“Hindalco Industries Limited Q4 FY18 Earnings Conference Call”

May 16, 2018

MANAGEMENT: **MR. SATISH PAI – MANAGING DIRECTOR, HINDALCO INDUSTRIES LIMITED**
MR. PRAVEEN MAHESHWARI – CHIEF FINANCIAL OFFICER, HINDALCO INDUSTRIES LIMITED
MR. J. C. LADDHA – HEAD OF COPPER BUSINESS, HINDALCO INDUSTRIES LIMITED
MR. SUBIR SEN – INVESTOR RELATIONS, HINDALCO INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Hindalco Industries Limited Q4 FY '18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subir Sen from the Investor Relations team of Hindalco. Thank you and over to you, sir.

Subir Sen: Thank you, and good evening and a very good day to everyone. On behalf of Hindalco Industries, I welcome you all to the earnings call for the fourth quarter and the full year 2018. On this call, we will be referring to the investor presentation, which is already uploaded in our Company's website. Some of the information on the call may be forward-looking in nature and will be covered by the safe harbor language on Slide #2 of the presentation. I would like to inform you that the financials include the relevant numbers of Utkal Alumina International Ltd., that is Utkal, from its audited accounts to prepare a comprehensive view of the business. For this purpose, standard principles of consolidation have been applied by the elimination of intercompany transactions and unrealized profit or loss in the inventory. For comparison, previous year's numbers have also been presented in a similar manner. The audited Hindalco's standalone and consolidated results in the SEBI format have been provided in our company website and summary is included in the appendix section of our presentation.

On today's call, we have with us Mr. Satish Pai – our Managing Director along with Mr. Praveen Maheshwari – our Chief Financial Officer and Mr. J. C. Laddha – Head of Copper Business. Now, let me hand over this call to Mr. Pai for his opening remarks. Thank you and over to you, sir.

Satish Pai: Thank you, Subir. Good Evening or Good Morning, everyone. Welcome to earnings call for the fourth quarter and FY2018 for Hindalco Industries Limited. And as stated, we have made some changes in the presentation of our numbers for your better understanding.

Let us move on to slide 3. So I will start by giving you the Key Consolidated Highlights of the company performance in the Financial Year 2018 including business updates. This will be followed by an update on macroeconomic and industrial environment and highlights of the results. Later, I will cover the operating performance for all our segments in more detail and Praveen will elaborate on the financial performance.

Let me start with the Key Highlights, starting with slide #5:

It was a record breaking performance for Hindalco this year. On the consolidated performance, profit after tax of the company has trebled to 6,083 crores, up by 220% over FY17. The PBT before exceptional item has almost doubled to 6,508 crores, up by 94% versus FY17. The company has delivered a highest ever EBITDA of 15,025 crores in FY18, up 11% versus FY17. This was driven by stable operations, better realization and supporting macros. Both our Indian businesses that have achieved highest ever production numbers as well as Novelis, our overseas subsidiary has reported highest shipments of 3.2 million tonnes in FY18.

Similarly, our Indian operations has reported a record EBITDA of 7,154 crores in FY18 versus 6,441 crores, up by 11% compared to FY17 on the back of stable operations and supporting macros. This is despite significant increases in the cost of major inputs like caustic soda and carbon products. PBT and PAT were up by 56% and 36% respectively compared to FY17 demonstrating a strong financial performance. In FY18, we prepaid 7,966 crores of our long-term project loans in India. As a result, the net debt to EBITDA on the consol basis stands at 2.82 times at the end of FY17 versus 3.74 times at the end of FY17.

Slide #6, the company achieved record aluminium and alumina production at 1.29 million tonnes and 2.88 million tonnes respectively. All our plants operated at its design capacities with stable efficiencies. In FY18, our aluminium EBITDA was at 4,790 crores, up 17% versus FY17 with an EBITDA margin of 22.7% which was the highest in last 6 years. This is despite the fact that the business faced strong headwinds due to over supplied domestic markets and surge in input costs particularly in Carbon products and Caustic Soda.

The Copper business also reported very good financial results with an EBITDA of 1,539 crores in FY18, higher by 6% over FY17 due to higher volumes and better realization in value-added products. Cathode production was highest ever at 410 KT in FY18 which was 9% higher than FY17. The copper rod production stood at 156 KT in FY18, higher by 4% as compared to FY17. I am also happy to announce that the new Continuous Cast Rod Plant was commissioned towards the end of FY18.

Coming to Novelis performance:

I hope you must have already gone through their full financial results declared on 8th of May. I will just share with you the key highlights of its performance. Novelis has reported a record performance in FY18 with a PAT of US$ 635 million versus US$ 45 million last year and an all-time high adjusted EBITDA of US $1.215 billion, up 12% over FY17. Novelis also reported record free cash flow of US$ 406 million in FY18. Overall, product shipments increased by 4% in FY18 to 3.2 million tonnes. Its continuous focus on automotive has helped achieve 11% growth in auto shipments in FY18 versus FY17 with the share of auto shipments increasing from 18% in FY17 to 20% in FY18.

Novelis sold approximately 50% of its ownership in its Ulsan facility in South Korea to Kobe Steel for US$ 314 million which helped to unlock value and solidify its market leading position in automotive aluminium sheet. Inputs from recycle material increased to 57% from 55% in FY17

Let us now look at the broader economic environment in Slide #8. The global economy grew by 3.8% in CY2017, the fastest since 2011. According to IMF, supportive financial conditions are expected to drive global growth to 3.9% in both CY2018 and CY2019. In Q4 CY17, US GDP increased by 2.9% driven by consumer spending which accelerated at its fastest space in 3 years. According to advanced estimates released by the Bureau of Economic Analysis, US GDP increased by 2.3% in Q1 CY18.

