2% to 5%. I am sort of giving the range because I really need to see how much the coal prices go down by. Now just anticipating a question this cost of production is what we see on an ongoing basis but on a realized basis I just wanted to come up front and say that Q2 saw the benefit of about Rs.300 Crores of low cost inventory starting position whereas in Q3 we will not see that benefit because you are now going to have higher cost inventory of Q2 which will get sold during the first month of Q3.

**Indrajit:** Sure thank you and that is all from my side. All the best.

**Moderator:** Thank you. The next question is from the line of Pinakin with JP Morgan. Please go ahead.

**Pinakin:** Thank you very much for this opportunity. Sir a couple of days back when Novelis held their call they severely guided down the second half EBITDA per tonne guidance after the increase in guidance seen in August the one question that we have consistently got from investors is that what are the key variables that would make to change or remain steady in terms of the macro environment for FY2024 EBITDA per tonne to go back to $525 per tonne, is it aluminium price, is it scrap profitability, is it demand, just trying to get a sense of what would lead to a normalized margin and what are the risks to that margin recovery in FY2024?

**Steve Fisher:** So as we talked about a few days ago the overall topline market stays very strong across all our markets that we participate in whether it be beverage packaging, whether it be automotive, aerospace, many other speciality markets. The one special market that we are looking at closely driven by interest rates is our B&C both in Europe and North America and potential pull back there but we see that can be offset against stronger demand actually even coming in, in some of the other markets so we stay committed to the $525 plus EBITDA per tonne as our sustainable guidance for Novelis. What is bringing us down in the near term is lower metal benefits, the rising inflation that even Satish spoke about and then higher cost inventory in our books today that will be coming off in Q3. In Q4 we will be able to start to pass through contractually a lot of the inflationary costs we think there will be some easing of inflationary costs as we get into the Q4. We also see that metal spreads will be improving. We believe in Q4 not necessarily due to an increase in the overall aluminium prices but because of dynamics that we experienced primarily in our South American business in Q2 and Q3 here some squeezing of spreads. As that returns and the topline should stay we believe that $525/ton is achievable again as we get through the next couple of quarters.

**Pinakin:** Okay sure that is very helpful so just to clarify that in the event if the US economic situation or demand deteriorates materially leading to lower LME aluminium prices would lower LME aluminium prices combined with weaker demand in the US be the single largest downside risk to the $525 number in FY2024?

**Steve Fisher:** I would not comment on aluminium price of LME. Satish said that they believe 22 and 23 is for aluminium prices. Certainly further deterioration of aluminium prices will put pressure on the recycling business there is no doubt about that. If it was to occur but I think Satish has a better view there, as it relates to overall recessionary environment in the US less than 60% of our business is beverage packaging and beverage packaging has proven itself over and over to be a recessionary resilient end markets and you go on premise to take home consumption of beverage packaging, so that is going to help us very much in our portfolio. There is still tremendous pent-up demands from balance sheets of consumers on the automotive business and so the one business that we look at is the B&C business that certainly the order book with rising interest rates is starting to dampen a little bit, but we think that can be offset again by some of the other businesses, so it is hard to predict exactly what a recession could look like but ultimately we compete that as a very good product next to ease any headwinds we might see in that condition.

**Pinakin:** Thank you. That is very detailed color. My second question for Mr. Pai is that given this backdrop of very high volatility and increasing on certainty especially on Western demand there has been a capex push out this year at Novelis but at a consolidated level does the capex push out mean that there is a risk of capex getting bunched up over the next two years at a time when the macro could be even weaker or there are projects which could get pushed out and the spending plan accordingly adjust to the level of cash flows, not this year just likely over the next 18 to 24 months?

**Satish Pai:** So Pinakin that is why I am going to read out my prepared last statement again. So we are committed to all our ongoing projects. Ongoing projects are like Bay Minette, FRP expansion in India and Silvassa Extrusion projects, these are going to go on as planned and then my next part was we will moderate in pace any more new projects that we start both in India and Novelis to be in line with our generated cash flows so I think the point we are trying to say is that projects that are already off the ground we are committed to them and will continue. Any new projects we start we are going to take a look at the environment and make sure, see our point is not the current economic environment. We just want to make sure that we are within our cash flows and what we have committed to on the net debt to EBITDA and that is driving us because we are fairly confident that one year, one-and-a-half years down the road the demand for aluminium products is going to be quite strong, so we intent to complete projects we can within our cash flow continue to do as many projects as we can, otherwise we will phase them out if we are not able to finance them but we will not add debt to do projects Pinakin I again repeat.

