



“Hindalco Industries Limited Q2 FY-22 Earnings Conference Call”

November 12, 2021



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Moderator: Ladies and gentlemen, good day and welcome to Hindalco Industries Second Quarter FY22 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subir Sen – Head of Investor Relations at Hindalco. Thank you and over to you sir.

Subir Sen: Thank you and a very good evening and morning everyone. On behalf of Hindalco Industries, I welcome you all to the earnings call for the second quarter of the financial year '22. In this call we will refer to the Q2 FY22 Investor Presentation, available on the company's website.

Some of the information on this call may be forward-looking in nature and it's covered by the safe harbor language on slide #2 of the said presentation. In this presentation we have covered the key highlights of all our businesses for the second quarter of this financial year '22 and a segment wise comparative financial analysis of India business and our overseas subsidiary Novelis.

As stated during our last quarter's discussion, the unallocable corporate AS&G expenses which used to be apportioned to individual business segments is now clubbed under unallocable expense or income in order to truly reflect individual business segment EBITDA in the Indian operations. The corresponding segment information of the prior period have also been restated accordingly for a competitive analysis.

We have with us from Hindalco's management Mr. Satish Pai – Managing Director; Mr. Praveen Maheshwari – Chief Financial Officer. From Novelis' management we have Mr. Steve Fisher – President and CEO and Mr. Dev Ahuja – Chief Financial Officer. Following this presentation, this call will be open to any questions you may have. An audio replay of this call will also be available on our website. Now, let me turn this call to Satish.

Satish Pai: Thank you Subir. Good afternoon, good morning, everyone. Thank you for joining today's conference call of Hindalco's earnings for the second quarter of FY22.

Let me now start with our progress for the first half of FY22 across various sustainability metrics on slide #5 and #6. On the environment; we continue to focus on water, waste, air emissions and biodiversity. We have achieved 84% recycling and reuse of waste in the first half of FY22. We have achieved 90% bauxite residue utilization at three of our four Alumina refineries in the first half. At Utkal Alumina Refinery, we are currently running several research projects to reuse the bauxite residue for mine backfilling and road construction. We are committed to 100% waste recycling in terms of all wastes.



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On water, our fresh water consumption in H1 FY22 was 36.4 million cubic liters with a continuous reduction in consumption of water at all locations over the years. Hindalco has successfully achieved zero liquid discharge at 11 of its 15 sites and is adding one site each year to achieve zero liquid discharge by the end of the year 2025.

On green cover and biodiversity; in line with the IUCN guidelines, we have implemented biodiversity management plan at two of our plants and two mines and we have now started implementation of four more other mine sites. The cumulative green belt at all our sites at the end of the first half of FY22 is now spread over 4,909 acres.

Coming to renewable energy and safety updates on slide #6; our assessment shows that the total potential of our onsite solar projects across all units is around 246 megawatts. So, we are committed to reach this year's target of 100 MW, Mahan is being commissioned as we speak by the end of March 2022. Over the next few years, we have so far identified, are in the process of finalizing an additional 96 megawatts of solar projects. We are targeting to reach 200 megawatts of solar by the end of '2025. We are currently exploring and evaluating emerging technologies in the space of energy storage, carbon capture and utilization and hydrogen to be used as fuel. The specific energy consumption in aluminum was recorded at 82.7 per cent at the end of the first half of FY22 from the base year of the FY12.

On safety we are committed to zero harm and have been continuously upgrading our safety programs and systems to meet international standards to provide a safe environment for each of our employees and contract workmen. The LTIFR was recorded at 0.30 in the first half at FY22. Unfortunately, we had one fatality recorded of a contract workman at our Indian operations in the first half of this year.

Coming to slide#8; Hindalco continues to deliver its best-ever business and financial performance across all businesses backed by improved macros, better operational efficiencies, higher volumes and a strong market recovery. Novelis recorded quarterly shipments of 968 Kt, up 5% year-on-year and an EBITDA of US\$553 million, up 22% year-on-year on the back of higher volumes and favorable metal benefits. EBITDA per ton stood at an all-time high of \$571 per ton, up 16% year-on-year in Q2 FY22. Net income from continuing operations was at US\$239 million in this quarter versus US\$144 million in the corresponding period of last year. Novelis successfully refinanced US\$1.5 billion unsecured senior notes with an annualized interest savings of US\$35 million in this quarter. Novelis continues to invest in the strategic organic expansion projects. In line with this, we recently announced US\$130 million investment to enhance hot mill capacity by 124 Kt and improved finishing capabilities for automotive sheets at Oswego, US.