China's GDP expanded 6.8% in Q1 CY18 on account of strong consumer demand, healthy exports and robust property investment. However, a surge in crude oil prices and geopolitical tensions and the emergence of a wave of protectionism may impact global growth momentum. On the domestic front, the overall economic growth picked pace in the second half of FY18. This is evident from the GDP growth numbers. In Q3 FY18, it registered a growth of 7.2% versus 6.5% in Q2 FY18 and 6.8 in Q3 FY17. The manufacturing PMI improved for the 9th consecutive month in April 18. According to RBI, GDP growth is projected to strengthen from 6.6% in FY18 to 7.4% in FY19. IMD has forecasted normal monsoon in this year.

Now I move onto the aluminium industry overview in the next Slide:

Since the beginning of CY18, LME price of aluminium has been very volatile. It all started with an apprehension of lower than anticipated capacity cuts in China under the environmental reforms were followed by disruptions at the Alunorte refinery in Brazil then came the imposition of 10% tariff by US on aluminium imports in order to revive the domestic aluminium industry. However, the US has temporarily exempted some of its trading partners like Canada, Mexico, South Korea, European Union, Australia and Argentina. As a result, some of the major producers of the US has announced restarts of their smelters. In retaliation to US tariffs, China imposed 25% duty on scrap imports from the US. Premiums in all the major markets witnessed an increase due to the foresaid events and also due to robust demand.

US and Europe are expected to generate robust demand majorly driven by transport and construction sectors. In China, construction sector witnessed moderation in Q1 CY18 and is expected to recover from Q2 CY18. China is focusing on increasing the intensity of aluminium usage in electric vehicles which will generate additional demand for aluminium in China.

The next slide talks about the domestic industry outlook on aluminium:

In Q4FY18, LME recorded an increase of 21% year-on-year. For domestic player, the appreciation of the rupee against the US dollar by 4% to Rs. 64.5 a dollar, partially offset the impact of the elevated LME in Q4 FY18. MJP premiums continue to increase for the third consecutive quarters to US $108 per metric tonnes from US $94.4 per metric tonne in Q3 FY18. The average premium for FY18 touched US $111 per metric tonne registering a growth of 18% year-on-year. Domestic demand increased significantly in FY18 by 9% on year as compared to a growth of 1.5% in FY17. The demand growth came in the second half of FY18 after subdued first half. Imports are catering to more than 50% of the market which is a major concern for domestic producers especially after the imposition of tariffs by US because producers from China and Middle East are likely to divert their additional metal to the Indian market.

I will now move on to Slide #11 on the Copper industry overview. The growth in the global refined copper consumption is expected to grow around 2.5 to 3.1% year-on-year to 23 million tonnes in CY18 whereas copper mine production is expected to go to 1.4% to 17 million tonnes in CY18. As we all know, the annual benchmark TC/RC for CY18 is set at 11% lower as compared to the previous year. It is expected that due to the lack of availability of concentrate in the global market coupled with the continuous increase in the Chinese smelting capacity, spot TC/RCs will continue to be under pressures throughout the year. Fear of disruptions which may arise during labor negotiations in the mines may put additional pressure on spot TC/RC. LME price of copper also witnessed volatility in Q4 FY18 due to trade protection measures implemented by the US. However, copper LME registered a growth of 19% year-on-year in Q4 FY18 and 22% year-on-year basis .

Domestic demand for primary copper registered a degrowth for the second consecutive year to 2.5% in FY18 in addition to a degrowth of 3% in FY17 on account of subdued demand in the power segment. However in Q4 FY18, demand recovery was witnessed and recorded a growth of 4% year-on-year.

Now let me give you some thoughts on the market dynamics for Novelis in Slide #12:

With respect to the markets in which Novelis is operating, the demand for aluminium flat-rolled products mainly beverage cans, auto and specialty remained strong. It remained high for beverage cans as the market for beverage cans has grown at a CAGR of 4% between 2010 to 2017 and this market is expected to grow at the same pace in the coming years where Novelis has approximately 34% market share. On the automotive side, aluminium-intensive vehicles continue to be a core part of the market with increased adoption of aluminium globally. The use of aluminium in auto market has also grown at a CAGR of 76% between 2010 to 2017. Novelis market share in this is around 45%. Novelis has approximately 5% market share in the specialty business and that has grown at a CAGR of 5% between 2010 and 2017.

Now let me come to the operating performance of the businesses for the quarter and the full year on Slide #15. To start with the aluminium operations

Aluminium units continue to operate close to their designed capacities. Alumina production was 710 KT for Q4 FY18 and 2.88 million tonnes for FY18 reflecting consistent manufacturing performance by all the plants. Aluminium production was at 320 KT for Q4 FY18 and 1.29 million tonnes for the full year FY18 reflecting stable performance. On the value-added side, production was maintained during the quarter and FY18 despite challenges with respect to continuous increase in Chinese imports.

Moving onto the operating performance of our copper business in Slide #17:

In FY18, production of cathode was 410 KT in FY18 and this was the highest ever production achieved by the copper plant. Copper rod production stood at 41 KT in Q4 FY18 and 156 KT for FY18.. I am happy to announce that our new Continuous Cast Rod Plant project was commissioned and is under ramp up. DAP production was lower due to operational issues at 30 KT in the quarter and 205 KT in FY18. The operational issues are now resolved.

