"Hindalco Industries Limited Q3 FY16 Earnings Conference Call"

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MR. SATISH PAI – DEPUTY MANAGING DIRECTOR
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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hindalco Industries Limited Q3 FY16 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 the Mr. Sagar Dhamorikar**.** Thank you and over to you, sir.

Sagar Dhamorikar: Thank you. Good evening, Ladies and Gentlemen, thank you for joining us today to discuss our results for the quarter ending December 31st, 2015. On this call we will be referring to the presentation that is available on our website. Some of the information on the call maybe forward-looking in nature and will be covered by the Safe Harbor language on the page 2 of the presentation.

From our management team we have with us our Managing Director Mr. D. Bhattacharya, our Deputy Managing Director Mr. Satish Pai, Chief Financial Officer Mr. Praveen Maheshwari, and Mr. J.C. Laddha – Head of our Copper Business along with Mr. Alphonso Richard Das – President Finance and Treasurer.

Now I will hand it over to Mr. Bhattacharya.

D. Bhattacharya: Thank you Sagar. Good evening Ladies and Gentlemen. I am pleased to welcome you to Hindalco Industries Limited Third Quarter Fiscal Year 2016 call.

I will cover this presentation in three sections. I will first give you the highlights of the business environment and our performance in physical and in financial terms. I will then cover the aluminum business in more detail along with some highlights of Novelis, our 100% subsidiary. This will be followed by the review of copper business.

Let me start with a broader macroeconomic backdrop in slide four. Macroeconomic environment in general, and especially for the commodity sectors, remains somewhat hazy and tough. Commodity prices have dipped further over the recent months on renewed concerns over the growth in China and the acute risk aversion in the financial markets. Chinese economic growth has slowed down to the weakest level since 2009. Equity markets across the world have also melted down in recent weeks.

Recent data coming out of the developed economies is mixed. Labour market conditions appear to be improving; however indicators of manufacturing activity have not been encouraging. Overall, thus, we have an economic backdrop that looks vulnerable.

Turning to Aluminium in particular in slide five, both LME and regional premium have fallen sharply over the year. Compared to the year-ago quarter, LME is lower by 24% and regional ingot premium is down over 75%. Consequently, the aluminium realizations in the quarter under review were lower than the corresponding quarter last year by about $700 per tonne. Copper LME also declined sharply by over 27%.

On the positive side, demand growth and its prospects remain solid - both at the global level and in India. This is being driven by new applications - particularly auto - in developed markets and rising per capita consumption in emerging markets. In India, we believe that the thrust on power sector investments augurs well for aluminium demand.

Moving on to slide 6, Of late, the Aluminium sector fundamentals are showing some signs of turning around. After experiencing excess supply situation in the recent years, global aluminium market is now expected to see emergence of small deficits from the current year onwards. While it is true that China continues to have a large surplus, capacity curtailments in China have accelerated and capacity of over 4 million tonnes has been closed in China. Along with the capacity adjustments in the rest of the world, these closures are helping correct the demand-supply situation as also reduce the stock of aluminium lying in the world. These improving fundamentals are perhaps also reflecting in the trend of aluminium LME amidst the current bout of risk aversion in global financial markets. Aluminium LME has held up reasonably well in this phase, which gives us some hope that the prices could now be close to bottoming out.

Moving on to slide seven, with this broad industry backdrop, let me now turn to our operational performance during quarter three. In aluminum business, I am happy to report that our ramp up has progressed very well and our volumes have grown significantly. We had record metal production in this quarter with volumes rising over 36%, achieving an annualized run rate of close to 1.2 Mn tonnes. With the ramp up of new age smelters the cost of production is declining, of course aided by softer energy prices.

Novelis continued to deliver on its rolling expansions, these ramp ups have helped the shipments grow to 779 KT. This was the highest, we have ever achieved in any of Q3, seasonally a weak quarter as this is the holiday season for many end users.

Auto segment grew extremely well, vindicating our bet on the trend of light weighting of vehicles.

Copper business delivered another steady and robust quarter, with increasing thrust on value addition. All in all, we had an all-round improvement in operational performance during the quarter.

Slide number eight discusses our financial highlights ---- Our sales revenue declined 5% year-on-year. The impact of very strong growth in aluminium volumes was negated by the sharp slide in prices of aluminium and copper.

Aluminum segment revenue increased 17% over the corresponding quarter last year whereas copper segment revenue declined 22%. In a very difficult quarter in terms of adverse macroeconomic conditions, we managed to deliver a PBIDTA of Rs 922 Cr, which reflects robust, operational performance. Compared to the quarter three of FY15, our interest and depreciation increased very sharply. This was on account of the ramp up Greenfield capacities and was along the expected lines. As a result, our net profit was restricted to Rs 40 crores.

Now coming to the numbers in slide number nine, as mentioned earlier, our revenue at Rs. 8,150 crores in Q3 of FY16 was 5% lower than last year and 9% lower than the previous quarter. The sequential decline was primarily due to a sharp fall in Copper LME. The other income was higher than Q3 FY 15; but was sharply lower than that earned in the previous quarter which included the effect of other income of a non-recurring nature and dividend from subsidiaries.