**Pinakin:** Understood. That is very, very clear. Thank you very much Sir.

**Moderator:** Thank you. The next question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

**Amit Dixit:** Good evening everyone and thanks for taking my question. I have two questions. The first one is on copper business we have seen copper business consistently hitting Rs.5 billion plus EBITDA over few quarters so do you believe that this kind of range is sustainable particularly in light of TC/RC is going up and of course the byproduct prices and asset prices also been high?

**Satish Pai:** So I think that I am vary to just go and give a higher projection straightaway, but I would say that Rs.450 to Rs 500 crore EBITDA is sustainable and it is not just the TC/RC what is benefiting the copper business is higher sulfuric acid prices as well which in Q3 will come up a bit.

**Amit Dixit:** Okay got it. The second question is more of a book keeping question if you can let us know the third party alumina sales and the margin?

**Satish Pai:** I can tell you the sales not the margin. The sales was about 215 Kt in Q2 because some of Q1 spilt over to Q2 and in Q3 we will be selling about 150 Kt more though the benchmark alumina in Q2 it was about $340/ton, in November it is running at about $320/ton right now.

**Amit Dixit:** Okay sure that is very helpful. Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Satyadeep Jain with Ambit Capital. Please go ahead.

**Satyadeep Jain:** Thank you for the opportunity. My question pertains to the Indian downstream business Mr. Pai. in one interview you have indicated increased adoption likely a phenomena in the Indian freight and logistics sector, so a couple of questions on that, the first one we have heard recently first aluminium rakes in India, we have also seen this year a full aluminium metro body Maha Metro and beside I would believe it is cost conscious customer the government but now it is looking at full life cycle cost and CO2 savings, just wanted to understand the total market if I understand the steel requirement in rail business is about may be 2-3 million tonnes but a lot of that is rails, what could be the potential market size for you in this particular segment that is the first question?

**Satish Pai:** The total market size is going to gradually evolve so the longer term demand could be quite large but if you just take the rakes, the battery vehicles, the two wheelers where aluminium is used, the truck bodies, we think that this can in the sort of next three years to five years has at least another 100 Kt of extrusion and roll products demand in India. The longer term can be even much larger than that.

**Satyadeep Jain:** Okay so in the next three to five years you are looking at 100 Kt but on that particular one so we have seen Indian Railways and metro look more favorably at aluminium we have also introduced aluminium trailers, aluminium bulkers outside we have not really heard any let us say I am using an example may be Ashok Leyland talk about using aluminium trailer because it has lower CO2 lifecycle, we have not seen cement companies outside talk about bulkers there, are you sensing may be certain reservations about costs or you may be thinking that the customers are open to the idea may be just it is a matter of time?

**Satish Pai:** I think they are not talking about publicly because there are serious negotiations going on with all those parties you talked about. If they come out and say this is very great from us then they are trying to squeeze us on the pricing right now, but there are a lot of discussions going on in bulkers, trailers, two wheelers, battery enclosures for electrical cars and direct customer discussions going on for us. Our extrusion project in Silvassa is becoming very important because the first press will come on line this December and hopefully by middle of next year all three presses are coming, because the demand for all this, there is quite a lot of extrusions in this transportation sector.

**Satyadeep Jain:** Just for understanding sake the Indian freight rake is a plate but when you look at the Hirakud facility is there a capacity that you have outlined for plates and some sort of roll sheet and coils or is it fungible just wanted to understand how those segments work?

**Satish Pai:** It is a bit technical so I will give just one example. On the rake side it uses harder 5000 series alloy and that can only be made in the Hirakud facility. That is why the Hirakud hot mill is the strongest and the largest in the Hindalco system. By the way, it is hardly utilized today that is why we are putting up more coal mills in Aditya and Hirakud to take advantage of it, so the 5000 series will have to come from Hirakud.