Moving on to the Hindalco India Aluminium business' performance in Q2; our quarterly EBITDA for India Aluminium was at a record high of ₹3247 crores, up 173% year-on-year. EBITDA margin was more than a decade high of 42% and continues to be one of the best in the



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industry. Aluminum metal sales were up 12% year-on-year at 338 Kt versus 303 Kt in the correspondent period in line with market recovery. Value added product sales were at 86 Kt, up 36% on a year-on-year basis.

I'm happy to share with you that our 500 Kt Utkal Alumina expansion project has started its commercial production and has already achieved its rated capacity during this quarter. This will take our total capacity of Alumina at Utkal to nearly 2.1 million tons per annum.

Turning to the quarterly performance of the copper business on slide #9; both our smelters ran optimally during this monsoon quarter. Our cathode production was at a 100 Kt, up 38% year-on-year while the CC rod production was maintained at 65 Kt in this quarter. Metal sales were at a record high of 110 Kt, up 47% while CC rod sales were at 70 Kt, up 10% year-on-year. Copper EBITDA was recorded at ₹352 crores this year, up 45% year-on-year on the back of higher volume, better operational efficiencies and improved by-product realization.

You must have read by now that Hindalco has signed the definitive agreement with Polycab to acquire 100% equity stake in Ryker Base Private Limited, to increase the portfolio of our copper value added products with a purchase consideration of ₹323 crores subject to customary working capital/net debt closing adjustments. This is a ready facility with a capacity of 225 Kt manufacturing cast and rolled copper wire rods. With this acquisition our value-added CCR capacity shall reach around 550-570 Kt per annum.

Coming to our quarterly consolidated performance; EBITDA was at the record ₹8,048 crores, up 56% year-on-year. Quarterly consolidated PAT for continued operations stood at ₹3,427 crores, up 92% year-on-year compared to ₹1,785 crores in the corresponding period last year. Hindalco continued to maintain its strong treasury balance of around US\$659 million in Novelis and ₹13,748 crores in India at the end of September, 2021. Net debt to EBITDA was below 2 at the end of September 2021 at 1.93 times versus 2.59 times at the end of March '21.

Turning to the broader economic environment on slide #11; as per IMF's latest estimates, global economy is expected to expand to 5.9% in calendar year '21 after contracting 3.1% in calendar year '20.

Global economic recovery is gaining pace. However, pandemic outbreak, climate related disruptions in certain regions have led to supply shortages amidst a rising pent-up demand which is ultimately feeding into higher inflationary pressures. This presents complex policy trade-offs especially for policy makers who are cautiously normalizing the monetary policy. Policy in the induced slowdowns in China as well as slow pace of vaccination in underdeveloped countries, poses downside risk to the global growth. However, price pressures are expected to subside as supply chain shortages wane, signs of which are already visible. Global economic recovery will continue to be supported by vaccine administration and monetary policy actions.



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On the domestic front, India after being hit by two Covid waves is gaining pace in its economic recovery. High frequency economic data has shown strong sequential recovery indicating an uptake in both aggregate demand and supply. Mobility indicators have recovered quickly almost reaching the pre-covid levels. Going forward, continued vaccine momentum along with effective monetary and fiscal support will determine the strength of economic recovery. The IMF and RBI have maintained their GDP growth forecast for India at 9.5% for FY22. Weakness in global growth momentum, rising inflation and global supply chain disruptions could be a key downside risk to this growth.

Let me now take you through the aluminum industry overview on slide #12 and #13; year to date calendar year '21, global production grew by 5% to 50.6 million tons, led by a 7% increase in Chinese production and a 3% growth in rest of the world. During this period global consumption rebounded sharply by 12% to 51.5 million tons due to the low base effect. Chinese consumption grew by 8% while the rest of the world grew by 17%. As a result, the global market was in a deficit of 0.9 million tons with a Chinese deficit at 1.1 million tons partially offset by a small surplus of 0.2 million tons in the rest of the world in the first nine months of calendar year '21.

In Q3 calendar year '21, the overall world production expanded by 4% year-on-year to around 17 million tons while consumption registered a growth of 5% year-on-year, to reach 17.2 million tons leading to a market that of 0.2 million tons. In China consumption grew by 1% to 10.3 million tons due to significant headwinds in softer demand for internal commercial vehicles in the auto sector which was on a continuous decline since May, 2021 due to the shortage of semiconductors and also subdued building and construction demand. However, the Chinese government's encouragement for EV and renewables especially solar is likely to support aluminium consumption.

As the global markets remain in deficit with the improvement in global consumption aluminium prices continued to grow by 10% to \$2,647 per ton in Q3CY21 from an average of \$2400 per ton in Q2 of calendar year '21. Additional tailwinds that support strong aluminium prices include accommodative monetary and fiscal policy, production curtailments on Chinese supply leading to global deficit and low global inventories.

