"Hindalco Industries Limited Q2 FY-2017 Earnings Conference Call"

November 12, 2016

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Moderator: Good day, ladies and gentlemen and welcome to the Q2 FY17 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sagar Dhamorikar. Thank you and over to you sir.

Sagar Dhamorikar: Thank you, Margaret. Thank you and good afternoon everyone. Welcome to Hindalco's second quarter 2017 earnings call. On the 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 the safe harbor statement on page 2 of the presentation.

From our management team, we have with us Mr. Satish Pai – our Managing Director; Chief Financial Officer, Mr. Praveen Maheshwari; and Head of our Copper business – Mr. J. C. Laddha .Now let me turn the call over to Mr. Pai.

Satish Pai: Thank you, Sagar. Good evening, ladies and gentlemen or good afternoon. I welcome you to the second quarter financial year 2017 call of Hindalco Industries Limited. Let us move on to slide 3.

I will start by giving you the highlights of the business environment. This will be followed by highlights of the business performance. Later between Praveen and me, we will cover the aluminium and copper businesses in more detail along with some highlights of Novelis, our 100% subsidiary. Let me start with the broader macroeconomic picture in slide 4. The global economy paints a mixed picture. Recent US data has been encouraging; however, post Presidential election, the fear of Fed hiking interest rate has resurfaced and volatility has increased. Europe continues to struggle and their growth is quite anemic right now. Expansionary monetary policies by Central Banks of most developed countries and consequently high liquidity has been supporting many global economies. With interest rate hike fear there is bound to be uncertainty around the liquidity.

China, the torchbearer of global growth has shown a strong growth momentum in the last few quarters. Strong stimulus actions have led to buoyancy in Chinese markets, although the concerns on the real economy still loom large. In India, the outlook is encouraging, good monsoons, GST and other reforms are expected to result in a strong demand growth in the coming years if not the quarters. The fact that the global liquidity has few growth markets to chase is also supportive in the Indian context.

Turning to the aluminium industry update on the slide 5, aluminium demand continues to be fairly robust and is expected to grow around 5% to close to 60 million tonnes in the calendar year 2016. The Chinese demand has witnessed a strong recovery surprising on the positive side. The buoyancy in the property market, infrastructure investment following stimulus and tax rebates and automobile industry have helped the demand pickup. Indian demand is expected to witness a strong double-digit growth following the steps taken by the government to boost the industrial production, its investment in infrastructure and its thrust on power sector reforms. Good monsoons are expected to boost rural demand. Aluminium industry has been grappling with oversupply due to overcapacity. In the past, unbridled growth in capacities in China has resulted in an oversupply and rising inventory. In 2015, many high-cost facilities became unviable following the sharp decline in aluminium realization. This resulted in capacity curtailments to the tune of over 4 million tonnes; however, after a surge in demand following the recovery in aluminium prices, some of these capacities in China have restarted. The restarts so far had been slow due to looming uncertainties around demand and increasing cost due to the sharp run-up in coal prices.

The coal prices in China have almost doubled from January level. Some supply side hiccups in China due to logistic issues have further aggravated the deficit. At present, industry expects annual global deficit at around 500 KT this year, the highest in this decade. This augurs well for the aluminium producers, but I expect the supply to increase as new efficient Chinese capacities come on stream. These new capacities along with more restarts will cap significant price upsides. But overall, the aluminium outlook is stable, the prices appear to have bottomed out and have been holding for a while, but I still expect them to be range-bound. The hardening of energy prices should support the cost curve and hence the aluminium prices.

Talking specifically about India, increasing supply following capacity ramp-ups and the high level of imports is impacting local industry dynamics. In slide #six, we will discuss about the domestic industry drivers and factors which affected the industry in the last quarter that is Q2 2017. Aluminum realizations were marginally higher as the sharp decline in ingot premium largely negated the gain rising due to the slightly higher LME prices and weaker rupee. LME in Q2 was 2% higher than the previous year. Ingot premium though was substantially lower while the depreciation of the rupee provided some support. In addition, the Indian market continued to witness strong growth in imports impacting domestic sales. On the cost front, costs were lower on a year-to-year basis primarily on account of energy deflation; however, sequentially some of the input costs have started hardening. Globally, it was driven by increase in the price of coal, crude derivatives and alumina. While we have captive alumina, in the standalone results, alumina cost increased due to the market transfer pricing from Utkal Alumina, our 100% subsidiary. The alumina transfer cost increased as it is linked to the metal bulletin price index of alumina; however, on the other hand, Utkal benefited and on a consolidated basis, there was no impact for rise in alumina prices.

Having said that, our captive alumina and boxite is turning out to be a great advantage in the current scenario. In the Indian context, Q-on-Q for Hindalco, coal price increased due to quality and logistic related issues during monsoons as areas around Renukoot and Mahan witnessed heavy rains and floods. As you are aware, doubling of the coal cess has more than offset the benefit of increase in customs duty. All in all, while realizations were marginally better, the costs were largely supportive on a year-on-year basis.