**Satyadeep Jain:** Okay Sir. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

**Sumangal Nevatia:** Thank you for the opportunity. A couple of questions. First on the coal mix if you could explain what was our coal mix and when we shared the utilization of 2% to 5% what is the coal mix going forward that we are factoring?

**Satish Pai:** Good question Sumangal, so in Q2 roughly we had about 47% to 48% of linkage coal and nearly 30% of e-auction and the remaining part was own mines, private parties import so when we say the prizes are coming down we are expecting so we were getting 75% linkage as you know from the government. We are expecting this to start this percentage to go up that they will go back to 90% is what we are expecting and the second thing is that the remaining 30% that is a large amount we were buying in e-auctions the premiums have drastically started to come down compared to the very high numbers we saw in Q2, so that is built into our assumption of the 2% to 5% reduction in cost.

**Sumangal Nevatia:** Okay and the captive mines we are running full right, there is no change in the near future in terms of volume and contribution from there?

**Satish Pai:** No but you see in Q2 only Gare Palma 4/4 was running, Kathautia we had run out of land so now we have procured more land and in Q3 Kathautia will also start producing so that will help.

**Sumangal Nevatia:** Okay this is the gradual change in terms of increasing linkage so once we move to our old ratio of linkage in e-auction is it a double digit kind of a deflation should we build in for coming quarters?

**Satish Pai:** Compared to even the previous quarter or the same quarter last year our energy prices compared to the same quarter last year are more than double, just the order of magnitude, so there is a huge space for our pricing cost of production to come down if coal prices come back to the normal linkage levels we have.

**Sumangal Nevatia:** Got it. Understood and Sir with respect to other RM in terms of carbon and caustic what sort of movement are we seeing and this 2% to 5% deflation is present in all the Raw Material put together?

**Satish Pai:** Yes I think this 2% to 5% believe me we have done enough scenario analysis to do that but you see furnace oil has started to come down, pitch is still high, ALF3 has come down so and the others it is bit of a mixed bag. There is only let us say pitch has gone up dramatically the rest are flattish, furnace oil is actually down, so the rest of the ones are not adding too much to further inflation. Our biggest headache now is the price of coal.

**Sumangal Nevatia:** Understood and just for a calculation point of view what absolute level of this I believe is at hot metal level so what is the absolute level of hot metal level to then build the inflation and deflation in future is it like somewhere around $2000 odd?

**Satish Pai:** Sorry I did not get the question. You mean the cost?

**Sumangal Nevatia:** Yes the cost.

**Satish Pai:** The absolute cost we do not give out that number. I think you can back calculate it.

**Sumangal Nevatia:** Okay that is helpful and Sir just one last question on the capex, you said new projects we will evaluate as per the cash flows so these are projects beyond what we had already basically articulated in our investor day or within that only the under appraisal projects can be slowed down as per the cash flows?

**Satish Pai:** The latter the under appraisal ones.

**Sumangal Nevatia:** Got it so what is guiding Sir, is it the absolute level debt which we have an eye on or the scenario in what exactly is the guiding point for these decisions?

**Satish Pai:** In Novelis we have committed to a 2.5x net debt to EBITDA so for Novelis cash flow capex that is the guiding point for us. In India, I just want to stay within the cash we have generated so that we do not have to take any more debt to do the projects because India is an upstream business and is a bit more volatile so the absolute debt levels are as important so we have now got gross debt in India down to about Rs.14,000 Crores and we have a healthy treasury position of Rs.10,000 Crores at the end of quarter of course largely because of cash generated in the previous six quarters where we had a good LME. So we do not want to add any more debt and we want to keep our capex projects within the cash flow we generate.

**Sumangal Nevatia:** Understood. That is very helpful Sir. All the best. Thank you.

**Moderator:** Thank you. The next question is from the line of Prashant Kumar Kota from Emkay Global Financial Services. Please go ahead.

