"Hindalco Industries Limited.

Q3 FY '23 Earnings Conference Call."

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Moderator: Ladies and gentlemen, good day, and welcome to Hindalco Industries FY '23 Third Quarter 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 star then zero 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 at Hindalco. Thank you, and over to you Mr. Sen.

Subir Sen: Thank you, and a very good afternoon or morning, everyone. On behalf of Hindalco Industries, I welcome you all to the earnings call for the third quarter of the financial year 2023. In this call, we'll refer to the Q3, FY '23 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 our businesses for the third quarter of the financial year 2023 and a segment-wise comparative financial analysis of India aluminum and copper businesses and our overseas subsidiary, Novelis.

This presentation covers our Indian operations, aluminum upstream and downstream, financial and operational performances separately to reflect individual business segment performances in this quarter versus the corresponding period of the last quarter. The corresponding segment information of the prior periods have also been restated accordingly for a comparative analysis.

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

Following this presentation, this forum will be open for any questions you may have on our quarterly performance. Post this call, an audio replay of this 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, and good afternoon, everyone. Thank you for joining today's earnings call on Hindalco's performance in the third quarter of FY '23. On slides five and six of the investor presentation, you can see our progress across various metrics on ESG on a year-to-date for this year versus prior years. Hindalco is completely aligned to its ESG commitment 2050. This is reflected in our increasing share of recycling and reuse of wastes in terms of bauxite residue and Fly Ash.

In the first nine months of this fiscal, we achieved recycling of 117% of bauxite residue and 107% of Fly Ash and an overall 85.6% waste got recycled and reused. In addition to this, we are now single-use plastic-free certified at 11 of our plant sites and shall soon attain the certification for the remaining six sites to become 100% single-use plastic-free certified company in India. We stay committed to our Zero Liquid Discharge at all our sites and at 20% reduction in specific water consumption by 2025 from a base year of FY '19. We are on our way to achieving Net Water Positivity by 2050. For this, we are not only implementing water audits for assessing rainwater harvesting and recycling capabilities at our plant locations, but have also initiated various desalination and other projects to achieve this goal.

There was a slight increase in our water consumption in the first nine months of this year, mainly due to some operational issues in our aluminum facilities and an unplanned shutdown at our copper facility, which is now all settled. We continue to work on green cover and biodiversity and are cultivating Miyawaki patches across our mine sites and have also conducted studies by CII on Bio-diversity index and carbon sequestration at all our locations.

We are currently using biomass as a coal substitute in our Hirakud, Aditya and Utkal facility at 5% biomass and 95% coal. We have also completed an all-seasons study under our Biodiversity Management Plan and have already launched this at four of our mine sites with formulated specific goals.

On the renewables, we target to reach 300 megawatts of capacity by 2025. Out of this, we have already implemented 100 megawatts in the last financial year. 9 megawatts have been commissioned during the first nine months and another 141 megawatts of renewable projects are under execution and finalization with target completion dates, as mentioned in this slide.

Aluminum specific greenhouse gas emission at the end of the first nine months of this fiscal was recorded at 19.14 tons of CO_2 per ton of produced aluminum, clocking a remarkable 2.6% improvement compared to the last financial year. We are committed to Zero harm and safety at all our plant locations. The LTIFR in India was recorded at 0.31 at the end of the first nine months of this year. Unfortunately, we had two fatalities of contract workmen during the first nine months of this year.

Let me now give you a glimpse of our quarterly consolidated performance. This quarter's performance was impacted by rising input costs and unfavorable macros, which was partially offset by higher volumes in the India operation along with continued better performance of the copper business. Our quarterly consolidated EBITDA declined 48% year-on-year at Rs. 3,930 crores, whereas the consolidated PAT from continuing operations declined by 63% year-on-year to Rs. 1,362 crores this quarter.

Hindalco, at the consolidated level, maintains its strong balance sheet with the net debt-to-EBITDA at 1.6 times, well below 2 times at the end of December 2022. Consolidated net debt stands at Rs. 41,716 crores. At India, the net debt is Rs, 3,071 crores and for Novelis its Rs. 38,645 crores. All our strategic capex in India, as well as in Novelis, are mapped with cash flow generation in the business and are in line with our capital allocation policy disclosed at the beginning of this financial year.

On our India hedge position for aluminum business, we are hedged at 32% for the remaining period of FY '23, which is Q4, at $2,500 per ton. And for next year, we have hedged 7% at $2,900 per ton so far.

I'm happy to share with you that Hindalco continues to be a part of the S&P Global Sustainability Yearbook 2023 for the second consecutive year. This is in continuation of our recognition as the world's most sustainable aluminum company in the 2022 S&P Global Corporate Sustainability Assessment at the Dow Jones Sustainability Indices that we announced in November last year. This reflects Hindalco's deep-rooted commitment to maximizing sustainability across the value chain.

Coming to our business-wise performance for this quarter. Novelis delivered third quarter EBITDA of $341 million, down 33% year-on-year. This was due to lower shipments, higher inflationary pressures, less favorable metal benefits from recycling and unfavorable foreign exchange, though it was partially offset by higher pricing and a favorable product mix. EBITDA per ton was recorded at $376 per ton versus $544 in the prior year same quarter.

