“Hindalco Industries Limited Q4FY'16 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hindalco Industries LTD Q4 FY'16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be anopportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Sagar Dhamorikar.Thank you and over to you, sir.

Sagar Dhamorikar: Thank you. Good evening, everyone. Welcome to Hindalco's fourth quarter and fiscal year end 2016 Earnings Call. 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 two of the presentation.

Hostingthe call from our management team we have with us our Managing Director – Mr. D. Bhattacharya; our Deputy Managing Director – Mr. Satish Pai; Mr. Praveen Maheshwari the Chief Financial Officer and Mr. J. C. Laddha – Head of our Copper Business

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

Debnarayan Bhattacharya: Thank you, Sagar. And Good Evening, Ladies and Gentlemen. I am welcome you to the Fourth Quarter Fiscal Year 2016 call of Hindalco Industries Limited.

Slide three, I will cover this presentation in three sections. First, I will give you the highlights of the business environment and our performance in physical terms 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 the broader macroeconomic picture in Slide #4. The global economy is not out of the woods and presents a mixed picture. The global GDP growth for 2016 is now being estimated at around 3% after a few downward revisions.

The economic activity in general has remained subdued. The strong growth witnessed in the U.S. appears to be tapering off while the growth in EU and Japan is feeble. Both Europe and Japan are experimenting with negative interest rate policy which is unprecedented.

The financial markets have been volatile with recurring bouts or risk aversion. The uncertainty with respect to FED rate and Brexit makes the market even more anxious. The emerging economies still accounting for about 70% of global growth have been struggling for various reasons. China which has been the prime mover of global economic growth is slowing, as it makes a transition from investment led economy to consumer driven economy. While in the recent past strong stimulus actions has led to buoyancy in the property market in China. The concerns on real economy still loom large. The macro indicators are still weak and as we speak the momentum appears to be fading.

Slide #5, turning to the aluminum industry update on slide five. The aluminum demand has been fairly robust. In 2015 around 56 million tonnes of primarily metal was consumed globally and this is expected to increase to 59 million tonnes by 2016 end. This growth is driven by both conventional as well as new age applications particularly in the auto space.

Indian demand has been strong and grew at about 10% in 2015. The growth in India is expected to continue following the steps taken by the government to boost the industrial production and infrastructure. The government's thrust on power sector reforms in particular augers well for the industry as the power sector is a dominant consumer of aluminum in India. The demand is also expected to get a boost following the focus on smart cities and improving prospects of business and construction industry.

As far as the global aluminum industry is concerned the main issue grappling it is the overcapacity. In the past unbridled growth in capacity in China has resulted in over supply and rising inventories.

During 2015, oil and other energy prices crashed sharply consequently there was also a significant softening of the global cost curve. It was further accentuated by depreciation of certain producer country currency. These factors along with weak sentiments in commodities and global risk aversion led to significant decline in both aluminum and the local market premium. The SHFE aluminum prices also fell sharply.

Many high cost facilities became unviable in 2015 resulting in capacity curtailments to the tune of over 4 million tonnes. Some of these, particularly in China have restarted in the current year after witnessing some recovery in prices. In 2016, the global aluminum market is expected to be in balance with supply broadly matching the demand.

Slide #6, this shows that extent of fall in the commodity prices following the sharp decline in energy price which I alluded to in the previous slide. Mind you, that decline in aluminum realization was even severe due to the vertical fall in local market premium.

Slide #7 depicts the movement in aluminum LME over the past three years. As I mentioned last time that aluminum prices did indeed bottomed out in early 2016. Notwithstanding, the fear of further fall as many had predicted. The Chinese consumption surged on the back of restocking demand. Also there were some sort of positive sentiment across the commodity space and prices of most commodities including aluminum jump quite sharply. However, aggressive restarts following the price increase are threatening the longevity of the price recovery and LME therefore it has already given up some of the gains. This factor is expected to keep a lid on the price recovery in the short run.

Slide #8, after the industry backdrop I will now present the operational highlight of all the major businesses segments starting with slide nine.

Slide #9 thealuminum business in India delivered an outstanding performance during the quarter. As all three Greenfield projects achieve their full ramp-up, the volumes increased substantially to record levels. Also with the production from the new facilities stabilizing, efficiency gain started kicking in and now we are close to achieving the design efficiency. Another factor that played a major role in delivering a robust performance was significantly lower input prices.

Coal prices in India were lower significantly during the quarter due to adequate availability of quality coal. The sharp decline in crude prices meant lower crude derivative prices such as furnace oil and other carbon cost. All these, it is the operational performance during the quarter. We continued with our focus on value added product and Hirakud FRP and Mouda Foil facilities continue to ramp up.

Novelis as you know has delivered a solid operational performance on all counts. It delivered a record FRP shipment during the quarter. More importantly the automotive shipment has grown by 22% year-on-year. I will cover this in some detail in the following slides.

Copper business has been an important constituent of our portfolio and during this challenging times it has supported the company in delivering a stable performance. Copper continued to do well during the quarter despite some operational challenges. Overall all the businesses delivered a strong operational performance in Q4.

In Slide #10, I will take you through the quarterly financial highlights of Hindalco standalone business in slide ten. As compared with Q4 of FY'15 the company’s top-line declined by 8% due a sharp fall in aluminum and copper realizations. Aluminum LME was lower by 16% and the premium was lower by over 65% while average copperLME was lower by 27%. While copper revenues were lower largely in line with LMEaluminum revenues for the quarter were higher by 14%. This was largely on account of higher production and sales volumes which more than compensated for the year-on-year decline in LME. The metal production was up by 27% while overall aluminum sales were higher by 34%. The revenues were also aided by higher proportion of value added product in the mix. As a consequence of this year-on-year PBITDA for the quarter was higher by 27% at Rs. 13,071 crores. I would like emphasis here that as mentioned earlier supported input played a key in this strong performance.

