"Hindalco Industries Limited Q4 FY 2017 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q4 FY 2017 Earnings Conference Call of Hindalco Industries Limited. 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 this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Abhishekh Rungta. Thank you and over to you, sir!

Abhishekh Rungta: Thank you and good evening, everyone. On behalf of Hindalco Industries Limited, I welcome all the participants to the earning call for the fourth quarter and full year 2017.

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

On this call, we have with Mr. Satish Pai -- our Managing Director; along with Mr. Praveen Maheshwari -- our Chief Financial Officer and Mr. J. C. Laddha -- Head of Copper Business.

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

Satish Pai: Thank you, Abhishekh. Good evening, ladies and gentlemen and Welcome to the Q4 2017 and the Full Year FY 2017 Earning Call for Hindalco Industries Limited.

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

So, let me start with the key highlights starting with Slide #five. So, I am pleased to inform that Hindalco had in many ways a great year and a transformational year in 2016 - 2017.

During the year we successfully raised $500 million through a Qualified Institutional Placement issuance. It is the largest non-bank QIP in the last two years. Participation from FIIs and long only investors was high. Generating demand in excess of U.S. $1.5 billion which is three times the amount that we were looking for. The QIP was priced at zero discount to the previous day's closing share price. This was a very big vote of confidence for Hindalco from the market and the investors.

We started our journey to strengthen our balance sheet in the last quarter of FY 2017 by prepaying Rs. 1,031 crores of our long-term debt continuing with our focus to deleverage our balance sheet and as per our commitment made in the QIP. We made a further prepayment of Rs. 4,505 crores in April of 2017 against outstanding long-term loans.

Total prepayment of long-term loans till date stands at Rs. 5,536 crores. At Novelis U.S. $2.5 billion senior notes and U.S. $1.8 billion term loans were refinanced. As a result, we will be able to save annual cash interest of U.S. $79 billion along with an extended debt maturity profile for the senior notes.

Due to these initiatives and our robust business performance during the year, we were able to reduce the consolidated net debt to EBITDA from 6.29x on March 31st, 2016 to 3.74x on March 31st, 2017.

Also on May 10th, 2017, Novelis entered into a JV agreement to sell 50% of ownership interest in its Ulsan, South Korea facility to Kobe Steel for $315 million. This venture named Ulsan Aluminium Limited will provide many benefits and synergies to both the high-quality partners.

Further during H1 FY 2017, Hindalco also divested its stake in Aditya Birla Minerals Limited, Australia.

Now, moving to Slide #six. During the year we improved our Coal security through acquiring of new linkages. The additional quantity secured through this linkage equals to about 30% of our annual Coal requirement. Overall now, two-thirds of our annual Coal requirement is now secured to various long-term linkages and captive Coal mine. Coal security also helps us with adequate visibility on power cost, which is very critical for Aluminium smelting operations.

The Aluminium business delivered solid performance with highest ever Aluminium production of 1,266 KT and Alumina of 2,886 KT this amount of course, includes Utkal. All Greenfield projects are now running at their rated capacities. Aluminium business registered a record EBITDA on the back of stable operations, lower input cost and supporting macros.

Further in FY 2017, Gare Palma IV/4 Coal Mines and Gare Palma IV/5 Coal Mines reached their peak capacity. We also commenced operations at Kathautia Mines in February 2017. Operations of Kathautia Mines will be very helpful for our Mahan smelter.

Copper Business has been an important constituent of our portfolio. During the year, the performance was marginally lower at the benefits of lower input cost was negated by lower production, subdued domestic market and lower by-product realization.

Novelis as you know continued to deliver solid operational performance with record adjusted EBITDA of U.S. $1.09 billion on account of operational efficiencies and strategic product shift.

The share of automotive shipments now accounts for 18% of total FRP shipment of Novelis, up from 15% last year. The exit rate for Auto in Q4 was 20%. The diligent capital spending and higher EBITDA helped to generate record free cash flow of $361 million. The overall business results reflect stable operations across our businesses.

Now, let us understand the broader economic environment in Slide #eight. In calendar year in 2017, IMF projected world economy to grow at 3.5% versus 3.1% in the previous year, based on continuing Chinese growth, strong U.S. growth on back of supportive government policy coupled with cyclical recovery in global manufacturing and trade that started in the second-half of 2016, which is expected to generate momentum in Japan and Europe.

However, protectionist policy stand, faster than expected rate hike by U.S. FED, vulnerabilities is in China's financial system and geopolitical tensions are some of the factors which could dent the global and emerging market growth in 2017.

But in India the continuous thrust on reforms like implementation of GST and robust macroeconomic fundamentals are expected to drive the growth momentum. As per World Bank forecast, India is expected to grow by 7.6% in FY 2018 as compared to estimated growth of 7% in FY 2017.

Further the government's enhanced focus on housing, electrification and infrastructure will definitely drive future demand in the country.

Turning to Slide #nine, global Aluminium demand continues to be fairly robust and is expected to touch 60 million tonne, up 5% as compared to CY 2016. Consumption in China is expected to moderate due to impact of restrictive policy measures in housing and automobile segments whereas production in China is expected to slow down in H2 CY 2017 due to the likely implementation of supply side reforms and environmental-led closures.

The government has instructed shut down illegal capacities in China. However, the extent of implementation of the policy remains uncertain.