I will now cover the operational performance of Novelis in brief. Coming to Slide #19:

Total FRP shipments was record high at 805 KT in Q4 FY18 and 3.2 million tonnes in FY18. This was supported by increase in automotive shipments at 20%. Significant cost reduction through improvement in productivity, asset utilization, increased recycling, increased customer satisfaction and better metal mix helped Novelis to drive the strong results. It continues to invest in automotive finishing capacity. The recent announcement of adding approximately 200 KT capacity of auto finishing line in Guthrie, Kentucky, US is a major step in this direction helping to maintain its global market leadership position.

With that, I will now hand over the call to Praveen for a more detailed review of our financial performance.

Praveen Maheshwari: Thanks, Satish. I am on Slide #21, this slide gives the brief snapshot of the key numbers for our financial performance during quarter 4 and FY18 full year for Hindalco standalone plus Utkal. As we mentioned earlier, this presentation has been modified to include the financials of Utkal to present a comprehensive picture.

Revenues in FY18 stand at 43,451 crores versus 39,724 crores in FY17 supported by higher aluminium and copper volumes and better realizations. EBITDA at 7,154 crores in FY18 was up by 11% on account of better output and realizations. Profit before tax and before exceptional items jumped to 3,023 crores in FY18 showing a significant increase by 58% compared to FY17 due to strong overall business performance and savings in the interest outgo.

As compared to the previous year, the interest expense was lower by 21% due to prepayment and repricing of long-term loans in India. Profit after tax was at 1934 crores in FY18, up by 36%

versus FY17. This was after absorbing the negative impact of net exceptional expenses to the tune of 313 crores in FY18 versus an 85 crore gain in FY17, so there is a swing of almost 400 crores between the two years. Net profit for Q4 FY18 stands at 616 crores which is up by 13% year-on-year.

Now I will move on to segment wise performance:

On Slide #22, we have given the performance of our Indian aluminium business which includes the financials of Utkal as well. Revenue for aluminium segment for FY18 was 21,089 crores versus 20,327 crores in FY17. Higher metal realization, volumes and stable operations resulted in higher EBITDA for this segment despite significant increase in carbon products and caustic soda prices. EBITDA for aluminium business was Rs. 4,790 crores in FY18, up 17% over FY17. If you wish to know the separate Hindalco standalone results, they are available in the appendix to this presentation.

Coming to the financial performance of Copper business on Slide #23:

Higher Rupee-LME and volumes boosted copper revenue to 22,371 crores in FY18 versus 19,408 crores in FY17. EBITDA for FY18 was Rs. 1,539 crores, up 6% compared to FY17 due to higher volumes and better byproduct realizations.

I will now take you through the financial highlights of Novelis on Slide #24:

Net sales of Novelis increased 17% to US $3.1 billion in Q4 FY18 and up by 20% at US $11.5 billion in FY18 over the previous year. This was mainly driven by higher total shipments and higher average aluminium prices. Adjusted EBITDA for Q4 FY18 stood at $319 million, up 9% year-on-year. For the full year FY18, the adjusted EBITDA was $1.215 billion which was also up 12% compared to the previous year mainly on the back of higher auto shipments, operating efficiencies, better metal mix with higher percentage of recycle content. In Q4 FY18, we achieved a record adjusted EBITDA per tonne at $396 reflecting a continuous strong performance of Novelis year after year.

Now, I move to the next slide #25 which gives a snapshot of our consolidated financial performance for FY18 versus FY17:

Consolidated revenues have grown to 1,15,809 crores in FY18 compared to 1,02,631 crores in FY17 on the back of excellent operating performance of all the businesses and better realizations. Consolidated EBITDA has grown by 11% at 15,025 crores as every business has done well in FY18. Finance cost has reduced by 32% year-on-year on account of prepayments and repricing of long-term loans in India and refinancing of senior notes and term loans in Novelis in the previous year.

Profit before tax and exceptional items was up 94% at 6,508 crores in FY18 on account of strong overall business performance and savings in interest outgo. PAT has tripled at 6,083 crores in FY18 and is up by 220% compared to FY17. This included an exceptional gain of 1774 crores reported on account of sale of 50% share of Ulsan South Korea facility under Novelis in FY18.

With this, let me hand over to Satish for his final comments on the overall business performance and key takeaways.

Satish Pai: So let me now summarize on Slide #26, our overall performance and some key risks:

During FY18 despite sharp increase in input cost and oversupplied domestic market situation, the company's financial performance was robust on the back of stable operations and favorable macros. We have already prepaid long-term loans close to 8,000 crores in FY18 and this has led to significant savings in the finance costs and strengthened our balance sheet. By this deleveraging effort, consolidated net debt to EBITDA was down to 2.82 times at the end of FY18. With stronger balance sheet, we are now in a better position to withstand commodity cycles. All the businesses continue to generate positive free cash flows year after year providing the requisite funds to utilize for investment in growth opportunities. We have successfully commissioned the Continuous Cast Rod copper plant well in time. The copper plant will take a regular maintenance shutdown, this was a smelter 3 in Q1 FY19 lasting 30 to 40 days. This will help to enhance its efficiency going forward. The company is also evaluating investments in aluminium downstream facilities with the objective of enriching its product mix.

Our Utkal plant remains the most efficient producer of alumina globally and continues to provide strong support to the upstream aluminium business. Work on the Utkal Brownfield capacity expansion by 500 KT has commenced and is expected to be completed in 30 months with a capital outlay of around 1,300 crores. Novelis continues to focus on auto segments to be the partner of choice for innovative solutions and supported by improving operational efficiencies with its focus on auto segments leading to better margins and improved free cash flows year on year

Buoyant demand and market recovery across businesses in India augur well for our Indian operations. Major Input costs are expected to stabilize in the coming quarters. However, increasing imports and domestic oversupply will continue to remain a challenge. The volatility in aluminium prices still continues and changing macros on account of recent trade developments is impacting the global demand supply dynamics.