Depreciation and finance cost were up 30% given the progressive capitalization of Greenfield projects. These charges rose by Rs. 212 crores over Rs. 704 crores charged in Q4 FY'15. Despite higher interest and depreciation charges, the PBT before exceptional items for the quarter at Rs. 448 crores was 20% higher in that at the corresponding quarter of the previous year reflecting strong operational performance.

The net profit for Q4 FY'16 at Rs. 356 crores were 123% vis-à-vis Q4 FY'15 as the latter was impacted by certain one-timers to the tune of Rs. 147 crores.

Let me now move to the operational highlights for FY'16 covered in Slide #12. FY2016 was a watershed year for Hindalco. In India, with all facilities operational and fully ramped up by the end of the year, the aluminum production jumped by 36% and crossed 1 million tonne mark for the first time in the history of Hindalco.

The cost competitiveness of Hindalco has indeed improved significantly with three world class facilities now being operational. The benefits of scale economy and technology are already evident and will become more pronounced in the coming year.

Novelis too delivered record shipments of 3.1 million tonnes, further strengthening its position as the global leader in FRP market. The benefits of our focus and early adoption of auto capabilities is now evident. Today our auto volumes contribute 50% to the overall product mix as compared with 6% in 2012, this will move to 25% once the assets are fully utilized. Novelis continuous to focus on product mix enhancement.

The copper business maintained its robust performance, several steps have been taken in the copper business to reduce its dependence on any one industry value driver and this has resulted in a consistent performance over the past few years. The copper production for the year was at 388 KT while the fertilizer production at 324 KT was higher by 8% over the previous year.

To sum up, it was a creditable performance in a very volatile and challenging year.

I will now move to the financial highlights of the year 2016 starting with Slide #13. Despite adverse macroeconomic condition faced by all businesses we once again managedto cross consolidated revenues of Rs. 1 lakh crores. The standalone revenues were broadly stable at FY'15 levels notwithstanding the sharp fall in both aluminum and copper realizations. The steep fall in copper revenues was offset by increased revenues from aluminum business achieved primarily on the back of higher volumes and improved product mix. The consolidated PBITDAwas lower by only 1% despite sever macroeconomic headwinds.

I would like to remind you of USD172 million impact of metal price lag at Novelis. While looking at these numbers you must keep in mind this. In rupee terms this impact of 172 million converts into a total number of around Rs. 1,100 odd crores.

Standalone PBITDA for the year was marginally higher by 2% augmented by higher other income. This reflects a robust operational performance in a challenge year when average realizations were much lower. As anticipated interest and depreciation charges increased sharply following the progressive capitalization of the Greenfield project. These costs increased by Rs. 1,178 crores over FY'15. And hence, standalone net profit was lower at Rs. 607 crores.The consolidated net profit was Rs. 262 crores.

We have now moved from investment phase to consolidation phase.

During the year we have refinanced the entire India project thereby extending return this should alleviate any concern with respect to principle repayment on account of near-term volatility and pricing scenario in the commodity space. The liquidity at Novelis is also quite comfortable.

Let me now turn to the performance of the aluminum business in India on Slide #15, which captures the macroeconomic driver impacting the aluminum business. Aluminum realizations have been impacted severely by both lower LME and lower ingot premium.

LME in Q4 as well as for the full fiscal was 16% lower than the previous year. Ingot premium was also substantially lower as the premiums have return to their historical levels from the favorable level in FY'15. Between these two parameters we have lost more than $550 per tonne of aluminum in FY'16 when compared to the previous year.While the depreciation of the rupee provided some support it was far smaller in impact in comparison to the decline in LME and premium. In addition, Indian market witnessed further growth in imports.

On the positive side, we are seeing softening of the input cost. At the global level it was driven by lower prices of alumina and of crude derivatives. In the Indian context we also benefited from a significant correction in coal prices. As coal availability improve, these factors along with improved efficiencies in our operations driven by the ramp up of smeltersresulted in a reduction in cost of production. On balance however the macro factors were negative as the improvement in input cost fell short of the sharp drop in realization.

In the Union Budget this year customs duty on aluminum has been increased from 5% to 7.5%. However, doubling of coal cess has more than offset the benefit of increase in custom duty. Of course these changes have not had much impact on the results for FY'16 as they impacted only in March.

Turning to the operational performance covered in Slide #16, volumes growth continued in Q4 as well, alumina production increased by 11% year-on-year and metal production increased by 27% to 307 KT. The ramp up of Aditya was completed in Q4.

Now all our Greenfield projects have been fully ramped up. In line with our focus on value added products our production of rods, flat roll production and exclusion registered a healthy growth in Q4 FY'16 over the previous year. Overall it was a robust production performance. Both Gare Palma mine that are our newly acquired coal mines have now become operational and their output will be ramped up in the coming quarters. We are also awaiting a few regulatory steps to start Kathautia mine, the third mine that we acquired in the last auction that we took part in. We do not however see much incremental earnings from these mines in the short-term. As coal availability in the country is already at a comfortable level.