Slide #7 captures the state of the Copper industry and the major external value drivers of the Copper business. Good supply from Copper mines and weak Chinese demand continue to depress Copper prices. However, treatment and refining charges that is TCRC which is the most important driver for the custom smelting model that we follow have been good. Sulphuric acid prices though declined sharply while DAP prices were also lower. So overall barring TCRC, the macros were not very supportive.

After the industry backdrop, I will now present the operational highlights of all the major business segments starting with slide #9. The Aluminum business delivered yet another solid performance. As all three Greenfield projects stabilized, the volumes increased substantially. Our strong focus on operations led to robust efficiency gains not only from new world class factories but also from older plants which have been our focus area and have seen operational optimization. It was not only Mahan, Aditya and Utkal but the plants at Renukoot, Hirakud and Muri have also contributed to our efforts in improving cost competitiveness. The input prices were broadly supportive. Coal prices during the quarter continued to remain benign due to adequate availability of coal. Thanks to Coal India’s thrust on coal production! However, the usual monsoon impact played out both on quality and availability front. As mentioned earlier, this time around the impact was higher due to heavy rains in the Renukoot cluster.

A major highlight for the quarter was enhanced coal security and improved power cost visibility which we shall discuss in the slides that follow. Going forward, better scale economy and control over key input costs should enhance our competitiveness. Novelis, as you know continued to deliver solid operational performance, the automotive shipments have grown by 12% year-on-year. I will talk about this performance in a little bit more detail later on. We have also managed to reduce the interest cost at Novelis by taking advantage of the window we got to refinance the senior notes of Novelis. We refinanced $2.5 billion notes and shall be saving $55 million annually. Copper business has also been an important constituent of our portfolio. It bounced back after the planned maintenance shutdown in Q1 FY17. The Copper production was the highest ever during the quarter. The good news is that post shutdown, there has been an all-round improvement in performance; and efficiency gains are evident as we had envisaged. Copper EBITDA jumped 38% sequentially. Overall, all the businesses delivered robust operational performance in Q2 FY17.

Coming to the quarterly financial highlights of Hindalco standalone business in slide #10, as compared with Q2 of FY16, the company's topline was flat. Aluminum LME was marginally higher, but MJP, the premium was lower by 32% and average Copper LME was lower by 10%. The Aluminum revenues during the quarter were up 10%. This was primarily on account of higher volumes produced coupled with increase in value-added sales. The Copper revenues, however, were lower due to lower realization. Year-on-year EBITDA for the quarter at Rs 1,493 crores, was higher by 39% leading to a strong increase in net profit. I would like to emphasize here that broadly supportive input cost along with improved efficiencies played a key role in the strong performance.

Let me now turn to the performance of the Aluminum business in slide #12. Turning to the operational performance covered in slide #12, Alumina production increased 16% year-on-year and metal production increased 19% to 321 KT. Alumina production shown here includes production at Utkal. In line with our focus on value-added products, our production of wire rods, flat roll products and extrusion registered a healthy growth in Q2 FY17 over the previous year. Overall, it was a solid production performance on the back of all-round efficiency improvements across all the plants. The company secured significant portion of its coal requirements in the coal linkage auction. This was secured at attractive prices compared to spot e-auction prices. This along with existing linkage for Renusagar Power Plant and the captive coal mines will provide adequate coal security and good visibility to power cost for Aluminum operation. This is a significant development considering the company's cost competitive Alumina value chain.

Slide #13 talks about Utkal's performance. The production at Utkal Alumina International, our 100% subsidiary increased by 11% year-on-year to 375 KT. It is now running at its designed capacity and has cemented its position as one of the lowest cost refineries in the world. The long distance conveyer is now fully operational and showed its effectiveness during the monsoon when the road conditions were bad. During the quarter, Utkal delivered an EBITDA of 170 crores.

I will now cover the performance of our Copper business in slide #15. During Q2 FY17, production of copper cathodes bounced back after the plant maintenance shutdown in quarter one. The plant delivered highest ever cathode production in quarter in Q2. CC rod production was 12% higher than previous year. This is in line with our focus on value addition. We have already invested in a new CC rod capacity that would take our CC rod annual capacity to 360 KT which is 90% of our total cathode production. DAP fertilizer production during the quarter was lower due to the depressed demand and pricing pressure.

I will now cover the operational performance of Novelis in brief. Many of you have already heard the Novelis Earnings Call earlier this week. Coming to slide #17, Novelis delivered yet another solid quarter with 14% rise in adjusted EBITDA excluding the metal price lag. The EBITDA for the quarter excluding MPL was $270 million. This was primarily on the back of higher auto shipment to volumes, lower startup related cost, productivity gains, and lower metal cost due to favorable metal mix. Novelis continued to deploy its strategic portfolio shift. All five automotive shipment finishing plants of Novelis have been commissioned and have started shipping products. When our new assets are fully utilized, auto will comprise nearly one-fourth of the overall portfolio. There are many positive developments that will drive auto shipments growth in the coming time. These include the new 2017 Ford Super Duty Series of Trucks in North America, increasing demand from Jaguar Land Rover's F Pace Sports Utility Vehicle. And in China, the increasing local demand from customers like Cherry, JLR, and FAW Volkswagen.