With that, I thank you very much for your attention and the forum is now open for questions you may have.

Moderator: Sure, thank you very much. We will now begin the question and answer session. We have the first question from the line of Anshuman Atri from Premji Investments. Please go ahead.

Anshuman Atri: Sir my question is regarding duties on the import, so we have seen Indian steel market recovering on back of duties, but are there anything similar which we can expect on aluminium given that we are seeing increase in imports?

Satish Pai: So the steel actually benefited from an MIP rather than duties per se because the problem for imports into India is most of it comes from FTA country and hence the duties do not really stop imports coming in. So the discussion which we are having with the government is actually to use quantitative restrictions and the concept of QR is actually you try to limit the total number of imports to a certain volume could be the average of the last 3 years or 5 years and we think that is a better mechanism because otherwise most of the imports of aluminium and copper coming into India are coming in from FTA countries in zero duty. So per se the duty going up will not stop the imports.

Anshuman Atri: So when can we expect this?

Satish Pai: So this we have been as the Rusal story unfolded, you may realize now that there is huge amount of Russian metal. There are duties on Chinese imports to the US. So our worry is that certain amount of dumping will take place into India from China and we have already approached through the aluminium association the Government authorities who have now taken cognizance that this could happen and we are now working very diligently and as fast as we can with them now. I think that is all I can say at this point.

Anshuman Atri: Lastly on the premiums, we are seeing increase in premiums. Are you seeing physical market availability becoming an issue right now?

Satish Pai: So look, there are two different stories. I think that on the Korean and Japanese markets, the spot premiums have jumped up because the stocks in the warehouses are at low. So there is certainly a little bit of tightening of the market on the international export side. On the Indian side, all I can tell you is that there is actually an oversupply in the market right now. There is lot of imports coming in, lot of fake semis coming in and there is enough supply in the Indian market. So the international premiums unfortunately are not being realized in the Indian domestic market. There is a discount to the MJP in India right now.

Moderator: Thank you. The next question is from Rajesh Lachani from HSBC. Please go ahead.

Rajesh Lachani: My question is with regards to this 500 KT alumina expansion. Are we also looking forward to an expansion in the Aluminium segment?

Satish Pai: In aluminium segment not right now. I think what we are going to do in the next year is that we are going to expand the alumina because I guess you guys must have noticed we are putting Hindalco plus Utkal together because the alumina prices have gone through the roof and for us in India, the alumina is all for captive usage for our aluminium and hence the Hindalco plus Utkal gives you the right result. Now, we are doing this 500 KT expansion pretty fast because we think that the world wide third party alumina market will remain tight because Alunorte has not been allowed to come back to its full capacity. So the aluminium prices are North of $500 now, so we will take advantage of the alumina market. The aluminium expansion in India, we will wait for some time more because we still need to be little bit careful about coal availability and coal pricing going forward. Right now, the coal prices in India are under control, but we will have to see going forward because there could be some tightness in the market during the next few years. If more coal mines come into the market, coal supply is adequate, then we will certainly start to think of doing a brownfield expansion in Aditya or Mahan.

Rajesh Lachani: And sir, the second question is on the CCR project that you have recently commissioned. Sir, the margins for Copper segment, the EBITDA margin has been around 7.5% in FY17 and 7% in FY18. What are the margins that we can expect due to this project?

Satish Pai: So look, the copper of course as the LME goes up, you see those margins, but for the copper rod, I will tell you the advantage. Today, we are selling 156 KT of copper rod and we are selling the rest of our 410 KT as cathodes. As this CCR 3 comes in, we will have another 200 odd KT of copper rod coming into the Indian market and roughly you will make about $200 per tonne more when you sell copper rod versus selling cathode.

Rajesh Lachani: And sir what is the additional cost in rod?

Satish Pai: So I have already given you the EBITDA. So I have taken the cost into account. We will make $200 per tonne more. Last year, we produced 156 KT of copper rod, you can add another 90 KT from CCR 3 next year and on that 90 KT, you will get an additional $200 per tonne rather than we selling that as cathode.

Moderator: Thank you. Next question is from Sumangal Nivedya from Macquarie. Please go ahead.

Sumangal Nivedya: One, sir if you could just share what is the latest hedge position for FY19 and what could be the average cost of it?

Satish Pai: On Hedging as I said, on an upward LME market, from the last call I told you we will not do more than 30%. So for FY19., we have currently hedged 28% of the total volume at Rupee-LME in INR terms of Rs.1,38,574 at the current exchange rate of say 67. I have to give you the rupee because the rupee is pretty volatile now, today, it is at 68. And in dollar terms this effective LME comes to ~US$2,100. Now in the last month or so, as this Rusal thing was happening, we hedged another 12% on the Commodity Only side at about US$ 2,270. So, we are not going to increase that hedge position going forward quarter-on-quarter because we think the LME has got strength and probably has an upside.

Sumangal Nivedya: So it is 28% and 12%?

Satish Pai: The 12% is commodity only at $2,270. The rupee part is open.

Sumangal Nivedya: So around 28% at $2,100 and 12% at $2,270, understood. Sir next is on the overall aluminium cost, the total with respect to caustic, carbon etc. So how do you see that shaping up in 1Q or rather 1H FY19 and also if you could share what is the coal scenario in terms of shortage supply from Coal India and captive coals?