Slide #17 captures the production performance at the annual level again, on account of the ramp up of Greenfield capacities both alumina and in metal production increased by 19% and 36% respectively. We look forward to further growth next year as the new plants operate at designed levels. Our production of value added product also increased substantially with the ramp up of HirakudFRP plant and the commissioning of rod and billet facilities in Mahan.

Turning to the financial performance of aluminum segment in quarter four as you would notice on Slide #18. Segment revenue increased 14% over the same quarter last year on account of higher volumes even ast the realizations were lower. Earnings before interest and tax at Rs. 517 crores were significantly higher on a year-on-year basis as well as on a sequentially basis. This jump over Q3 was on account of primarily three factors- higher volumes, improvement in cost of production and marginal improvement in realization on a sequentially basis. You may kindly note that the financial performance covered in this slide and the next one does not include performance of Utkalalumina.

On an annual basis, as you will see in Slide #19, aluminum segment revenues increase 21% to Rs. 17,125 crores. Earnings before interest and tax were however lower than the previous year at Rs. 880 crores. Apart from the macroeconomic factors which were negative on balance, higher depreciation also impacted the earnings. Depreciation increased on account of capitalization of Greenfield project and this was along the expected plans.

I will now cover the result of Novelis in brief. Many of you may have already heard theNovelis earnings call earlier this month.

Turning to the Slide #21, Novelis had a very good quarter four. Its shipment increased 4% to 788 KT and automotive shipments increased at a strong 22%. Adjusted EBITDA excluding the metal price lag showed a healthy growth of 29% to reach a level of 277 million. Negative price lag was 7 million in Q4 and with reduced volatility in regional premium we now expect the metal price lag to be minimized in the coming quarter. Free cash flows at 457 million and year end liquidity at 1.2 billion were at very healthy levels.

For the year as a whole,Novelis had record shipment of 1.312 million tonnes. Adjusted EBITDA without metal price rose by 7% to USD963 million on back of higher volumes and enriched product mix. This is a very commendable performance in the face of market challenges witnessed in Asia.

Novelis continued to deploy strategic portfolio shift, all five automotive finishing plants of Novelis built since FY'13 have been commissioned and have started shipping product. Accordingly auto shipments have increased 47% in FY'16 and now comprise 15% of the overall portfolio as compared to just 6% in FY'12. When our new assets are full utilized auto will comprise nearly one-fourth of the overall portfolio.

Our automotive business has grown substantially over the past few years as a result of our strong customer partnership and expanded finishing capacity. Our automotive shipments have grown at a 31% compounded annual growth rate since fiscal 2012 and the outlook for aluminum automotive sheet remains strong as vehicle light weighting drives material substitution trend and market conditions remains favorable for OEMs.

We recently finished commissioning all five of our new automotive heat treatment plants. Our experience and shared best practices between plants have allowed us to ramp up production and leverage new fixed cost faster than prior startups. We are offering OEM the advantage of our global foot print. As a first mover in this market we feel very strongly positioned as aluminiumcontinues to grow globally as a light weighting material choice for the next generation of vehicles.

I will now turn to the performance review of Utkalalumina, our Greenfield refinery in Orissa which has come up extremely well. Coming to side 24, Utkal produced 1.4 million tonnes of alumina in FY'16 which was 34% higher than in the previous year. Thus, Utkal is now very close to its full capacity. More importantly Utkal has one of the most competitive cost structures in the world because of its state of the art facility and its tight logistics on account of the proximity to the bauxite mine. We have further tighten the logistics by setting up a long distance bauxite conveyer which is an engineering feet. The 21-kilometer-long conveyer is fully stabilized and yielding significant savings in the transportation cost.

During the year, Utkal supplied most of its alumina to Hindalcosmelters and the surplus of about 130 KT of alumina was sold to third-party, mainly exports.

With the production ramp up and improvement in cost of production Utkal registered a significant increase in EBITDA to Rs. 714 crores in FY'16 as against Rs. 260 crores demonstrating multi fold improvement in EBITDA level.

I will now cover the performance of our copper business. Slide 26 captures the main external value drivers of our copper business. Treatment and refining charges that is TC/RC which is the most important driver of the customs smelting model that we followed were higher in FY'16. Higher prices of sulphuric acid and of DAP also supported the copper business in FY'16. However, these were offset by two factors; first, the non-availability of export benefit for certain focused market and second lower LME. TC/RC was on a rising trend over the last few years. However, the benchmark for 2016 has softened and this may have some bearing on the earnings of the copper business in the coming quarter.

Turning to the side 27, our operations at Dahej recorded highest ever production of copper cathode, DAP, and copper rods in FY'16. DAP production was higher by 8% and this year production was higher by 5%. The latter has enriched the product mix.

During quarter four production levels of cathodes and DAP however, were lower than in the period year ago. This was on account of certain operational issues especially in one of the smelters. We have undertaken a planned maintenance shutdown of one smelter at Dahej in Q1 FY'17 this will impact adversely, the volumes in Q1 but resolution of the operational issues will help the volumes bounce back sequentially.

Looking at the financial performance of the copper segment in Slide #28, the segment recorded earnings before interest and tax of Rs. 377 crores in Q4 FY'16. This was higher than the levels recorded in the previous three quarters of the fiscal though slightly behind the year-on-year quarter that is Q4 FY'15. On annual basis the revenue declined 16%, mainly on account of the sharp drop of about Rs. 57,000 per tonne in LME in terms of rupees. The EBIT during FY'16 at Rs. 1,419 crores was at a healthy level even though it was slightly lower than the previous year because of removal of export incentives.