The overall buoyant demand outlook and lower inventory base will continue to support high price outlook for Aluminium. Protectionist measures by U.S. administration to counter low priced Chinese imports are gaining traction and it will affect the Chinese exports going forward. Based on the above we expect the LME to be elevated in 2017, compared to 2016.

In slide number #ten, we will discuss about the Aluminium industry drivers and factors which affected the industry in the last one year. In Q4 FY 2017, rally in LME was primarily driven by news of Chinese environmental and supply side led closures. President Trump's infrastructure plan and a continued declined in stocks at LME warehouses and upward movements in input costs.

For the year, Aluminium realizations were better due to increased LME prices and weaker rupee, marginally offset by a sharp decline in Midwest premium. As compared to previous year LME was up 6%, rupee depreciated by 2% and the premiums was lower by 21%. However, in Q4 FY 2017, regional premium recovered due to overall positive outlook of demand and lower inventory at LME warehouses.

India continues to be a net exporter as the domestic market remains oversupplied due to imports and production enhancements.

Slide 11 captures the state of the Copper and the major external value drivers of the Copper business. During H2 FY 2017, the mine disruption in Chile and export ban from Indonesia impacted concentrate supply and thereby effective spot treatment charges and refining charges that is TCRC, which is the most important driver of the customs smelting model.

The benchmark TCRC was also down as compared to 2016 because of the overall supply demand situation. Further increase in scrap availability is affecting the refined consumption especially in the developed world. Hence, the overall growth in global refined Copper consumption is likely to remain flat at around 2% in CY 2018.

Coming to the domestic market. By-product realization for both Sulphuric Acid and Diammonium Phosphate (DAP) declined sharply. The Copper demand especially in the power sector remain subdued in FY 2017. But we expect it to bounce back in FY 2018 post various infrastructure initiatives from the government. In FY 2017 overall, the macros were not very supportive for the copper business.

Let me now take you through the key highlights of the results. Coming to the full year results highlighted of Hindalco standalone business in Slide #13, as compared to FY 2016, the company top-line grew by 7% driven by higher Aluminum volumes increase in average realization for Aluminum and higher overall realization for Copper segment.

Year-on-year EBITDA for the year was higher by 35% at Rs. 5,819 crores. I would like to emphasis here that broadly in addition to higher Aluminum realization and supportive input cost, steady operations play a very key role in this strong performance. Net profit for the year was 182% up at Rs. 1,557 crores.

Let me now turn to the operating performance of the Aluminum business in India on Slide #15. Turning to the operational performance covered in Slide #15, Alumina production (including Utkal) increased 8% year-on-year and the metal production increased by 12%. All our plants have ramped up and are now operating at their design capacities. In line with our focus on value added products, the production of wire rod and flat rolled products registered 14% growth in the full year 2017 over the previous year.

Slide #16, talks about Utkal's performance. The production at Utkal Alumina increased by 7% year-on-year to 1.5 million tonnes, it is now operating at its design capacity and has cemented its position as one of the lowest cost refineries in the world.

I will now cover the operating performance of our Copper business in Slide #18. During FY 2017, as compared to last year production of Copper Cathodes as compared to last year Copper Cathodes was lower by 3% and DAP was lower by 7% mainly due to our planned shutdown in both our smelters.

Copper Rods, CC Rod production was down by 5% as compared to last year mainly on account of the subdued demand in the market. However, we expect the Wire Rod demand to improve in FY 2018.

In line with our long-term strategy, we continue to investment in value added products. Our current planned investment in Copper Rod facility would increase the total annual capacity to 360 KT which is 90% of our total Cathode production. Production from the new capacity is expected to commence from Q4 of FY 2018.

I will now cover the operational performance of Novelis in brief, I think many of you have already heard the Novelis earning call for FY 2017.

Coming to Slide #20. During the year total FRP shipment declined by 2% over previous year's to 3.1 million tonnes impacted by lower can shipment on account of weaker economic conditions and demand in Brazil and Middle East. However, the overall EBITDA per tonne improved due to change in sales mix with a share of auto product increasing from 15% in FY 2016 to 18% in FY 2017. We expect demand for the Aluminium Auto Sheet will continue to be robust.

Earlier this year, we signed an agreement with next generation car company NIO to provide innovative Aluminium solutions for its fleet of smart, high-performance, premium aluminum-intensive electric vehicles to be launched over the next five years.

We believe our global footprint, innovative solution and long-standing history of producing Aluminium Automotive Sheet provide Novelis an advantage to grow with this market.

We also continue to focus on significant cost reduction through improvement in productivity, asset utilization and better metal mix. We increase the amount of inputs from recycled material from 51% to 55% for fiscal 2017.

With that, I would like to turn the call over to Praveen for a more detail review of our financials.

Praveen Maheshwari: Thanks, Satish. Coming to Slide #22, revenue from operations full year at Rs. 39,383 crores was higher by 7% over the previous year. Driven by increase in average realization for both Aluminium and overall copper segment, besides higher volume in Aluminium business.

Aluminum revenue grew by 9% and Copper revenue increased by 6%. EBITDA was Rs. 5,819 crores, up 35% compared to previous year, supported by stable operations, lower input cost, higher Aluminum volumes and realization.

Depreciation has increased over previous year due to progressive capitalization of the projects. Interest expense was lower by 3% mainly due to prepayment of loans in the last quarter of FY 2017. The interest cost for the company will reduce in FY 2018 due to further prepayment of long-term debts planned by the company.

Profit before tax for the year is Rs. 2,153 crores and net profit stood at Rs. 1,557 crores. The company has posted very good financial results for this fiscal 2017.