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

Praveen Maheshwari: Good afternoon, ladies and gentlemen. On slide #19, I will explain to you the financial results in detail. The net sales for the quarter at 9,562 crores were broadly stable as the impact of higher aluminum revenues was largely negated by decline in copper revenue. Year-on-year, aluminum revenues were higher by almost 10% on the back of very strong volume growth; however, 9% drop in copper revenues dragged the total revenue.

The average LME in US dollars for aluminum was mildly supportive, only up by about 2%, but it also had the impact of a weaker rupee. However, local market premiums were sharply lower, down 32% over last year. The copper revenues were lower on account of lower copper LME along with lower premium and lower co-product prices. Year-on-year, quarterly profit before interest tax depreciation and amortization at 1,493 crores was higher by almost 39% over the last year. This reflects a very robust operational performance notwithstanding the macroeconomic headwinds that we faced.

Depreciation stood at 352 crores against 299 crores during quarter 2 of FY16 due to progressive capitalization of the Greenfield projects while interest costs were lower at 594 crores versus 627 crores last year. Interest cost has now peaked out and going forward, softening of interest rates in the domestic Indian market augurs well for the company. I would also like to explain the two exceptional items which are covered in 85 crores amount on your presentation. This includes a gain on sale of ABML assets of Rs. 145 crores which I will cover later on in detail and it has a 60 crores negative impact of an additional amount which we had to provide due to a specific decision by the Supreme Court on district mineral funds.

Profit before tax for the quarter at 632 crores was sharply higher than that in the corresponding quarter of the previous year due to strong operational gains and additional exceptional income of 85 crores that we talked about. At the end, net profit for this quarter was 440 crores which was significantly better than the profits in last year same quarter.

Turning to the financial performance of aluminum segment on slide #20, you would notice that aluminum segment revenue increased 10% over the same quarter last year primarily on account of higher volumes. Earnings before interest, tax, depreciation and amortization at 808 crores were significantly higher over the last year. This jump was primarily on account of higher volumes, improvement in cost of production aided by marginally better realizations. You may kindly note that the financial performance does not include performance of Utkal. Sequentially, aluminum EBITDA was lower primarily owing to higher alumina transfer cost from Utkal Alumina International Limited, our 100% subsidiary. Alumina transfer pricings were higher as these are linked to Metal Bulletin Alumina Index which was higher on sequential basis; however, the benefit was captured in Utkal's EBITDA which was also given at the right hand corner of your slide. If you look at the Utkal EBITDA, it was higher by almost Rs75 crores on a previous quarter and if you add that number to Hindalco's EBITDA, our total EBITDA from alumina business is higher than the previous quarter as well and of course it is significantly higher than the last year.

On slide #21, looking at the financial performance of the copper segment. The segment recorded a dip in revenues on account of decline in copper realizations. You will recall that copper LME was 10% lower as compared to that in the corresponding quarter of previous year. Lower premium and lower co-product prices sulphuric acid and DAP also affected the performance. Despite sharp fall in realization, the EBITDA for the quarter at 366 crores was stable compared to last year. This was achieved through higher volumes, thrust on value addition and efficient gains after the maintenance shutdown. There was a sharp improvement in sequential performance in Q2 despite pricing headwinds.

I will now take you through the financial highlights of Novelis on slide #22. Sales at $2.4 billion were marginally lower on account of lower local market premium and marginally lower shipments; however, as in the case of copper, the revenues are not so important for this business as the metal price is primarily pass-through for this business. Adjusted EBITDA before MPL, that is metal price lag at $270 million was up 14% year-on-year reflecting a very solid operational performance. During the quarter, we successfully issued $2.6 million of new senior notes extending our maturity profile and generating $55 million in annual cash interest savings going forward. This was an outcome of improved credit profile of Novelis based on strong performance. This indeed was the noteworthy achievement as we managed to take advantage of the window of opportunity provided by the markets which we were able to capitalize upon. We not only refinanced 2017 notes, but also the notes which were due in 2020.

As a consequence, we reported a net loss of $89 million in this quarter as these results included a $112 million loss on extinguishment of debt related to refinancing of the two senior notes during this quarter. In addition to this, we also recorded a $27 million loss on sale of business related to 52% equity interest in the Aluminum Company of Malaysia known as ALCOM. This business based on Malaysia producers and sales products that are no longer in line with the Novelis long-term strategy. Excluding these, another small gain on assets held for sale in this quarter, net income was $60 million, well more than double, $25 million reported in the prior year. Having completed all major strategic CAPEX plans, we expect to contain the CAPEX to approximately $250 million annually in Novelis, most of it being maintenance spend.

We are confident that with continued strong EBITDA, efficient working capital management and interest cost savings, we will be able to achieve about $300-$350 million in free cash flows annually for this full financial year.

Let me now give you an update on Aditya Birla Minerals or ABML which is on slide 23. We completed the divestment of this company in July 2016 as we also reported in previous quarters. We accepted an open market offer of company Metal X Limited which is also listed company in Australia with major interest in gold mining and other areas. The offer consisted of one Metal X share for every four and half ABML share plus a small cash component of 8 Australian cents for every ABML shares and represented a 32% premium in total to the market value of ABML shares.