Depreciation and interest together knocked off close to Rs.900 crores from our earnings. These charges have nearly stabilized now. However, interest outgo may decline with softening of interest rates. Profit before tax at Rs 31 Cr was lower than the previous quarter.

Slide number ten discusses the 9 Month results. Our revenue for the nine month period in FY 16 at Rs. 25,650 crores was 2% higher than the corresponding period last year. This was achieved on the back of higher volumes despite a sharp decline in realisations. The other income was higher than nine months, FY 15 as it included the effect of other income of a non-recurring nature.

As a result, PBIDTA for the 9 months, despite sharp decline in realizations, stood at Rs 3,014 Cr which was only 6% lower than the previous year's nine months.

Reflecting the ramp-up of projects, Depreciation and interest accounted for over Rs.2,700 crores during the first three quarters of FY16, this was almost 1000 Cr higher than the corresponding period last year.

Profit before tax for the nine month period ended Dec 31 st, was Rs 278 Crore, while net profit was Rs 251 Cr.

Let me now cover the aluminum segment in more detail

In Slide 12 aluminum business External Drivers have been shown.As you know, the external macroeconomic drivers were extremely negative for the aluminum industry. During Q3 FY16 the London Metal Exchange price for aluminum was lower by 24% as compared with that of the corresponding quarter of the previous financial year. The premium that have been very supportive all throughout the financial year 2015 collapsed this year and was around $90 in Q3 FY16, lower by over 75% versus the corresponding quarter a year ago as the MJP was hovering around $375 to $400 per ton in Q3 of FY15.

As a result, realization during Q3 FY16 was sharply lower than the corresponding quarter last year. However, the depreciation of rupee did offer some support, though this was clearly inadequate as the depreciation in other currencies was much sharper as compared to that in the rupee. The realizations were lower by over USD 700/tonne during the quarter vis a vis corresponding quarter last year, impacting the topline.

Sequentially too, the business faced headwinds on account of external drivers. On the other hand, the coal cost in India is on a declining trend and, along with the lower carbon costs, did provide some relief. However, the coal cost for Hirakud smelter increased sharply on a year-on-year basis as the captive coal mine was de-allocated last year.

Slide 13 covers the production performance of aluminum business. We continue to ramp up the production from the new, state of the art Greenfield facilities. As the projects ramp up, the cost of production continues to decline. The chart on the left depicts alumina production. Utkal is now operating at near full capacity and is already one of the best alumina refineries in the world. Quality bauxite and tight supply chain integration makes Utkal one of the most efficient refineries in the world and amongst the lowest cost refineries. The long distance conveyer, the first of its kind is now operational and should not only bring down the cost further but also insulate the transportation cost from possible inflationary trends going forward. The other refineries of Hindalco also performed well and managed to increase the production by over 50 KT during the quarter. As a result, overall alumina production increased by 18% year-on-year basis. A strong production performance indeed! During Q3 FY16, aluminum production increased by 36% over Q3 of FY15 despite some cut backs in production at Hirakud's 85 kiloamps potline. Mahan smelter is now operating at 100% capacity. Aditya smelter is ramping up nicely and was operating at around 80% capacity in December 2015.

Coming to Slide 14 – To sum up our operational performance in the aluminium segment, now both the new age smelters are running at close to full capacity and are yielding desired results on all parameters. Utkal has established itself as a prime refinery in the global pecking order with robust logistics and good quality bauxite.

As a result, our cost of production is on a declining trend. Softening energy prices, especially coal prices and domestic availability have also contributed to this cost decline.

In line with our long term strategic objective, of the 4 coal blocks we won through auction, Gare palma IV/4 has commenced operation in end December. The other GP block is expected to commence the production shortly. This will allow us flexibility in terms of sourcing and blending of coal.

In line with our thrust on value maximization, we have started production of aluminum rods and billets at Mahan facility. Our Value Added Product that is the VAP portfolio distinguishes us from the competition in India. We have a very strong VAP portfolio, with a strong presence in both FRP and extrusion space. This should help us improve our market mix. A pick up in the demand for VAP in India augurs well for us.

Coming to the financials, refer slide 15, aluminum business top-line grew at 17% over Q3 FY15, registering a turnover of 4,248 crores, this was a remarkable showing against the backdrop of severe macroeconomic headwinds. The EBIT, however declined sharply to Rs.81 crores as the benefits of improved operational performance were negated by sharp decline in realizations. The EBIT drop was accentuated by higher depreciation as the projects ramped up. Please note that these financials are without Utkal. Overall aluminum business in India at an integrated level has indeed performed very creditably.

Let me now cover Novelis briefly in slide 17, though I am sure that you must have joined the Novelis earning call. The recent expansions at Novelis are ramping up well. It registered shipments of 779 kilo tons for the quarter.

This is the record for third quarter, a seasonally weak quarter as many end users enjoy holidays. The end user demand remains strong, particularly in cans and auto.

The EBITDA for the quarter excluding the impact of Metal price lag due to decline in both LME and regional premium was USD 238 Mn, again a record for the third quarter. The residual impact of Metal Price lag for the quarter was USD 26 Mn. I do not expect any significant Metal Price Lag impact going forward.