On Slide #23, the standalone Aluminum revenue for the fiscal year 2017 was up by 9% to Rs. 19,986 crores, driven by higher sales of Aluminium metal and increased realization. EBITDA in the segment was Rs. 3,473 crores in fiscal year 2017, up 73% compared to Rs. 2,009 crores in the fiscal year 2016. The increase was a result of moderation in input cost, higher volumes stable plant operations and supportive macro factors.

Now, let us look at the financial performance of Utkal on Slide #24. During FY 2017 international Alumina prices were relatively lower impacting Utkal’s EBITDA. However, lower Alumina prices result in lower input cost for Hindalco.

Moving to the financial performance of the Copper segment on Slide #25, revenue was up 6% vis-à-vis the prior year at Rs. 19,408 crores as the overall realization for Copper segment was higher. EBITDA stood at Rs. 1,456 crores, marginally lower than the prior year impacted by lower volumes due to a planned shutdown. Lower by-products prices and marginally lower TCRC, however offset by lower input cost.

I will now take you through the financial highlights of Novelis for FY 2017 which are given on Slide #26. Revenues decreased marginally to $9.6 billion in fiscal year 2017. On account of a slight decline in shipments to 3,067 kilo tonnes. Adjusted EBITDA excluding metal price lag at $1,085 million was up 13% on the back of operational efficiencies strategic product shift and favorable currency partially offset by lower shipments. Novelis doubled its full year free cash flows to a record $361 million in FY 2017, this was driven by stronger adjusted EBITDA as well as lower interest in capital expenditure.

Coming to consolidated performance on Slide #27. The consolidated revenues stood at Rs. 1,02,631 crores for the fiscal year 2017. The company achieved a record consolidated EBITDA at Rs. 13,558 crores, up 36% compared to the earlier year. The robust performance was supported by stable operations across all businesses.

For the fiscal year 2017, net profit for the company on a consolidated basis stood at Rs. 1,900 crores.

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

Satish Pai: So, in summary, we are progressing in the right direction. Overall, FY 2017 has been a year of operational excellence supported by favorable macro-economic conditions which turn into robust results. In line with our commitment we continue to focus on accelerating the deleveraging and bringing down the overall net debt to EBITDA. All the new age plants stabilized and delivered a robust operational performance.

We have further improved our Coal security via new linkages, our captive mines Gare Palma IV/4 and Gare Palma IV/5 have reached the peak capacity. Commencement of Kathautia Mines has further strengthened our position on Coal availability.

Alumina refinery with close proximity to Bauxite Mine having, efficient and stable operations, provide inherent cost advantage as we are witnessing in Utkal which is one of the lowest cost producers of Alumina in the world.

At Novelis, we will majorly focus on two aspects. First is the automotive segment where we are expecting high growth and the second is on cost optimization. We are expecting strong growth in FY 2018 although there are some concerns like continued low cost imports in Aluminium and Copper segment which is hurting domestic players in India. And also there is an increase in domestic Aluminium production in India.

Also if China does not implement its supply side reforms and environmental-led closures then it may end up in higher production and leading to decline in Aluminium prices. We are also keeping the close eye on input cost movement as this may affect us.

So, with that, thank you very much for your attention and open it up for Q&A.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. We have the first question from the line of Mr. Pinakin from JP Morgan. Please go ahead.

Pinakin Parekh: Sir, just two questions from my side. Given that you highlighted that the risk to Aluminium prices is China not shutting smelting capacity. How would you view hedging the production for Hindalco at current Aluminium prices? Would Hindalco look to lock in the current LME prices for a much share of production then what it normally does? Would it take Aluminium prices as it comes through the course of the year? And my second question relates to interest expenses, given the outlook on deleveraging from where we are, on an absolute basis how should we look at interest expenses on a consolidated basis, I mean how much can they decline by over the course of the next one year and two years?

Satish Pai: Okay. So, let me take your first question which I guess the most interesting question. You see, one thing we have to make clear is that our hedging strategy which I think I discussed with many of you is very defensive strategy. We do the hedging, so that we want to protect a particular level of realization that sort of fix with our EBITDA that we are targeting. So, at the current situation because again, as I have told many of you, we sort of hedge about 30% - 40%. Now, the real thing that we have to be looking at it, I do not want to take a call on whether China will actually cut its capacity or not? Because then that is a very purely speculative type. So, I think that what we are trying to look for here is that we have a cost base and we have got a plan that we are comfortable with and we are quite sure that at least the first-half of the year right up to October these higher prices of Aluminium are going to sustain. So, you have to remember the reality of the Chinese cuts will only be known in the October - November time frame because that is when the winter sets in and that is when these cuts should become visible. So, I think in short the answer is that. No, we are not going to, if I understand your question lock-in all our production at current LME rate, we do not want to make a unduly speculative call like that.

Pinakin Parekh: Thank you, sir. So, just to understand normally, Hindalco does lock-in 30% - 40% of its production which is the policy that is there right now and as a company you do not want to go beyond that amount at this point?

Satish Pai: Yes, as I also told many of you for every quarter that is coming up we can go a little bit higher up to 50%; for example, we are in Q1 then looking at Q2 we will say okay, we may take that percentage up to 50%. I will give you a broader question of the whole year or let us say the next 12 months looking forward we would not want to take that percentage up because that will be in our view pure speculation.

Pinakin Parekh: Understood, sir. And sir, interest expenses?