Shipments in Novelis were at 908 Kt this quarter, down 2% year-on-year, largely on account of destocking by can customers, lower specialties, including building and construction, which was partially offset by higher shipments of automotive and aerospace products.

On Hindalco India's aluminium business performance, upstream aluminium performance this quarter was impacted by rising input costs and unfavorable macro. EBITDA was 52% lower at Rs. 1,591 crores. EBITDA per ton was at $555, and EBITDA margins were at 19.8% and continue to be one of the best in the industry in this current challenging business environment. The overall shipments of primary aluminium were at a record of 349 Kt. Of these third-party shipments were 256 Kt and 93 Kt was transferred to the downstream business in this quarter.

The downstream aluminium business delivered an EBITDA of Rs. 157 crores this quarter, up 24% year-on-year on account for better pricing and higher volumes. EBITDA per ton was also up 7% year-on-year at $210 per ton with a sales volume of 91 Kt, up 6% year-on-year.

Our copper business continues to deliver improved performance with an all-time high metal and copper rod sales this quarter. Copper EBITDA was higher by 40% year-on-year at Rs. 546 crores on back of higher volumes of CC rods, better TC/RCs and realization.

Now let me give you a glimpse of the current broader economic environment. Global growth is projected to moderate to 2.9% in calendar year '23 from an estimated 3.4% in CY 2022 before rising to 3.1% in CY2024 as per IMF's January World Economic Outlook. While monetary tightening, Russia's war in Ukraine, continued to weigh on economic activity, adverse risk has moderated over the last few months. Economic growth proved surprisingly resilient in Q3, 2022 with strong labor markets, robust household consumption, business investment and better than expected adaptation to the energy crisis in Europe.

Global financial conditions have improved as inflation pressures have started to abate. Global inflation is expected to moderate from 8.8% in CY2022 to 6.6% in CY2023 and 4.3% in CY2024, though still above pre-pandemic levels.

Despite global headwinds, India's economic momentum continues to be resilient and the economy is staging a broad-based recovery across sectors. High frequency data indicates rebound in private consumption, higher government capex, robust service sector activity and a pickup in the manufacturing sector.

Growth in FY '24 will be supported by solid domestic demand and a pickup in capital investments. The RBI projects GDP to grow by 6.4% year-on-year in FY '24 from an estimated 7% in FY '23. Our capex oriented well-balanced budget is likely to boost private capex and fuel economic growth in the medium term. Price pressures also seem to have abated in the last few months with retail inflation back within RBI's target range in November 2022. However, core inflation still remains sticky.

The RBI project inflation to moderate to 5.3% in FY '24 compared to an estimated 6.5% in FY '23. In its latest monetary policy meeting, RBI hiked policy rate by 25 bps.

Talking about the aluminium industry outlook in the calendar year FY '22, global aluminium production grew 3% year-on-year, while global consumption grew by 1% year-on-year, resulting in a marginal deficit of 0.2 million tons. In calendar year 2022, Chinese production increased in certain provinces like Yunnan, Inner Mongolia, but there was a decline in production in Sichuan province due to power supply issues. Hence, overall production in China grew by 4%. Chinese consumption grew marginally by 1% year-on-year due to the Zero-COVID policy in 2022, resulting in a deficit of 0.3 million tons. In the world, excluding China, production increased in the Middle East, while it declined sharply in Europe due to rising energy prices. Consumption faced headwinds across all sectors, except automotive and packaging. As a result, both production and consumption were flattish, leading to a balanced market in calendar year 2022.

On a quarterly basis, the global aluminium production increased by 4% year-on-year, while the consumption declined by 1% year-on-year, resulting in a marginal global surplus of 0.1 million tons. During this period, the Chinese production grew sharply by 8% to 10.3 million tons, while consumption improved by 4% to 10.4%, resulting in an overall deficit of 0.2 million tons in Q4 of calendar year '22. This growth in consumption in China was led by automotive demand, renewable capacity addition, but was partially offset by the slowing demand in the Building &Construction segment.

In the rest of the world on a quarterly basis, overall aluminium production growth was flattish year-on-year at 7.3 million tons. However, the consumption grew by 7% year-on-year at 7 million tons, resulting in an overall surplus of 0.3 million tons this quarter. The global aluminium prices in Q4 calendar year '22 marginally declined to $2,324 a ton against $2,354 a ton in the last quarter. This declining trend was on account of concerns of weaker demand in China and Europe and a hawkish monetary policy by the FED.

In Q3, FY '23, the domestic demand is likely to reach 1.16 million tons, a 13% growth year-on-year due to the base effect. On a sequential basis, the domestic aluminium industry declined by 2% year-on-year on account of slowdown in the consumer durables and packaging sector.

However, the electrical segment witnessed strong growth. In infrastructure led products, demand in airports and metros, etcetera, continues to remain strong.

The global FRP demand is expected to grow at about 3% in calendar year '23 versus a similar growth in the last calendar year.

The market demand for resilient beverage Can sheets is expected to remain stable in the long run with a growth rate of 3% to 4%, although this segment is going through a period of destocking by the Can makers.