**Prashant Kumar Kota:** Sir good afternoon and thanks for the opportunity. My first question is to Mr. Pai. At Hindalco we have a very resilient and sturdy business model when we look at the business combined that is India within India a bit of **counter cyclical** the only cyclical component is the India aluminium business and alumina is again quite a sturdy so in this situation based on transient one or two quarters of dip in EBITDA or EBITDA margin or EBITDA per tonne for aluminium should we slow down or should we moderate our space of capex or should we just go all guns blazing and we have a very resilient business model, we have a very good financial reputation with the lenders, solid growth even for a quarter or two if the financial leverage ratios move here and there is it not okay Sir, why not the others, the more the merrier and the faster the better the more sweeter the fruits will be and if we do hard work now?

**Satish Pai:** Thank you for your confidence in our business model and all, but I think that we have been very clearly articulating the capital allocation strategy. We have been articulating net debt to EBITDA targets that is why I again think that I repeat again. We are pacing the capex, we are not reducing anything, we are not cancelling anything, so we just want to make sure that because see the current environment is very cloudy so we just want to be a little bit prudent and I think that saying that we will remain in India within our cash flows is okay, I think that it is not guns blazing but it is still sticking to the strategy that we have.

**Prashant Kumar Kota:** Understood Sir. Sir my second question is to Steve or Dev, r given that at Novelis one quarter may be the EBITDA per tonne would dip one and one a half quarters may be it is below the previously guided $525 but there is a lot of uncertainty volatility out there in Europe and some parts of America but now that automotive is coming back and there is pent up confidence of auto, the aerospace the travel related segment is coming back very well and there are cost pass throughs that are expected to be fully done by the end of the Q4 or largely done and the other tailwinds let us say hopefully the rate hiking cycle peaks before March versus June earlier expectation based on yesterday's trend, etc., and all these things falling in place and let us say the zero COVID policy substantial changes are done in China, assuming that is there a possibility that in FY2024 may be from Q2 onwards is there a possibility that the EBITDA percentage guidance should be increased?

**Satish Pai:** I like your very optimistic outlook but Steve go ahead.

**Steve Fisher:** Yes, I think you have articulated well the headwinds that we are seeing in the near quarters and how we will manage through those combination of easing, combination of pass through, combination of spreads returning and we are very confident of returning to $525 per tonne as a sustainable EBITDA but that is the guidance, that we are giving. Long term as we ramp up our Bay Minette asset and other organic expansions and some of our newer contracts come in place we have said there is upsides to the $525 with those contract prices.

**Prashant Kumar Kota:** Satish Sir actually I am just placing the facts and I am just not being optimistic for the sake of it based on the print and data?

**Satish Pai:** I hope you are right with your calls on the macros and we are absolutely with you.

**Prashant Kumar Kota:** Thank you so much Sir and I wish you all the best.

**Moderator:** Thank you. The next question is from the line of Vishal Chandak from Motilal Oswal. Please go ahead.

**Vishal Chandak:** Thank you very much for the opportunity. Sir my first question is with respect to your slide 37 where you have mentioned the EBITDA and sales reconciliation, now we all generally understand in the segment profit element which gets adjusted when we do a consolidation so, for example now the upstream units help aluminium to the downswing there is a profit embedded on the re-conciliation that intersegment probably gets eliminated but in this quarter there is an element of intersegment profit of about Rs.437 Crores so could you please guide us how to reach this particular line item?

**Praveen Maheshwari:** I will just explain to you when you have a couple of segments within a company and one segment transfers the material its output to another segment there is a certain profit element that sits in the inventory at the end of the period. As per the accounting standards we are required to remove it so typically profit elimination will be a loss but what happens is in the next quarter it gets reversed so Q1 for example in our case whatever elimination was done got reversed in Q2 so that becomes a profit for Q2 and similarly Q2 end we have some profit which is sitting in the inventory which is removed so the number that you see here is a delta between the reversal and the elimination so in this case what it signifies is that the elimination in Q1 was higher by Rs.437 Crores compared to the elimination done in Q2. That depends entirely on the value of the inventory and the profit sitting in that and the quantum of inventory so Rs.437 Crores is that kind of a net delta between Q1 and Q2 profit elimination.

**Vishal Chandak:** It would be a fair assumption or a simplification to say that there is falling aluminium scenario typically you will see inter segments losses coming up?