Let me now give you an update on Aditya Birla Minerals, ABML, our 51% subsidiary in Australia engaged in copper mine. Many of you will recall that ABML completed its sale of Mount Gordon in October 2015, the company had also undertaken a strategic review of its operations in view of the reduced output at Nifty after the unfortunate sinkhole incident in March 2014 and the low copper prices. Simultaneously, ABML also received takeover offer from Metals X, a company listed on ASX. Metals X subsequently revised their offer in April 2016.Hindalco expressed intention to accept the revised offer of Metals X for ABML. The revised offer which consist of one Metals X share for every 4.5 ABML share plus a cash component of 8 Australian cents per share represented a 32% premium to the market value based on the stock prices on the date of offer. This transaction is subject to RBI approval. With this the strategic review of ABML has been concluded and we believe that this transaction fits in well with our current strategic focus and the need for cash conservation.

Slide 30, turning to this one, as we go forward, our focus in FY'17 will be on running tight operations indeed very tight operations following the completion of ramp-up of all Greenfield factories. We will now focus on deriving the design efficiencies on a consistent basis with smooth and stable operations. Also we will continue the process of optimization of supply chain logistic and of strengthening our value added products portfolio to leverage the demand improvement and to command more premiums in the market.

At the same time, as challenging macroeconomic conditions continue we will have relentless focus on cost and cash; and on proactive management of working capital.

Let me summarize our performance and for that we turn to Slide #31. Following the culmination of a large and ambitious investment program we believe that our operational performance will improve on year-on-year basis by next year. As the capitalization of new factories is largely completed, interest and depreciation have almost peaked. Hence, much of the future operational improvements should flow straight to the bottom-line. Also softer interest rates should support us going forward.

As you would have been seeing we had a bumper performance in Q4, This came on the back of volume gains as well as lower input cost. One is not sure as to how long these input costs would continue to have a favorable effect. However, we believe that the operational improvements that have under pinned the better performance during the quarter three and quarter four periods will be sustained in the coming quarters.

Copper business delivered another robust performance in FY'16. However, as I mentioned earlier softer TC/RC and the shutdown effect will have some bearing on the business earnings especially in Q1 FY'17.

At Novelis, we expect to continue the momentum as our focus on premium portfolio is delivering well. On the whole our focus will be on maintaining operational excellence, enhance value addition and conservation of cash. With that, we are reasonably confident of diluting the effect of macroeconomic headwinds.

Thank you very much for your attention. I would also like to remind you that the key financial numbers for the quarter and the year are captured in brief on Slide #32.

With that, let me hand over back to Sagar.

Sagar Dhamorikar: The forum is now open for Q&A Session. You may raise your questions and the management team here will be answering those questions. Thank you.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Indrajeet Agrawal from Goldman Sachs. Please go ahead.

Naveen: Yes, so this is Naveen here, if you can give us some data on the Utkal business for the quarter it can help us understand why there has been a sharp movement in the ASP on a quarter-on-quarter basis, because if I look at on Slide #16 where you mentioned the breakup of the value added production on a year-on-year basis your value added production has gone up only by 34,000 tonnes but based on the assumptions on alumina sales that we have excluding LME and the physical premium the value added premium is gone up by $165 dollars per tonne. So, if you can just help us understand how only a 34,000 tonne increase in value added has led an overall blended increase of $165 or if you can help me correct this premium of $165 excluding LME and physical premium

Debnarayan Bhattacharya: Naveen you be so kind as to ask one question at one time. You started with Utkal.

Naveen: Yes, so if you can just share the Utkalalumina and the sales number so that you know to begin with?

Debnarayan Bhattacharya: First of all, Utkal is a captive plant, it transfers all its alumina requirement of Hindalco straight to Hindalco. Only what is over flow goes to sales, third-party market. And we have sold 130 KT between exports and some local sales. So, I am giving you full year. Now, what has happened because our alumina demand requirement has gone up as the smelters ramp up gone up automatically more has been transferred to Hindalco and therefore, even though Utkal increased its production from 1 million tonne to almost 1.4 million tonnes the availability of over flow alumina was very limited. Therefore, third-party sale will necessarily come down. Is that, okay? Now, next question.

Naveen: Why is the total ASP increasing on a year-on-year basis?

Debnarayan Bhattacharya: Total, come again please.

Naveen: The blended ASP, if I remove the LME and the physical premium because that is fluctuating number if I just focus on the value added premium on your reported segment sale I have about $523 premium in 4Q FY'15 which is going…

Debnarayan Bhattacharya: Means you are talking only for the downstream?

Naveen: For the aluminum reported the standalone aluminum segment which you report.

Debnarayan Bhattacharya: Metalaluminum is LME plus local premium which is known as base metal cost so, that is directly promotional to the LME ruling as well as the premium that is known as regional premium there is nothing else. For India, we benefit from 5% import duty which since April 01, it has gone up to 7.5% there is no other component.

Naveen: Sure. The second question is on the cost side, if I am correct, the cost on quarter-on-quarter basis is down about $100 per tonne. So, you mentioned coal cost have come down, so are you primarily referring to e-auction coal prices?

Debnarayan Bhattacharya: Cost of production comes down for the whole raft ofreasons. As you increase production from the same set of fixed assets, the cost of production will come down. Second, as you produce more than your overall current efficiency and therefore kilowatt hour per tonne comes down. Third, power plants run more efficiently and therefore, kilocalories required per kilowatt hour come down. And finally, if you can buy coal at a lower cost and in this case rupees per million kilocalorie that will also improve the coal cost. So, it is the operational efficiency, it is the procurement efficiency, both will play an important role in addition to the fact as volume goes up and therefore, you will see quarter-on-quarter we have continuously reduced our cost of production I believe by the time we hit the quarter four we are operating at a cost level which is almost at the entry level of the top quartile in CRU cost curve.