Coming to slide 18,, Our Auto focus has started delivering. The Auto shipments have grown 52% YOY. The demand is extremely strong with Ford F-150 generating huge traction.

The pie chart shows the evolution of our product portfolio. Between 2013 & now, the premium products portfolio has grown from 81% to 88%. Higher share of auto and larger can share in the emerging markets that are growing, augur well for the future. The new auto lines in US and Germany are on schedule to deliver by the last quarter of CY 2016.

Now let me talk about copper business performance. Going to slide 20, the copper business, continued to do well highlighting the importance of our de-risked portfolio. The macroeconomic factors for this business, unlike in the case of aluminum were broadly supportive even as the copper LME declined sharply.

The copper business is a conversion business and does not get significantly impacted by the volatility in the copper prices, as the business runs an offset hedging process mitigating the volatility and also making the business largely pass through. TCRC which is a major driver of the profitability was good. The prices of by or co products such as sulfuric acid and di-ammonium phosphate fertilizer were broadly steady.

Moving on to Slide 21 - Our smelter at Dahej continued to deliver robust operational performance. Copper cathode production at 94 KT was at the same level as that in Q3 FY15, while DAP production was significantly higher at 9% over Q3 FY15. Value added CC rods production marked an 11% increase over Q3 FY 15.

Now moving on to slide 22, the copper business revenues declined over 22% following a 27% decline in copper LME. The sale of by- products helped offset the sharp decline in LME.

The EBIT for the quarter was Rs.348 crores, a decline of 12% over Q3 FY15 and in line with Q2 FY16. The year-on-year decline is mainly due to removal of export incentives and significant reduction in LME.

I shall now briefly touch upon our 51% subsidiary in Australia in slide 23… As you know, we have monetized MGO through divestment. The strategic review with respect to other assets is going on.

The operating performance at Nifty mine has been encouraging and both ore and copper production has been rising since the sink hole incident.

We continue to focus on cost optimization during these challenging times, when the copper LME has declined sharply.

Turning to slide 24, --- our overall focus going forward will be on cost savings and cash conservation across all our operations. This would include a further improvement in operational efficiencies, reduction of inventory, working capital, and greater efficiency in our logistics. Another important area for us is the start-up and ramp-up of captive coal mines.

At the same time, in view of the significant macroeconomic headwinds being faced by our upstream operations, our focus will be to leverage the potential of the downstream operations. We are seeing some tailwinds there in terms of improving demand conditions. The business will continue its efforts to enrich the product portfolio and increase the value addition in the downstream operations.

Hirakud FRP factory is an example of our focus on Value Added Products. Its location, being next door to the smelter and having access to hot metal, saves on reheating and freight cost. This is a state-of-the-art rolling facility and will be the only facility capable of producing can body stock in India. We believe this segment will have a significant demand potential. The factory is ramping up very well and once the operation is fully stabilized, it will enhance Hindalco's competitive positioning in the FRP space substantially.

Our Foil Plant at Mouda is also developing very well as a world-class high-end foils hub – the only facility of its kind in India focused on ultra thin gauge foils and serving a wide variety of high end applications.

In summary, I would say that Q3FY16 was a story of two opposite forces – while operationally it was a strong quarter, macroeconomic headwinds intensified further and negated the benefits of robust operations. New factories have ramped up well, and once Aditya reaches its full capacity, the ramp-up would be complete. That should happen very soon, perhaps in this quarter itself. Copper business also continues to perform well and is likely to maintain its performance. On the whole, our focus will be on operational excellence, enhanced value addition and cash conservation.

Now I hope you have got a reasonable idea about the quarter. I would now request you to ask questions if you have any.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Indarjeet Agarwal from Goldman Sachs. Please go ahead.

Naveen: Sir, this is Naveen from GS here. Sir my question is related to the 2017 notes refinancing at Novelis, one of the questions which was asked to the Novelis management on the call was, are you looking at streaming up some dividends to the parent entity? And what they mentioned was, in contrast they are looking at some support from the parent entity. Given the tightness in the high yield bond market in the US and the high debt at the parent entity here, how should we look at this refinancing at Novelis and are you looking raising debt at the parent entity to refinance that? Thank you.

D. Bhattacharya: I do not believe there is any issue in terms of refinancing at Novelis. We will look at windows of opportunities which are good for Novelis and at an appropriate time this will get refinanced. Today, globally the bond rates are high as you know, and we are in no hurry at this moment because there is enough time available to us to have the refinancing done. But at this point in time we have no plans to take further debt for Novelis at Hindalco, at the parent.

Naveen: Sir also in the Press Release this quarter, there was a Board approval for non-convertible debentures of 15 billion and term loan of 20 billion, can you throw some light on that, the purpose for that capital raising.

Praveen Maheshwari: The Rs.15 billion, which is Rs.1,500 crores is basically with the intention to repay some debt that come for repayment over the next few years, so if we get an opportunity we might do that. The other 2,000 crores is basically for internal operations, we do not see this a big issue, but it is more like an enabling resolution at this point of time than any specific plans to execute it.

Moderator: Thank you. Our next question is from the line of Pinakin Parekh from J P Morgan. Please go ahead.