Subsequently, the shares of Metal X received have also been sold off. Thus the net realization from the above transactions has been around 367 crores for Hindalco registering a book gain of Rs 145 crores based on a book cost of 222 crores of investment.

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

Satish Pai: Thanks, Praveen. So before summarizing our performance, let me give a perspective on Indian aluminium and copper industry demand drivers. We expect the domestic demand will continue to grow. Strong demand from the power sector, transportation, housing and packaging sectors and some of the government initiatives can give a big fillip to the aluminium growth in India. We have enumerated some of the initiatives that can go a long way in the development of the industry in this slide. Solar power, electrical vehicles, aerospace, defence, railways, metros and smart city projects are some of the sunrise industry that can offer significant long-term growth opportunities for the domestic aluminium industry.

In summary, we are progressing in the right direction. Following the culmination of our large and ambitious investment programs, we believe that our operational performance will improve further next year. As the capitalization of new factories is largely completed, interest and depreciation have almost peaked now, hence much of the future operational improvement should flow through the bottom line. Also softer interest rate should support us going forward. As you would have seen, we have had a credible performance in H1, this came on the back of aluminium volume gains as well as lower input cost. However, cheaper import of aluminium and copper and the cess on coal are hurting us and the firming up of oil prices may impact inputs based on crude derivatives.

The coal linkage tie-up was a significant step towards visibility on security and cost of coal. Utkal today is a world class asset and our captive alumina bagged by captive bauxite is proving to be a great strength. We believe that operational improvements that have underpinned the better performance will be sustained in the coming quarters. The copper business has ramped up nicely and I expect it to contribute substantially to our bottom line.

At Novelis, we expect to continue to have the momentum as our focus on premium portfolio is delivering well. On the whole, our focus will be on maintaining operational excellence, enhanced value addition and conservation of cash. With that, we are reasonably confident of weathering the effect of macroeconomic headwinds. At the same time, as the volatile macroeconomic conditions will continue, we will focus on 3Cs, customer centricity, cost control and cash conservation.

Thank you very much for your attention and we will now open it up for Q&A.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: My question is regarding imports. So what are the measures which have been proposed by the government and when do we expect measures to the exports given affecting the realizations?

Satish Pai: The different measures that we as part of the aluminium association had been discussing include MIP, which is the minimum input price, safeguard, antidumping and as well the increase of customs duty. So I think significant progress is being made especially on the MIP front along with the downstream industry, Data has been provided to MECON and reports have been prepared. So I am quite hopeful that something will happen in the next few months. Before the next budget presentation, I am hopeful that some of these measures the government will actually take action of. So, we are quite hopeful at this stage that some of these initiatives will take come to position.

Anshuman Atri: And the second question is regarding projects, if I could see the environmental clearances, Hindalco has got clearances for second phase of Aditya, second phase of Utkal and also some expansion at Hirakud, so all these projects, can we expect in the next 3 to 4 years' time to fructify?

Satish Pai: I think that even in the last call, I said and I would like to reiterate now that our short-term focus is on deleveraging. We want to improve our debt to EBITDA and we remain very focused on that. I think that once our economic strength increases, then very rightfully as you point out we have got in place quite a few places where we can do a number of expansion, but in the short-term in the next couple of years, I would just like to reiterate that our focus is on deleveraging.

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

Jigar Mistry: The first question is to Mr. Pai, you just mentioned about the debt deleveraging, now I have seen that the board of directors have taken an enabling resolution for an equity/equity linked instrument that coupled with the free cash flow generation should in my estimate bring down net debt to EBITDA at a much comfortable level and net debt to EBITDA at below 4 times. So is that good enough and we start looking at an expansionary mode in 2018 or is there a number in mind below which we will be more comfortable?

Satish Pai: So I think that the debt EBITDA is a journey. As you said that next year we would like to get to a number with 4 and then probably the year after number with the 3, but let me also focus and I will repeat again what I said last time, the next expansionary stage is on downstream and value added segment which will be far less capital intensive. So even when we get to that expansionary thing, we will be focusing on value addition on the downstream side and this we think we can do keeping in minds our CAPEX guidance of around 1000 crores a year for the next few years. So we are going to keep within our boundaries that we have given and we will be focusing on downstream which is less capital intensive.

Jigar Mistry: And second question is with regards to aluminium, now on a sequential basis, which is 2Q versus 1Q, the production grew by about 4% and the pricing on LME was up about 3%, but I see the aluminium revenues up about 16%. So is this sort of the play out of the aluminium shots we are carrying at the start of the year or this is something which you think is little more ongoing with the improved product mix etc.?

Satish Pai: I think that you are talking about sequential or on Q2 to Q2?

Jigar Mistry: No, 2Q versus 1Q, sequential basis.

Satish Pai: So on a sequential basis, I think that the total metal sales if you look at it on a sequential basis, in Q1 we sold 291 KT of metal whereas in Q2, we sold 320 KT of metal, so nearly 10% more. So as Praveen actually said, I think large part of the game is really coming from volumes. The value-added size between Q1 and Q2, there was not a big increase.