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

Pinakin Parekh: Sir, my first quarter is on aluminum, the current aluminum prices are roughly $30-$40 higher then what was reported in blended 4Q, what LME was that level. Now given what we have seen in the fourth quarter in terms of aluminum operations unless we see a very sharp spike in coal prices,ifaluminum prices where you remain at these level should we see a further improvement in Hindalco'saluminum EBIT from where we are?

Debnarayan Bhattacharya: Aluminum EBIT that you see today of Hindalco primarily of quarter four definitely benefited from the input cost and as the Brentwas ruling very low all energy related, energy derived input cost were ruling at a lower level and that input cost benefit was available to us and which you have benefited from. Going forward as all have seen Brentis just you know playing cat and mouse with $50. So, I would not be surprise if it goes and breaches 50 and that is some of the energy related input cost may go up. The operational efficiency will improve, but one does not have the clear picture as to how the input cost will play a role going forward. So while I am optimistic that we should be able to maintain the kind of cost to production that we have achieved so far… the energy related input cost may be the party popper.

Pinakin Parekh: Sure, sir. My second question is you have mentioned that both Mahan and Aditya have hit their design capacities, production at capacity levels. Now, aluminum production was 1.1 million tonnes this year and alumina I think was at 2.7 so, what kind of growth can we see in production from here into FY'17?

Debnarayan Bhattacharya: I want to say the team has done so well that noting much is left going forward. So year-on-year it could be because as you know in case of Aditya we came to 360 pots towards the end of the last quarter whereas, going forward we will get the benefit for the full year. So from that point of view metals will get a benefit, you also know that inefficient pots in Hirakud has been kept idle to contain cost. That I do not think is going to open up or we are going to start up in a hurry. We are trying to improve their performance and cost efficiencies through some fundamental process. So, I believe Utkal is running at full blast. RenukootAluminais running at full blast, and Muri is running full. So, alumina I do not see much improvement in terms of volumes. In case of metals, we will see some improvement going forward which will come because Mahan came into 360 pots Q2 last year and Aditya came Q4 last year whereas we will get the full advantage right though this year. So those will deliver certain volume increase.

Pinakin Parekh: Sure, sir. And what will be the CAPEX guidance for FY'17 sir?

Debnarayan Bhattacharya: We are not going to do great amount of CAPEX . It is a consolidation phase, we will like to get the maximum out of the assets that we have already put in, A very few strategic CAPEXs may be there which are either extremely cost effective and it will give a return which is mind boggling otherwise we will maintain the cash outflow from CAPEXs to very minimum.

Pinakin Parekh: Sir, just lastly, can you put a number on the CAPEX, I mean can it be under Rs. 1,000 crores?

Debnarayan Bhattacharya: Around that. it will not cross our original numbers.

Moderator: Thank you. The next question is from the line of Ravi Shankar from Credit Suisse. Please go ahead.

Ravi Shankar: Yes, sir, I wanted to know the sales of aluminum, alumina and copper in 4Q?

Debnarayan Bhattacharya: You want the sales volume number?

Ravi Shankar: Yes.

Satish Pai: Just read out. So we start with the aluminum sales for the quarter Q4 the volume of sales for metal was 328.6 KT; that was the aluminum.

Debnarayan Bhattacharya: That is the highest ever which corresponds to 1.3 million annualized.

Satish Pai: And for copper it was coppercathodes plus CC rod is roughly 97 KT.

Ravi Shankar: Okay. And alumina external?

Debnarayan Bhattacharya: Actually, you got to be careful we have special alumina sales. Utkal we have no sale but in case of special alumina it was 70 KT. There is one factory Belgaum which is 100% special grade alumina.

Ravi Shankar: Right. And that is 70 KT?

Debnarayan Bhattacharya: That is 70KT.

Ravi Shankar: Understood, okay. Sir, one more question on coal cost going further I understand the operational efficiency and those are here to stay but in terms of coal one is the e-auction coal that you would get from Coal India and the other is the support that you would start from Gare Palma because they have restarted production. So how would the landed cost of coal sort of change over the next four quarters. Just wanted to get a sense of that.

Debnarayan Bhattacharya: Yes, I will give you the factors, I think you will be able to come to the conclusion. Who is the biggest guy in India in coal CIL.It has reportedly produced to the extent of about 530 or 540 -- the highest ever FY'16. And I do not have the MoU with me that they have signed with the Ministry of Coal. But they are claiming they will ramp up to 590 or so. So, what is happening? The availability of coal in the country will go up substantially. Second, international coal price, yes, certainly it has hardened a bit but even now you can get in this international price of Rs. 600 per million kilocalorie. Those are on the coast line they will import. So on the one hand the supply is getting better on the other unless the international prices hardened beyond a point the continuous import to the coast lines will be there whether it will stay at 185 million tonnes that the government say was imported perhaps it will come down…..but I do not think it will come down very much lower than 150-160. So, the demand side is not increasing perhaps to the same extent. On the other, there are coal mines which were de-allocated but to time to take off we will also start producing. So I believe the demand side will lag behind the supply. So, chances are if these demand supply scenario as I drew it for you remains then coal cost should be maintained at a reasonably attractive level.