Coming to slide #13; domestic demand of aluminium is likely to be at around 943 Kt, 26% growth year-on-year this quarter due to the low base effect. However, if we compare sequentially, the consumption has grown by 4%. This is attributable to broad-base sustained recovery across almost all sectors. However, the automotive demands softening due to semiconductor shortage which also led to a 1% de-growth in scrap imports. Sequentially the sale of domestic primary producer increased by 16% to 396 Kt in this quarter. Going forward with the record vaccination and supportive policies economic sentiments are likely to improve. This will help in a broad base recovery across all sectors. The growth in e-commerce and onset of the festival season will continue to improve the consumption of consumer durables. Hence if there



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is no third wave in India Q3 FY 22 aluminium consumption is likely to be higher than Q2 FY22 consumption.

Moving to slide #14; the global FRP demand is expected to grow by 9% in calendar year '21 versus the contraction of around 4% in calendar year '20 on account of recovery and demand and the base effect. The market demand for beverage can sheets continues to be strong and is estimated to grow by round 3% to 6% calendar year '21. The automotive segment is estimated to grow between 20% to 25% in calendar year '21 due to the base effect and continued revival growth of demand. The semiconductor shortage uncertainty continues to impact OEM production and auto sheet demand. The demand in specialties is expected to grow in the range of 5% to 10% in calendar year '21 with favorable housing fundamentals in the US and Europe driving the strong B&C demand.

In Q2 FY22 the domestic FRP demand is expected to grow by 34% year-on-year, due to the base effect. Demand remains strong in packaging and consumer durables, B&C demand improved due to government projects. However, the automotive sector faces some headwinds.

Coming to the global copper industry on slide #15; for the first nine months of calendar year '21 the global production increased by 5.7% year-on-year while consumption increased by 6.9% year-on-year. Year to date calendar year '21, production in China increased by 9% and consumption by 5%, while the rest of the world production increased by 4% and consumption by 9% year-on-year.

In Q3 of calendar year '21, global production increased by 6.4% and consumption increased by 4.3% year-on-year. During this period, production in China increased by 7% while consumption was flat due to lower physical demand on account of price volatility, spread of the Delta variant and fears because of the Ever Grande, debt default.

On copper concentrate due to subdued demand from the Chinese smelters, the spot quarterly TC/RC in Q3 calendar year '21 witnessed an increase over the previous quarter to 14.60 cents per pound against 9.9 to 10 cents per pound in Q2. The spot TC/RC has now surpassed the calendar year '21 benchmark of 15.40 cents per pound, as labor negotiations in some large south American copper mines were concluded without any major disruptions. The benchmark negotiations for calendar year '22 is likely to be completed during the current quarter and it's expected to better than last year's benchmark TC/RC.

Coming to slide #16; on the domestic side in Q2 FY22, the overall copper market grew 36% sequentially at 160 Kt versus 118 Kt in the corresponding period of last year. On a yearly basis domestic demand grew by 70% year-on-year at 160 Kt in Q2 at FY22 from 150 Kt in the corresponding period on account of recovery in demand. The current demand is expected to marginally drop in the month of November due to the festive season. In segments like B&C,



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railways, transformer, consumer durables etc. demand is expected to witness growth while the automotive sector shall remain constrained due to the shortage in semiconductors.

Now the trend of the operational and financial performance for each of the business segments for this quarter and that of the corresponding period of last year are covered in the further slides and annexures to this presentation.

I'm now going to conclude by moving on to the key focus areas on slide #31; our focus on cost optimization and integration has helped the company to position itself in the first quartile of the global cost curve. Our primary focus remains stakeholder value enhancement. Hindalco continues to focus on profitable growth through its investments and recycling, debottlenecking and organic expansions in stable and predictable downstream businesses in India and Novelis. Our recent announcement of the Oswego hot mill expansion via debottlenecking and the Ryker acquisition in copper are some steps towards this. Hindalco's product mix diversification continues to help in enriching its product portfolio by increasing the share of high-end value-added products in the overall product mix to strengthen its position as the world's largest aluminium downstream company.

We also continue to focus on the ESG front with the emphasis on the commitments we have made for 2050 while creating the sustainable greener, stronger and smarter world. We strive to be called the most sustainable aluminium company in the world.

Lastly and most importantly, Hindalco is focused on strengthening its capital structure with a strong balance sheet by accelerating the pace of de-leveraging through robust cash generation in line with its capital allocation framework. Hindalco's consolidated leverage today is below 2 at 1.93 times at the end of first half of the FY22. Thank you very much for your attention. The forum is now open for questions you have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Indrajit from CLSA.

Indrajit: Two questions from my side, first can you help us understand how much of the alumina sales this quarter if there was any and how does it look vis-à-vis 1Q?

Satish Pai: We had 30Kt sale of alumina from Utkal this quarter.

Indrajit: Would have been negligible last quarter?

