



“Hindalco Industries Limited’s Q4 and Full Year FY19 Earnings Conference Call”

May 16, 2019



MANAGEMENT: MR. SATISH PAI – MANAGING DIRECTOR, HINDALCO INDUSTRIES LIMITED
MR. PRAVEEN MAHESHWARI – CHIEF FINANCIAL OFFICER, HINDALCO INDUSTRIES LIMITED
MR. J.C. LADDHA – CEO, BIRLA COPPER
MR. STEVE FISHER – PRESIDENT & CEO, NOVELIS
MR. SUBIR SEN – IR HEAD, HINDALCO INDUSTRIES LIMITED



*Hindalco Industries Limited
May 16, 2019*

Moderator: Good day, ladies and gentlemen and welcome to the Q4 and Full Year FY19 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 the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subir Sen. Thank you and over to you Mr. Sen.

Subir Sen: Thank you and a very good day to everyone. On behalf of Hindalco Industries Limited, I welcome you all to this Earnings Call for the Fourth Quarter and the Financial Year Ended 31st March 2019. On this call, we will be referring to the latest Q4 and the Full Year Investor Presentation that is uploaded in our company website. Some of the information on this call maybe forward looking in nature and will be covered by the safe harbor language on Slide #2 of the presentation.

As you know, the presented financials of India business includes relevant numbers of Hindalco’s 100% subsidiary Utkal Alumina International Limited to present a comprehensive view of the overall business. For this purpose, standard principles of consolidation have been applied by the elimination of intercompany transactions and unrealized profit and loss of the inventory. For comparison, all previous year’s numbers have also been presented in the similar manner.

On today’s call we have with us from the Hindalco Management Mr. Satish Pai – our Managing Director; Mr. Praveen Maheshwari – Chief Financial Officer and Mr. J.C. Laddha – CEO, Birla Copper. From Novelis management we have with us Mr. Steve Fisher – President and CEO. Now, let me handover this call to Mr. Pai for his opening remarks. Thank you and over to you sir.

Satish Pai: Thank you, Subir. Good evening or morning everyone. Welcome to our Earnings Call for the Fourth Quarter and Full Year 2018-2019 of Hindalco.

On Slide #3, I will begin with the key highlights of the company’s performance in FY19. This will be followed by an update on macroeconomic and industrial environment and overall business results. Later Praveen will be covering the operational and financial performance of all our businesses in detail.

So, let me start with the key highlights of FY19 starting with Slide #5:

Hindalco recorded its strongest consolidated full year performance despite a challenging business environment. This performance was result of best ever results by Novelis. Record



*Hindalco Industries Limited
May 16, 2019*

results by the India aluminum segment and a sustained performance by the copper business. Our Indian businesses have achieved record PAT, PBT and EBITDA for the full year 2019.

Let me give you some numbers reflecting this performance:

Hindalco reported its highest ever-consolidated Profit After Tax at Rs. 5495 crores which grew by 23% versus Rs. 4482 crores in FY18 post adjustment for tax effected exceptional items. Consolidated PBT was at a record high. EBITDA was at the highest ever at Rs.16,627 crores, up 11% compared to the prior year. In India we achieved record aluminum production of 1,295 KT and Novelis reported record shipments of 3,274 KT in FY19. The consolidated balance sheet further strengthened with consolidated net debt to EBITDA improving to 2.48x at the end of March 2019 versus 2.82x at the end of March 2018. This improvement was a result of our continuous focus on deleveraging and EBITDA growth.

Let me give you some key highlights of Novelis performance for the year:

Novelis recorded the highest ever shipments in FY19. This was due to higher shipments of both Beverage Can and Automotive Sheets that grew by 7% and 2% respectively. Adjusted EBITDA reached an all-time high of \$1.368 billion in FY19, up 13%. Adjusted EBITDA per ton also reached its best ever at \$418 per ton. Recycle contents surpass 60%. It reached a level of 61% in FY19 compared to 57% in FY18. On Aleris acquisition, the approvals are in progress and we expect the deal to close as expected on quarter 2 of FY20.

Now moving on to Novelis's Hindalco business:

It delivered a record EBITDA of 7532 crores in FY19, a 5% rise over the previous year. This was on back of stable operations, supporting macros despite a significant increase in input cost compared to last year. In FY19, the interest costs were lower by 15% year-on-year on account of prepayments and repricing of the long-term loans. Profit after tax was higher by 21% at 2678 crores compared to 2197 crores in FY18 post adjustment of tax effected exceptional items that were there in FY18.

On Slide #6, I will share with you some of the key highlights of our aluminum and copper business. The aluminum business including Utkal, reported an EBITDA of 5202 crores with a growth of 9% compared to FY18. The EBITDA margin stands at 22%, alumina and aluminum metal production was at record 2.893 million tons and 1.295 million tonnes respectively. Aluminum VAP excluding wire rods did remarkably well with a production of 321 KT in FY19, up 5% year-on-year. This rise reflects our continuous focus on value-added operations in India. On the upstream side, brownfield expansion of Utkal Alumina by 500 KT is on track and is expected to be commissioned by FY21.



*Hindalco Industries Limited
May 16, 2019*

Coming to our copper business:

It recorded an EBITDA 1469 crores versus 1539 crores in FY18, which was lower compared to the last year due to lower Tc/Rc and planned maintenance shutdown in FY19. This was overall sustained performance by the copper segment despite operational and macro challenges. On the value-added portion of the copper business, the continuous cast rod production was up 47% at 245 KT due to the ramp up of the new CCR-3 plant commissioned in FY18. The CCR-3 plant achieved a production of 117 KT in FY19 and is expected to reach its design capacity by the end of FY20. The fertilizer DAP production was higher by 48% year-on-year to reach 303 KT in FY19.