The automotive segment demand is led by elevated levels of pent-up demand supported by growing consumer demand for vehicles that use a higher share of aluminium. With the easing of supply chain challenges in the semiconductor chip availability and recovery in vehicle production levels, the long-term demand for automotive sheet is expected to grow at a CAGR of 11% over the next 5 years.

The demand in specialties, especially in the building and construction segment showed some softness on account of seasonality and the macroenvironment. In other end markets, the demand had a mixed outlook with very strong demand in the EV battery components and container foil segments. The aerospace segment is expected to remain strong due to increase in air travel and rising OEM build rates in this sector.

In Q3, FY '23, India's FRP demand is estimated to grow marginally by 3% year-on-year due to a slowdown in the consumer durables sector. This demand is likely to pick up in the following quarters with stable consumption of aluminium in the packaging and B&C segment.

Talking about the global copper industry, the overall global production of copper increased by 1.9% year-on-year, while consumption grew by 1.6% year-on-year in the calendar year 2022 compared to last year. Chinese production grew by 3% year-on-year, whereas consumption grew by 2% in this period. In the rest of the world, production of copper increased by 1.1% year-on-year, whereas consumption grew by 1%, resulting in a marginal global deficit of 0.2 million tons in calendar year '22.

On a quarterly basis, the global production of copper increased by 6.3% year-on-year, whereas consumption grew by 5.2% year-on-year compared to the corresponding period of the last year. Chinese production of copper increased by 10%, whereas consumption increased by 12.1% this quarter on a year-on-year basis. In the rest of the world production grew by 4%, consumption declined by 3%, owing to inflationary pressures and the ongoing geopolitical issues. So overall, this quarter, it has resulted in a global deficit of 0.2 million tons.

The annual benchmark TC/RC for the calendar year 2023 has settled at 22.6 cents per pound, an improvement of 35% over last year's benchmark of 16.7 cents per pound. During Q3 this financial year, the spot TC/RC showed an improvement compared to the previous quarter as the demand for spot tonnages from the smelters was relatively low as they were focusing on the annual benchmark negotiations.

However, currently, the spot TC/RCs have declined to the low 20s from a 22 cents per pound during November, December 2022, mainly on account of more buying interest from China, in particular, and various supply side disruptions at Chile, Peru and Panama, affecting production in some copper mines.

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

Let me now conclude my presentation by saying that we are seeing core industries worldwide, being buffeted by macroeconomic factors and are pressurized by intensified cost and customer destocking challenges. We, as a company, are working proactively to mitigate this headwind and continue to deliver resilient performance across all businesses. We believe that the worst is behind us, and with our strong balance sheet and fundamentals intact, we stay focused with our value-enhancing growth strategy, directed towards expanding capacities in various business segments and diversifying our portfolio to provide not only products, but solutions, while expanding downstream businesses in both aluminium and copper organically. We stay committed on all our ESG goals and our ongoing projects and will moderate and pace the new strategic capex, both in India and Novelis in line with our generated free cash flow.

Thank you very much for your attention and the forum is now open for any questions you may have.

Moderator: The first question is from Indrajit from CLSA.

Indrajit: So if I look at -- both my questions are for Steve. So if I look at beverage can demand globally, and particularly in each of the key regions that you operate in, North America, Asia and South America. How do you think that absolute can demand has been versus calendar '21 in calendar '22 Y-o-Y? Also, a second part of my question is, if I compare it with pre-COVID levels, we understand that COVID and COVID demand has increased, how are the current demand tracking versus pre-COVID levels? Just to understand how much more downside in demand you can see?

And my second question is in the current weak demand scenario, what gives you confidence that whatever new pricing contracts or pricing provisions that we intend to include for Can, would be accepted by the end consumers?

Steve Fisher: Yes, so as we see the overall growth of beverage can going forward, we are very confident in the continued trends towards the decarbonized aluminum packaging that we haven't seen over the last several years. We continue to believe globally, we'll see a 4% compounded annual growth rate for the beverage package in North America, where we are making the most significant investment of $2.5 billion, we see a 3% to 4% growth over the next 5 years. This is in line with what you'll see and hear from various other customers.

The offset to the growth and the trends that we're seeing is exactly what we've been talking about that came most acutely in the third quarter here, which is the destocking occurring across the globe. Primarily, North America, destocking in that cost us 60 Kt just in this quarter, and we do believe there will be still some more destocking in the next couple of quarters. Now what caused the stocks to increase and the pullback now is the continued belief of the OFF-premise growth that we saw through COVID that has now shifted back to ON-premise.

And I think there is less visibility of that switch over by our customers globally to recognize when that was going to come, and how big of an impact that would be. The second was just the destabilization of overall supply chains globally. We have been importing Can sheets for North America from our facilities in Asia, and that's a long supply chain. But our customers, due to the growth that they were seeing and the need to ensure that they had adequate stock levels to capture that growth, continue to order in the first half of the calendar '22.