Ravi Shankar: Right. But sir, on that count one last question is, are not we obligated to produce from Gare Palma now that it is in the producing stage?

Debnarayan Bhattacharya: Yes.

Ravi Shankar: So that obligation has to be met and….

Debnarayan Bhattacharya: That we will meet.

Ravi Shankar: And then, it is own landed cost could actually be higher than Coal India's coal is what I am hinting at?

Debnarayan Bhattacharya: No, I do to accept your view, there is a conjecture it may not be correct.

Moderator: Thank you. We have the next question from the line of Sanjay Jain from Motilal Oswal. Please go ahead.

Sanjay Jain: This question is to Mr. Maheshwari on notes to account note number four, we have said that there is cost related to exited projects which has been moved to BRR**.** So, I want to understand what is this exit project?

Praveen Maheshwari: There are certain projects which we are not spending anything further and we don't have clear view of how this will be done because there are certain approvals that are not in place, etc. So, following conservative view we have decided to provide against those expenses and those have been adjusted again BRR

Sanjay Jain: Okay. So this Rs. 279.45 crores were we providing for these expenses in first nine months?

Praveen Maheshwari: No, this is we were not providing this is one-time provision. See at the end of the year the management looks at which are the expenses which is capitalized,what is not capitalized how far the carrying value of the investment reflects certainty of going ahead with the project and so on. So, considering all that we take a call in terms of if there are any cases where we need to make a provision against those expenses so this is in that nature.

Praveen Maheshwari: This is not the current year's expense.

Sanjay Jain: Okay. It was not going in P&L anyway so these were capitalized. I have just got confuse because it says that profit would have been affected I mean you were required to make provision if you were not being the BRR that is why it is mentioned like that?

Debnarayan Bhattacharya: Yes, absolutely.

Sanjay Jain: Secondly, on this coal mining, I remember Mr. Bhattacharya mentioned in the opening remarks that both the Gare Palma mines have become operational. First, did I hear this correct. Secondly, were these two coal mines producing in the fourth quarter or like what was the production from these two mines in fourth quarter?

Debnarayan Bhattacharya: Gare Palma 4x4 and 4x5 both are now operational and your question is that whether they are operational? Yes, they are operational. Are we receiving coal from them? Yes. Can we indicate what the cost is? When you start a mine it does takes some time to get stabilized and depending on what seamyou getthe CV changes. To that extent I would say it is too premature to give any number to this but what indications we have we are very happy with certainly one mine the kind of CV we are getting is much better then what we had originally anticipated. Now what happens when CV is better…. you actually burn CV you do not burn coal. Then your cost for producing power comes down. So, to answer your question it is little too premature to give any specific number but both have started and they look quite promising.

Sanjay Jain: Yes. Can you share the production in fourth quarter for these two mines?

Management: No, we will have to give back to you. It is not veryup in Q4.

Debnarayan Bhattacharya: Yes. You know any coal mine which has remained sharp there will be quite a few baggage. So even to clean up those we got to change the philosophy of operation all these process of cleaning up is going on but production is going on and ramping up going on and they are coming to the factories assigned factory some to Hirakud, some to Aditya but they are not enough to eating any total availability of otherwise. But they are promising.

Sanjay Jain: Okay. So on the same thing, can you share the date of start of these mines?

Debnarayan Bhattacharya: Okay. I will have to get back to you at the exact date.

We will give you exact date but it is quite interesting to know why you are saying us to give the exact date?

Sanjay Jain: No, I just want to get a sense that you know what would have been the contribution in the cost from these mines and just trying to directionally guess that.

Debnarayan Bhattacharya: But to answer your question, it will be there right through this year.

Sanjay Jain: Yes, that is clear. Yes, that is what I wanted to understand whether….

Debnarayan Bhattacharya: I knew what you want, that is what I said.

Sanjay Jain: Just one more thing on coal, once again I am too much asking but do we need to import coal now with this quite a lot improvement in the domestic supply….

Debnarayan Bhattacharya: Very small it depends. If you get a good bargain the may be it is worth it.

Moderator: Thank you. Our next question is from the line of Dhaval Doshi from PhillipCapital. Please go ahead.

Dhaval Doshi: When you mentioned reduction in the input cost which have driven this quarter's performance. So if I were to look at the standalone performance between Q3 to Q4 how much of it would be driven by lower alumina prices from Utkal because I believe even the alumina prices have move down so, is it to a great extent on account of that or…

Debnarayan Bhattacharya: What you are saying Hindalco standalone number?

Dhaval Doshi: Yes.

Debnarayan Bhattacharya: It is not an integrated cost coming from Utkal. So Utkal transfers alumina to Hindalco on a transfer price; not based on how much is the cost of production. So however, you were right alumina prices internationally came down and transfer price will also reflect that.

Dhaval Doshi: So, can I get some indication in terms of what could be that benefit, sir?

Management: You can take the international price in Q3 and in Q4.

Debnarayan Bhattacharya: That is a good idea may be there will be a one-month phase lag because of our transfer pricing, we do Q-1 . But fundamentally it tracks the international price.

Dhaval Doshi: So, sir, when you are talking of international prices, is it as a percentage of LME and what could be that percentage?

Debnarayan Bhattacharya: The alumina traded is published regularly and that is what we take as alumina price, and it is there in the metal bulletin in addition there is another pricing that is what Nalco sells it goes for an blind auction and that also is taken as an relevant price for Indian context.

Dhaval Doshi: Sir, secondly, Coal India has just started or come out with linkage auctions for sponge iron so when could that probably be is there an indication for the aluminum segment as well?