**Praveen Maheshwari:** Yes, but it depends on the delta between the opening position and the closing position so because last quarter you would have eliminated which will be reversed in the beginning, if that is higher for example in this case it is higher compared to the elimination that you do at the end of Q2 then you will see a profit so for example whatever elimination has taken place let us say at the end of Q2. If at the end of Q3 the elimination is still lower you might still see a profit coming up so you are right the higher the drop in a quarter the higher the loss at the end of the period because of the elimination and then of course the number will be positive or negative depending upon the delta.

**Vishal Chandak:** Correct. Sir my second question was more with regards to disclosure in terms of the downstream aluminium business the volumes are below the EBITDA itself is not very significant but we still want to highlight so is somewhere down the line there is an element of understanding that this business gets listed separately?

**Satish Pai:** I think that is far, far, far too premature at this stage. I think what we are trying to do is to build an integrated business model because we produce 1.3 million of primary aluminium and if you see we are at about 350-400 Kt of rolled products extrusions, wire rod, etc., so we have stated that our strategy if you see now just Silvassa and the thing we will add another 204 Kt so really we want to get to about 800 to 900 Kt of roll product. I think the tune of all the other business models listing and all that will come once we have executed all of this.

**Vishal Chandak:** Exactly. You rightly said once you achieve the skills that would be the second opportunity I completely agree with that. Sir my second question was with regards to your coal production you mentioned that by the next two years timeframe you would be largely self sufficient probably by the end of FY2024 so if you could just help us with the progress made on that front especially on the captive coal mines?

**Satish Pai:** I do not think I said FY2024 it will be more like FY2025 but Chakala Coal mine which is 5.5 million tonnes will come on stream hopefully by December 2023 so next year December and then it will take some time to ramp up to its capacity. The Meenakshi coal mine we are still waiting for the government to do the formal notification to us, so we have not been able to start that, so I think of this 16 million tonnes we will get about six of our own by end of let us say December 2024 ramped up. The Meenakshi mine is another critical one so we are awaiting its notification to us. Only after that one comes in then we will be completely clear of Coal India.

**Vishal Chandak:** Meenakshi we should not assume anything coming in FY2024 best case scenario would be FY2025?

**Satish Pai:** That is correct.

**Vishal Chandak:** We can expect costs to be slashed?

**Satish Pai:** What is going to happen if you look at overall India captive industry side everyone has got mines and everyone’s mines are going to come on so the demand for e-auction coal and Coal India coal will start to moderate, so then even your linkage coal availability and pricing will start to moderate, so it is not just our coal mines most of the others have won coal mines and all of those should be coming on stream from let us say in year 2023 end to 2024 so I am hoping that in the next two years this tightness in the coal market will sort of disappear.

**Vishal Chandak:** Sir just a related question to the coal mines while we completely agree on the coal mine production coming through but how is the challenge for the evacuation because I think more than the production I think debottlenecks are also on the evacuation part whether it is rails, merry go round or the trucking system?

**Satish Pai:** Absolutely right but that is why, for Meenakshi we know very well there is siding because there is a rail line very close by. Meenakshi is in the Sundargarh area which is well connected from a coal point of view. Chakala Mine as well we will have a rail siding into the coal mines so actually majority of the capex cost of the coal mine goes into land acquisition and then the railway sidings.

**Moderator:** Thank you. The next question is from the line of Arijit Dutta with Kotak Mutual fund. Please go ahead.

**Arijit Dutta:** Thanks for the opportunity. I have only question. On Novelis if we go to Q1 FY2024 two quarters down the line and if the current high cost inventory will be out of the system and the current cost of raw materials will be reflecting back and the second thing is the renewed cost which you are saying will be much better rewarding as you are guiding so given this two scenario do you think if all other things remaining constant for example the current aluminium price of $2300 and the current auto and aero demand can we reach the $525 mark or you need some more assumption benefit to go to that $525 mark, in short if we assume that the high cost inventories are out and the current cost of inventory will be reflecting and the negotiations are already by virtue of the formula of negotiations will be better rewarding will you be able to reach the $525 mark that you have been guiding? Thank you.