Satish Pai: It was 5Kt last quarter. I think the pace of third-party sales is now going to pick up in Q3 and Q4 because we are now fully ramped up.



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Indrajit: I just want to actually understand that the realization improvement given the hedges in the LME and it looks much sharper than probably what we have been expecting. Any color on that any one-off or anything that we could factor in going forward and what is hedging currently?

Satish Pai: If you remember last quarter, I had said that our cost of production would go up by 5% and it went up exactly. I think it was about 5.1%. So, in this quarter in spite of all this coal shortages and other things we've managed to keep our cost of production under control. I think the second thing is the operations were very steady, logistics costs were under control because we managed to move a lot more by Rail rather than Road. I think that's why overall we had a pretty good fall through on a good Macro or LME environment.

Now coming to your point on the one-time yes, we had one-time which was about ₹130 crores of RoDTEP scheme of the Government. If you remember the RoDTEP finally got announced, so this quarter we had ₹130 crores of this RoDTEP benefits. I also want to remind you last quarter I had told you that we missed 10Kt of sales of Q1 because of the late movement of the ship. If you look at the sales of 338Kt, 10Kt was that ship sailing on the 1st of July which got recorded in this quarter. That extra 10Kt of sales is also there in the 2Q results.

Indrajit: What is the COP guidance for third quarter?

Satish Pai: Third quarter I think now we have done a fairly detailed analysis and it's expected to go up by around 8% sequentially. We are seeing a little bit more inflation. On the other hand, we also would like to say that we are starting to see some of these tightness starting to flatten out. If you have looked at international coal prices, even freight costs these are now starting to ease off. Probably Q3 may be of the peak but we are starting to see these ease off now going forward.

Indrajit: My second question is on the Ryker acquisition, so as you mentioned with this, we'll have around 570 Kt of downstream. Our current run rate of cathode is about 380 to 400 Kt. So, will we be importing cathodes to cater to that and what kind of margins you can generate from this business?

Satish Pai: Look I think that besides our own cathode production we always have what we call blisters, scrap and you're right, we also import cathodes from Japan to convert into copper rods.

Praveen Maheshwari: Also, we have signed up an agreement with Polycab to toll their requirements as well. So some part of this could be just tolling as well.

Indrajit: Any guidance on what kind of margin or EBITDA we should look for?

Praveen Maheshwari: We are not giving any guidance on EBITDA or margin for this particular activity separately but it's a strategic investment and it will be evaluated for us going forward. You have to look at the business as an overall business itself and this helps us in consolidating our position even more strongly in the domestic market.



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- Indrajit:** But broadly speaking it will be about that 15% ROCE hurdle rate?
- Praveen Maheshwari:** Yes absolutely.
- Moderator:** The next question is from the line of Pinakin from JP Morgan.
- Pinakin:** I have one question; it's not related to earnings. But broadly if management looks at the aluminum environment at this point of time, very strong upstream, very strong downstream and in a large part driven by what China has done in terms of decarbonization. Now if China were to continue walking down this path and logically from here stop aluminium export and aggressively start importing aluminum scrap. They are setting up a huge recycling capacity, would the downstream business at Novelis be as resilient in that elevated scrap price environment if we were to see China do that over the next 1 to 3 years.
- Satish Pai:** So, let Steve talk but I'll give you one perspective. China is doing what I'm telling the Indian government should do more, in the sense that China actually has put restrictions on the type of scraps that can come to China and is very aggressively promoting domestic scrap, because now China is a large Aluminium market and they are pushing for more collection and usage of domestic scrap to be collected and used in China. So, your worry that US or European scrap will largely go to China, China and actually even Malaysia, have all started to push for more domestic and stop import of scrap coming in.
- Steve Fisher:** I think around the world what we see more circularity and recycling and can see close recycled content moving from one continent to another continent. So, it's just not going to occur and scrap increases recycling rates for automobiles and everything else in the other places, we feel very comfortable that we'll get access to that scrap at a regional prices.
- Pinakin:** Just to push this point further, one of the worries is that between ingot production and importing scraps if China's priority is de-carbonization, then it may look to relax the quality curbs on aluminum scrap it has put in over the last few years. If that were to happen, would you be as confident on scrap pricing and availability or is it dependent on China continuing to keep restrictions on aluminum scrap imports?
- Satish Pai:** I think Pinakin, this it's fairly hypothetical to look at that. We can only look at the actions of the Chinese government right now. They're going through a shortage, they're importing but they're not really started to completely open the scrap market etc. So, I do not personally believe. I think that Steve's point is that every country will be pushing to meet its obligations and will push for circular economy. China for the last 10 years has been consuming half the world's aluminum. I think that I expect them to really push for their own scrap to be now collected and reused.