Jigar Mistry: I think I was comparing it with production, but as you mentioned it is the sales which is much different. Thank you.

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

Ritesh Shah: Sir, my first question is regarding the board approval that we have recently taken for 5,000 crores. Sir what are your thoughts on this?

Satish Pai: Well, it is an enabling resolution. At this stage, our limited strategy is to get all board and regulatory things sorted out. So that when the time and opportunity presents itself, then we can take advantage of it. So we are just going through getting the necessary approvals and shareholder approvals and all that in place. So it is rather broad, if you look at it the resolution, it is rather broad enabling Omnibus resolution that we have taken. So I think that is what all that I can say at this point.

Ritesh Shah: Sir my second question is on the aluminium volumes, what percentage of our volumes are domestic sales and exports?

Satish Pai: So look in Q2, we actually exported more than what we sold domestically because Q2 normaly with the monsoon tends to be a bit slower market in the domestic side and actually you see that both in the copper as well as aluminium, so in both cases, we actually exported more than 50% of aluminium and we sold domestically a little bit less than 50%. So that was the split in Q2.

Ritesh Shah: Sir how much would that be in the prior quarter?

Satish Pai: Prior quarter was more like 50-50 whereas in Q1, we exported a bit more.

Ritesh Shah: Sir my second question is how much is the absolute premium when we sell domestically and for exports, I am trying to understand the profitability on exports versus domestic sales factoring the premiums and freight?

Satish Pai: Well, I just make it easy for you, the exports are roughly Rs. 3 – Rs. 3.5 less than domestic realizations.

Ritesh Shah: And sir this is at EBITDA level you are saying?

Satish Pai: No, I am talking about at the realization level.

Ritesh Shah: Correct. So how much would it imply at EBITDA levels given exports will attract freight charges as well.

Satish Pai: No, I do not think we shall discuss to these levels.. I think we look at aluminium EBITDA on a total basis because cost, I cannot just split it out between what I am exporting and so the mix sometimes like in quarter one, the export realization can be quite good when the premiums are high because most of our exports which is another important point, 80% of it is long-term contracts where it is tied to NJP. So sometimes we get a good benefit from that exports as well. So our mix is roughly on that 50-50. We would like I think in Q3 and Q4 to be more towards the domestic side because the Indian market picks up once Diwali is over. So the Q3-Q4 should be more in the domestic than on the export.

Ritesh Shah: Sir just to clarify, you indicated in the prior question around 1000 crores of CAPEX every year domestically, is that correct?

Satish Pai: Hindalco CAPEX that is Hindalco plus Utkal (India) will be around 1000 crores.

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

Pinakin Parekh: My first question is that if we look at the aluminum production, it is 1.3 million tonnnes annualized and alumina at Utkal is 1.5 million tonnes and you did mention that all of the capacities are operating at repeat utilization. So going forward from here, a) can we see any further production increase by stretching the utilization levels or setting these assets and if so how much or is this peak production that we are at?

Satish Pai: So look, I think that let us take alumina, we think with a little bit of debottlenecking and quite small investments we can stretch to 1.5 to 2 Mn tonnes. The second thing is on the metal side, there is less chance to do any expansion on a primary metal basis, but I wanted to remind you that our downstream capacity still has some way to go because the Hirakud FRP is still running at about 60% of its rated capacity as we slowly ramp up. So on the downstream side, you should see the volumes still having some room to grow. The expansion that we can see in the short term is very upstream on the alumina front and then very downstream on the FRP and on the foil side, not on the primary metal.

Pinakin Parekh: Sure sir. Just to clarify on aluminum, this is more or less peak production and alumina, when can we see that 1.5 to 2 Mn T is it going to happen in fiscal 17 or is it now like fiscal 18?

Satish Pai: I think we will start to look at it with the engineering in 18 and it will only happen in 19.

Pinakin Parekh: And secondly on the interest cost sensitivity, so Hindalco's annualized interest cost is roughly Rs. 24 billion in standalone level and the bond rates are falling and could fall further. So can we just have a sensitivity understanding of how much lower can Hindalco's interest cost go over the next 12-18 months depending on 100-200 basis point decline in system interest rate?

Praveen Maheshwari: So you have to understand, so 23-24 billion is only Hindalco standalone, Pinakin. Then we have Utkal which is outside which is another 4,700 crores loan that is sitting there. All the project loans are the ones which are linked to SBI base rate. There is a bond of 6,000 crores which carry the fixed coupon, so that fixed coupon bond will not have any change in the interest rate because that is the fixed coupon rate. But the project loans will benefit if SBI decides to lower its base rate depending upon the market conditions. Today the base rate is 930 basis points; if it goes down, yes, we are going to benefit.

Pinakin Parekh: And how much are the project loan sir?

Satish Pai: Project loans are roughly about 17,000 crores in Hindalco and , some 4,750 crores in Utkal.