Pinakin Parekh: My first question is on the aluminum operations. Can you give us some color on Al? What kind of cost reductions we can broadly see over the next two quarters from the lower oil prices? From the ramp up of the new smelters? And B) The coal mine that we have started production, how should it impact the economics of the business, not only this mine but the ramp up of the other mines over the course of this year?

D. Bhattacharya: As I mentioned to you that all the Greenfield projects are moving extremely well and we are in the mid-to-early second quartile of the CRU cost curve. When the ramp up is complete, I think the position will improve. The second question was on the coal. We have acquired those coal mines on the basis of the securitization of our coal requirement for the power plants which actually is a big cost structure for aluminum production. As you know Gare Palma IV/4 is already in operation, we are at the beginning stages and we believe that over a period of time, though it is too early to commit anything, in fullness of time these coal mines, will not only provide security of coal availability but also on the basis of the economics will be very fruitful going forward.

Pinakin Parekh: Sir so would the captive coal from this particular mine will be more expensive or cheaper than the e-auction or imported coal?

D. Bhattacharya: We do not know what will be the price of e-auction coal.

Pinakin Parekh: And imported coal sir?

D. Bhattacharya: Imported coal as you know, with the dollar becoming dearer on every passing day, in spite of lowering of international coal cost on a dollar basis, in rupee term is getting expensive, which is our primary cost basis and the functional currency. How it will impact is very difficult to say. In addition, as you know, handling capability of solid bulk cargo on the east coast is very limited and our experience of importing coal has not been very good. There are many hidden costs and also it takes a long time. Also, please remember, all our factories are far away from the coast and to that extent there is an inbuilt cost which sometimes is difficult to predict. Considering everything, I think we have got the right mix of our own coal mines, of e-auction and not relying too heavily on the imports of coal.

Pinakin Parekh: And sir the second question is on the alumina refinery at Utkal - conveyer belt is now up and running, so sir regarding the debottlenecking, how should we look at timelines for that particular project; because I would assume that this would have been one of the hindrances or one of the issues?

D. Bhattacharya: The conveyer is the longest in Asia as far as I know. It is an outstanding piece of engineering, designed for much higher capacity. So your question is, about the long distance conveyer or about the refinery?

Pinakin Parekh: Sir for the debottlenecking of the refinery, now that the conveyer belt is in place how should we look at the timelines for that expansion?

D. Bhattacharya: We are evaluating and as and when we believe that we have got all the regulatory approvals in place, we will certainly consider that.

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

Bhavin Chheda: Sir few questions, what would be your coal mix in the aluminum business in India?

D. Bhattacharya: I am sorry, I did not get it.

Bhavin Chheda: What would be the coal mix between linkage, imports and e-auction if you have that figure handy?

Satish Pai: Look, next year our total requirements of coal will be around 16 million tonnes, 4 million is what we have on linkage, so that leaves about 12 million tonnes. And as Mr. Bhattacharya said, we are going to do quite a lot of e-auction, we are hoping Gare Palma IV/4 and IV/5 will contribute and the imports can be minimized. Normally the import is about 2 million to 2.5 million tonnes of coal, so what we will do is to substitute with our own mines because it also has a high GCV, so that should give you a feel of how we are looking at it.

Bhavin Chheda: This is forward, I was looking at what would it would be in this quarter and first nine months basically.

D. Bhattacharya: I will explain to you. If you see coal mine, or for that matter any mine, during the monsoon the mining is inefficient. Therefore we got to keep some stocks so that we are not held to ransom during the monsoon months to go to the market. So if you look at our stocks, just before monsoon it will be at the highest level and will slowly peter off. And as Satish said, our objective should be to import only when it makes economic sense, unless we are bringing it for some securitization of availability of coal at a difficult time. To give, any percentage will be hazardous; it will depend on what is the cheapest.

Bhavin Chheda: And in terms of value added production in domestic aluminum business, out of the 296,000 primary metal produced, how much must have been sold as value added production in the current quarter?

D. Bhattacharya: Our objective is to maximize the value added products, but giving a percentage is going to be somewhat flawed because our total primary metal volume as I mentioned to you has gone up 36% and value added products being a percentage of that larger base, as a percentage will look small. But in absolute terms, value added products are moving up very smartly. Satish was telling me just now, by ~ 23% from last quarter, so it is an outstanding improvement. Of course we were aided by closure of some other companies producing some value added products. So we could capture the market and thereby enhancing our market share both in terms of tonnage as well as in terms of market share.

Moderator: Thank you. Our next question is from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.

Sanjay Jain: I want to bring your attention to slide number 15, actually this is a continuation of the question asked by Bhavin, I mean we have done excellently well in this quarter in terms of the cost reduction, but what I want to understand is, if I see the EBIT bar on the right chart, it has gone up from 29 crores to 81 crores within this three months' period. What I want to understand is that in the same period LME is down by $100, so what I want to understand, how do I break it down between the reduction in the cost and contribution from the value added products and if there are any hedging gains in this or if there are any non-recurring parts, so basically want to understand how the cost would be. And secondly, the same part of this question is, in the third quarter what is the percentage of imported coal? so just want to get some sense on how things would look in the subsequent quarter.