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- Pinakin:** Lastly, should India aluminum cost of production peak out in the December quarter given that coal prices then tightness is easing out or do you see a cost of production to continue move higher given where general inflation trends is into the fourth quarter as well?
- Satish Pai:** I personally, that's why I think towards the first person's question I tried to say that I am sort of seeing many of these peaks of CP Coke, Pitch, International coal, Furnace oil, they all have spiked up dramatically. They have all started to ease out now. So, I personally believe that it is probably going to smoothen out. I don't think it's going to go up dramatically from this point.
- Moderator:** The next question is from the line of Amit Dixit from Edelweiss.
- Amit Dixit:** I have two questions. The first one is on cash flow. If I see from standalone operations, there is limited cash flow in H1 despite a very robust EBITDA generation and largely it is due to working capital particularly payables are down significantly. So how did you see it going ahead? Did you expect this working capital to start unwinding from Q3 or we have to wait couple of more quarters?
- Praveen Maheshwari:** The first half has seen a major increase in the LME, for India operations copper LME becomes even more relevant because that's where we are buying and selling copper. Really speaking that is what has taken up a large part of the working capital blockage in the first half. Today, the copper prices are more or less stabilized between \$9500 to \$10,000 per ton. Unless it moves up further from here which we don't see, we are not likely to see any more blockage of funds in the working capital. Really speaking we are not feeling bad about it because its working capital is something which is very transitory. Today it has got blocked but tomorrow when the LME comes down it will come out again, you'll see a cash inflow coming in at that point of time. To answer your question, no we are not seeing any further blockage from here onwards and same is the situation with Novelis. So Novelis also unless LME actually moves up we don't see any further cash blockage there.
- Amit Dixit:** The second question is essentially in the coal mix, so last quarter of course we saw some disruptions and we are seeing it this quarter also, so if you can let us know your coal sourcing mix last quarter and how is it likely to change in Q3?
- Satish Pai:** So, the coal mix between linkage and e-auctions was 96% and our own mines was 4%. But I think this average for the quarter hides the fact that in the last month of the quarter when the whole coal shortage and the diversion of coal to IPP started, we actually ramped up our own mines quite a lot which always is our swing producer. Now the interesting thing for you could be that in Q1 to Q2 our coal prices on a rupees per million kilo cal was flat, which I think is quite a remarkable achievement. This was largely because we were carrying heavy inventories going in. I think in Q3 if you look at my guidance that 8% cost going to go up that's largely because now, we are taken in more e-auction coal and that coal price inflation is what we have built into



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that 8% for Q3. So as a mix I think it is not going to change much. It's still going to be largely linkage and e-auction.

Amit Dixit: Just a follow up in this. That you are facing any shortage of coal anymore?

Satish Pai: No, I mean let's put it this way. We were in some places tight, but we started the quarter with over 30 days inventory in coal and if you look at our working capital block at Q1, it looked a bit high because we were carrying a lot of inventories of CP coke, pitch coal and we do that as a routine before every monsoon quarter, every year. We were not down to that 1 days and 2 days that you read, we were much better than that.

Moderator: The next question is from the line of the Satyadeep Jain from Ambit Capital.

Satyadeep Jain: A couple of questions on sustainability. One is on the carbon capture and first of all what you've done in bauxite residue is commendable and encouraging to hear thoughts on carbon capture hydrogen. Firstly on carbon capture, what kind of technology are you exploring for carbon capture and when you'll look at the different base utilize it, have you explored whether you want to convert into urea and have you done some kind of analysis on IRR on some of these projects?

Satish Pai: We are not in the IRR. We are in the pilot stage and we are actually working with Shell and technique and they have got a certain technology and we are going to do a pilot in Aditya to try out how it works. So, I think that's about it I can tell you at this time. I just wanted to expand we have taken a net carbon zero by the year 2050, so we have built a model. Our model means that we are experimenting with quite a lot of technologies. We are trying to look at hydrogen as well. We are starting to look at buying the renewable power from the large power suppliers in India because they have started to offer renewable power at about 80%-85% load factor. There's a number of things that we are trying and we are experimenting to get down that carbon chain.

Satyadeep Jain: On that, follow up to that experimenting new technologies, two large global peers are now talking actively about inert anode technology. One of them is actually saying they might start licensing it in a few years. I know it is still too early but has the management explored the possibility of retrofitting the current smelters with some of these technologies that will mean licensing this technology from others? Why I am asking this is maybe in a couple of years other companies may start adopting it and then given the Indian smelters have highest CO2 emissions, the pressure might be there on the Indian smelters to also start licensing even though we have net zero carbon emissions way down the road and then related to that would be, would the company maybe try to optically it seems based on what we are hearing from other global peers that they are ahead on the technology path, would Hindalco also look at increasing R&D on some of these new path breaking technologies so that in future we don't have to license it from others and Hindalco can adopt its own technology?