Satish Pai: So in Q4, we probably hit the peak of our cost of production of aluminium. It was more than I expected. In Q3, I told you 2%-3% increase, actually it turned out to be about 6% increase. So in Q4, we hit about a 6% increase. Now the good news is our coal costs are flat. In Q4 if you remember, Coal India increased the price somewhere on January 7th or 8th. But because of higher linkage coming in and better GCV, we manage to keep the coal cost flat. And even in April and May that trend is continuing. So, what I see going forward for the first half of the year is that our Q4 cost of production is being sustained as flat. So, we have the situation now where I am getting an LME which is higher but our cost of production is flat. The alumina is of course high but because we are fully integrated that does not have an impact on us. Coal prices will be flat with Q4, CP coke pitch which was the biggest culprits. We have now managed to lock in at the Q4 rates for the next 6 months at least.

Sumangal Nivedya: Sir, just one last question on the aluminium VAP we have seen, last couple of quarters we have been mentioning that focus is on increasing VAP volumes but that remains flat Y-o-Y. So, are we currently capacity constraint in that or it is more of a demand issue?

Satish Pai: It was more of a demand because as I said the, if you remember the Q3 earnings call right up to October the demand was flat year-on-year with the GST and all that. So, demand started to pick up November-December. So, it is really a Q4 where the demand has really started to pick up. That is one point. The second thing is there is a lot of fake semis and finished products coming in from China and Malaysia through zero duty as well. So, we are not really capacity constrained. In fact, we have budgeted downstream products to be up 12% compared to FY18 in our budget.

Sumangal Nivedya: And when we are talking about expansion there what is the time frame and quantum of expansion?

Satish Pai: So, I think you are going to see this expansion over the next 5 years, so 12% next year. So, let me give you the CAPEX guidance as well. We are doing this year about 1,600 crores compared to 1,100 crores last year. And most of this CAPEX is going into these growth projects. So, one part of it will be taken by Utkal, but we are also putting it into more foil mills, more extrusion presses, trying to improve some of the equipment around the rolled products. So we have started the downstream expansion projects. So, you will see over the next few years and we will maintain this sort of level of CAPEX. If you remember I had said, we will spending about 5,000 crores on downstream projects over the next 5 years. So, you should see every year 10%-12% increase in our volumes on the downstream side.

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

Pinakin Parekh: So, just looking at Hindalco's balance sheet and the state of aluminium markets and the growth optionality that is there. Are we running the risk that by the time we decide to undertake a Brownfield aluminium expansion and given the time line that it takes in India. We run the risk of losing the best of the aluminium market because the markets outlook is obviously tight for the next 2 to 3 years. And even if we decide to do expansion now it could still be 3 to 4 years before the Brownfield aluminium capacities come on stream. So, how would you view this?

Satish Pai: It is a good question. I will tell you one thing. When we do the economics of aluminium expansion today at the current cost of capital of Hindalco which is about 11.5% and we take the coal costs and the costs that we have today. You will barely hit an IRR of 8% Pinakin. So, that is why I go around and say that for me to make a Brownfield expansion will need about 9,000 crores investment to let us say put another 360 KT Brownfield in Aditya where we already have the land. The power cost in India which we are pointed out to the government is probably the highest in the world, with all these cesses**,** electricity duty hitting us. So, until we get some real clarity on coal, power cost and regulations, the Brownfield to make an economic case today depends as you said by the time it comes in it will be 2 to 3 years. So, we need to make sure that the LME as well and we are waiting to see what happens in China, will China be disciplined. So, otherwise if you remember one quarter ago we were worried that after the Chinese winter season if they bring back their capacity, LME could again come down below 2,000. So, we think right now it is sort of safer to play alumina where I am quite confident you are going to get the upside and play the downstream which is to the strength of the Indian economy and which is not so LME dependent and I know I can get $100-$150 a tonnes of EBITDA more on the metal. So, that is the route we are taking. We are, by the way doing the evaluation and putting numbers for both copper and Aluminium for the brownfield expansion as we talk.

Pinakin Parekh: And sir, secondly on the copper segment profitability for this quarter was the Q-on-Q decline, I mean it fell from 420 crores to 329 crores was essentially driven by the lower DAP production or is this just something else? How should we look at it going forward?

Satish Pai: So, you hit one part of it which was the DAP production, DAP production was half of what it should be, because we had to take a shutdown of the phosphoric acid plant to fix it which is now fixed. So, Q1 should be very strong. And the second thing that happened is we had a lot of imports coming in at zero duty. So, we had to cut the premiums that we charge in the Indian market. So, those 2 had an impact of bringing it down. Now Pinakin, reality is normally the copper EBITDA should be around 350 to 370. The Q3 was quite high at 421 and very often in copper you do get some other noise coming in that can make the EBITDA go up. But generally we should be around 350 to 370 going forward. I also want to add the Q1 19 will be impacted by the smelter 3 shutdown we will take it probably start at the middle of June and go into July. So, we will be taking that smelter 3 shutdown in copper. The positive part for the copper is as copper rod 3 has come into production. So, during Q2, Q3, Q4 we are going to recover quite strongly.

Moderator: Thank you. Next question is from Indrajit Agarwal from Goldman Sachs. Please go ahead.

Indrajit Agarwal: Three questions from my side. First sir, on the 350 crores to 370 crores guidance that you have given does that include the incremental EBITDA from CCR-3 as well or will that be additional to that?

Satish Pai: I think that the incremental the ramp up of CCR-3 is going to take place Q1, Q2, Q3, Q4. So, I think the full impact of the CCR-3 is probably going to come Q3, Q4. So, the 350-370 probably could have a little bit more upside by the time we get to Q4 and CCR-3 is ramped up. The other part which to Pinakin's question, which probably want to add is sulfuric acid prices and DAP prices are also very strong right now. It is higher than what we thought when we made the budgets. They could be more upside from those as well.

Indrajit Agarwal: And sir, can you give you us some guidance on how much will be the volume loss because of smelter shut down in copper?