D. Bhattacharya: You have packed in a lot and all the numbers are not there with me. But it will suffice to say that if cost of production has come down, that will reflect in the EBITDA, one way or another. Now considering all these, you must also look at, if you take sequentially where dollar LME has fallen further from Q2, EBIT actually has gone up from Q2 FY16 to Q3 FY16. So overall, it I demonstrated that it has improved.

Sanjay Jain: Can you give us some number on the cost of production, why I am asking, I am repeating this question and coming back to the same question, see this quarter Hindalco has done pretty well and there is a bit of skepticism in everybody's mind that this good performance is not sustainable, part of it is because of the hedging gains. So if you could help us break it down, it will help everybody.

D. Bhattacharya: Cost of production does not get impacted because of this .Hedge gains if any will come in the realization and I am talking to you about cost of production which is presently in the second quarter of the cost curve and I say it will move toward early second quarter. This cost of production does not have any influence of any hedging, any one timers which you also have touched upon.

Moderator: Thank you. Our next question is from the line of Sumangal Neotia from Macquarie. Please go ahead.

Sumangal Neotia: Just a couple of questions, I will start with few book keeping question, if you can share the profitability of Utkal and what sort of transfer pricing was used to supply Alumina to Mahan and Aditya in the third quarter?

D. Bhattacharya: First of all, all transfer prices are market related, so what Utkal gives to Mahan is what Mahan could have bought from other sources, and this policy is independent of what we produce or what we do not produce, we do not subsidize one unit or one business, one SBU with another. So that is one question's answer, you asked for profitability?

Sumangal Neotia: Yes sir.

D. Bhattacharya: I mentioned to you that this is (Utkal) at the lowest decile not quartile, and it has a cost structure which is one of the best in the world. I also mentioned that with the long distance conveyer getting commissioned, it is a 21 kilometer conveyor, passing through one of the toughest terrains, if you have ever travelled in Konkan railway it goes through similar gorges which is 100 meter plus deep. So it is getting settled and it is carrying between 13,000 - 14,000 tons every day. With that, we will get some more benefit coming through. So Utkal is doing extremely well both in volume as well as quality and production cost.

Sumangal Neotia: Sir, if you have the EBITDA or EBITDA number handy it will be helpful, for Utkal.

D. Bhattacharya: We do not give EBITDA of any segment, we do not, and EBIT number is there in the public domain.

Sumangal Neotia: No, that is standalone, Utkal is not there.

D. Bhattacharya: Alumina has been around $210 - $220 per ton. And it has fallen to about $180 and $190 and bouncing back. So in terms of EBITDA, it has a very healthy EBITDA.

Sumangal Neotia: Sir, my next question, sir total captive coal capacity is close to 3.8, so what sort of production can we expect in FY17 and '18, you said Gare Palma IV/4 has already started, but factoring all other total four coal mines, what is the expectation for production level and coal mix in 2017 and 2018?

D. Bhattacharya: This question is difficult to answer, I will explain to you why. Each mine has a different GCV, meaning Gross Calorific Value, like I told you, we will have significantly higher GCV and it is not important what is rupees per ton of raising cost, it is rupees per million kilocalorie because finally we burn kilocalorie. And what will be that cost ratio is difficult to say because we have not even gone and drilled holes; it is based on the geological survey. As Mr. Pai told you that we have a linkage coal which is about 3 million plus per year, we have got continuous purchase of e-auction coal, we have Gare Palma IV/4 already started, Gare Palma IV/5 is almost going to be started, I will be very surprised if it does not start in next three months' time. So the ratio will change depending on what is the calorific value we are getting. We have of course a definitive idea of the basis on which we have purchased;

but actual numbers will vary and therefore we go for equivalent tonnes of coal rather than tonnes of coal, and costing is controlled by what is the cost for one million kilocalorie of heat.

Sumangal Neotia: Sir just one last question, you said ~ 4 million tonnes is expected from linkage, but that I suppose Coal India plans to auction, so when is the linkage expiring?

D. Bhattacharya: 2018, June.

Moderator: Thank you. Our next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: Sir, my question is related to current sourcing that we are having in the aluminum business, because obviously we are getting a lot of tailwinds in savings on the coal cost, so we have already switched on largely to the e-auction as well as whatever linkage we have in Renukoot, is that understanding correct or we are still getting imports which we can replace going forward?

D. Bhattacharya: First question.. Let me tackle that, you said that we are getting tailwind in the form of coal cost, why only coal cost, Brent has come down and perhaps it went through an all-time low and that has lead to energy cost reduction, absolutely no doubt. But that is one of the reasons why aluminum LME is also low. So I believe that as energy prices move up, so would the aluminum and copper LME. Let me tell you that LME influences our overall performance much more than the input cost, input cost is a percentage of the total cost and LME gives you the total revenue line which moves all the way down to EBITDA. So in the event, energy cost tends to move up, it will lead to increase in commodity prices and Hindalco will benefit very significantly from that.

Abhisar Jain: But sir on the coal front also, if you can clarify that are we still having that 2 million tonnes - 2.5 million tonnes of imported coal in the mix as previously mentioned? Or we have already moved to largely e-auction and linkage?