Let us now look at the broader economic environment in Slide #8:

The global macroeconomic environment is going through uncertainties caused by the escalation of the trade war, the Chinese and European slow down, Brexit and geopolitical issues. As a result, the central banks across geographies are moving towards neutral or accommodative policy stands to support economic growth. The US economy recorded the fastest first quarter growth in 4 years at a seasonally adjusted annual rate of 3.2% from 2.2% in Q4 of CY18 and 2.3% in Q1 CY18. Growth was led by a sharp pickup in contribution from trade and gross private investment. Additionally, the unemployment rate fell to the lowest rate in 50 years while the monthly jobs growth remains solid above 200,000. However, there are concerns over industrial housing and private investment growth going forward. China's GDP grew by 6.4% in Q1 CY19 versus 6.8% in Q1 CY18. The moderation in economic growth is majorly driven by the escalation of trade war with China. China has announced a series of stimulus measures to support growth. Seasonally adjusted GDP growth in the Euro zone is at 1.2% in Q1 CY19 as against a growth of 2.4% in Q1 CY18. Conclusion of the Brexit issue will have a major impact on Euro zone policy making. The IMF is projecting a global growth of 3.3% in 2019 versus a growth of 3.6% in 2018 due to various trade tensions and uncertainties. In India, the economy grew by 6.6% in Q3 FY19 versus a growth of 7.7% in Q3 FY18. The index of industrial production also witnessed softness in growth. In FY19 it grew by 3.6% as against a growth of 4.4% in FY18. Therefore to support economic growth the RBI has further reduced key policy interest rate by 25 bps to 6% from 6.25% earlier. This interest rate reduction was the second rate cut in a row. As per the latest estimates released by the Government of India, GDP is expected to grow by 7% in FY19 versus a growth of 7.2% in FY18. Revival in investment industrial production and a normal monsoon will be key drivers of economic growth in FY20.

Let me take you through the aluminum industry overview on Slide #9:

The price of aluminum is currently being driven by global macroeconomic uncertainties and the intensification of the trade war between US and China. As a result, the LME price witnessed a



*Hindalco Industries Limited
May 16, 2019*

sharp fall and is currently trading around 1800 to 1850. However, SHFE prices have not witnessed a similar drop of level due to environment led closures both in metal and alumina production in China. In addition, the restriction on scrap imports has triggered scrap shortages in China which has resulted in additional demand for primary metal. Hence the gap between LME and SHFE has narrowed to around \$20 a ton from a high of around \$275 a ton in CY19. If this reduced gap continues, the Chinese exporters may lose the competitive advantages.

Moving to demand:

Global consumption growth continues to moderate in CY19 to around 2% from 3% in the earlier year and 6% in 2017. In the current year 2019, Chinese government is trying to sustain the consumption growth of 2% to 3% by providing stimulus in the domestic market. Consumption in the rest of the world is expected to grow marginally to around 1% in CY19 from a growth of around 2% in CY18. The global market however is expected to remain in deficit by around 1.5 million tons to 1.7 million tons in CY19 with a marginal deficit of 50 KT to 100 KT coming from China. In 2019, inventories may touch the low of prefinancial crisis level by end of Q2 2019 to below 10 million tons. Therefore, we are expecting LME prices of aluminum to show an upward trend in H2 of CY19.

Domestic market continues to witness robust growth in consumption at around 9.7% in FY19 as against 9.9% in FY18. The transportation construction and consumer durable sectors were the major demand drivers other than the electrical sectors. Imports continue to be a source of concern for domestic players in India as the market share of imports rose to 58% in FY19. The overall imports including scrap that is 2.3 million tons in FY19, compared to 2 million tons in FY18 registering a growth of 20%. Demand is likely to continue to be robust in FY20 and is expected around 7% to 8%. The construction and packaging sectors are likely to be big demand drivers of aluminum in India in FY20.

Let me give you now a brief snapshot of the global and domestic FRP industry in CY19. The global FRP demand ex. China grew by 4% to 5%. The global Beverage Can stock market is showing growth in the emerging markets of Asia and South America. Also, demand from new end use segments like Sparkling Water and global shift from glass to aluminum are aiding strong growth of Beverage Can demand. Continuous adoption of strong light weight and formable aluminum sheets in the vehicle parts and structures is leading to growth in the automotive body sheet segments. This market is expected to grow at a CAGR of 12% to 15% between CY18 and CY25. Despite some current softening we are seeing in the European and Chinese demand. The domestic FRP market is also growing at a steady pace of 7% to 8% primarily driven by transportation, construction and packaging. This growth is expected to continue at a CAGR of 7% for the next 5 years.



*Hindalco Industries Limited
May 16, 2019*

In CY19, the global demand for refined copper is likely to be around 24 million tons up 2% year-on-year. The demand in world ex. China is likely to witness a growth of around 1% to 1.5% majorly driven by Japan, South Korea and the ASEAN region whereas demand for refined copper in North America and Europe may witness moderation. The demand in China is expected to grow around 3% to 4% in CY19 as compared to a growth of around 5% in CY18. Scrap restriction and investment in the infrastructure is likely to support refined copper consumption in China. Overall, in CY19 refined copper market is expected to be in balance.

Copper concentrate market is likely to be in deficit of around 100 KT in CY19 because of reduced production from Grasberg Indonesia, Chile and Africa. The tightness in concentrate market is expected to be in the second half of CY19 as the majority of the smelters that went through disruption in CY18 would have ramped up fully. In addition, majority of the Chinese plant, maintenance shutdowns will be over by the end of Q2 CY19. Reduced concentrate output and surge in demand from Chinese smelters may adversely affect Tc/Rc values in CY19 on the spot level. In the domestic market, demand surge to 10% in FY19 as compared to a growth of 2% in FY18, majorly driven by growth in electrical, electronic, coupled with consumer durables. However, slowing industrial growth has been a concern during the year. Imports from ASEAN and FTA countries continue to put pressure on the domestic pricing. During FY19, imports grew by 20% versus 7% in FY18. As a result, overall market share of imports in the domestic market increased from 37% in FY18 to 42% in FY19. Major imports happened in product category of rods and wires.