As the easing of the supply chain and the trend of need for the off-premise to on-premise support, we really started to pull down their inventory levels and got comfortable at a much lower level and will continue to slow down over the next 1 to 2 quarters. We see solid underlying growth. And as it relates to the pricing, we don't see any impact in the short-term destocking related to our contractual negotiations going on and feel very comfortable that we're very near or fully contracted for our Bay Minette facility in the US, at rates that support the mid-teens IRR that we've been talking about. So continue to see good pricing trends in beverage packaging.

Indrajit: Just one follow-up. Do you think calendar '22 can demand overall can consumption in North America and other parts would have declined on a Y-o-Y basis?

Steve Fisher: You're saying without the destocking?

Indrajit: Without the destocking, yes?

Steve Fisher: Yes, it would have grown globally without the destocking.

Moderator: Next question is from the line of Pinakin from JP Morgan.

Pinakin: So you have mentioned in this call and last call as well that the capex would essentially be adjusted to the cash flows. Now when you go back to last year's April 2022 presentation, can you give us a sense of which are the projects, which would get pushed out given what the visibility is on this year's EBITDA?

Satish Pai: Yes, I think I'm going to let Steve answer for Novelis, Broadly on the India side, Pinakin, we are quite comfortable. I think this year, we probably spent about Rs. 2,700 crores. Next year's capex is still under discussion, which will be probably higher than this year. And we have enough cash that is being generated to meet that requirement. But I'll let Steve talk about some of the phasing out that Novelis is doing.

Steve Fisher: Yes, yes, thanks Pinakin. So we've announced a couple of large projects, the Bay Minette, the $2.5 billion rolling and recycling facility. The automotive recycling facility at Guthrie, Kentucky and then a couple of debottlenecking projects in the North American marketplace. Those will continue to be paced from a start of production as we've outlined before. So the big one, Bay Minette, to come on in 2025 -- middle of 2025, the Guthrie, Kentucky recycling facility is expected to come by the next year.

We will pace the cash flows the best we can on those and optimize our cash flows over the next two to three years. The projects that we'll slowdown and tie more to our cash flows into the market would be the China integration between the Zhenjiang and Changzhou facilities and then further expansions that we had anticipated in South America and Europe, that will pace more in line with overall cash flows and market conditions to meet the customer demands.

Pinakin: And my second question, Mr. Pai, is that, again as part of the capital allocation strategy, the cash flows are supposedly to be 75% for growth capex,15% for net debt reduction and 10% for shareholder returns. So does the broad division still stay even though the cash flow is reduced or should we see some rejig between the 3 buckets?

Satish Pai: I think that at this stage, we are going to go through and actually we will have the annual Capital Markets Day presentation, Pinakin, by end of March or early April as we do it. I would say that we don't intend to dramatically change that. But for sure, in light of the market and the cash flows that we will see, we will take a relook at those numbers. And if there is going to be -- there should not be major changes, but if we are going to tweak those percentages, I think that we'll do it during the Analyst Day presentation we'll do end of March, early April.

Moderator: Next question is from the line of Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal: Three questions from my side, the specific GHG reduction in aluminum is quite noteworthy. Any specific changes that were made?

Satish Pai: Yes, basically, we have been putting a lot of initiatives on reducing the kilowatt per ton of carbon that we use. And also as our solar projects and all both in Aditya, Mahan have kicked on and we are accounting for that. So that has led to it. I think that you will see this number -- I think our 2025, we have got further more aggressive targets to bring it down. So as a mix of efficiency, along combined with renewables, you will see this trend going down. And in fact, in the analyst show, we are going to show you a waterfall chart down to 2030, 2040 and 2050. So that you get some comfort on how we are going to achieve what we set out to.

Moderator: Our next question is from the line of Amit Dixit from ICICI Securities.

Amit Dixit: I have a couple of questions. The first one is on the downstream EBITDA per ton. Our downstream aluminium EBITDA per ton actually, if you look in the last couple of quarters, it has remained about Rs. 250 cores, while it has declined by $25 per ton now. I mean it was always expected to be a little bit more stable than the upstream. So what drove here? Is it a one-off element or I mean how is it going to stay?

Satish Pai: You're talking about the India downstream EBITDA per ton, right?

Amit Dixit: Yes, exactly.

Satish Pai: Yes, so if you see in my prepared remarks, in Q3, we did see a little bit of softness in the market in the consumer durables and it's a little bit the same story as the Can segment. In the cookware segment, if I'm very specific, many of the cookware manufacturers have done a lot of stocking expecting this Diwali to be like the COVID Diwali. And actually, the demand was good, but not as strong. So the cookware, which is one of our most profitable segments, we actually had to cut back and transfer to it foil stock. So which is why the -- if you look at the sequential EBITDA, it went down compared to Q2 and as the EBITDA per ton. So it was a little bit of this destocking impact of the consumables part that we saw in India. That destocking by the way is completed, and we are now back this quarter. You should see the numbers going back up.

Amit Dixit: So the second question is on cost of production of aluminium. Any guidance you would like to give for next quarter. And we saw that in standalone business, our expenses have reduced by around 15% both Y-o-Y and Q-o-Q. So what has driven it?