Praveen Maheshwari: Yes, so, I will take that one. See, our interest cost in the region of about 9% per annum for the project term loans which is what we end up repaying. So, you can look at we have paid already Rs. 5,500 crores, so far between FY 2017 last quarter and till now. So, that translates to about Rs. 500 crores as of now per annum on an annualized basis. So, as we go forward, we may repay some amount and depending upon the cash flows and so on. So, depending upon how much we prepay, the amount of interest saved will depend on that. But you must also remember that we have treasury and to the extent we deplete our treasury. The contra is on the interest income side. So, really speaking the net savings at the PBT level is really either the payments made through the QIP money or that part of the money which we have generated either last year or this year through our own internal cash generation. I just want you to be aware that interest cost savings is one part, the treasury earnings also will be impacted when we pay out our debt.

Pinakin Parekh: Sure, thank you, sir. And sir, just to clarify given that the reporting heads have changed under IndAS all on a consolidated basis sir, what is the gross debt and net debt for the company?

Praveen Maheshwari: So, I can talk about the debt as at the end of 31st March, 2017, you want to know the gross debt first?

Pinakin Parekh: Gross and the net, sir, yes.

Praveen Maheshwari: Gross and net. So, at India level which includes Utkal as well and I margin including the short-term debt as well as the NCDs also, we have about Rs. 32,000 crores at the end of 31st March 2017. And we have close to Rs. 13,000 crores of treasury because we had the QIP money also lying at that point of time on 31st March which has been partially used to repay in April. So, around 1,300 crores was available in treasury in Hindalco. So, at Hindalco plus Utkal the net debt is about Rs. 19,000 crores and at Novelis the gross debt was about $4.9 billion at the end of 31st March and they had a treasury of $600 million. So, they had a net debt of about $4.3 billion.

Moderator: Thank you very much. We have the next question from the line of Ravi Shankar from Credit Swiss. Please go ahead.

Ravi Shankar: Just one question on Coal sourcing. So, could you just recap what is the broader split of the 16 million tonnes - 17 million tonnes of Coal requirement across captive, e-auction and linkage? And also, some inputs on what kind of pricing trends are you seeing because I see two or three references in the Presentation to hardening input cost.

Satish Pai: Yes. First point is the hardening input cost, I was referring more to furnace oil, caustic, CP coke and pitch, the CP coke and pitch, furnace oil because compared to last year oil prices are more at the $50 rather than the $40. So, they have all gone up because of that and caustic prices have also hardened. So, my input was for those. If I come to coal of our 16 million, we have roughly between the old linkages that we had and the new linkages that we locked-in during the current year. About 8.5 million locked-in linkages, we have about 2 million now from our captive mines, I am not yet counting Kathautia which is going to ramp up. So, out of this sort of 16 million that we had roughly 11 million is between the linkages and the captive mine. So, as Kathautia ramps up that is why our point was that two-thirds of that 16 million we are more or less secured. The pricing of this is also secured because the only thing we have exposure to is when Coal India increases the linkage prices based on the CPI that is the formula. Now, e-auctions, the remaining two million to three million, we buy normally on the e-auctions, the e-auctions have been to be fair Q4 has been slightly higher than Q3. But that we will have to see now how it goes in Q1 and Q2. But the spot fluctuation in the e-auctions which is about 10% to 15% more than the previous quarter only we are only exposed to about 2 million to 3 million of that our 16 million. We have another linkage auction that is going to happen from June 6th and we aim to tie-up a bit more there. Basically, what we would like to be is that, you should have very little exposure to the spot E-auction and we have either between our captive one and the long-term linkages, so that we know our power cost steadily for the let us say four years to five years.

Ravi Shankar: Right. And sir, in terms of delivered coal cost then would you have a landed coal cost kind of figure in mind?

Satish Pai: We do not normally give out the landed cost because it is a mix of different types of coal, different rates of coal and things like that. So, suffice to say that you know Coal cost in this current year have been very supportive.

Ravi Shankar: Okay. And suffice to say that sequentially it would have increased a bit?

Satish Pai: Well, actually Q4 was lower than Q3 because the full impact of the linkages that we won at the end of Q2, Q3, came in Q4. So, the price for million kilocal as I look at it in Q4 was slightly lower than Q3 which is why I clarified, the input cost is more worried about this furnace oil, caustic, CP coke and pitch.

Moderator: Thank you very much. We have the next question from the line of Sumangal Nivetia from Macquarie. Please go ahead.

Sumangal Nivetia: First question is with respect to the Copper division which witnessed a sharp jump in EBITDA, almost a 35% almost 4Q EBITDA was 35% of the full year. If you can just elaborate what is the sustainable run rate and what are the factors which contributed to this jump in 4Q?

Satish Pai: Yes, I guess all of you were on the call in Q3 you remember that at the end of Q3 I reported that I think both in Aluminium and in Copper we had certain amount of port stock and all that at that time. Hence, Q3 sales was slightly lower, so both in Aluminium and Copper the volume of sales in Q4 was much higher and I think traditionally Q4 is always we run down the inventory quite low. So, the amount of sales in Copper was I think about 7 KT to 8 KT that was in the port stock got sold in Q4. So, that was one reason. And I think Q3 to Q4 we also had slightly better realization both on the Sulphuric Acid side as well as the DAP. So, these two were one of the things. And why the demand picked up is imports generally came down in Q4. If some of you remember Copper imports we were also saying was going up. So, I would say that Q4 to Q3 probably you will see Q1 coming down to the Q3 levels, is what I guess you are asking, Q4 was quite high because we had a lot of extra sales.