In FY20 the demand for refined copper in India continues to be at the same pace as in FY18 that is around 10%. The growing demand from the power sector, the governments trust on renewable energy and increasing demand in the housing segment in consumer durables will lead the demand for copper in India. However, low priced imports remain a concern for the domestic producer.

Now let me take you through the consolidated financial performance of FY19 on Slide #13:

Hindalco consolidated achieved an all-time high revenue of Rs. 1,30,542 crores and EBITDA of 16,627 crores up 11%. PBT before exceptional items was Rs. 8083 crores up 24% and Profit After Tax of Rs. 5495 crores up 22% in full year 2019. Praveen will now take you through the detailed highlights of each of the business segments in the full year and quarter 4.

Praveen Maheshwari:

Thanks Satish. Coming to Slide #15, Novelis delivered its best ever performance with significant rise in net sales, adjusted EBITDA and adjusted EBITDA per ton in FY19. This performance was on the back of higher shipments, cost efficiencies and a favorable product mix. The percentage of recycle contents improved to 61% from 57% in FY18. The global demand for aluminium FRP remain strong, reflected in the growth of shipments of both Beverage Cans and



*Hindalco Industries Limited
May 16, 2019*

Automotive Sheets that grew by 7% and 2% respectively. The shipments mix in FY19 was 63% Beverage Cans, 20% Automotive Sheets and 17% Specialties. All the organic expansion projects of Novelis in the US, China and Brazil are under construction and expected to be completed as per the schedule.

Slide #16 shows the story of excellent performance of Novelis in financial terms. Its revenue, adjusted EBITDA and EBITDA per ton grew 8%, 13% and 10% year-on-year in FY19 respectively, and have been the highest ever in any financial year so far.

Slide #18 gives a detail of the performance of Indian aluminum businesses including Utkal. Alumina production in FY19 was at a record, 2.893 million tons. Aluminum metal production was also at its best reaching 1.295 million tons. Value added products excluding wire rods in FY19 were up 321 KT versus 307 KT in FY18.

Coming to Slide #19, aluminum metal sales volumes were at 1,274 KT in FY19. In Q4 of FY19, we did shipments of 325 KT which was higher than last quarter and was in line with the same quarter last year. Value added product sales excluding wire rods was marginally up 2% year-on-year at 301 KT in FY19. Share of value-added products in total sales has improved to 24% in FY19 versus 23% in FY18.

Moving on to the financial performance of aluminum business including Utkal on Slide #20:

This segment did remarkably well in FY19 with a 13% jump in revenue at 23,775 crores versus 21,090 crores in FY18. Q4 of FY19 revenues were lower, due to lower realizations. EBITDA in FY19 was up 9% year-on-year at 5202 crores on account of better macros and stable operations despite pressures on input costs. The EBITDA margin stood at 22% of revenue. Q4 FY19 EBITDA was lower by 18% year-on-year due to lower realizations and a stronger rupee.

On Slide #22, the overall copper metal production was lower at 347 KT in FY19 compared to 410 KT in FY18. This was mainly due to planned maintenance shutdown and related operational issues. CC Rod production was higher at 245 KT supported by the newly commissioned CCR-3 mill which produced 117 KT in FY19. DAP production was also higher by 48% at 303 KT in FY19.

Coming to Slide #23 on sales volume of copper and its value-added products, copper metal sales were down at 359 KT in FY19 versus 407 KT in FY18, due to lower production impacted by plant maintenance shutdown and related operational issues. CC Rod sales were higher by 48% in FY19 at 243 KT. This jump was on account of higher volumes coming from CCR-3 in FY19.



*Hindalco Industries Limited
May 16, 2019*

The financial performance of the copper segment is given on Slide #24. This business did well despite lower volumes and realizations. Revenues were almost at the same level at 22,155 crores versus 22,382 crores in FY18. This was supported by higher by-product sales and realizations in FY19. EBITDA stood at Rs. 1469 crores in FY19 versus Rs.1539 crores in FY18. This reflects a sustained financial performance despite operational challenges and lower copper realization in FY19. Let me now handover to Satish for the rest of the slides.

Satish Pai:

So, let me now give you a summary of the India business performance including Utkal in Slide #26. This was a record FY19 performance for the overall India business including Utkal. It achieved the highest ever EBITDA at Rs. 7,532 crores, PBT before exceptional items at Rs. 3,659 crores and profit after tax of Rs. 2,678 crores in FY19. This resilient performance despite a sharp increase in input cost was driven by stable operations, supporting macros and improved operational efficiencies.

So, to conclude on Slide #27, I will give you an overall business perspective and highlights and key risks.

In FY19, we achieved excellent consolidated performance across all our businesses despite headwinds and uncertainties. Our integrated business approach with increasing emphasis on downstream value-added products including those by Novelis is leading to a more sustainable and resilient business model. This is reducing the impact from volatility arising out of the LME price movement. 70% of our EBITDA in FY19 was non-LME linked and 30% was linked. We also reported best ever financial and operational performance by Novelis on the back of higher shipments, cost optimization, recycling benefits, better spreads and overall favorable market conditions. I believe our continuous focus on improving operational efficiencies led to this excellence in each of our businesses including Novelis. Our consolidated net debt to EBITDA reduced further to 2.48x at the end of March 2019. We prepaid Rs. 1,575 crores of long-term loans in FY19. With respect to our growth journey, all the expansion projects of Novelis are on schedule. Approvals for Aleris acquisitions are in progress as per schedule and this transaction is expected to close in Q2 FY20. Our 500 KT Utkal Alumina expansion is also on schedule and is expected to be commissioned by FY21. This will take alumina capacity of Utkal from 1.5 million tons to 2 million tons per annum. On the copper value-added side, the CCR-3 plant did remarkably well this year. It produced 117 KT in FY19 and continues to ramp up.