Praveen Kumar: Yes, so last quarter, we had a specific -- there's a return of capital that happens in every quarter 2, typically from Novelis. It entails a certain amount of exchange gain and we give proper disclosure about it. Along with that, we get certain dividends in that quarter because that's typically the quarter when the company is -- where we have some investments, we declared dividends. So between them, there was a Rs. 200 crores kind of a gain there. So compared to Q2, it looks a little higher. But on an overall basis, it is in the normal -- it's only a normal increase in the overheads that takes place every year due to inflation.

Satish Pai: So coming to your question on cost of goods , the coal prices Q3 to Q2 went down by about 20%. And we think in Q4, they'll go down even a bit more as well. So I'm expecting the cost of production in Q4 to Q3 to go down by another 5%.

Moderator: Next question is from the line of Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal: Just a couple of questions on power and fuel. Would it be safe to presume that between Novelis and Hindalco, the current quarter, power and fuel expenses would have been elevated by any way between 60% to 65% versus what they would have been under more normalized scenario?

Satish Pai: Okay. I'll let Steve answer on the Novelis side. But on the India side, if we look at it year-on-year, the coal prices are nearly double. If you look at it sequentially, they have dropped 20%. So that should give you an idea about our roughly 40% of the cost of production of aluminium is power. So it was really dependent, the energy prices were on the coal prices. Steve, you want to comment on the Novelis' energy costs.

Steve Fisher: Yes, energy costs for Novelis globally we have seen them start to come off, which has been positive. Most significantly, they're coming off in the European region, still above prices that we saw before the Ukraine Russian conflict that are starting to come off. And other costs in the business including ocean freight, over-the-road freight and some other input costs have come off. So the guidance we provided is that we do believe strongly that Q3 was the low point, and we will see improvement in Q4 and going forward.

Tarang Agrawal: And just a follow-up, sir, how do we see the commercialization of Meenakshi coal mine and Chakla coal mine?

Satish Pai: So Chakla is progressing well. We are in the sort of land acquisition and forest clearance. Meenakshi, we are still waiting for the official notification.

Tarang Agrawal: So Chakla, could come on stream in FY '25? Would that be the right way to look at it?

Satish Pai: So middle of next year will be the box cut is what we are expecting. So once you do a box cut, the coal will start to come by the end of next year.

Moderator: The next question is from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: First question on the coal mix, is it possible to share how is the coal mix changing between the auction linkage and any import elements still there? And I mean, how are we seeing the availability and the supply of these linkage improving quarter-on-quarter?

Satish Pai: So the availability of the linkage is certainly improving. I mean we are seeing over 90% supply from linkages now. So the overall mix of linkage to e-auction, I mean, compared to last quarter, linkage marginally went up from 47% to 48%. But the real difference that has happened, Sumangal, is on the e-auction side, which is the 37%. The premiums which are in the 400s, 500s are now in the 200s, which is why our coal costs have dropped.

Now going forward, we do see coal availability has improved, but I remain a little bit worried about the upcoming summer again. Though the government is much prepared, the inventories and power plants are already being built up, Coal India production and their targets are higher. But fair to say that I feel in those months of May, June, July, I remain a little bit cautious.

Sumangal Nevatia: And this 5% Q-o-Q cost reduction, is it possible, I mean, to calculating on a different basis. So is it possible to share the absolute dollar number? I mean a broad range will also work?

Satish Pai: Yes, Sumangal, I didn't give -- normally, I've never given out this number. But only good news is that last quarter, the higher price inventory has already worked through the system. So when I tell you 5% now, it will be 5%. so the Q3 to Q2, even though the costs went down by 5%, your back calculation will probably show about 1.5%, because we had the higher cost inventory, which we had got in the earlier time. Now that has gone through the system, so this time it will be straight 5%.

Sumangal Nevatia: And when we say 5%, is it majorly driven by coal also or some other deal build on some other raw material as well?

Satish Pai: I have to say that furnace oil, caustic soda, all have slightly hinged down.

Sumangal Nevatia: And given what the spot market is in February, I mean, is this coal price deflation continuing for a few more quarters?

Satish Pai: So, Sumangal, that's why I was saying in April, May, June is the peak, because it's the peak summer in the north. And that's when the coal demand is the maximum. Everybody is preparing for it and hoping that so I think, the last year's problem will not occur again. We are trying to build up stock as we speak. But I remain a little bit worried.

Moderator: Next question is from the line of Ritesh Shah from Investec.

Ritesh Shah: Sir, first is a clarification to Sumangal's question. Sir, you indicated cost of production went down by 5% from Q2 to Q3, can we expect another 5% into Q4? Did I hear it right?

Satish Pai: You heard it absolutely right.

Ritesh Shah: Sir, my first question is, if you could please comment on the implied premiums that we look at the downstream operations in India and upstream operations in India. So one is broader how the physical market premiums are playing out? And secondly, we are doing a lot of stuff on the downstream side. We still see a decline on implied realization adjusted for LME. Sir, how should we read into it?

Satish Pai: Sorry, your question is on the EBITDA per ton in the downstream, because I just answered that Q3 to Q2.

Ritesh Shah: Right, sir, I'm referring more from a realization standpoint. So we report a particular realization per ton. And what we tend to do is we subtract that number from LME, and we'd arrive a particular number, which is a reflection of physical market premiums and the product mix. This is where we see a decline?