Satish Pai: Year-on-year, we are not budgeting volume loss. So, we did 410 KT of copper this year and actually we have taken 416 as the budget for next year. So, there will not be any volume loss because as soon as you finish the up gradation we can get better feed through rakes and the volume goes up. So, we will be producing more or less the same or slightly higher compared to last year. It is just that the impact on Q1 could be there a little bit that is why I raised that point.

Indrajit Agarwal: Sir, any thoughts on dividend policy increasing dividend, now that we have CAPEX under control reasonably strong free cash flow generation?

Satish Pai: If you just look at our what we have told SEBI**,** we have now put in a 120% as the dividend rates. So, we have up the dividend.

Indrajit Agarwal: And sir last, actually one house keeping question in the table that you have given in press release that the EBITDA distribution that you have given, right. So, that is like 4,790 crores for standalone for FY18?

Satish Pai: So, look as we were trying to explain this concept of standalone. The standalone used to represent Hindalco without Utkal. Now, what we are saying is that all the Alumina Utkal is going into the aluminium business of Hindalco. So, the results that need to be looked at and my request I was going to make at the end everyone to give consensus also is on the Hindalco standalone plus Utkal. And hence going forward all our analysis, all our press releases are Hindalco standalone plus Utkal. So, the 4790 because if you take Q4 the transfer price was $435 for alumina to the Hindalco business. So, all that profit is sitting in Utkal which impacts the COP of aluminium and Hindalco standalone.

Indrajit Agarwal: What I was wondering was why is the difference between this amount in standalone and consolidated? And standalone it is 4,790 and consolidated it is 4,692. Which number are you …

Praveen Maheshwari: This includes there are couple of smaller operations as well. We have a unit in Brazil for example which is still ramping up.

Satish Pai: And some negatives there.

Praveen Maheshwari: There will be some negative from there, so that is a small negative there.

Moderator: Thank you. Next question is from Amit Dixit from Edelweiss.

Amit Dixit: I have couple of questions. One is on the cost of production. Is it possible to quantify in Dollar per tonne terms the cost production at Aditya and Mahan and Utkal?

Satish Pai: I cannot give you the Aditya and Mahan. But let me tell you that our combined cost of production for all of aluminium in Hindalco is today roughly below $1,700 per tonne and we think that we are going to continue at that level.

Amit Dixit: And what about Utkal, cost of production of Alumina??

Satish Pai: So, cost of Utkal in Alumina is from a Dollar point of view, it is about $170.

Amit Dixit: And what was the production at Utkal in this quarter?

Satish Pai: Utkal production was 360 KT for the quarter four.

Amit Dixit: And depreciation was higher in this quarter possibly due to commission of CC-3, is the assumption correct?

Satish Pai: No, you mean the total Hindalco depreciation?

Amit Dixit: Standalone depreciation?

Satish Pai: The standalone depreciation, Praveen, you may want to explain it in CCR-3.

Praveen Maheshwari: Depreciation in CCR-3 is not there to that extent. It is one is the progressive capitalization and there was a small change in the one of the standards in accounting where by mining expenses were taken into the depreciation part. So, that is a small one and I do not think it is going to continue for too long because that just the stripping expenses of our particular mine.

Satish Pai: By the way we take relining as the normal expense and we do not capitalize it.

Amit Dixit: So sir, running what would be approximately quarterly running rate of depreciation since you said there are some one-offs over there. So I just wanted to...

Praveen Maheshwari: So, quarterly it not be much difference slightly lower than what you have seen just now?

Moderator: Thank you. Next question is from Alok Ramchandra from Future Generali. Please go ahead.

Alok Ramchandra: Wanted to know the Alumina transfer price at from Utkal to …

Satish Pai: That is what I said, last quarter was $435.

Alok Ramchandra: And what was the PAT for the Utkal Alumina business per say?

Satish Pai: See, the PAT that is why we combined it because you have to eliminate the inventory and things like that.

Praveen Maheshwari: PAT for Utkal, you should look at the PAT that we have given in the table because that really reflects the PAT of the consolidated results.

Satish Pai: Taking away the inventory that is sitting.

Praveen Maheshwari: In the consolidation, you need to remove the impact of unrealized profits siting in the inventory. So, the way you should normally do consolidation is how we have done the consolidation here and the PAT as per that is for Q4 is 616 crores and for the full year is 1,934 crores.

Alok Ramchandra: And any further guidance on Alumina prices in terms of that will substantially impact …

Satish Pai: Look again for Hindalco plus Utkal. The Alumina price only matters to the amount of the 100 KT that we may sell which we have excess. Otherwise, it is into the integrated cost of a metal.

But if you just ask me, I think because Alunorte has not been allowed to ramp up. Alumina prices will be in the 500 range is my feeling.

Alok Ramchandra: And what is your assumption that how long this entire system will actually go ahead with...

Satish Pai: Honestly, I do not know because Norsk Hydro was very confident when they went to the Court last time, but somehow, they did not get the clearance. So, at this stage I do not have any better guess than you.

Moderator: Thank you. Next question is from Abhishek Poddar from Kotak Securities. Please go ahead.

Abhishek Poddar: Sir, first question regarding the hedging. Just need one clarification earlier in the statement you made that you will not see increase in hedging position quarter-on-quarter. So, by that do we mean that the 40% hedging that we have done, that is the hedge for FY19 or the 40% limit will not be crossed quarter-on-quarter?

Satish Pai: No, what I was saying is that at this stage I do not think we are going to hedge any more this year. Now, if we do get some very good positions close by for example when it spike to 2,600 there was a backwardation of $240. So, we could not take advantage of it because the spot was high but even one month out was quite low. So, we will continue to watch the commodity, but I do not think we will expand our hedge positions too much now. We are looking at next year and year after because there we are starting to see some good levels. So, our core hedges, as I tell you, we like to keep at least our core hedges of 20% to 30% for the next year by the time we reach October, November of this year.