Our key risks are the following. Weakening of global demand led by slowing growth in China due to the trade war, rising imports of aluminum including scrap, fake semis and other value-added products from China and FTA countries into India and the impact of Brexit.

So, with this, I would like to thank you very much for your attention and open the forum up for questions.



*Hindalco Industries Limited
May 16, 2019*

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: I have two questions. First, if you can detail out your coal consumption and break it between e-auctions, linkage and captive for the quarter? And second, if you can take us through the profitability or rather the EBITDA in Utkal Alumina, there seems to be a drop which is perhaps beyond what can be explainable by the change in price movement, so if you can help us to understand if there is some cost incidence there? That is all from my side. Thanks.

Satish Pai: So, the first question, the coal consumption in Q4 was 4.5 million tons, the total year was 16.8 million tons and the split was linkage coal was 55%, e-auction was 29%, our own mines was 12% and imports was 3%. So, that is the first part of your question. Q3 to Q4, coal prices were flat. Now the second part on Alumin profitability, I again urge you that since it is a fully consolidated with our aluminum business, the profitability of the Alumina business per se is not important because we ultimately integrate it with the rest of the Hindalco aluminum business. So, any profitability of Alumina is related to the transfer price that is used to transfer the Alumina to the Hindalco standalone. But I think that ultimately the EBITDA that is important is the Hindalco plus Utkal. Utkal by itself is not really relevant.

Abhijit Mitra: Yes. So, why I asked this question is because if I look at your integrated spreads, it has dropped more than what the aluminum price including the hedges were warranted and the only way of explaining this is by looking at the Utkal EBITDA because standalone EBITDA has held on pretty well. So, that is the reason I was asking, probably there is some one-off in the Utkal business which could explain this sort of drop in the integrated spreads on a quarter-on-quarter basis?

Satish Pai: So, if I take quarter-on-quarter, the EBITDA change on the aluminum business was 242 crores. If you take the average realization difference between Q3 and Q4 due to LME and rupee, it is roughly Rs. 11,400 a ton. So, this total impact comes to Rs. 371 crores, it should have gone down. The hedging gave us a benefit and hence the total drop was Rs. 230 crores. So, I think we can take this online but the LME rupee combination minus the hedging positive impact fully explains the quarter-on-quarter drop in the aluminum EBITDA.

Moderator: Thank you. The next question is from the line of Deepak Narnolia from Birla Sun Life. Please go ahead.

Deepak Narnolia: I have the same question on profitability actually. What I see that your aluminum EBITDA including Utkal has gone down by \$100 per ton. In Q3, it was \$560 per ton and in Q4 it is \$450 per ton, although your realization has not gone down. LME has gone down, but your realization has not gone down. It has more than remained flat. So, I just wanted to understand this \$100



*Hindalco Industries Limited
May 16, 2019*

drop is coming from where and why your realization is not going down? You have some other elements in your revenue or something like that?

Satish Pai: See, rupee LME, Q4 to Q3, taking into account LME and rupee, the overall average realization has come down by about \$11,400 a ton QoQ as I have explained in earlier question. We also had a positive hedging impact in Q4.. The topline also has gone down in aluminum including Utkal. Let me just give you that number, the topline, was, Rs. 5,871 crore versus Rs. 6,000 crore. So, again the delta in the profitability is fully explained just by LME-rupee combination minus the positive impact of the hedges which was 38% in Q4, and the impact comes to around Rs. 230 crore QoQ.

Deepak Narnolia: And sir your other EBITDA is also very high in this quarter. The split you gave in your presentation, so your other EBITDA is somewhere around 375 crores this quarter versus the normal trend of 200 crores. So, why is this high and what is this exactly sir?

Praveen Maheshwari: This was sometimes you know the treasury balances are high, sometimes the cash flows are higher and also you know that today now with the new accounting standards for the last couple of years, there are MTM gains which can come through the treasury income. You are aware that the yields actually soften towards the end of the quarter and sometimes that can give a fillip and sometimes that can also give a negative impact to the income, because nowadays you also account for the MTM on the treasury investments. We hold about Rs. 6,000 crores – 7,000 crores, we ended with Rs. 7,000 crores of treasury. So, sometimes those kind of thing and also annual accounts closed in the last quarter, so there are certain one timers which can come in positive and negative. So, don't look at it too closely from that point of view.

Deepak Narnolia: Relating to the treasury items and not relating to your business operations.

Praveen Maheshwari: No, sir. Business items go directly into the business operations.

Satish Pai: Yes. You can't put business items in the others line.

Deepak Narnolia: Okay. And one more thing sir, if you allow me to ask this question. Sir, it is relating to your debt. Despite significant amount of cash flow, I don't see meaningful reduction in your net debt. So, can you please explain that?

Satish Pai: Our India net debt today is around 14,000 crores and we paid off 1575 crores this year leading to a net debt to EBITDA of 2.2 versus 2.67x.

Deepak Narnolia: Sir, how much is your net debt today?