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

Amit Dixit: I have two questions. One is that what would be the cost of production at Hirakud and cost of production at Aditya and Mahan? And the second question is that what are the hedging gains if any recorded in this quarter?

Satish Pai: So to answer your first question, I think we always state that the average of Hindalco is in the first quarter. So obviously, Aditya and Mahan, the two new ones are very much in the first decile, whereas Hirakud is sort of at the early part of the second quartile. So overall the average for Hindalco comes in at the first quartile. But the second point I always like to remind people when they ask about Hirakud or Renukoot cost of production is that the two are tightly integrated with downstream plants. So there is a hot metal advantage. We do not generally sell metal from Hirakud, it goes straight to our rolling plant as hot metal. The second question was?

Amit Dixit: On the hedging gains, sir.

Satish Pai: I think hedging gain, we do not really break this out,because for us our hedging is normally a defensive mechanism. The only thing I can tell you is that, that the current rates of LME as they keep going up and as I have always said what, if you do not see it in hedging, you will see it in the topline. So I think more and more now you are going to see it in the topline.

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

Ravi Shankar: Two questions. One is if you could throw some color on the e-auction prices, I believe almost 50%-60% of the requirement would be from that route and are we seeing any coal imports now, now that the prices globally have risen and secondly is the question on the management comment on demand picking up post Diwali, do you see the recent demonetization move to act as a spanner in the works?

Satish Pai: So look on the coal side, we have got about 4.7 million tonnes of coal at notified price or above, e-auction prices continued to be low, so that is I think from a linkage point of view between that and the existing Krishnashilla linkage that we have, roughly 60%-65% of our coal is sort of more or less clear for us which is a big relief. The only thing that coal we import is a little bit for Dahej which is on the port and little quantity for Utkal, a little bit we will import, but generally we have dramatically got out of importing coal and as you rightly pointed out, international coal prices have crossed $100 a tonne now and thank god we have our own captive mines which ahead once set its import parity, but I am happy to tell you now it is much less than import parity because imported prices of coal have gone up so much. So I think we are quite comfortable on the coal side there. The effect of this demonetization on our business is too early to tell at this stage because aluminum and copper, we tend to play with big players, so I do not think that there should be a big impact, but I am very interested to see the impact on the scrap based players. Large part of the imports in India is scrap coming in which is used by recyclers and I would be very interested to see what impact it has on their business.

Ravi Shankar: You think that market could get adversely impacted to the advantage of Hindalco?

Satish Pai: I think at this stage I see positives because I think that they would probably be more impacted by the demonetization, but let us watch.

Ravi Shankar: Right. So just one clarification on the first question, so if you have to quickly split the total coal requirement into the 3 buckets; e-auction, captive and linkage, we would have e-auction basket at around 50%-60%?

Satish Pai: No, I think now the linkage bucket has gone to about 60% and I would say that the next big part, about 35% will be e-auction and the remaining 5%, we will probably bring from imported as the hedge as well as little bit of Utkal.

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

Jigar Mistry: This one is for Mr. Maheshwari. Sir, this is the first time the company has put out in Ind-AS balance sheet and I see the net debt has fallen almost 2000 crores from March. It could also mean that some assets should have been revalued or the liabilities restated. So, can you through some light on how much was the debt actually paid down in the last 6 months?

Praveen Maheshwari: No, Ind-AS has nothing to do with liability first of all. Yes, the major impact of the Ind-AS is only on the value of investments because then Ind-AS certain investments need to be valued at the fair value. On the liability side, there is no impact on that. We have paid down about 800 odd crores in the last 6 months and you may have seen one note that it is actually prepaid 689 crores….

Jigar Mistry: That was for this quarter?

Praveen Maheshwari: That was prepaid. So we have distinguished between the scheduled payments, which would have been about couple of 100 crores in this 6months and on top of that, we have paid about 689 crores, which is a prepayment which is not due. So the whole idea as Mr. Pai said in the beginning that we want to de-leverage and we want to bring down the gross debt and this helps in that direction, I mean our results have been fairly good in the last 3 sequential quarters and this also reflects in higher treasury and therefore we have used a part of it to prepay some of the debt. We may know that further, if we see a similar kind of progress going forward, in our project loans, we have negotiated in a way when we refinanced that there is no penalty on prepayments. We can always prepay and we can adjust it against the immediately, in the installments due rather than the back-ended installments. So, we have actually paid on one particular project, the loan which was due till March 2020. So that is the story on the prepayment and the total debt going down. You may have seen the short term debt also going down, that is the movement that happens based on the working capital movements, especially in our copper business, you may see some movement on the short term borrowings depending upon the working capital requirements.

Jigar Mistry: To get the number right say it was 800 crores in the first half.

Praveen Maheshwari: 866 crores or is what we have prepaid in the out of the long-term loans.

Jigar Mistry: And sir, secondly on other income, I know we have to book it now on actual basis. So is that like a full year number which one can work with?