Debnarayan Bhattacharya: I cannot say whether aluminum segment alone or it will be non-regulated sector difficult to say but if you ask me aluminum segment or aluminumindustry,.it is very much in their mind and are pretty confident it will be just around the corner. In the government context around the corner may means three months to six months.

Dhaval Doshi: Okay. And lastly sir, can I get net debt numbers?

Debnarayan Bhattacharya: Praveen, would you like to give those numbers?

Praveen Maheshwari: On a standalone basis we have about Rs. 24,000 crores of gross debt and we had about Rs. 7,800 crores of treasury …

Dhaval Doshi: Okay. And how about Utkal has?

Praveen Maheshwari: Utkal has a Rs. 4,700 crores of long-term debt.

Debnarayan Bhattacharya: On Utkal book.

Praveen Maheshwari: On Utkal books which is in addition to what you just said.

Dhaval Doshi: And so the Rs. 24,000 crores is also long-term debt or includes working capital?

Praveen Maheshwari: Rs. 24,000 crores is a long-term debt which includes Rs. 6,000 crores of bonds the balance is between Mahan and Aditya loans.

Dhaval Doshi: So how much would be the working capital debt in both standalone as well as Utkal?

Praveen Maheshwari: Working capital debt is about Rs. 4,500 crores.

Debnarayan Bhattacharya: Yes, that is right, Rs. 4,500

Praveen Maheshwari: Yes mainly copper small amount for aluminum.

Dhaval Doshi: Okay. And Utkal would not be much?

Debnarayan Bhattacharya: No, Utkal is not much, it is not there on this but Yes, they have a small limit but that is very small base.

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

Soumil Datta: Yes, hi, sir. Sir, is it possible to share post the conveyer belt what is the likely cost production going down for Utkal on a transfer pricing basis?

Debnarayan Bhattacharya: No, transfer price has nothing to do with the cost of production.

Soumil Datta: Okay. So is it possible to share what is the likely cost of production decline from this benefit?

Debnarayan Bhattacharya: It will be somewhere around $20 per tonne.

Soumil Datta: $20 per tonne. And sir, what would be the interest on depreciation cost at Utkal on a full capacity in FY'17?

Debnarayan Bhattacharya: Just now Mr. Maheshwari said, Rs. 4,700 crores of debt.

Praveen Maheshwari: It is about Rs. 500 crores you can take as an annual cost of interest and about Rs. 300 crores of depreciation.

Soumil Datta: And sir, my last question is basically when we made a comment that the 2.5% increase in custom duty that is more than offset by the coal cess increase so, I am just doing some calculation I mean at your current LME prices, it is about $40 increase at a 2.5% so what would be the coal usage….

Debnarayan Bhattacharya: You are right, you have hit the right point. 2.5% of $ 1,600 is different then if it becomes $2,000 LME then 2.5% will be higher. So this comment that was made then cess atRs. 400 per tonne based on $1,550 to $1,600 LME.

Soumil Datta: Sir, is it possible to share the because see typically my calculation suggestion that despite Rs. 200 crores increase in coal cess the $40 would much higher than or probably will offset more than offset the coal cost increase. So I just want to have your thoughts on the same.

Debnarayan Bhattacharya: Yes. Because our 50% exports let us say last year we have exported 431 KT 2.5% there and we have produced sold 1.1 Mntonnes if I take out 431 or 450, 700 KT was benefiting then that benefit you divided by total tonnage you find outit is actually slightly negative.

Soumil Datta: Got that. So basically for the export we do not get 2.5% benefit okay, sure, I got that point.

Debnarayan Bhattacharya: In case of import duty unless you know you are selling in the domestic market there will be no benefit.

Soumil Datta: I get your point.

Moderator: Thank you. Our next question is from the line of Ankit Shahfrom Prabhudas Lilladher. Please go ahead.

Ankit Shah: Sir, is it possible for you to quantify the coal cost on a GCV basis in this quarter as well as last quarter?

Debnarayan Bhattacharya: It will be between 850 and 900. First of all, I would caveat it by saying freight cost is a very important component in that. Therefore, where are you having in mine is it meant forMahan or is it for Aditya then where is it coming from? So it is a very complicated question but I would be you know incline to believe to around Rs. 900 per million kilocalorie about the right number.

Ankit Shah: Okay. So how much was it in Q3?

Debnarayan Bhattacharya: Slightly higher. We are notencyclopedia. See coal is an important cost but it is a big business difficult to remember these numbers but you should be more bothered about the overall ballpark figure rather than exact number.

Ankit Shah: Okay. And sir, lastly how much would the coal from the new mines compared to the existing coal prices?

Debnarayan Bhattacharya: We just answered that it was not very large it just started and all I can say that it looks promising.

Moderator: Thank you. The next question is from the line of Shashi Bhandarifrom Nirmal Bang Securities. Please go ahead.

Shashi Bhandari: Sir, I want to know that what was our realisation in last quarter LME or say and what is the current price how much it higher of and what is the likely scenario for the future?

Shashi Bhandari: What is the current realizations?

Debnarayan Bhattacharya: It is about 114-115.

Shashi Bhandari: Okay. And what is the likely scenario you think it should improve?

Debnarayan Bhattacharya: This is something I must tell you is impossible to predict because it will depend on LME, it will depend on what is the import duty assuming nothing is going to go up, assuming there will be no safeguard duty, there are so many caveats.

Shashi Bhandari: But once I have read your predication that now LME can go up only.

Debnarayan Bhattacharya: LME?