*Hindalco Industries Limited
May 16, 2019*

- Satish Pai:** 14,700 crores.
- Deepak Narnolia:** Sir, I am asking at consol level?
- Satish Pai:** I think consol level problem what you are doing is probably converting the Novelis debt into rupees and the rupee depreciation makes the rupee debt of Novelis look slightly higher.
- Praveen Maheshwari:** Even that has gone down. It was 2.82x last year, it has gone down to 2.48x, that is a significant reduction. That is net debt to EBITDA.
- Satish Pai:** He is talking about the absolute debt.
- Deepak Narnolia:** At the consol level, you have paid how much of debt sir?
- Praveen Maheshwari:** You are talking about the gross debt or the net debt?
- Deepak Narnolia:** Gross debt and at the consol level how much the net debt was in March 18 and how much it is today, if you can tell me the numbers?
- Praveen Maheshwari:** So, I will tell you both gross and net, because you seem to be asking for both. So, March 19, gross debt was Rs. 52,415 crores and treasury between Hindalco and Novelis was Rs. 13,970 crores, so net debt of Rs. 38,445 crores.
- Deepak Narnolia:** This is in March 19, 445 crores?
- Deepak Narnolia:** Yes, 38,445 and in March 18 it was?
- Praveen Maheshwari:** March 18, it was 39,311.
- Deepak Narnolia:** So, you paid somewhere around...
- Satish Pai:** Let me again tell you. The prepayment was done in the India debt of Rs. 1575 crores. So, again that said when we go in rupees, the Novelis debt if you convert into rupees, it gives you a slightly different number because the rupee has depreciated. That is why I prefer that you look at the debt of Novelis in dollars and the Novelis debt in March 18 gross debt was \$4.5 billion and in March of 19, it is \$4.38 billion. The net debt of Novelis in March 18 was \$3.587 billion and in March 19 it is \$3.43 billion. The India net debt on March 18 was 16,893 crores and in March 19 is 14,683 crores. So, that gives you more clear picture.
- Moderator:** Thank you. We will take the next question which is from the line of Pinakin Parekh from JP Morgan. Please go ahead.



*Hindalco Industries Limited
May 16, 2019*

Pinakin Parekh: Sir, my first question is on this Aleris transaction. Now if for whatever reason, either the Chinese approvals do not come through or the EU approvals were to not come through, is there any breakup fee associated with the transaction that Novelis would have to pay Aleris?

Satish Pai: So, Steve, why don't you start there?

Steve Fisher: Pinakin, so we had to receive number of approvals and received a number of approvals through the 8 months-9 months we have been working on the transaction including, 30th approval that we received earlier this year. We have 3 approvals. And maybe as you are aware of that, we still are need to obtain to close the transaction, if all anti-competition or anti-trust approvals in the US, in the EU and in China. We stand very confident that we will actually get clearance in all three jurisdictions and that we will close the transaction in this 3rd quarter calendar year. Specifically to your question now, is there break fees for each one of these jurisdictions in the event of US and EU, it is a \$150 break fee and in China it is \$25 million break fee. And it would be in the event of which one we did not receive. But again, I think you should focus on too much because we stand very confident that we will receive this clearances. We always said this would take somewhere in the 12 months-18 months range and we stand confident that will clear the transaction in third quarter this Calendar year.

Satish Pai: I think Pinakin, the Steve said you know, see the press in India because of the Tata deal. But I think to reiterate we are very confident that we will close this transaction as we have guided in Q2 of this financial year.

Pinakin Parekh: Understood sir. My second question is on copper. If we go back to FY17 and FY18 quarterly cathode production was averaging over 100,000 tons, but this year barring 3Q it has been very volatile going from 72,000 tons to 89,000 tons. Now sir, can you give us some color as to how should we look at this division for FY20, I mean 410 came down to 347,000 tons in FY19? Can this go back over 400,000 tons in FY20 or do you believe no, this is more likely a FY21 scenario?

Satish Pai: No, I think Pinakin, last year we had a planned shutdown that went little bit longer with some issues that we had not anticipated. So, just to give you clarity, in FY20 we are going to take another little shutdown which will impact the volumes in Q1, but our full year guidance is over 400 KT for the year. So, we are fairly confident that this year the copper cathode output will be more than 400 KT.

Moderator: Thank you. The next question is from the line of Indrajeet Agarwal from Goldman Sachs. Please go ahead.



*Hindalco Industries Limited
May 16, 2019*

Indrajeet Agarwal: Two questions from my side. First, on the profitability of copper business that has been very volatile. So, what exactly is going on there? It is more like the DAP and sulphuric acid relations have not been good or some inherent issues in the business?

Satish Pai: No, I think the Q4 profitability was affected a little bit by some of the operational issues and we had to take some one-time provisions for disposal of certain wastes. Otherwise going forward, Q1 of this year, I do want to emphasize that we are going to have another little shut down, so that will impact it. But for the rest of the 3 quarter of this year, we are predicting quite stable operations and stable EBITDA. So, on the positive side, sulphuric acid, DAP, all the sort of value-added products of copper, the pricing is holding up quite well. So, we are fairly confident that going forward the copper profitability should be more stabler after the shutdown in Q1.

Indrajeet Agarwal: Sure, thanks. Second question on aluminum business. First on what are the current pending hedges that we have and also how do you see cost of production and coal availability going into FY20?

Satish Pai: Alright. So, first question. We have 15% of the commodity hedged at \$2225 per ton for FY2020. 11% is rupee LME hedged at Rs. 1,52,400 and 4% is only commodity at \$2,421 per ton. But also, we have 30% of the currency hedged for the year at 75.25, that is our hedge position. In terms of cost of production of aluminum, I am happy to say that we have started to see cost going down. Q4 to Q3 was flat, but in March we started to see CP Coke, pitch, furnace oil pricing all starting to come down. So, now with about a month and a half we are seeing that Q1 will be at least 3% down compared to Q4 at terms of cost of production of aluminum per ton. And I think your last question which is also very important on coal availability; we are actually going into this monsoon compared to last year in much better shape. So, there seems to be adequate coal available. We seem to be getting enough rake, coal stocks in our plant are at healthy level. Even e-auction premiums, imported coal prices, all are on the downward trend. So, I think the next few quarters at least we are seeing quite favorable conditions with availability and pricing.