Praveen Maheshwari: No, so now as you are aware under Ind-AS, there is no need to book an income by selling any investment. It is just a fair value measurements on every month, every quarter, you have to do MTM and based on the value of your treasury investment, the gain will be recorded. In this quarter, what has happened as you may have noticed that the interest rates in the Indian environment has softened, this softening has been happening for some time but this quarter has seen a sharp decline in the G-sec, in the AAA 5 year, in the bank CD market etc., all rates have declined. When the rates declined, the yields declined the bond values go up and that gets recorded as an MTM gain on the investments we hold. We hold about 7,000 to 8,000 crores of treasury. Some part of that is put into the dynamic and the income kind of schemes, mutual funds where this kind of a gain arises. So this quarter has been particularly good from that point of view as well.

Jigar Mistry: Got it and if the interest rates continue to soften, we will continue to see this kind of recurring gains?

Praveen Maheshwari: It depends on 2 things, one the interest rates and second the way our investments are structured. We take a view on our investments quite frequently and shuffle them around based on our view going forward, but you are right, today it appears that the rates are likely to be soft in the Indian environment.

Moderator: Thank you. The next question is from the line of Anuj Singla from Deutsche Bank. Please go ahead.

Anuj Singla: Sir, just one question from my side. Over the last one month and half years, we have seen a significant decline in the cost of production supported by the ramping up of operations as well as general cost deflation in the energy market. Now, like Mr. Pai mentioned, the oil prices have started to rewind, oil derivatives will probably move up from here. So, I think going forward I see an inflationary kind of outlook on the energy prices. So, what kind of levers do we have from here given that all the capacities are already fully ramped up. So will it be fair to assume that there is further scope for cost reduction from here or this is the steady state cost which should be taking into over the next one year or so?

Satish Pai: So, I think the similar question I answered last quarter as well. I think we have still got a couple of things that I think we can do to get our cost down. I mentioned that logistics was a big one. I mean we roughly spend around 14%-15% of our cost of production on an average on logistics and that we are continuously now trying to bring it down. This quarter as well we made further improvement. So, I think logistics is certainly going to be one. The second is as GST comes in, we will now start to rationalize our ware houses and ways we serve our client. I think this also is certainly going to give us some more cost benefits and then when I get from a pure operational point of view, I still think that there is still more to be squeezed out from efficiency gains, standard operating procedures, synergies by combining procurement, so quite a lot of things that under this 3C initiative which I talked about, we are focusing on to get squeeze out some more cost. So, I personally believe that there is still more space to squeeze out cost efficiencies.

Anuj Singla: Logistics part in particular, like you said it is 14% to 15% of the total basket, so what is the sustainable level which you are looking to achieve, what is the target there?

Satish Pai: We have taken a target to get to sort of the world benchmark of around 8% to 9%.

Anuj Singla: That is almost 40-45 reduction?

Satish Pai: I think it is pretty well known that logistic costs in India are one of the biggest things that Indian industry faces. So, I think that as the government puts more rail lines, highways get bettered, GSTs come in, so I am not saying that I am going to get to the 8%-9% in the next two quarters but I think that is certainly a target that we are aiming for and I would be happy if every year I can get towards that goal a bit more here.

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

Sumangal Nevatia: Just on captive coal production, if you could just share what is the current ramp up level of captive mines and how do we see it going to capacity in FY18?

Satish Pai: So, the good news is that we are at the rated capacity, so we already producing in the last quarter about 100,000 tonnes per mine. So, the rated capacities of the two mines are one million each, so our first goal is to by March of 2017, reach the years rated capacity of a million tonne, so that our performance back guarantees that we have, they will get released by the government. So, that is an important step for us. The second thing now which I said is during this monsoon this captive coal mine security has given us a good lesson because in the NCL area, most of the mines got flooded and we actually had to go in the market looking for short term coal. So, once even Kathautia and Dumri have started, then I think that in both the clusters even though it is slightly higher cost than the e-auction prices, our captive coal mines will give us the security and as I had mentioned before, these mines are of high GCV coal. So, really I think what we are managed to do is to get away from the fluctuation of imported coal price variation and at the same time gets security because these mines are close to our plants. That is the way we are both Gare Palma IV/4, IV/5 are now fully ramped up. Kathautia, I am expecting will start somewhere in Q4 of this year and Dumri should start by end of next year.

Sumangal Nevatia: What are the pending approvals for Dumri and Kathautia?

Satish Pai: Dumri now, we got most of the approvals, I think we just have to finish the compensatory afforestation land and then there is a bit of a land acquisition to do, so it is not that big approvals pending, it is just a routine regulatory and statutory issues that we are working on.

Sumangal Nevatia: Sir second you said e-auction prices are still weak despite the rally in international prices, so any specific reason for that, and how do you see it going ahead?

Satish Pai: Well, I everyday pray that coal India prices will stay at where they are. It is true that it is supply and demand, supply has been fairly adequate, so that has kept domestic prices a bit under check but we are quite worried, we are looking at the trend of international coal prices. I think it is a bit overdone and volatile right now for it to go to those levels but certainly we are hoping that Coal India, the coal ministry will keep coal prices in check because Indian energy prices at the Indian industry and the Indian consumer certainly cannot take any more inflation in energy prices.