Sumangal Nivetia: Understand. Sir, second question is with respect to the value-added volume mix which in our domestic Aluminium business has been on an uptrend, up 14% this year. How is the VAP proportion expected to increase in 2018 - 2019 and also if you could elaborate on the utilization levels of foil, FRP, and extrusion division?

Satish Pai: So, during the QIP process I have been sort of elaborating that our intention over the next four years to five years is to double our VAP capacity in Aluminium. So, we will go from around 300 KT to 600 KT. Now, FY 2017 - FY 2018 over FY 2016 - FY 2015, I think you just see a similar double-digit increase. You saw about 14% increase FY 2015 - FY 2016 over FY 2016 -

2017, I think you should see a similar sort of increase in FY 2017 - 2018. But I wanted to put the bigger picture here is that we are starting now post the QIP on a whole campaign of two things, upgrading our portfolio in the downstream value added as well as doubling our capacity, so that will play out over the next four years to five years.

Sumangal Nivetia: Sir, just one last question if I may, if you could just elaborate on your CAPEX plans, it appears that Utkal refinery expansion is a very short payback project. So, any reason why we are delaying it given our leverage also now is at comfortable levels?

Satish Pai: I want to assure you we are not delaying it. Actually, we have already started the what I would call the conceptual and the detail engineering with Rio Tinto Alcan. So, we have to of course go through environmental clearances and certain statutory things that we have to do. So, that project if I may say has already been kicked-off but the real spend on that project will happen in next year. So, the planning, the environmental part, the statutory things, the contracting, all that started in full swing.

Sumangal Nivetia: Okay, sir. So, full year CAPEX would be sub-Rs. 1,000 crores in India business?

Satish Pai: So, I had committed, if you remember during the QIP around Rs. 1,000 crores. So, it is around Rs. 1,000 crores with a certain amount of carry on Greenfield CAPEX that we have from the Aditya Mahan. So, let us say there is standard operational CAPEX for Aluminium and Copper business is around Rs. 1,000 crores.

Moderator: Thank you very much. We have the next question from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: My question is regarding MIP and Aluminium. So, despite this increase in imports, what is hindering this imposition of duty because in Steel the government did not take as much time as it is taking in Aluminium?

Satish Pai: See, the issue with the imports is that it is coming in through FTA countries and it is coming in through value-added products and things like that. So, an MIP because the price of Aluminium is at USD 1960/t, so per se in MIP on upstream Aluminium will not stop the imports coming. And I think, if you saw the government just announced the Anti-Dumping Duty on Foil about a week ago, it is a small secures but these measures like Anti-Dumping measures that restrict the amount of scrap coming into the country, measures that stops China using the FTA countries to bring products into India. It is a bit more finesse there. I think a pure MIP at this stage, we would of course welcome it as a strong sign of support to the industry but an upstream MIP would not help straight away. The price of Aluminium is quite high.

Anshuman Atri: Okay. My second question is regarding this there is a lot of talks from the government regarding electric vehicles going forward and Novelis is a leader globally in automotive. So, how do we see Hindalco playing out this electric vehicle story in India, will it be through Novelis or will it be through the Indian operations adding more value-added products?

Satish Pai: Yes, in the near future it will be through Novelis because I think the rolling mills and the technology to provide the automotive sheet, Novelis has got ready and going. So, I think in my prepared remarks, you saw that I mentioned the deal with NIO in Shanghai for the electric vehicle. So, Novelis is well-prepared. I honestly think that before there is any meaningful manufacturing of electric vehicles in India I think we are probably a year or two away here and that too I am being a bit optimistic. But there is certainly more usage of Aluminium coming into cars in India in general and that is coming in due to the fuel efficiency norms that are also being implemented in India. So, we are actually now talking to the different auto makers to see how we can provide the Aluminium, the rolled part can come from Novelis but there is also extrusions and other things that are used in car that can come from the downstream business of Hindalco in India. Automotive is to put it in short, one of our focus sectors for this doubling of the downstream over the next five years I mentioned.

Anshuman Atri: Okay, sir. One last question is on the cost. So, how much savings can we see from this GST like Coal duty has been reduced and other benefit which can come through in terms of the cost for input which can be taken credit against and logistics savings. So, net-net how much can we see in savings in FY 2018?

Satish Pai: So, I will say on a broader way I think that successful GST implementation is what we are really looking to because that I think the come July the whole Aluminium and Copper industry client suppliers we can smoothly transition to GST, I think that it will be a tremendous first achievement. Trying to quantify the game, I would just wait a little bit because yes, you are right logistics there should be some gains, probably on the working capital side there should be some gains. But I am hesitant to give you a number now. I think what our team is spending Praveen, the finance group and the procurement group, we are spending a huge amount of time with our suppliers and clients trying to get the systems and processes in place for the GST. So, that when the GST roll out happens this thing goes smooth. I think that is our first target. Probably in another quarter or two I can give you actually how much money has been saved or what is the financial impact. At this stage, we just want the process and the systems to work smoothly because I think that will be tremendously beneficial.

Moderator: Thank you very much. We have the next question from the line of Nitesh Jain from Axis Capital. Please go ahead.

Nitesh Jain: Mr. Maheshwari, if you can share the comparable number of this net debt amount for March 2016, you said like Rs. 19,000 crores as of March 2017 for Hindalco and Utkal. So, what is this amount under the new Accounting Standards for last year?