D. Bhattacharya: Satish explained to you that 2 million tonnes to 2.5 million tonnes is at most we will like to import, if it needs us to be stocked up, that is also for the next year. This year is getting over. So we are not relying on import because of three reasons as I explained and Satish quantified, one is, we are more than 1,000 kilometers away from the coastline, rake availability is a big question mark, if you bring it by road it takes not only extra cost but also a very-very long time. Third, the birthing of ships can be a big problem because these are all congested ports. So this is not our preferred option, but if it has to be taken, the number that Satish has kept in mind is about 2 million tonnes - 2.5 million tonnes next year.Currently we are using very little imported coal because the availability of e-auction coal and the prices are highly favorable.

Abhisar Jain: And sir a little bit color on the CAPEX on the standalone operations would help, for this year as well as for the next year because we are largely through with all the expansions mostly.

D. Bhattacharya: Yes, we will not invest in any big project strategic or otherwise, we have taken a freeze, we will only consolidate what we have got. Therefore, it will be R&M and some strategic CAPEX which will be a fraction of what we used to do in the past.

Abhisar Jain: So sir any number that you would like to have for 2016 and 2017 on the CAPEX front?

D. Bhattacharya: FY17, I think it will be sub-1000 crores.

Moderator: Thank you. Our next question is from the line of Jigar Mistry from HSBC Securities. Please go ahead.

Jigar Mistry: Just one question from my side, given that Hindalco is coming off a large capital expansion and when combined with Novelis that number has been larger. You just mentioned sir that you are not looking at any strategic CAPEX but you also mentioned that Utkal alumina refinery as and when statutory approvals come through could see the debottlenecking process. So on a broader level; can you explain on how do you look at the capital allocation from a dividend / debt repayment / new strategic opportunity standpoint? Thank you.

D. Bhattacharya: I have said during the presentation, cash conversation and cash liquidity, treasury enhancement is absolutely vital. What I said about Utkal is that we are working on the regulatory approvals, as and when we get it, we will evaluate the opportunity. And debottlenecking as you know is always the lowest cost option, it is not a strategic investment on Greenfield basis.

Jigar Mistry: And sir the decision between dividends and the debt repayments?

D. Bhattacharya: What is your question?

Jigar Mistry: How do you see dividends as a strategic capital allocation tool or you think that debt needs to be paid out first before increasing allocation to dividends?

D. Bhattacharya: I think Praveen touched upon this when the question was on 1,500 crores and 2,000 crores enabling authority, I think that will tell the story. But would you like to specifically answer that?

Praveen Maheshwari: Yes, it is really not a big decision in the sense. At least not now because I think what you are talking about is relevant when the company is kind of rolling in cash, then we need to really allocate. So today dividend is where they are, debt is going off as per its own schedule, so there is not a big decision to be made at this point of time.

D. Bhattacharya: We are minimizing our CAPEX cash outflow.

Praveen Maheshwari: We are not raising anything big for any major capital expenditure that is the point I think we want to make.

Moderator: Thank you. Our next question is from the line of Mitul Kalwadia from ICICI Prudential. Please go ahead.

Mitul Kalwadia: Just a couple of things on CAPEX again, so we talked about FY17, can you also throw some light about two, three years' perspective, is debt reduction the three-year target or it is only till 2017 and then we will again review if the aluminum market looks good, then would we look for something in copper or some other areas for expansion, because copper seems to be doing good, would there be a scope to increase more allocation of capital there?

D. Bhattacharya: I think ultimately strengthening the balance sheet is our most important objective. Within that framework there maybe some options which are time based, time dependent and if a great opportunity window seen, then we will want to evaluate. I believe that we do not have any big CAPEX plan at this point in time, covering even 2017-2018, who knows if something great comes up and it makes enormous sense for the company and the shareholder, we will certainly look at it.

Mitul kalwadia: And sir the 1,000 crores FY17 CAPEX you talked about, would it be fair to assume that for a three-year maintenance CAPEX would be around that number or it could be around 1,500 plus types?

D. Bhattacharya: I actually did not say 1,000, I said sub-1,000 Cr.

Mitul Kalwadia: Sub-1,000, yes.

D. Bhattacharya: So important to us that if you miss out that word sub, you can understand how sensitive we are. We do not foresee this number going up even in 2018-2019.

Mitul Kalwadia: And if I may ask you about Novelis CAPEX plans, what kind of maintenance CAPEX would they have from a two, three-year perspective, if you can throw some light there also?

D. Bhattacharya: Two things you have got to keep in mind that Novelis is a very highly asset intensive business, and when you have high asset level then you also have to maintain it at a high level of precision. It is the leading FRP business, providing premium end of the product ranges, so it is expected to be on the higher side. However, for the last three years we are continuously reducing the R&M cost in Novelis. At the same time we got to make sure that if we do it or if we over do it, we will be penny wise and found foolish, so we try to drive a very strict balance so that the quality of assets are maintained without overspending.

Mitul Kalwadia: But any number to it, sir?

D. Bhattacharya: It will be less than 200 million.

Mitul Kalwdia: Then another thing, if you can throw some light about what is the total Group level gross debt and net debt today?