**Steve Fisher:** Yes, so just a couple of comments. You got the inventory right the higher inventory cost will come out over the next quarters and we have already started seeing some easing of various costs such as the higher ocean freight that would have been embedded inside of inventory and some other easing already occurring so that will work through the system. We will start to contract fully pass through higher inflationary PPI costs in our contracts starting at the beginning of CY2023 those are not all reset on January 1 so that will continue through the Q2 of calendar year as well as we reset those out. We do need some level of return to normal scrap spread in particularly South America so we are confident that will occur starting in the Q4 but that does need to occur and then the only other cautionary item that I put out there is the European energy situation, today, as we have seen some dramatic dropping of spot prices for natural gas and electricity and we have guided that if we continue to see the spot prices where they are at today continue, we would see similar impacts on energy that we have been seen in the last couple of quarters; however, if energy did spike again in Europe that could dampen or be another headwind that we will have to deal with as well so hopefully that helps you but again we do stay confident of $525 EBITDA per tonne guidance and ability to get back to that level.

**Arijit Dutta:** A bit more on what you have just said apart from the high cost inventory and the new contracts you also need scrap spread to normalize in order to raise the $525 mark assuming that the European energy situation will not come in with any high cost energy prices will not move up, is my understanding correct so the three variables which are like inventory moving out and the renewed contracts and the only thing only the futuristic assumption will be the scrap spreads to normalize then only we will reach the $525 mark? Is my understanding correct?

**Steve Fisher:** Your understanding is correct and obviously we are seeing strong market conditions in our end markets what we have articulated for FY2023. In the spreads again are not based of the assumption that we need to see a dramatic increase in overall aluminium prices but normalization of the tightness in the overall scrap market moderating over the next couple of quarters.

**Moderator:** Thank you. The next question is from the line of Pallav Agarwal with Antique Stock Broking Limited. Please go ahead.

**Pallav Agarwal:** Good evening Sir. Sir I just want to clarify that we do not have any mark-to-market inventory losses during the quarter, some of the steel companies have reported some losses but we did not have any of those losses at this quarter right?

**Satish Pai:** No, inventory is valued at cost and there are no interim losses there. I think what we have said was that Q2 results if you look at it were if you just take the cost of production and put it if the results were a bit better because we have benefited from the opening inventory at the end of Q1 being produced at a lower cost whereas in Q3 the opening inventory will be the Q2 one which is produced at the higher cost so that will have a negative impact in Q3 is what we said, there is no mark to market loss.

**Pallav Agarwal:** Sure but with the LME closed at one point of time close to $2200 per tonne which is probably not very far from the cost of production so Q3 also we do not really expect to see any of these?

**Praveen Maheshwari:** The net realizable value of the inventory is still higher than the cost of the inventory and that is why we make the money as well so the profit has been lower but it is not as if we are making losses.

**Pallav Agarwal:** If you could just help us with the availability of rakes, etc., because I think this was probably an issue faced by some of the companies where they had to shift from rail to road and that led to higher logistic cost so that is something we are facing as well?

**Satish Pai:** It has started to ease out but it is a good question, because it allows me to tell you guys that we now have the aluminium rakes that we launched in the Aditya sector is owned by Hindalco so that rake is now providing up and down coal runs only for us and we also go our own rake in the Mahan, Renusagar sector so we now have two coal rakes fully owned by Hindalco which is helping to ease the situation because current government rakes situation is still a little bit tight.

**Pallav Agarwal:** So all this is factored in this 2% to 5% reduction of probably we could have a higher reduction in cost in Q3?

**Satish Pai:** I hope we have a higher reduction but I think that I am just trying to give as realistic as I see it now.

**Pallav Agarwal:** Okay Sir thank you.

**Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

**Bhavin Chheda:** Good evening Sir. Overall good results in the challenging environment and good to see your downstream bifurcation it gives much more data for us. Sir a few questions first on the coal mines so I missed out a point I think what you said in Q2 the coal mix at 22% and the balance was from own mine/private parity/imports so the imports portion would be almost negligible and should we assume that this 22% would be largely our own mines?