Abhishek Poddar: Sir, second question is regarding the aluminium this year we did 1.29 million tonnes. So, is that the maximum we can do or through better asset swearing, can that volume increase more?

Satish Pai: It can increase a little bit more but not too much.

Abhishek Poddar: So, this is something not that we are aggressively working for right now?

Satish Pai: No, I honestly if you take the, which is a very important point. Hindalco's strength has been the stability of its operation. We have not lost pots; we have not had any pot shut down. So, I think that we run the machine for stability at least from the aluminium side. I think that will put more of our energy in trying to get more downstream product up because that gives the excess EBITDA.

Abhishek Poddar: And sir this is the last question if you could give us the consolidated net debt and the standalone net debt as on March 2018?

Praveen Maheshwari: So, the net debt for the March 2018 standalone is about 17,000 crores.

Satish Pai: By the way, standalone means including Utkal. So let us be very clear.

Praveen Maheshwari: So, we have talking about the Indian operations and we look at it that way even internally because whether it is in Utkal or in Hindalco it does not matter. Anyway it is a 100% subsidy. So, that is the 17,000 crores position between Hindalco & Utkal and consolidated is about 39,000 crores along with Novelis.

Moderator: Thank you. Next question is from Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: Just two questions. One, on the power cost this quarter, there seems to be on a per tonne basis almost to $35 per tonne increase. I am just basically dividing power cost by aluminium volumes, which I assume would be primarily to large source the main source of the power cost. While you kind of indicated that coal cost has been largely stable on a sequential basis. So, just wanted to understand the reason there?

Satish Pai: I honestly our power cost has not gone up. So, I think you are going by the SEBI format results.

Bhaskar Basu: Yes, the power and fuel line item basically which has gone up from 14.7 billion to about 15.3.

Satish Pai: So, my guys are telling me really what has happened there is in the NCR region they put a ban on furnace oil. So, we have to switch from furnace oil to LDO for the Alumina refinery in Renukoot. So, that has led to an increase in the fuel cost. But our coal cost in our power cost has not gone up.

Bhaskar Basu: So, coal costs have been stable despite the Coal India price hike as you mentioned?

Satish Pai: That is correct.

Bhaskar Basu: And in terms of the coal mix which you are receiving including captive, what would be the mix there between the e-auction, captive?

Satish Pai: So, this is depends on the linkage realization but in Q4 the linkage was higher. So, the amount we got from e-auction was much lower than Q3. So, I think that, right now we are about 20% from our captive mind and roughly 60% to 65% we are getting from linkages and the rest we get from auction.

Bhaskar Basu: And of this, the Krishnashila linkage is due for expiry I think sometime in June, I guess?

Satish Pai: It will come at the end of June and it will come on auction at the same time.

Bhaskar Basu: Do you expect any disruption in terms of the supply there or that should not be impacted?

Satish Pai: As you know, we are a belt pipe conveyer and we think that we will not have a disruption from the Krishnashila mines.

Bhaskar Basu: And just one housekeeping question on the same net debt numbers if you can break it between gross debt and cash that would be helpful?

Praveen Maheshwari: Gross debt for Hindalco plus Utkal is about 22,600; treasury is about 5,700. So, net debt is about 17,000. And Novelis had $4.6 billion of debt, $900 million of treasury. So, $13.7 billion of net debt. That is, converted it is 51,000 crore gross 12,000 crore treasury and 39,000 crore of net debt at the end of FY18

Moderator: Thank you. Next question is from Ashish Kejriwal from IDFC Securities. Please go ahead.

Ashish Kejriwal Sir, in terms of coal sourcing also, is it possible to quantify what was our coal cost per unit in this quarter versus last quarter?

Satish Pai: So, we do not actually give you the coal cost. I mean it is roughly around Rs. 3,500 a tonne but what is more important for me is Rupees per million kilocal. So, we are normally around the Rs. 900 per million kilocal and it is being flat from Q3 to Q4.

Ashish Kejriwal: And secondly, when we are saying that quarterly deprecation should be the same going ahead. Are we assuming that stripping expenses which we have taken this quarter that will continue reporting like that?

Satish Pai: You only has stripping expenses once. So, when you start a mine like we did in Kathautia you have a certain amount of overburden renewals. You will not see that repeated, so when we open a new phase or you move to a new part of the mine probably in a year or so you could have a bit more stripping again. But it is not going to happen every quarter.

Ashish Kejriwal: And sir is it possible to quantify what was that amount this quarter?

Praveen Maheshwari: 65 crores in Q4.

Ashish Kejriwal: And sir lastly, because we started reporting Utkal Alumina also with standalone. So, going ahead do you think that we are going to merge it with standalone?

Satish Pai: The legal entity merging is a little bit of a complication because Baphlimali lease its ties to the Utkal legal entity. So, we do not want really want to take any risk with that. We think it is, we can present our results together and convince you guys to look at it together rather than try to get actual legal entity merge which regulatory wise is a bigger headache.

Ashish Kejriwal: My question is that in FY19 how do you see 15 or 16 million tonnes of coal sourcing coming in?

Satish Pai: We do not see any problem as per current run rates from Coal India. You see the problem that happens for us is that during monsoons or certain times, bottlenecks develop so that there is not enough rake availability or the power plants suddenly do not do their planning and run out of stock in which case Coal India starts to divert coal to those. So, you get what I call all these distractions happening. I think just from a pure supply demand basis we should not have any problem FY19.