Praveen Maheshwari: The new Accounting Standards really do not make much of a difference as far as debt is concerned that is only a marginal impact except for the treasury investments because there you need to do MTM adjustment. So, it would not be very different from the what was reported.

Nitesh Jain: Okay. And sir, my second question is Mr. Pai, if you can share what was the Aluminium and Copper demand growth for India for the whole of the FY 2017?

Satish Pai: So, there the picture when we look at the full year for various reason because Q3 got a hit little bit with demonetization. So, Aluminium actually grew only 2.5%. Normally, we have been growing more like 9% and we are hoping that this year we will see that is coming back and Copper was actually flat and the real impact here, the demand from the electrical sector which normally comes towards in the sort of December, January, February time frame, this year was not as strong. We are really hoping now to see those orders coming in from the electrical sector.

Nitesh Jain: And sir, just like you mentioned the normal trend line growth is say 9% for Aluminium what is it for Copper?

Satish Pai: Normally, it is a 4% to 6%. Given also 7% to 8% Laddha Ji says. See, both Aluminium and Copper are largely driven by the electrical demand. 40% of Aluminium and may be 90% of Copper is driven by electrical demand. So, that demand last year has been a little bit low but a lot of these measures that the government I think are now kicking in place. So, we expect 2017 - 2018 to be seeing a good demand.

Moderator: Thank you very much. We have the next question from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: I just had one question on the interest cost, total interest cost on a consolidated basis about Rs. 5,700 crores - standalone interest cost is about Rs. 2,300 crores and Novelis is about $300 million which would be about Rs. 2,000 crores. So, where is the remaining sitting, is it Utkal and why is it so high then?

Praveen Maheshwari: So, Utkal is small. Utkal is not big because Utkal has only about Rs. 4,700 crores of loan and it has a interest in FY 2017 of about 9.4%. So, that explains about let us say Rs. 400 odd crores of interest. But there is one adjustment in Novelis which is the cost of refinancing which happened during this year which was clearly reported by Novelis that sits in their finance cost, so that is the reason why this looks a little inflated. They had about $135 million of refinancing cost that happened during FY 2017, is sitting out there.

Bhaskar Basu: Okay. So, that is not going to recur, right going forward?

Praveen Maheshwari: No, that is not going to recur at all.

Moderator: Thank you very much. The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Sir, my first question was on the Coal side, earlier you said that 8.5 million tonne is from linkage. Of this what is the break-up of the old linkage because that I guess will expire over the next 12 months to 18 moths?

Satish Pai: Yes, we have roughly 3.9 million tonnes in the old linkage which was really the Renusagar, Krishnashila linkage, so that comes up June of next year.

Ashish Jain: Okay. So, all of this expires 12 months down the line?

Satish Pai: Yes, it is one big linkage that is there on Krishnashila and there are few smaller ones but that is the major one.

Ashish Jain: But sir, currently what is the premium of your new linkage versus the old linkage in terms of pricing just to have a sense what could be the potential uptick in case you want to make this up through the new linkage?

Satish Pai: No, I will tell you even this year linkage that we have got, the majority it we got more or less slightly above the base price or it was at the base price. So, we got the linkages at a very good price. So, there is not much uptick there. Of course, I cannot predict going forward. But generally, on the longer-term linkages we have been getting fairly at the floor plus very small premiums.

Ashish Jain: Okay. Sir, just a book keeping question, what is the sales volume for Aluminium and Copper in this quarter?

Satish Pai: This quarter. So, for this quarter I think 114KT was Copper and Aluminium 328KT.

Moderator: Thank you very much. We have the next question from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.

Ashish Kejriwal: So, I was asking about the other expenditure which increased 23% quarter-on-quarter, so is there any one-off because we have seen production is more or less flat and even sales volume is up marginally in case of Aluminium, so is there any one-off in that?

Praveen Maheshwari: Yes, I will explain this to you. What is happening here is, in the accounting the premium that we pay on our Coal Mines that as per the Accounting guidelines it goes into other expenses rather than into power and fuel. That is why you see, power and fuel despite an increase in production is not going up significantly. So, large amount of increase is actually attributable to that which normally be from an MIS perspective, should be factored in the power and fuel that is the major cause of increase. In IndAS this is what is accounted for.

Ashish Kejriwal: Because if I am looking at from third quarter to fourth quarter our production both in Aluminium is more or less or 1% lower only thing in Copper I think it is 18%. So, it is mainly because of Copper because if Aluminium volumes are flat. Your power and fuel cost is also up by 5% so...

Praveen Maheshwari: No, it is a question of the mix that one uses for the production. So, the more you use your own mines the more will be the other expenses.

Ashish Kejriwal: Okay. So, is it possible to quantify that amount?

Praveen Maheshwari: We can quantify, but I think there is just to give you a brief answer on this, there is no unusual, one-timer kind of expense sitting there, it is more a question of classification of the expense rather than any other unusual expenses. But we can provide you separately some detailed break-up of the same.

Ashish Kejriwal: Fair enough. Because why I am asking is when I am looking at quarter-to-quarter, we are unable to get any benefit of higher Aluminium price because our EBITDA on a per tonne basis more or less flat.