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Satish Pai: So first on the last point, we have patented copper inserted collector bar technology that is now being bought by some of our international competitors from us. We have already started to ramp up our R&D and projects for smelter technology. Now on this inert anode, you have to realize that this is a project that's been going on for the last 20 years. This Elysis technology that you're talking Alcoa and Rio Tinto had been doing. So, we have been monitoring it. I wanted to tell you that there are other such technologies on inert anodes that are going around. We are also experimenting with some of them. In the broader scheme of things when you look at the carbon per ton emitted on a production of aluminum, the power is 90% of that carbon. The smelting process is important but from a pure carbon point of view is not that high. Just to tell you our focus point is still on the energy source in India because that's where we can get the maximum bang for the buck to remove the carbon. To your point are we looking at these technologies, yes. Are we experimenting, are we increasing the R&D, the answer to all of that is, yes.

Moderator: The next question is from the line of Pallav Agarwal from Antique.

Pallav Agarwal: I have a question, you mentioned in your opening remarks that aluminium prices have been supported by abundant liquidity. Do you think the tapering by the federal reserve with current inflation concerns that could start having a dampening effect on the aluminium prices?

Satish Pai: I think the market always responds far ahead of the event. The fed has been talking about pulling back the liquidity measures and tapering for a while now. If you actually look at the aluminum prices today, they are running at 2650 compared to where it was couple of months or a month and a half or two months ago at about 3000. I think the monetary policy part is already baked in but what is coming back is the basics of supply and demand. The basics of supply and demand is that even with whatever you say we still have a deficit today after 9 months of the calendar year at 0.9 million tons and people are predicting it to go up. I think that the between the tailwinds and the headwinds for aluminium, the basic fundamentals are still pushing towards a much more firmer LME. Please don't ask me to predict it.

Pallav Agarwal: Because in the past sometimes we've seen where the interest rates go up, the carry trade between the forward and the spot that some unwinding can take place. So that was just one...

Satish Pai: That has already taken place. If you look at the aluminum or even the copper, the aluminum is a very small contango for 3 months some \$15 or \$18 and then it's a backwardation. That carry trade is not driving aluminium prices right now.

Pallav Agarwal: Also, any change in our hedge position from last time?

Satish Pai: No, as we said right now, we are just watching because it's a big backwardation. For next year it's \$150-\$170 backwardation right now.



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- Pallav Agarwal:** What do you think is causing this backwardation? Is it that the short-term supply squeeze is pushing up spot prices?
- Satish Pai:** Yes, I think so because you see the aluminum prices shot up to \$3000 very fast and that's why the big backwardation at that time the backwardation was even more. Now the backwardation is slowly coming off. If you see now LME seems to be trading between \$2600 and \$2700 right now. I think the market is waiting to see whether this range holds or whether it starts to go higher.
- Moderator:** The next question is from the line of Sumangal Nevatia from Kotak Securities.
- Sumangal Nevatia:** First question is with respect to the copper division. So, margins have recovered very strongly, ₹350 crores run rate and also the commentary on TC/RC is expected to be better in the coming calendar year. Do we expect this run rate to be the new normal given our production volumes have also now stabilized?
- Satish Pai:** Sumangal, the only thing I'm really happy about copper is that the operations have stabilized, the production is running steadily. I think that I'm hoping that it will continue. I mean the copper results, if you listen to the remarks, the value-added sulphuric acid prices have been very strong. So that really helped the EBITDA on the copper side.
- Sumnagal Nevatia:** Do we expect now the CC rod utilization at least to start with reach 100% odd levels of our cathode volume?
- Satish Pai:** No, of the cathode volumes, you see our cathode volumes that is around 370-380Kt and now our CC rod capacity will be 570Kt. We do have some commitments to sell cathode. That's why we may still do that. But the demand of copper in India is still at 80% of the pre-covid levels. I think that one large part of that is because the copper prices ran up so much that today many of the MSMEs and SMEs can't, so working capital block of dealing with copper has become a big burden on them. Otherwise, I would have expected the copper to come back, so the large players can handle it. Of course, the severe backwardation in copper also is a problem for them, because they buy the copper in a couple of months the end product will go out, and they like to price M+1, M+2. So, it's in a backwardation, it's a big issue for them.
- Sumnagal Nevatia:** Mr. Pai next question is to you on the Novelis business, broadly on the strategy point of view, now if you see the Can segment here very strong outlook and whatever the debottlenecking we're doing appears to be at best replacing our hot mill capacity for the new auto lines. Maybe 2-3 years down the line we might be starting losing market share if this strong demand continues. At what stage do we start considering a greenfield hot mill? What could be the ticket size and what is the ask from our customer before we come at a big capital into a big brownfield or greenfield hot mill capacity?