Moderator: Thank you. Next question is from Sanjay Jain from Motilal Oswal Securities. Please go ahead.

Sanjay Jain: Sir, is it possible at some stage we should start getting this consolidated number every quarter like some of the other companies …

Satish Pai: You mean consolidated with Novelis or Hindalco plus Utkal? Hindalco plus Utkal numbers you are going to get it every quarter now onwards. Just the way we did this quarter.

Sanjay Jain: Sir, the total consolidated company including Novelis because Novelis reports in a different accounting standards than India.

Satish Pai: Yes I see what you mean.

Praveen Maheshwari: No, but Sanjay that does not have much of an impact in terms of the difference in these standards. There are only a few specific items which are different between Ind-AS and US-GAAP. I do not think it is going to materially impact the Indian reported number and most of the analysts and investors do prefer that they look at Novelis in Dollar terms and in the context of their own business environment. So, we are not very sure that this is something that is really required on a quarterly basis.

Satish Pai: But, Hindalco plus Utkal for sure.

Sanjay Jain: Another question is on your comments on average coal cost being flat Q-o-Q despite the fact that Coal India has increased prices and you mentioned in your comment that there is a better GCV of the coal. So this, is it just because of the better GCV of the coal or is also because your sourcing basket between linkage e-auction also changed or is it that increase in the GCV is that temporary spike in the GCV or like it is a structural change in GCV?

Satish Pai: I think that, first of all, I also said that the linkage realization was the higher amount compared to Q3. So, we got more linkages volumes in Q4 rather than Q3. So, linkage is at a much lower cost than the spot auction coal. So, there were 3 impacts. One was the higher linkage, second what the better GCV. Now, what is the sustainability going forward? I think we have deployed lot of our efforts to make sure that we get as best quality coal as we can going forward. And we are hoping that the linkages will continue, I mean just to be clear, we are today at about 70% realization of linkage in Q4. We were less than 70% in Q3. Actually even if we get 75% to 80% which is what we have been promised. Then going forward, it should be even better. So, real problem is of course as I was saying you have the monsoon coming in, the bottlenecks of the rake, how the power plant stocks are**,** all this impact how much of linkage we will get.

Sanjay Jain: So, you will not say that I mean on a like-to-like basis the same coal was definitely expensive but just because your mix you had better linkages. So, that is why, it did not impact you?

Satish Pai: Yes, because the price went by 11% for sure.

Sanjay Jain: When you said better GCV, I thought like same although you paid little higher price because of the price hike but at the same time you got better coal also. So, is that not the case?

Satish Pai: Actually what happens is that if you buy for example you pay for 3,800 GCV coal normally we get much lower than that. So, when we do our costing we take the lower numbers. So, if we can for example 3,800 GCV coal we will assume the best we will get is 3,000 to 3,003. We can get 100 million kilocal more, then it is a lower cost to us.

Sanjay Jain: So, another thing related to this Coal India is talking about moving to GCV based pricing how will that impact us? Will our cost go up, I mean if you have done any analysis from this?

Satish Pai: I think that I would love for them to get there at a certain point. But it is a very difficult practical thing to do because then you have to have very independent and very rigorous checking of GCV going on all along the chain. So, my personal belief is that we are a little bit away from that.

Moderator: Thank you. Next question is from Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Sir, firstly on coal mix. Can you just help me understand how was the Q4 coal mix different versus full year 2018 coal mix?

Satish Pai: Full year coal mix versus Q4 coal mix?

Ashish Jain: Yes.

Satish Pai: Look, if I now take the full year coal mix, see what happened in Q4 is that the e-auction coal went down a million tonnes, I mean below one million tonnes whereas normally in a quarter we get more than one million tonnes from e-auction.

Ashish Jain: And that was replaced by linkage basis?

Satish Pai: Yes, so the linkage volumes actually went up.

Ashish Jain: And sir, secondly the comment you made on the potential Mahan expansion as and when you do on Aditya expansion. Whenever we consider would we, so the 90 billion number you indicated, it includes commensurate Alumina also or we would use the current 500 KT expansion for that?

Praveen Maheshwari: We would use that current 500 KT. That is why we took that Brownfield.

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

Bhavin Chedda: Sir, your Rs. 1,600 crores CAPEX number also includes maintenance CAPEX for India?

Satish Pai: Yes, it is a total CAPEX. Last year we spent 1,100 this year we will spend about 1,600 includes the maintenance CAPEX as well.

Bhavin Chedda: And Novelis would be spending roughly US$ 400 million, right?

Satish Pai: Slightly lower than that. Probably US$ 370 to 380 million but we are, for Novelis we were looking at the growth CAPEX as well. So, we could do if we announce another auto line in Asia then it could be around US$ 400 to 410 million.

Bhavin Chedda: And you mentioned a point earlier Rs. 5,000 crores on downstream projects over 5 years. So, this is what capacity number?

Satish Pai: Another 300 KT capacity in downstream

Bavesh Chedda: And you are saying this is spread over five years and every year you are looking at 8% to 10% growth?

Satish Pai: Well, at one stage after 2 years we will have to put in a new cold mill in which case it will not be every year it will come in 2 years meaning there may be one more year or flat and second year you will see another big jump.

Moderator: Due to time constraints, we will take that as the last question. I would like to hand the conference back to the management for any closing comments.

Satish Pai: So no, I think, I just thank everyone. My last request is again we intend to publish Hindalco standalone plus Utkal going forward. We think that it explains the business much better because it is all for captive usage of Alumina. And we request the analysts as well to put consensus and all out as a combination. So, with that I thank you all for your attention and thanks for the call.

Moderator: Thank you very much. On behalf of Hindalco Industries, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

****