Indrajeet Agarwal: Just one small clarification. 3% lower on INR terms or US dollar terms?

Satish Pai: Actually, I am giving it on INR terms, looking into account current rupee.

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

Amit Dixit: Yes. Thanks for taking my question. My first question is on Tc/Rc margins, so what were the Tc/Rc margins in this quarter and how do we see Tc/Rc margins going ahead specifically the split between contract and spot?



*Hindalco Industries Limited
May 16, 2019*

- Satish Pai:** Yes, so majority of our Tc/Rc is on contracts. So, there is very little spot that we have to go for. But I think the Tc/Rc in 2019 was at, which is the calendar year benchmark, is at 20.7 cents per pound, compared to 2018 which was at 21.1 cents per pounds. I think we are down by about 2.9% calendar year 19 versus 18.
- Amit Dixit:** Great. Sir, the second question is on net debt. If you can split it between Utkal and standalone operations?
- Praveen Maheshwari:** Utkal is 2400 crores and the rest is in Hindalco.
- Amit Dixit:** Net debt, right?
- Praveen Maheshwari:** No, sir. I am talking about the gross debt. Net debt you don't worry because treasury is fungible.
- Satish Pai:** We don't have treasury at Utkal and Hindalco, it is one treasury.
- Moderator:** Thank you. The next question is from the line of Saumil Mehta from BNP Paribas. Please go ahead.
- Saumil Mehta:** Sir, I just wanted to check what was the implied transfer pricing from Utkal to smelters for this quarter and how it has changed on a Q-on-Q basis?
- Satish Pai:** So, transfer price to Utkal for Q4 was \$391 per ton and Q3 it was \$503 per ton.
- Saumil Mehta:** Okay. What I want to understand is, why was cost production in the Q-on-Q only about 3% given the fact that the alumina prices came down significantly and I believe Q4, the coal cost and everything else also would have come down for you unless and until I am wrong?
- Satish Pai:** So, look, the alumina prices are a wash regardless of the transfer price. When I give you the cost of production, I give you an integrated cost of production, taking alumina at the cost of production, not at the transfer price. So, it has no impact whatever and that is why I said the profitability of Utkal should not be of any concern because we are integrating it into the total metal cost. So, the cost reduction is mostly due to CP Coke, pitch, caustic, furnace oil, these ones are, coal prices are slightly going down but will not go down that much Q-on-Q. So, really the 3% is coming more from CP Coke, pitch, furnace oil and caustic soda.
- Saumil Mehta:** Sure. And the second question is, I don't know if you have explained that, I see a very large purchase of stock-in-trade in this particular quarter. What was that amount pertaining to? 225 crores is what I read over here.



*Hindalco Industries Limited
May 16, 2019*

- Praveen Maheshwari:** That is a small amount compared to the overall turnover. Sometimes when we buy a certain thing and we don't need it, it can always be disposed of.
- Saumil Mehta:** Because even if I look at on a YoY basis, FY18 where the purchase stock-in-trade was only about 5 crores whereas this year it is about 235 largely because of this quarter where I see the number is 225 crores.
- Praveen Maheshwari:** I think that in Q4 we sold off probably one consignment of copper concentrate that we did not need. That is why it has come in stock-in-trade.
- Saumil Mehta:** And my last question, if you can split in terms of your alumina cost, sorry the aluminum cost into hot metal and what would be the conversion cost, not for this quarter but very rough number would be for us, if we look for the full year?
- Satish Pai:** It depends whether you convert the hot metal to ingot, sheet ingot or billets. But roughly it is between Rs. 3000 to Rs. 6000 because for me the primary where we convert the hot metals is it can go into normal ingots which is the cheapest, billets, wire rods and the sheet ingots. So, it goes between Rs. 3000 to Rs. 6000, sheet ingot is around Rs. 6000.
- Moderator:** Thank you. The next question is from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.
- Ashish Kejriwal:** Sir, two questions. One, you have mentioned that your cost of production in INR terms that is flat quarter-on-quarter. But if I am looking at the numbers which we have been given like revenue and EBITDA of aluminum operation, I am including Utkal Alumina in that and then if we derive the cost then cost on a per ton basis seems to be 3% higher quarter-on-quarter. So, I am just unable to reconcile the same?
- Satish Pai:** Look, I hope you are not taking sales numbers but production numbers to do your calculation?
- Ashish Kejriwal:** We are taking sales number sir.
- Satish Pai:** No. For the cost of production you have to dig with production numbers, not sales because sales numbers can vary a couple of tons because Q3 I think was lower. We got stuck, one rake got stuck in the last few days. We couldn't. If you take the production numbers and you take the cost of production, you will actually find Q4 slightly lower than Q3 and the reason I say it is flat is because there were some one time benefits that came in which I am taking out so that I can see the true cost of production and it is absolutely flat.