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Satish Pai: I don't think we'll wait for 2 to 3 years for market; with Steve the discussions have already started. So, I think I let Steve talk about what he is listening from the Can customers but all I wanted to tell you is that we are very conscious that as a market leader Novelis will lead the push to add new capacity. Steve, you want to just talk about the Can market?

Steve Fisher: The markets are strong across the world but they are driven a lot by a large base. We see this opportunity and we are in dialogue with our customers and see they are probably most predominantly in the north America and Europe regions, and as far as discussions and contract sizes those are all things that we're working through right now with the strong demand and continue to evaluate the opportunity as far as whether it's continue debottlenecking and brownfield expansions or greenfield those are still discussions that were happened. That's probably too preliminary to discuss size of investments. But we certainly understand the opportunity and as Satish said as the market leader here, are really impatient leading the industry in adding additional capacity here.

Sumnagal Nevatia: But just in terms of ticket size, when we just do finishing line it's a couple of \$100 million but for a hot mill greenfield brownfield could it run into a billion dollar plus kind of a ticket size?

Satish Pai: I think it's no point in just speculating. You're right to say that it is going to be a certain number of X times just optimization project or a cold mill.

Moderator: The next question is from the line of Abhijit Mitra from ICICI Securities.

Abhijit Mitra: My question is more on the metal sales in the Indian operation. We are looking at around 330-340 Kt run rate. How do you see this number changing over the next couple of years and also if you can give a brief update on the expansion plans out there, any new additions, any thoughts that you'd like to share?

Satish Pai: The run rate is not 338 Kt, as I said 10 Kt was a spillover. Normally it's around 320 to 325Kt per quarter is what we normally sell. I think that the bigger project for us is that we are now at about 25% of it is value added. We have announced the Silvassa Extrusion plant, the FRP expansion and we are steadily trying to improve the value-added percentage from 25% upward. So that's really our strategy. From a pure metal, total upstream, downstream total sales that number is not going to move up too much in the next 2 years because we are not adding any new smelter capacity. Now that being said, we do have one line that we had closed in Renukoot. We are restarting that line in November, so we will get about 20-30 Kt more of metal coming in annually..

Abhijit Mitra: And the other question which I had was that given the spot prices of inputs and assuming that I am buying alumina what kind of margins is current metal prices given to a smelter as per you? I'm saying that given the spot prices of the inputs and assuming that I'm buying alumina from



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the market, what kind of spread would and completely unintegrated smelter in India make today with the power costs that he's facing given the current alumina?

Satish Pai: I think that you probably need to look at one of our competitors and make that assessment.

Abhijit Mitra: Yes, it will be very thin. It is running quite thin is what the assessment would be?

Satish Pai: It depends. I mean today the spot prices of alumina are \$450/ton but you have to realize that people normally will look at it over a quarter, few months. If it persists at \$450 then yes somebody who does not have alumina is going to get badly impacted.

Moderator: The next question is from the line of Raashi Chopra from Citi Group Global Markets.

Raashi Chopra: On the alumina side, you mentioned that the pace of sales will be higher. So just trying to get a hold of how much will Utkal replace internally and how much should we kind of factor in incremental alumina sales going forward?

Satish Pai: Currently our plans are for the second half of the year. We will probably sell about 150Kt of alumina on the third-party market.

Raashi Chopra: Can I assume that run rate for next year or you to take a decision on that?

Satish Pai: No, the run rate for next year, you could say it's going to be in that range, 150Kt x 2.

Raashi Chopra: I missed it. On your call what was the break up in the quarter, coal sourcing break up?

Satish Pai: It was linkage 62%, e-auction 34%, own mines were 4%.

Raashi Chopra: And this you said how will that change into the third quarter?

Satish Pai: It wouldn't change much.

Raashi Chopra: The coal cost was flattish you said on a quarter-on-quarter basis?

Satish Pai: I said Q1 to Q2 was flat and I said Q3 coal prices will go up because I have already said our cost of production is expected be 8% higher than Q2.

Raashi Chopra: Within this 8%, the bulk of it would be coal?

Satish Pai: Coal is 41-42% of our cost. There are others they are also gone up so it's a mixture. I would rather leave it at that to give you an overall 8%.