Praveen Maheshwari: No, that has many other influences. There are other raw materials which have gone up…

Satish Pai: Which is what I was mentioning really for us the sort of caustic, furnace oil, and you are probably looking at the standalone Aluminium EBITDA, you also have to remember that the Alumina price, transfer price from Utkal to standalone Hindalco, in Q4 went up. So, that benefit you will only see if you take the integrated cost. So, really the EBITDA did go up. But we see that in the Utkal results in Q4. Utkal transfer price is based on a Q-1 Alumina price. So, highest towards in Q3 which got that means Utkal got very high price for its Alumina in Q4. When I look at the integrated cost of the metal and EBITDA it went up.

Ashish Kejriwal: So, integrated cost has gone up, you are saying?

Praveen Maheshwari: No. When I look at the integrated cost the EBITDA per tonne has gone up Q4 to Q3.

Ashish Kejriwal: Okay, fair enough. And sir, was is the plan to repay your long-term debt or you have already repaid around Rs. 4,500 crores?

Praveen Maheshwari: Yes, we have repaid actually Rs. 5,500 crores, if you include what we repaid in Q4 of last year.

Ashish Kejriwal: Yes, I am talking about in this year.

Praveen Maheshwari: In this year, we already repaid Rs. 4,500. We had promised in our QIP that we will pay an equal amount from our internal resources. So, we have plans to repay round Rs. 2,200 crores more likely in Utkal and after that it depends on the cash generation and on the performance of the year.

Moderator: Thank you very much. We have the next question from the line of Mr. Rajesh Lakhani from HSBC. Please go ahead.

Rajesh Lakhani: Sir, my question is more regarding the supply-demand fundamentals in China. Sir, at these prices the most of the smelters in China are profitable, and yet we are seeing prices sustaining and we are also seeing that new Chinese smelters are coming up with higher cost efficiencies. So, cost curve could go down. So, I am just trying to understand what is our reason for being optimistic on the Aluminium prices at current levels as well?

Satish Pai: So, as I think when I said in my prepared remarks, I am not being optimistic, I am just saying that there is 4 million tonnes of Aluminium capacity in China that is under stress due to two reasons – either they did not have what we call an environmental clearance to start it. And two, they are in that Shandong, Beijing, Shanghai region which the environmental ministry wants to shut down this winter. So, the reason why there is strength in the Aluminium prices is because people are expecting some sort of cut in the Aluminium capacity in China. So, we will have to wait till the sort of October-November to see if that actually happens or not. But one thing is very clear, there is very little new capacity that is going to be sanctioned. So, in some ways I think you know the Chinese capacity increase is going to flatten out and then how much actually get we will have to wait and see till the winter. But the whole market is being held up because of that reason.

Rajesh Lakhani: Okay. So, it is more about the expectation of the future cuts?

Satish Pai: Yes.

Rajesh Lakhani: Sir, just on this, if this supply gets cut in winter, so Aluminium production if I am correct, cannot be stopped and started frequently, so if it gets stopped it will take another three months - four months to ramp up. So, what is your view on if this supply does get cut then how fast it could come again or would this be a permanent cut?

Satish Pai: As you very rightfully said, Aluminium capacity cannot be turned off and turned on. If they actually cut it then it is going to be very expensive for them to restart it. So, my feeling is that people who are in that area are probably going to think very long and hard before they restart that capacity. And of course, to re-start it they will need Aluminium prices to be also very high to justify it. So, this is a completely interesting and a new scenario here. So, we will have to really wait and see because Aluminium capacity is you cannot turn it off and on. It is usually expensive to do that.

Moderator: Thank you very much. We have the next question from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Sir, my first question is on the hedges, I think you answered it partly in the prior question. Sir, how do we look at it and what is the tenure of it? So, do we review it on a quarterly basis and secondly how do account for it, so if one had to adjust the numbers on operational basis, how do should one look at it?

Satish Pai: So, I think that as I told people before we have a defensive hedging policy and overall if the energy is very high then the hedging impact is very low let us put it that way. I mean this helped us in 2015 - 2016 when LME went very low and hence, it sort of give you a little bit of insurance. So, I cannot give you exactly quarter-by-quarter what our hedging amounts and all are but it would be fair to say that at the current LME prices there is very little gain or anything from this hedging thing. We stick with our strategy. We look at it year, year and half out and we take very thin slices and when we are comfortable with a level of LME, remember this is an LME rupee combination. So, really what is helping us right now in our hedging is the rupee part because when we did the rupee it was 67 - 68, so we got with the forward curve much higher numbers. The rupee is now at 64. So, we look at it as a rupee LME because that is what we are doing operating in India. So, for me right now to put it very directly our model should not have a zero on it for Q1. There is no positive, no negative.

Ritesh Shah: Okay. That helps. Sir, my second question is you indicated about trade measures in U.S. and potentially higher LME and physical market premiums. So, sir, this question is more from Novelis angle. So, what is our procurement mix, so you indicated like recycling is around 52% to 53% balance will be the actual metal procurement. So, in a scenario wherein you have trade measures say for U.S. against China and other countries what will be your strategy over the and if you could please highlight what our sourcing mix for the metal would be?

Satish Pai: So, look the sourcing mix depends geographically, I mean U.S. does not source primary metal from China that comes from Rio Tinto Alcan in Canada, I hope so and I really think between Canada and U.S. there will not be any issue. The European part comes mostly from Norsk Hydro or RUSAL. So, I think that the Novelis strategy has always been to keep at about 54% - 55% of recycling mix and the remaining comes as ingot and of course, Novelis is completely offset hedged. So, it does not have any impact on its results if you have noticed the so-called metal price lag which was really a more of reflection of the premium and the LME itself those numbers have got down to nothing now.