Sumangal Nevatia: Just one question, if I may, sir we still have close to 5,000 crores of investments at current market value in other sister companies, so since our focus is on deleveraging, are we evaluating to monetize some of those investments?

Praveen Maheshwari: Evaluation is a continuous process, at the right opportunity we will look at that.

Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: I have a question on the Copper business, I thought contract TCRCs will lower by about 10% as compared to the last year, but is that reflecting in our copper profits as well or we are still because of the mix we are not impacted by that?

Satish Pai: The TCRC as you rightly said was lower during the year as compared to the previous year and basically yes, the TCRCs have been flat at around 26 cents per Pound. It has not been very different, So, I do not think that is 10% down.

Pallav Agarwal: And sir, what would be our mix in terms of frame contracts and spot contracts for copper?

Satish Pai: The long term versus spot during the year is about 90:10, about 90% is long term and 10% spot.

Pallav Agarwal: So sir, like ABML mines and all, we have probably not been receiving any concentrate from there, so like you know we would have shifted to alternate copper sourcing arrangements, that overall is really not impacted in your profitability segment, would that be a correct assessment?

Satish Pai: Generally, we have 90% long term, so the shifting will happen only when the opportunity comes, as of now whatever consulted we are having from Chili, to that extent will get that benefit. Now, I guess your point is will the ABML divestment having any impact on our copper concentrate supply, the answer is, no. Now, we have the long-term contract and we are continuously getting from Nifty whatever we were getting earlier.

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

Ritesh Shah: Sir, just wanted to check on the CT/CP prices and how is that price, is it on a contract quarterly basis or is it semi-annual basis, so on the power side you are quite comfortably placed, I just wanted to understand the other side of the equation?

Satish Pai: You are talking about CP coke and pitch?

Ritesh Shah: Yes sir.

Satish Pai: CP coke and pitch mostly we do, they are not longer term, it is a mix of import as well as domestic and actually CP coke believe it or not, the prices have been fairly favorable and continued to be favorable. The only ones I worry about from a crude derivative point of view is the furnace oil.

Ritesh Shah: So, these prices are more or less flattish on a sequential basis, so is this the trend that we are looking at incrementally as well?

Satish Pai: I mean, for this coming quarter as well, I am expecting this same level to continue.

Ritesh Shah: Sir, second question is you indicated linkage e-auction and imported 60%, 35%, 5% broad mix. So would it be possible if you could please quantify what is the differential on rupees per Kcal basis, broad ballpark numbers would also help?

Satish Pai: You can just look because we got it from 15 mines. So, they are mostly at notified price or a small premium above notified price. The e- auction tends to be 10% to 15% above notified price. So, I guess that is as far as I can quantify for you**.**

Moderator: Thank you. The next question is from the line of William James from UBS Financial Services. Please go ahead.

William James: Just a followup on since you said, what is your sense on the contracts that are going to be set into 2017 because our process is happening around now. My understanding from LME week was the tone was quite mixed and showed some uncertainty. How would you view that process please?

Satish Pai: I think that the tone is that we are expecting it to remain either at this year's level or people are talking about the three digit number, but you will get to know because those negotiations are on-going right now, when I think in other week or two weeks, they will be publishing what TCRC, I think benchmark is done. We are not expecting it to be significantly different from this year. I continue hopeful that it may be slightly higher.

Moderator: Thank you. The next question is from the line of Vikas Singh from B&K Securities. Please go ahead.

Vikas Singh: Sir, copper byproducts, which directly contribute to EBITDA, I have heard that the acid prices are not doing well and all that, so could you throw some light on by-product realizations during this quarter?

Satish Pai: Basically during this quarter, sulphuric acid prices were lower compared to the previous quarter and DAP prices also had been under pressure and changing based on whatever directions the government give because they are the controlled fertilizer. So, the prices are likely to remain at this level even in the coming quarter.

Vikas Singh: Sir, given the coal prices have risen so sharply, do not you think that this would be a blessing in disguise for us because that can drive the aluminium prices higher going forward and since we are largely insulated?

Satish Pai: You are absolutely right. Actually, if we look at SHFE and the Chinese, both copper and aluminium prices they are at all time high because there is a cost inflation in China for many reasons. One of them being higher coal prices, the second being higher logistics cost because they are having some logistics bottleneck and third alumina prices have also gone up quite a lot, I mean from about 220, currently they are running at $305 per tonnes. So, all these three are actually putting a little bit of support to LME prices, you are absolutely right.

Vikas Singh: So, would we expect the prices to increase a little bit from these levels or what is your view on that?

Satish Pai: As I said again, the upside can always be kept because China has got huge amount of capacity that is sitting idle. So, if LME prices go too high, there is always a danger that their shutdown capacity or new capacity will be brought on line. So, that is why our view is that LME will be a little bit range bound. If it goes too high, market forces will ensure that they will bring more production on line.

Vikas Singh: And sir just one last question, what was the copper sales during the quarter?

Satish Pai: Copper sales during the quarter were about 102 KT.

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

Sagar Dhamorikar: Yes, so thank you all for attending this conference call on a Saturday evening. So, should you have any more questions or any clarifications, you can always come back to me. Thanks again.

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