D. Bhattacharya: Group level, meaning Hindalco Group?

Mitul Kalwdia: Hindalco consol, yes.

Praveen Maheshwari: If you are talking about consolidated debt, Novelis has roughly about $5 billion of debt and at Hindalco including Utkal, we have about 28,000 crores of long-term debt, but we also have about 6,000 crores of treasury available. Similarly, Novelis has about $400 million to $500 million of cash treasury.

Mitul Kalwadia: Sir, Can you also include total debt, not just the long-term part of the debt, even the short-term?

Praveen Maheshwari: Short-term is another about 4,600 crores.

Mithun Kalwadia: And lastly, if I can ask, you mentioned about Utkal that you do not want to give the number, but can you tell us at least the revenue line and the PAT numbers for Utkal alumina, just for a model purpose because now with this volatility in the global commodity price it is very difficult to know what is the profitability?.

Praveen Maheshwari: I will tell you what numbers I can share with you. The volume will be 1.5 million tonnes, between 1.45 to 1.5, I am not splitting it. Second is, what will be the realization that you can predict as much as I can, because that is a commodity.

Mitul Kalwadia: Sir, I am asking for the last quarter and the nine months, I am not actually asking for the forecast number.

D.Bhattacharya: Yes, the realization is around $210 per ton, and I have told you it will be the lowest decile, so if you look at the cost curve you can find out everything.

Moderator: Thank you. Our next question is from the line of Saumil Mehta from IDFC Securities. Please go ahead.

Saumil Mehta: Most of my questions have been answered, I have few questions on the cost front, I mean apart from benefits of operating leverages can you just give a very rough number as to what is the decline in caustic soda and some of the other raw material cost on a very broad basis over the last six to nine months?

D. Bhattacharya: I missed out, what is the question you said.

Saumil Mehta: I am looking at what are the commodity cost benefits we are getting in caustic soda and some of the other raw material cost over the last six to nine months.

D. Bhattacharya: Caustic soda, then let us say some other aluminum fluoride, some of the inputs, have totally different drivers and they are not always driven by energy cost alone, like caustic soda follows a different kind of dynamics**.** We have benefitted, as I have said because the input cost has come down and of course we have benefitted from it. Exactly how much, I am sorry I am not in a position to give that number. You have the number Praveen?

Praveen Maheshwari: No, not at the moment.

D. Bhattacharya: I think you can get it from Sagar. As I was telling you, we have benefitted but the loss on account of top-line is significantly higher.

Saumil Mehta: Sir my second question is with respect to what would be the spot and the contracted sales for the copper business, as in in terms of Tc/Rc and how it has changed over the last 12 months or 24 months?

D. Bhattacharya: Tc/Rc, we enjoyed one of the best Tc/Rc s in the recent times. However, it has started softening. How it is done? There is a benchmark TCRC and the negotiation takes place around that, but the volume is contracted through a framework, so we are covered and I think 85% - 90%for next year's production, but exact Tc/Rc will have to be negotiated from supplier to supplier, miner to miner.

Saumil Mehta: Sir just to be correct, about 80% would be contracted; only 10% -15% would be on spot basis?

D. Bhattacharya: We prefer 80% long-term and 20% spot, it will also depend on how much production we do, if we do more than the percentage tends to come down.

Saumil Mehta: Sir my last question is with respect to our bauxite sourcing, so first in terms of the entire Utkal bauxite is coming from captive source Baphlimali is that correct?

D. Bhattacharya: Absolutely correct.

Saumil Mehta: And sir for the existing 1.5 million tonne, what would be the captive as well as the non-captive percentage if you can give for bauxite?

D. Bhattacharya: It will be 100% captive, 1.5 will take about 4.5 million - 5 million.

Saumil Mehta: And sir my last question is with respect to Capex, I mean we have been very clear in terms of our CAPEX spending, so is it fair to assume that the Jharkhand CAPEX which we were envisaging some years ago now even till FY18-19 that does not seem to be on drawing board?

D. Bhattacharya: No, because you know there was a coal mine connected to that project and the project came up because of the coal block; and that has been de-allocated by the Supreme Court order. So there is no question.

Moderator: Thank you. Our next question is from the line of Ritesh Shah of Investec. Please go ahead.

Ritesh Shah: Sir, on the Baphlimali mine, we are made to understand that a part of the mine has been designated under forest area, is that true and do we need some additional approvals over here? So that is the first question.

D. Bhattacharya: Let me share with you, we are mining the bauxite from Baphlimali so we have all the approvals. In 1998 we got the forest clearance and no forest was notified, last year or towards the middle of last year it was brought out that there is certain forest land, what is known as DLC land, so we are getting it cleared and I am confident that all the regulatory approvals will be available so that there is no disruption in bauxite mining and therefore no disruption on the refinery operations.

Ritesh Shah: Sir second question, is our incremental quantum of specialty alumina from Utkal?

D. Bhattacharya: No, we produce only metallurgical grade alumina.

Ritesh Shah: And sir just third question, any update on the aluminum industry, if they are looking for any protectionous measures like the steel industry because there have been talks about import duty and safeguard duties, if you could please update on that.