Ritesh Shah: Okay, that helps. Sir, lastly on export volumes, sir, out of our domestic production what percentage of it would be export volumes and specifically if you could highlight whether it is bar ore profile, spread sheet, if you could give some broad color on what the likely mix is right now?

Satish Pai: 90% of this is primary ingots.

Ritesh Shah: 90% is ingots. And sir, what percentage of our volumes will be exports?

Satish Pai: It is roughly 40%.

Ritesh Shah: 40% is exports and sir, what was this number last year?

Satish Pai: So FY 2016 - 2017 was slightly higher I think it was about 50%. This year we will probably do about 40%. See, the point for us is we are reluctant exporters if I can use the word I would like to sell domestically because I will get duty premium on it. Last year when the demonetization happened and thins like that we ended up exporting a bit more. So, this year I want to go back to trying to sell as much domestically and our plan is to sell 40% on the export.

Ritesh Shah: Okay, that is good to hear. Sir, lastly, sorry to come back on this hedging thing. So, is the policy same for Novelis as well because we had South America operations which reported fantastic numbers at EBITDA level and management did attribute it to the FOREX gains and also there was a comment that we expect this number to be sustainable going forward. So, sir, what is our policy on hedging at Novelis?

Satish Pai: Look in Novelis the Brazil on the currency is a different thing on the Real. But generally, Novelis is offset. So, the only impact of their hedging can be seen in their metal price lag numbers. I am sure you have seen, they declared their EBITDA with and without metal price lag. And if you look at the metal price lag you know it has gone down to some very low numbers few million dollars now. So, the hedging of Novelis and Copper is a pure offsetting, so that you make the LME a pass through. I do not know exactly for the comment on the Brazil but I think they had some currency….

Praveen Maheshwari: Yes, so on Brazil their contracts are largely in dollars and it helps them if the Brazilian Real is kind of depreciated. So, normally they hedge for the year in advance, I mean they like to begin the year with a hedge position so that they do not see any surprises during the year. So, to that extent they are offset hedged. But if while hedging the Real has already depreciated or appreciated then that impacts their results in a certain way. So, they got the benefit because they were already hedged while the Real was still appreciating.

Ritesh Shah: Okay, that helps. Sir, last question, Ulsan plant what we sold 300 KT, did it also include the recycling part of it or was it just the finishing line?

Satish Pai: at the Ulsan just so that we clear, we sold at the sort of cold mill point. So, hot mill, cold mill, none of the finishing assets and all are a part of the deal. So, all we sold is that the cold mill section we have roughly 400 KT of capacity. So, 200 KT did the JV and sold it Kobe.

Moderator: Thank you very much. We have the final question from the line of Mr. Pallav Agarwal from Antique. Please go ahead.

Pallav Agarwal: I just had a clarification on you know the premium for the Coal Mines. If so the understanding is correct, does this relate to a captive Coal Mine because the prices that we paid for the Coal auctions because those probably are higher than the current coal prices, so as a proportion of captive Coal increases would it increase our Coal cost as well?

Satish Pai: No, you see this is where I think on many of these calls I have tried to explain that captive coal is of a very high quality it is 5,000 GCV to 6,000 GCV. And normally, to get a good blend for our boilers, we use to import a certain two million - three million, three million tonnes of imported coal at very high GCV and combine it with our domestic Coal. So, that mix we sustain. So, we have just replaced imported coal with our captive Coal. And I think, that is the way to look at it because we could not run with 100% domestic Coal because the GCV of domestic coal is around 3,000 - 3,200 GCV whereas to get our PHR optimum, we use to import about 3 million tonnes of South African Coal at 6,000 GCV. So, we are just replaced for our captive, the high-end coal from the captive mines for the import. The number two point that we always make is that it gives us the security. Especially now with the monsoons and all coming up any disruption due to flooding or something, I can quickly ramp-up our own mines to make up the short fall. So, these are the two benefits we get from our captive mining.

Pallav Agarwal: Sure, sir. Sir, if I can also just ask another question on the Alumina prices, those have been soft lately and the percentage of Alumina to Aluminium spot prices has decreased quite a bit, do you think, that you could see again a bump up happening in the Alumina prices going ahead if Aluminium stays at these levels?

Satish Pai: It is a good question. One thing, I personally feel that Alumina and Aluminium had decoupled to a large extent and Alumina now follows this supply and demand. So, if Alumina prices dropped as you rightfully said I think currently run the USD 280 that came down, it is because of the demand of Alumina in China. And I think China has cut down its import of Alumina lately, so that is why prices have come down. If Chinese demand picks up again, it will pick-up. So, I do not think they are directly linked anymore which we have been followed because we sell a little bit of Alumina on the third-party market every quarter. So, will it come back absolutely it can come back if the demand picks-up it will come back again. If you look at it quarter-to-quarter last year it has been very seesawing, it has gone down to USD 220, it has gone up to USD 330 - 340.

Moderator: Thank you very much. As there are no further questions, I would now like to hand the floor to the management for closing comments.

Satish Pai: No, I think the only closing comments is we believe that 2016 - 2017 in many ways was a transformative year for Hindalco. Three important things happened, we strengthened the balance sheet, we stabilized the operations at the right efficiency and we got fundamentally security on our coal requirements which is very important to an emerging smelting business. So, I think that I will close with that. it was a good year for us and we expect next year also to continue in the same way. Thank you very much.

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