*Hindalco Industries Limited
May 16, 2019*

- Ashish Kejriwal:** Sir, in fact if I take the production numbers then our cost of production seems to be on a higher side. Reason being, like in terms of revenues first of all, the absolute number revenue figure of aluminum which you have given and sales volume and we just divided and then we come to the realization of around Rs.183,000 versus Rs 186,000 last quarter which is a decline of just 1.5% and similarly if we do the maths for cost of production, it seems to be on a higher side. So, either there is something one off or which we are not aware of or...
- Praveen Maheshwari:** See, look at it. The revenue number if you just divide by the sales is not the right way to do it because there are many items which actually impacts. For example, the sales is not just of metals, there are value-added products. So, realization for them will be different. 25% of our sales is for the value-added products. Then we have specialty business, the chemicals business, that revenue also goes into it. It is not possible for you to just divide the revenue or cost and arrive at the final number.
- Ashish Kejriwal:** Okay. So, you mean to say that, now the EBITDA per ton of \$455 which is not reflective of aluminum EBITDA?
- Praveen Maheshwari:** It is the mix of the base aluminum business; the downstream business is a part of that and a part of the chemical business as well.
- Ashish Kejriwal:** Because in aluminum we are taking, when we are talking about 325,000 tons, we are talking about the entire aluminum volume which includes our downstream products also.
- Praveen Maheshwari:** Correct. But the value addition will be different for each type of products.
- Ashish Kejriwal:** Sir, because we were doing the similar maths for last quarters also. On the same base we were unable to reconcile the numbers that is the reason.
- Praveen Maheshwari:** Delta will be reconciled, because delta as we said earlier the drop in EBITDA is explained fully by the drop in the realization. The cost is not such a significant player there.
- Satish Pai:** We can take you offline through the cost, but we monitor that closely ourselves, the cost of production, I do it on a weekly basis. So, the cost is flat.
- Ashish Kejriwal:** Fair enough. And sir secondly, you talked about some MTM gain in other income, is it possible to quantify and similarly some one-off...?
- Praveen Maheshwari:** See, what happens is, the treasury investments when you value them at the end of the year, the accounting standard require you to take the MTM gains and losses as a part of your income or



*Hindalco Industries Limited
May 16, 2019*

expense. So, it is difficult to fix a particular amount for that other income. But you can be rest assured that is not the business income. The aluminum and copper...

- Ashish Kejriwal:** See, I was just looking at out of these 375 crores, how much was because of this MTM gain?
- Praveen Maheshwari:** We can take you through separately, but 375 is not a reflection of, you can expect every quarter to come, 200-250 is a better number.
- Ashish Kejriwal:** Okay. And sir lastly when you talked about in copper, there was some one-off provisions in this quarter. Any amount which you can ascribe to that number?
- Satish Pai:** So, look, normally the copper EBITDA should have been around 400, it was 315. So, that is the order.
- Moderator:** Thank you. The next question is from the line of Rajesh Lachhani from HSBC. Please go ahead.
- Rajesh Lachhani:** Sir, just following on this copper one-off, so you clearly mentioned that the normal EBITDA should be 400 and this time it is 315 crore. So, just wanted to understand what would be the one-offs that led to this fall and secondly sir, we have again taking shutdown in 1Q. So, is this a regular maintenance that happens every first quarter or is this something unusual?
- Satish Pai:** So, look Rajesh, the one-off again as I said we had certain amount of operational issues that led to it and we took a provision for some of the ways that we will have to sell. So, I cannot, I don't know, I cannot give you any more clarity than that. And I think that the shutdown in Q1 to be fair we have to pull it forward than what we would have normally like to do and we think it is important to pull it forward and complete it before the monsoons come because our whole game plan is that in the remaining 3 quarters of the year we are going to have a steady run that will allow us to get to the 400 KT output.
- Praveen Maheshwari:** The additional factor if I can just add in copper business between Q3 and Q4 were, that this sulphuric acid price and the DAP price, the byproduct realization was lower in Q4 compared to Q3. The copper markup also was lower compared to Q3 and Q4 because of the various imports and other market factors. So, the realization also was a little lower compared to Q3 and Q4.
- Moderator:** Thank you. The next question is from the line of Yash Doshi from SBICAP Securities. Please go ahead.
- Yash Doshi:** Sir, this Muri accident which happened recently, will it impact our operations or our requirement for alumina or basically we would be relying on any outside alumina?



*Hindalco Industries Limited
May 16, 2019*

- Satish Pai:** Yes, that is a good question. Look the Muri, what it has done is that, it will be depending on when we startup and we are planning that the restart will happen somewhere by the end of Q2, we could have a shortage of about 50 KT to 60 KT of alumina. By the way we have already bought 30 KT in the month of May and already arrived. So, your next obvious question for us, the impact, the cost of alumina in Muri is on the higher side, around 330 and we bought it at about 360 including transportation. So, roughly between two quarters there will be a Rs. 50 crores impact on the alumina that we will buy from the market.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from JM Financial. Please go ahead.
- Ashutosh:** Sir, in the beginning of the call you mentioned the coal sourcing percentages for linkage e-auction, that was for fourth quarter I guess?
- Satish Pai:** Yes.
- Ashutosh:** Can you repeat the same numbers for full year 19?
- Satish Pai:** Sure. The linkage coal was 60%, e-auction was 21%, own mines was 14% and imports was 3%.
- Ashutosh:** And can you take us through the outlook for the own mine production in terms of Gare Palma, Kathautia and whether Dumri is on track for June 19 was the date that we...?
- Satish Pai:** Dumri is on track. But the own mines, just so that again we are clear, we use it as a swing producer. So, last year when coal was very short, import prices were very high very produced more. This year what we are starting to see is that the imported price of coal is dropping quite fast. So, we are starting to actually import a little bit more because it comes cheaper than Gare Palma. So, really these own mines specially for Gare Palma is used as a swing and Kathautia and Dumri we will continue as normal because we needed for Mahan and that pricing is much better. It is the Gare Palma is the one which is on the higher side.
- Ashutosh:** Okay. So, sir if I understand you correctly, the capacity could be 25% in terms of what we can meet through these mines, but the percentage usage will be on the lower side or we will have that opportunity to adjust it according to market conditions is what you are saying?
- Satish Pai:** Absolutely and normally last year what happened is during monsoons when coal India supply started to go down, those few months we ramped up the production of our own mines. But when we start to get good linkage coal again then we ramp it down. So, as I said we use it as a swing to cover up our short fall when needed.