**Satish Pai:** No let me repeat again. It was about 47% to 48% was linkage, 30% was e-auction so there is remaining 20%. That remaining 20% roughly 6% was of our own mines and the remaining 14% was private and imported and the imported ones whenever it is slightly better than like for sometime Indonesian coal and all happened we took some, but generally imported for us is less than 5% of the overall mix.

**Bhavin Chheda:** Sure now Sir I see your coal mine details I think that is the newer one I think you have some five mines so this Gare Palma/IV and V I think the peak run rate annually should be 4 million so are you doing 1.5 to 2 kind of a thing and it is less and then any specific reason how and when this would be ramped up?

**Satish Pai:** Garepalma 4/5 we have officially already written nearly one year ago okay and Dumri never started because of various regulatory reasons we are running two mines Gareplama 4/4 and Kathautia mine, so two of them combined should be giving you nearly about 1.5 to

1.75 million tonnes so Gare Palma 4/4 in Q2 was running full. We had some land availability issues in Kathautia which we resolved so in Q3 Kathautia is also producing.

**Bhavin Chheda:** In Gare Palma IV the capacity to run annually is close to 1 to 1.3 only?

**Satish Pai:** No between Kathautia and Garepalma

**Bhavin Chheda:** Because Kathautia I had a number of 0.8 million annual run rate.

**Satish Pai:** That is correct.

**Bhavin Chheda:** Which means the balance Gare Palma IV should be 1 million only?

**Satish Pai:** No Gare Palma 4/4 is 0.8 million and Kathautia is also about 0.8 million so the nameplate capacity of these two mines is 1.6 million per annum.

**Bhavin Chheda:** Dumri and Chakala whenever they start, Dumri should be one, Chakala should be five and Meenakshi should be 12?

**Satish Pai:** We are focusing on Chakala Coal mine as number one to start by next year that is 5.5 million and Meenakshi is 12 million tons per annum.

**Bhavin Chheda:** What is the status of Dumri sorry I did not get that?

**Satish Pai:** Dumri is still how should I call it more than regulatory issues.

**Bhavin Chheda:** So any time soon it is 12 to 24 months away still right?

**Satish Pai:** Yes more than that.

**Bhavin Chheda:** Okay thanks a lot.

**Moderator:** Thank you. The next question is from the line of Ashish Kejriwal from Nuvama Wealth Management. Please go ahead.

**Ashish Kejriwal:** Good evening. Thanks for the opportunity. Sir in this quarter when you are talking about 3% to 5% reduction in cost and at the same time you are saying that your linkage coal will increase from around 48% to 50% to may be around 60% plus and e-auction prices have also come down so when this 3% to 5% seems to be very, very low so is it possible to quantify what kind of reduction in e-auction premium you observed and in linkage coal what kind of proportion you will see in third quarter?

**Satish Pai:** The reason is because we are already mid November, October is over and the easing has started so by the time the full impact of all of this happens it will go to Q4 which is why I am saying that in Q3 even if we start to get this coal it is a first in first half basis we are consuming. The full impact of these reductions will not be seen in Q3. That is the only reason.

**Ashish Kejriwal:** What about linkage coal proportion in Q3 Sir will it increase from 50% to 60%?

**Satish Pai:** Not really. It will stay at that because one of our existing linkages has elapsed, so we have to go to replace that new auction will only come probably in January 2023 so whereas the existing linkages will go up to 90% one of the linkages that lapsed we will have to get on e-auction that is why Q3 is still tight.

**Moderator:** Thank you. Ladies and gentleman due to time constraint we will take that as the last question. I would now like to hand the conference over to Mr. Satish Pai for closing comments.

**Satish Pai:** Thank you. I think that this quarter in sort of challenging environments I think we have shown the benefits of our diversified business models and I think that the couple of points that are very important to us is that we will remain focused on our sustainability goals and targets and the second thing is that the strength of the balance sheet will not be compromised so we will make sure that we stay between in the targets that we had outlined during the capital allocation presentation that we did. So thank you all for your attention and wish you a good day.

**Moderator:** Thank you. Ladies and gentlemen for further questions please get in touch with the investor relations. On behalf of Hindalco Industries Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.