Satish Pai: Yes, I think that probably time to tell you that even our own downstream, there is a certain amount of metal price lag. If you see Novelis actually pulls out that number and declares it. And if you see Q3, it was quite a large, nearly $109 million metal price lag. Between the India upstream and downstream that lag also exists, so that is what we are seeing. Because as the premiums go down and the LME marginally went down, there was a metal price lag.

Ritesh Shah: Sir, my second question is again on coal. Any specific reason why Meenakshi notification has not come in. That is one. Chakla, sir, I understand the EC is around 6 million tons. How should we look at the ramp-up over here? And Gare Palma IV/V, Dumri, Kathautia what is the status? I'm just trying to get my head around how the cost of production can actually move going forward, so 2 years out?

Satish Pai: Yes. I think that, look, Gare Palma IV/IV and Kathautia they were gotten at slightly higher prices, if you remember. I think that Chakla coming in will certainly be the one that will make the most impact. Chakla, if we do the Box Cut middle of next year, you should start to see production of coal. That means we'll be removing the overburden and all by the end of next year, calendar year that is December of '24. So from FY'25, you should start to see the ramp-up. And the ramp-up will take probably a couple of years to get to that full 6 million tons.

And what has happened in Meenakshi, it's a bit complicated, but it's related to land acquired and the Coal Bearing Act. So I can -- I'll have to explain that to you offline. But there is a -- there are about 10 mines that have been auctioned and cut because of this one issue, but it is hopefully going to be resolved soon.

Ritesh Shah: And sir, Dumri nothing to expect Gare Palma IV/V?

Satish Pai: For Garepalma IV/V, we have already returned and Dumri, we are also planning to return. And Kathautia, by the way, we are producing. So we'll be producing about nearly 800Kt to nearly 1 million ton. That's our plan for next year.

Moderator: Our next question is from the line of Gopal Nawandhar from SBI Life.

Gopal Nawandhar: My question is on the Novelis margin. So what we heard in the call, there were a lot of positive comments on the contract prices getting renegotiated and started to reflect from January onwards, some in January, some in April. And energy prices are coming down, freight cost is coming down, scrap availability has improved, aluminum prices have improved. But we don't get confidence in terms of margin improvement. The way we guided in the last year and fourth quarter the margins went down and you gave us confidence that we'll be back in the coming quarters. Despite all these positives, we're not getting confidence on the margin improvement? That is first question. Second question is, if you can just walk us through how this journey from $376 to $525 dollar per ton EBITDA should happen? And what all contributors will be there, either in terms of your scrap spreads, mix and the new contract prices, if you can just help on this?

Steve Fisher: Yes, I'll take it now, also add the comment, too. I think you have heard the confidence from us in getting back to the $525 per ton. We are very confident that, that is a sustainable run rate for Novelis. You've highlighted the headwinds that we're dealing with right now quite well, but we haven't guided very specifically yet on exactly how that flows in quarter-to-quarter. Because some of it, we understand, and is in control as it relates to pass-throughs to revenue to our customers. And some of it is where some of the settling of some of these inflationary costs are going to come, and those scrap spreads are going to come in. So right now, we know that we've got some near-term headwinds related to the continued destocking in the beverage packaging. That's a couple of quarters. And some of these other factors will continue to improve. So we believe the $525 per ton EBITDA. And right now, it's just a matter of the timing of when $525 will come in. But I'll let Dev maybe get into a little bit more detail as well.

Devinder Ahuja: Yes, Gopal, I think, and just going back to the comments we made at our own earnings call and just to recap everything to give you some more confidence on what we are seeing. So number one, we told you that we seem to have seen the lowest point on a number of fronts in Q3. What do we mean by that? European energy, gas prices are looking extremely encouraging as we speak now, extremely encouraging. And it's one of the factors, which we feel like the benefits of that will start coming, will start flowing in a little bit from this quarter, but the future quarters will reflect the benefit. As we end the winter, we have confidence that we will see a sustainably improved trend. And we always told you that, that part was causing us a total of $25 million every quarter besides other regions energy costs also adding to it, number one. So that is what I keep calling transitory inflation, right? Number two, overall, also, we generally see freight and other inflationary headwinds settling down. So it is not like it is going to happen between one quarter and another. We are also plan inventories that we produced from earlier times and some of the brunt of that we will bear in one or two quarters to come. So just to understand transitionary inflation, which we think will settle down, as we said, as Steve also alluded.

Our Conversion Premiums will continue to go up because of the new contracts that are getting activated because of inflation clauses that are getting activated. So the two things will happen is, CPs going up, inflationary cost, the transitory inflationary costs coming down, right? And again, on the metals side, we see some very encouraging signs as far as South America is concerned. We are really bearing some big downside on metal availability in South America. But there are encouraging signs. North American freight settling down and logistics improving is another encouraging sign. So we have a number of things where we think that we touched the low point. So this is not a turnaround that we expect between one quarter and another because the destocking will continue. And what we said in next couple of quarters, we will see an improvement, but not exactly going all the way to $525 per ton EBITDA. But towards the end of next fiscal year, towards the second half or towards the end of the next fiscal year, we seem to be getting over most of these the current headwinds, and that's the journey. So we touched the low point, from here we will see the path upwards.