Shashi Bhandari: Aluminum prices will go up not and not come down some sort of things of from you.

Debnarayan Bhattacharya: I pray to god that you are right.

Shashi Bhandari: I want to know your judgment.

Debnarayan Bhattacharya: If you ask me, I believe that though there are some positive signs but I cannot guarantee does not mean it will not come down but it will be range bound. I would guess I am not a betting man but otherwise I would have said $1,550 to $1,600.

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

Pinakin Parekh: So just a net debt basically on the standalone basis if we include the short-term debt there seems to be a small reduction in net debt 3% year-on-year while at a consolidated basis net debt seems to be flat at Rs. 55,000 crores. Now, following on your comments that CAPEX will remain low. How does the company see net debt going forward if the current operational environment with to sustained, can we expect a meaningful debt reduction from FY'17 onwards or is it still too early to expect that?

Debnarayan Bhattacharya: I will tell . If you attended the NovelisEarnings Call?

Pinakin Parekh: Yes, sir.

Debnarayan Bhattacharya: Because I saw your name there. Now, they also said they are now decreasing, their cash outflow through CAPEX very substantially. They also indicated their performance if we can maintain that it will be significantly better EBITDA so, better cash. We are also containing our CAPEX very substantially sub-1000 Cr.I believe therefore, our objective is to bring net debt to EBITDA in near future significantly lower than what we have. Certainly I do not want to guess but it will be significant better.

Moderator: Thank you. The next question is from the line of Kamlesh Jainfrom Prabhudas Lilladher. Please go ahead.

Kamlesh Jain: Sir, I do appreciate your reservation for not commenting on your absolute cost number. But as sir, as we have stabilized our facilities, going forward how much improvement do we see in our cost in the aluminum business?

Debnarayan Bhattacharya: First of all I must say, our cost of production is an important number and it has a competitive sensitive issue, right. So you understand where I am coming from.

Kamlesh Jain: Yes. But sir, like in percentage term or like say how much…

Debnarayan Bhattacharya: No, I explain to one of the question here that our one of the major cost is energy related cost like coke, like pitch, and furnace oil, and diesel oil, so they constitute a substantial part of our import which came down very substantially and therefore, our cost of production was aided by that. See these factors are still persisting based on our larger volume of production better control on our power plants, I would not be surprise that if we can reduce the cost of production in the continued manner that we have done last year. But what percentage if you ask me I have no clue.

Kamlesh Jain: Okay. But sir, do we see further significant scope just by further improvement in like say utilizations. I am not referring to like say energy cost or all those variable parts just because of the further ramp up and all that

Debnarayan Bhattacharya: No, the team is running is a problem if you ramp up and stabilize too fast then the further improvement possibility is relatively low but this effort is continuous, I cannot say that the team will be sitting on their laurelsthey will continue to reduce but there are situations when it helps us like if the input cost continued to be lower and I see furnace oil prices are going up, I see caustic soda prices are going up. I see the pitch cost tending to move out and if these things happen then we can do very little.

Kamlesh Jain: And sir, could you please quantify that how much utilization has been at the like say our two new smelter, new one Orissa.

Debnarayan Bhattacharya: We run 100%. The ramp up means we have 360 pots.We have touched full capacity on both the factories.

Moderator: Thank you. We have the next question from the line of Abhishek Poddarfrom Kotak Securities. Please go ahead.

Abhishek Poddar: Sir, some color on the hedging policy in the light of low globalprices this year and also if you can throw some light, you know how the hedges from FY'15 helped you in FY'16? And would you continue to hedge in the current debt pricing environment as well?

Debnarayan Bhattacharya: I cannot hedge unless that number is there on the board. So when the LME is ruling 1,500 I cannot hedge at 1,700 that is number one. So we got to get the right window, we have not got that. Second in case of copper it is a conversion business. So we cannot risk $5,000 to benefit $10 so it is an offset business so, there is absolutely no chance of hedging a better number or a worse number. It is in aluminum that we do view based and there unless we get windows of good LME very little we can do about it. Actually volatility sometimes helps those who hedge.

AbhishekPoddar: I am just trying to say is there a policy in which you have to optimize…

Debnarayan Bhattacharya: You are asking for a principle or you are asking for my action plan?

Abhishek Poddar: Sir, I am trying to understand what is the policy?

Debnarayan Bhattacharya: Policy is not maximization of profit, our risk management policy is security first followed by it is a defensive policy, we have a plan which I do defend that plan, right. You cannot never catch the price at the top never, if you do that you will be in trouble.

Abhishek Poddar: Okay. any color sir, that was that a significant benefit in FY'16 and should we see a repetition in FY'17?

Debnarayan Bhattacharya: This kind of comparative term significant will depend on the guy who is saying significant or not, what is significant to me may not be significant to you but it was good enough for us to continue.

Abhishek Poddar: Last the question is if you can provide the CAPEX for FY'16 now much you incurred?

Debnarayan Bhattacharya: We have in standalone Rs. 1,200 crores which will be reduced further.

Praveen Maheshwari: No, standalone Hindalco have Rs. 1,200 crores.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was our last question. I now hand the conference over to Mr. Bhattacharyafor the closing comments. Thank you and over to you, sir.

Debnarayan Bhattacharya: Thank you very much.

Sagar Dhamorikar: Thank you very much for attending the call on a non-working Saturday. Thank you and should you have any queries, you can always revert back to me as always. Thanks a lot.

Debnarayan Bhattacharya: Thank you very much for those excellent questions .Thank you.

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