*Hindalco Industries Limited
May 16, 2019*

- Ashutosh:** Sure. And sir correct me if I am wrong, essentially you have committed auction price of around Rs. 2800 per ton on these mines and then you have the mining cost over and above all that. So, that should take us over 4500 kind of rupees per ton number for anything that comes out of our mines.
- Satish Pai:** You can't go as a rough average because I will tell you. Kathautia and Dumri will be much lower than Gale Palma, the premium that we agreed but the Gare Palma coal is also much better quality. So, it depends on GCV and Million Kilocal basis.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Sir, in the prior question you indicated 50 crores of impact of alumina, that is for the month of April?
- Satish Pai:** No, over the next 2 quarters. The 50 crores is of the, roughly 50 KT to 60 KT of alumina we will need to fill up the gaps of Muri being shut down. So, it is not one month, it is over Q1 and Q2 is the impact.
- Ritesh Shah:** Okay. And sir you indicated a timeline of we will restart Muri over next two quarters, did I hear it right?
- Satish Pai:** I said end of Q2 is the guidance, not over 2 quarters. We will probably start somewhere in the August-September timeframe.
- Ritesh Shah:** That helps. Sir secondly, can you quantify the impact of hedges and Q4, I think it would be indirectly around 150 crores based on the maths that you indicated in one of the questions.
- Satish Pai:** Yes. that is right number
- Ritesh Shah:** Okay, that helps. And sir lastly, I just wanted to confirm on the hedges. I think earlier we had around 15% of FY20 volumes which were hedged and now that number has actually gone up. It has gone up to 30%.
- Satish Pai:** No, I think you missed. 15% is still 15%. I said 30% of the currency is hedged at 75.25. I was giving an additional information that besides 15% of the commodity, we also have 30% of the currency hedged at 75.25.
- Ritesh Shah:** So, this 15% is 11%, 1.52 lakhs and 4% is \$2421, is that right?
- Satish Pai:** Absolutely.



*Hindalco Industries Limited
May 16, 2019*

- Ritesh Shah:** And then you also gave a number that 15% of the volumes at \$2025. So, I could not connect the third variable?
- Satish Pai:** No, I was saying 15% is hedged for commodity for \$2,225 a ton. If you break that up, it is 11% at rupee LME of 1.52 lakhs and 4% only at \$2421. So, the \$2,225 is an average of these two.
- Ritesh Shah:** Correct. That helps. Sir, lastly one hypothetical question, because of what is going on the macro side between US and China, could that be a risk that it goes through and there could be a risk incremental CAPEX that we have to incur in China?
- Satish Pai:** Sorry, I couldn't get the second part. Aleris acquisition happens and what risk then?
- Ritesh Shah:** And incremental CAPEX that we have to do in China because of the trade tensions, because of Trump's commentary, is it something which could be at risk? The reason I am asking is when we did the transaction, we indicated that we will derive synergies out of the China asset by committing incremental CAPEX. So, my concern was if China had to self-fund itself and if there was a question mark on cash fungibility from North America to China, incremental investments which are required in the region, could that be a question mark? It is a very hypothetical question but do you see that as a risk?
- Satish Pai:** I don't. I will let Steve answer that. There is no problem in funding CAPEX in China. Steve, do you want to say anything there?
- Steve Fisher:** No, I think that is correct Satish. We feel that the current slowdown in China around in Automotive is just the near term, hypothetical of long term US-China trade war, I think it is just hypothetical we are committed to the plans to invest in China but within our second Changzhou Auto Finishing line and then to integrate the two facilities after we closed and from a funding standpoint, no there are no issues.
- Moderator:** Thank you. The next question is from the line of Vishal Chandak from Emkay Global. Please go ahead.
- Vishal Chandak:** Thank you very much sir. Sir, just a small question with respect to we have been reporting Utkal Alumina separately versus Hindalco standalone and we say that it doesn't have an impact because obviously 100% of the produce from Utkal goes into Hindalco. Are there the PSI benefits that we are still looking it, when we say we will not be merging Utkal with Hindalco or there are some other benefits as well to that?
- Satish Pai:** Sorry, what is PSI?



*Hindalco Industries Limited
May 16, 2019*

Vishal Chandak: Whenever you set up an industry you have some VAT or SGST benefits. Are you looking at those benefits when we are saying we will not merge it or there is some other rationale for not merging these two entities?

Satish Pai: Actually I have answered this in the past, but let me gain repeat because the Baphlimali mines has been given to the existing Utkal legal entity and we just don't want to take the risk of trying to transfer a mining lease from one legal entity to another. That is it.

Praveen Maheshwari: And there is no specific benefit of merging the two.

Vishal Chandak: Okay. And secondly sir, you mentioned that you would be advancing your copper smelter shutdown. So, in this quarter as well. So, is this smelter already in the shutdown mode or it is operating and we will take a fresh shutdown?

Satish Pai: No, it has been operating. I think our shutdown is planned in the month of June-July.

Vishal Chandak: And that would be for how many days sir?

Satish Pai: It will take about 18 days.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to the management for closing comments.

Satish Pai: Alright. So, thank you all for your attention. I think that the main point I wanted to put down is that the Hindalco today is based on a well-balanced business model with 70% of our EBITDA that is not LME linked. So, we are in Q4 and probably Q1 going through a slightly lower LME type of scenario. But I think that when compared to our most of our competition and peers, we are much better placed because the combination of Novelis, copper and the downstream business gives the earnings of Hindalco a lot more strength in a volatile market like this. So, that I wanted to make that first point and second point to also say that FY19 for us was the record year at all ends of the business which did very well. So, thank you very much for your attention and some of you with specific questions will follow up offline. Thank you.

Moderator: Thank you 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.