Gopal Nawandhar: And this entire journey will be driven by ex of scrap spreads or there is some dependence on the scrap spreads. Assuming scrap spread remain where it is?

Devinder Ahuja: Well the thing is, and that I'm only telling you this that, we were really bearing the brunt of South American squeeze on scrap, and we see an improving situation, which really means, that overall scrap spreads will be on the very encouraging side. Now I want to use this opportunity also to tell you that maybe you as investors even sort of got used to those $1,000/ton plus margins in South America, which was like very easy scrap availability during COVID times for many reasons. But we'll not get all the way there, but we will definitely get better than we have seen in the last couple of quarters. I mean, we will definitely get on the better side of it. So scrap spreads, particularly in South America and North America, are going to see some encouraging trends. That is going to play a role for sure.

Gopal Nawandhar: One last thing, sir, on Novelis, that is just, we have 60% hedges on energy. We are not sure at what price the hedges were taken. And we are seeing a lot of correction in the energy prices, gas prices. Not sure whether that MTM will impact in the near term on the energy side, Are we factoring in that?

Devinder Ahuja: I think, really directionally, Yes. I mean, the hedges that we have taken are sort of are -- compared to current prices, we are kind of in the same ballpark or that curve, so we should not be too worried about it. The dropped prices that we see now, we are still kind of slightly higher in the case of Gas. And in the case of electricity, they are in the same range. So yes, so just to give you some inputs.

Moderator: Next question is from the line of Pallav Agarwal from Antique Stock Broking.

Pallav Agarwal: So firstly, given that current LME aluminium average for this quarter is closer to about $2,500, probably was $200 higher than Q3 average and that we're expecting cost to come down by about 5%. So broadly, I mean, spreads should have bottomed out and we should see a significant uptick in Q4. Is that a fair assumption?

Satish Pai: Is this sort of both Novelis/Hindalco broad question? The answer is, as we have been saying, Q4 will be much better than Q3 for both companies.

Pallav Agarwal: And also, sir, if you could just provide us with what are the amount of alumina external sales? Because if I look backwards, Utkal EBITDA seems to have improved pretty significantly from Q3 levels.?

Satish Pai: So Q3, we sold 150 Kt. I think in Q2, we had sold even more. We had sold 215 Kt in Q2 last year. In Q3, we sold another 150 Kt. It depends on the price of alumina as well.

Pallav Agarwal: So I think current prices have been pretty strong for alumina as well. So that should also help?

Satish Pai: Yes, yes.

Pallav Agarwal: So just one finally, so what's your view on China reopening? Like there are probably mixed expectation on how it would play out. So what's our view on what --?

Satish Pai: Yes. I mean, when I'm asked about what can impact LME, the 3 things that are most important is the energy prices in Europe, which is sort of a by-product of the war, it's the Chinese economy and the US economy. I think generally, people are getting a lot more hopeful. But I think we should give it a wait and watch, because after Chinese New Year they've just reopened. So we'll have to watch a little bit. I mean the tourists are out every country, including Europe, Thailand, they are filled with Chinese tourists. So they have dropped completely all the COVID restrictions. Now the second part of the story, which is that their economy gets back on track. We'll probably have to give it a little bit a month or so to see how that pans out. It's very important for the aluminium business that the health of the Chinese economy picks back up. It is difficult for me to say right now whether it has happened. I mean, if you have seen in the last few days, inventories have suddenly gone up a little bit, and that's why the LME corrected a bit. But there is a bit of volatility, but I think you'll have to be watching it a little bit more.

Pallav Agarwal: Sir, any likely impact, there is news that US could impose additional duties on Russian imports. But I guess Russia doesn't export too much to the US So would that probably impact sentiment in a positive way if that happens?

Satish Pai: Not really. I mean, I'll let Steve comment on the impact in the US. For me, I worry on the other side, that if Rusal metal needs an outlet. So I've heard that Glencore put a big amount of Rusal metal into an LME warehouse in Korea. Now the problem is that if there are no takers for that Rusal metal, they'll have to sell it at a discount, which could pull the LME down. So I'm more worried from that angle. So Steve, is that the Rusal metal doesn't go much to the US anymore, right?

Steve Fisher: No, it does not. And I agree with you, not a large impact.

Satish Pai: Yes, I think that Europe was a big one. And I personally, it has been going to China. And my worry is that it will start to show up in other parts in Asia, which there are no sanctions on it.

Moderator: Next question is from the line of Ashish Kejriwal from Nuvama Wealth.

Ashish: Sir, in this fluctuating environment when we are not really much sure about how China is behaving or the US is going to behave. Are we trying to hedge more than what we have done earlier and will that be affecting -- right now?

Satish Pai: Look, it's very difficult. See, I think this question was asked to me last quarter as well, and I said that we will start to hedge $2,600 and upwards. And in fact, in both for Q4 and a little bit for next year, we did catch $2,650 and upwards. But we have put our level $2,600 and upward, and we have laddered it. Because I think that I still think that this could have an upside.

Ashish: So, sir, what's the current hedge position for FY '24 and fourth quarter of FY '23?