D. Bhattacharya: If you study the aluminum industry in this country, in the last one year, every tonne of aluminum that we sell we lose Rs.40,000 a ton. So it is a huge quantity and industry and every company suffers. Now is this industry big enough to cause problem in the society? I believe so. It already employees 7.5 lakhs employees direct and indirect and with 60,000 crores investment in pipeline the main employees and another 4 lakh employees, that means it can go up to 12 lakh employees or 12 lakh families or 50 lakh people. So industries association, Aluminum Association of India has represented the case and requested the government to look at this very seriously and to find out how the industry can be saved, not only from this difficult time but also when 50% plus of consumption in this country is being imported from some of the countries who benefit from input costs, like West Asia and China. So government understands, it is looking at the various possibilities and I believe for the sake of this 48 lakhs people some positive deterrent will be put in place such that this 56% import does not continue. By the way, on the steel, people are talking about deterrent in terms of higher import duties, MIPs but there the total import is less than 15% whereas aluminum is about 50% or even higher.

Ritesh Shah: Sir, as the industry where have you reached? Has the petition already been made, has there been any progress over here? I understand you cannot give the timelines but if you could please elaborate the process it will be very helpful.

D. Bhattacharya: Aluminum Association, along with the industry, all the industries, private and public, have made very strong appeal. And I would guess, this is about the time that government will take some actions.

Ritesh Shah: And sir last question, in the Novelis conference call it was stated that there would not be any incremental capacity addition, so it would stand at 3.4 million tonnes, so how do you look at it, so it is more of a change in product mix and game on operating margins hereon?

D. Bhattacharya: Yes, the philosophy is the same as I explained to you for the value added products here. Now, Novelis produces only value added products by buying aluminum, so they are short on aluminum, we are long on aluminum so we are complementary. Now what is the philosophy that Novelis is going to adopt? When we picked up this company we had 55% of the total production was going to the premium end of the product, our objective is to go as high as possible and I believe in next couple of years we should be 85% and I am given to understand that by the end of FY16, it will touch 79% and therefore we are not going to increase the capacity of rolling, we are only converting one group of products into another to make it more profitable.

Moderator: Thank you. Our next question, that is the last question for today, it is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Just wanted your outlook on the global alumina prices, while aluminum seems to have bottomed out at $1,500 per ton, spot alumina prices still are very weak which is at the lower end of the historical alumina to aluminum ratio. And given the tightness in global bauxite supply, will we continue to see low alumina prices or there could be some recovery going ahead?

D. Bhattacharya: You are right; let me start with the bauxite, the first one in the value chain. Bauxite is not available in developed world anymore whether it is Canada, Australia, it is available in those countries, mostly West Africa where the business environment is not fully satisfactory. So bauxite will become an important ingredient in the whole equation. Now coming to alumina, I mentioned to you that alumina prices did fall from $350 per tonne, it depends when I am putting my scale, $350 to $180, but it has started moving up again and right now it is between $210 to $220 depending on the quality of the product and the bargaining that goes on, but I would expect that perhaps alumina; based on exactly what you were saying, if the tightness of bauxite continues then alumina prices will go up. However, the other side of the equation is, if aluminum prices fall therefore the aluminum demand will come down and therefore there will be a softness in alumina.

So finally it is the aluminum price and consumption which will call the shot. Let me start with aluminum consumption, aluminum traditionally, if you study, used to grow at the GDP growth level of the globe which is between 2.5% and 3%, last six, seven, eight years, aluminum is growing at 6% year-on-year and even this year I am told that it is expected to grow at 4%. So consumption on a 60 million tonnes, if I add scrap it will become 76 million tonne, there is a growth of 4% that is almost 3 million tonnes. You will need two Hindalcos to be added every year. So aluminum consumption is holding and growing. Now, let us see why I believe aluminum has bottomed out in terms of price. First, high consumption continues and it will go up because of a relatively new metal, that is aluminum, is still finding out new consuming sectors like auto in the developed world and in India the electrical are still riding on aluminum transmission lines and there is going to be enormous growth. So aluminum consumption will be there going forward. On the other hand, the huge surplus that aluminum was there in the market is coming down, indeed CRU believes that in calendar year 2016 China will be surplus but the rest of the world will be in deficit, 0.1 million tonne deficit globally, whether it is 0.1 million tonne deficit . Next one, let us look for some intangibles, when there was a huge selloff of all commodities, including equity market, aluminum did hold, indeed, it was rock steady at $1,500. So when all other commodities are going through a difficult time, aluminum has held. Now this consumption, these new avenues of growth, aluminum's tightness in holding the price and deficit that is coming through gives me the confidence that perhaps we have seen the bottoming out of aluminum pricing.

Moderator: Thank you. Ladies and Gentlemen, that was our last question. I now hand the floor back to the management for closing comments. Over to you, sir.

D. Bhattacharya: Thank you very much. Sagar, would you like to sign out?

Sagar Dhamorikar: Thank you very much for your support. I understand it is a very hectic day today, lots of results today. Lots of turbulence in the market .Should you feel any need, please touch base with me. Thanks a lot.

Moderator: Thank you members of the management. Ladies and Gentlemen, on behalf of Hindalco Industries that concludes this conference. Thank you for joining us and you may now disconnect your lines.