Satish Pai: So as I said in my prepared remarks, Q4, there is 32% hedge at $2,500. And for FY '24, we have got 7% hedged at around $2,900 per ton .

Ashish: And sir, secondly, when you are talking about coal linkage availability. I think you mentioned that we are going to have 90% availability. Is that right? Because earlier, we used to have 65% to 70% of our total consumption to linkage and in last quarter, we had just 48% and --?

Satish Pai: Yes, don't confuse the mix of linkages in our aluminium -- sorry, coal supply with the realization of the linkages. So our mix of linkages is around 60%. So of that 60%, we were getting at 75%. We are now going back to the 90%. But the amount of linkage coal in our overall mix is around 48% in the last quarter.

Ashish: Earlier, I think it was 60%, 65% of the overall consumption isn't, sir?

Satish Pai: It was true, but some -- we had one tranche that has lapsed and we have to rebid that one. It's coming up in March of this year.

Ashish: So that was not renewed that time, okay?

Satish Pai: No, it takes three months from last to they putting it back up on linkage option.

Moderator: The next question is from the line of Shri Krishna from JM Financial.

Shri Krishna: So my question is that any indication how the EBITDA per ton will be for the coming quarter? Like what would be the growth? Anything, if you can -- any information you can give?

Satish Pai: EBITDA per ton for Novelis or?

Shri Krishna: Yes, both India as well as Novelis?

Satish Pai: See, India upstream EBITDA per ton will certainly grow. I mean if our cost of production goes down by 5%, we have to see where the average LME pans out. So we finished, I think, at Rs. 1,570 crores EBITDA for the upstream business in Q3. That will certainly go up depending on the LME and the cost of production going down. On the Novelis side, I'll let Steve answer. I mean, we are going to see an upside there. And I think as Dev said, you'll see a number starting with the four. I think that's about it.

Steve Fisher: Yes, that's correct. And so Q3 would be the low point and what we've guided to is over the next several quarters back to $525 per ton. But in the fourth quarter, something that starts with a four.

Shri Krishna: So you're basically saying that even the lower base will also help the EBITDA per ton to improve for the quarter?

Satish Pai: On the percentage, yes, but I think we are also trying to give some actual numbers here.

Moderator: The next question is from the line of Kamlesh from Lotus Asset Management.

Kamlesh: So just one question on the part of, I think, Novelis margin. In fact, if we see prior quarter's earnings call, we have been saying that 80% of our exposure -- energy exposure in Europe is hedged, even for FY '24, its upwards of 50%, so why there has been so much of sinks in the margin? So I do understand that there is an element of destocking in Beverage Cans. But actually the way -- even we see prior to COVID, the margins have been in the range of $400 or $425 odd. Don't you think that there is an element of, let's say, the benefits which we got because of the lower scrap spreads and lower energy prices, which got benefited over the last 2.5 years prior to this Russia war issue. So don't you think that the margins can go back to $425 not moving towards $500 odd. So can you give us some clarification on those parts?

Devinder Ahuja: Yes, so I'm very happy to take this question. So you seem to be skeptical about our ability to get to $525 per ton of EBITDA. I think what you're asking is really that were we just benefiting from extraordinary scrap spreads? And is that what you're heading towards? Is that your question, just to be clear?

Kamlesh: Yes, sir.

Devinder Ahuja: Yes. So, I should really disagree that the single driver is just some extraordinary circumstances because of which we were gaining during that COVID times. No, I mean, we have operationally sort of gone through a much better place over the last many, many quarters, it is a lot of fundamentally better things that have happened in the business in terms of volumes and operational efficiencies. Remember, we are a business where incremental volumes are very profitable, right. So it is a combination of volume growth. It is a combination of pricing improvement, which has happened and more is yet to come. And these are big levers. On top of that, increasing recycling capacity, a lot of debottlenecking coming in the pipeline, which comes very efficiently. There are a number of fundamental factors in the business, which are giving all the right to get towards a sustainable $525 EBITDA per ton. Remember, there have been quarters where we have been way above that. And that time, all the questions were why are we not guiding to do a much higher number when we have a couple of quarters which are way above. So let's just try to little bit of stay balanced here. There were quarters which we did even better. And I really think -- the short answer to your question is that, we have fundamentally taken the business to a better place. And with volume tailwinds because of all the growth that we will see on almost every front, besides the efficiency and some of the other debottlenecking that will really help us, really both with recycling capacity and rolling capacity very efficiently, we will see sustainable improvement after we have gone through some of the headwinds we are facing right now. So I can give you a lot of confidence on that front. This is not like transitory COVID thing that led us to about $500 per ton of EBITDA.

Moderator: Ladies and gentlemen due to time concern, that will be the last question for today. I now hand the conference over to Mr. Pai for closing comments.

Satish Pai: Thank you for your attention. I think that a number of your questions, probably the only thing as management we can say is that, we do believe that the worst is behind us. And I guess, that we will let the results of Q4, when they come out, talk for itself. I think we have tried to explain as much as we can. But at the end of the day, the results will show whether we were right or wrong. So I hope by the time we meet again next time, we will have better numbers to report.

Moderator: Thank you very much. On behalf of Hindalco Industries Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.