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- Raashi Chopra:** Have you started our e-auction price is sustaining at elevated levels, in the coal situation improvement?
- Satish Pai:** I think now as I said the production has also started to go up. I think that auction prices are going to taper down now.
- Moderator:** The next question is from the line of Bhavin Chedda from Enam Holdings.
- Bhavin Chedda:** I missed out, if you had given the hedging position at the end of quarter?
- Satish Pai:** We are at about 30% hedge that \$1900 for the second half of the year. So, no change. It was what it was.
- Bhavin Chedda:** 30% for second half and actually your hedge for '23 also, you had given earlier.
- Satish Pai:** The 23% is for next year at \$2230/ton.
- Bhavin Chedda:** And 30% for second half at \$1900/ton?
- Satish Pai:** Exactly the same as what it was at the end of last quarter. The rupee was second-half 19% hedge at 78.6 and for next year 10% hedge at 83₹/\$. This is exactly what it was, no change.
- Bhavin Chedda:** And on the copper now, this run rate is sustainable for production volumes and even CC rods there was a good pickup in volume?
- Satish Pai:** The CC rods actually should pick up. We are producing only 70Kt per quarter. We can do lot more now. As I said that some part of it, the market demand needs to pick up. Copper CC rods sales should go up next quarter.
- Bhavin Chedda:** What kind of deleveraging we are looking at in second half and say next 12 to 18 months.
- Praveen Maheshwari:** Cashflow should be good in the second half. It's a question of whether you want to prepay certain debts at this point of time or not. You are in the process of evaluating the next 5 years plans and putting in the numbers in place. We do have a ₹6,000 crores Debentures which is due from April to August '22. That will definitely go off our balance sheet next year. Earlier our plan was to refinance only ₹4,000 crores out of this and pay down 2000 crores out of our internal cash but we are re-looking at that and we are seeing that probably we may not need to refinance even ₹4,000 crores. We will come back with a more clear position, we will hold another Investor day sometime in February-March again this year and that's when we will come back with a comprehensive plan going forward for both Novelis and India.



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- Moderator:** The next question is from the line of Samuel Chen from Alliance Bemstein.
- Samuel Chen:** I have heard that you mentioned that you are starting a line. I wanted to understand it's a very small line. Just two questions over there. How long it take to you then if you start in November and on average what's the cost curve there like versus your current operation?
- Satish Pai:** In Renukoot, we have the about 13 lines so it's one line. So, it should take us about 1.5 months to ramp up and the cost of production will be what it is right now.
- Samuel Shen:** What was the reason why we are shut down before we just maintenance?
- Satish Pai:** No, we took that decision to shut it down at that time because it was actually, we had some the rectifier issues that the power consumption was too high. When we shut it down, we have fixed all those issues and now we were also wanting to start it earlier this year, but then when we saw the coal situation getting tight, we postponed that decision to November. Otherwise, that line should have come back on stream around July-August.
- Moderator:** The next question is from the line of from Vishal Chandak from DAM Capital.
- Vishal Chandak:** Given the strong cash flows that we have across the board both in the Indian business as well as in Novelis and also Utkal would also be generating, lot of cash flows? How do you now look at your capital deployment? Would you want to revisit them between CAPEX, long-term, short-term and distributing more because you already have kind of reached more than desired optimal leverage levels but the cash flows keep on coming up stronger than what anyone would have anticipated probably a year ago?
- Praveen Maheshwari:** So really speaking as I said earlier, we will be coming back to you, around February-March again this year, it will be exactly 1 year from the last time that we actually announced the capital allocation framework. I don't think we can revisit on a quarterly basis. We would, every year probably we will come back to you around this time. That's the time also we have our planning and exercise also completed. We will come back to you and we will announce and re-visit if required and come back to you with clarity as to how we look at it going forward.
- Vishal Chandak:** My next question was with respect to your downstream projects in India. If you could just give us an update on where we are with respect to aluminum downstream expansion as well?
- Satish Pai:** The Silvassa project after we have got all the clearances, the civil work has started, all the extrusion practices have all been ordered. That per project is moving around quite well. The big FRP expansion project of 170 Kt we announced in Sambalpur between Hirakud and Aditya, we now are waiting to finish the public hearings and all that which should happen in January 2022. We think that we will be breaking ground and starting civil work sometime in March of next year.



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- Moderator:** The next question is from the line of Tarang Agarwal from Old Bridge Capital.
- Tarang Agarwal:** Source of power and cost of power is obviously a big factor which will drive our upstream capital allocation besides LME. Does your apprehension on committing in capital, the upstream also stem from the fact that as we move forward, a lot of incremental demand could potentially be fed by secondary metals?
- Satish Pai:** Not really, I think that we have discussed this on many calls. The biggest issue for a smelter expansion in India is two things. One is the availability of your power source and second is the type of power source. We have made commitments from an ESG point of view. If you are going to announce coal-based expansion of smelting, we are going to have a lot of problems with our investors. But the second point equally is that if you look at the power situation in the country, I am very nervous about committing a smelter without having a steady power supply and a power cost that I know of. Because LMEs let's say smelting expansions that are announced at the peak of the curve; by the way Aditya and Mahan were announced in 2007 when LME was at this peak. So, it's fairly risky. So, our strategy has always been that we are going to plow this money that we are generating to more and more value-added downstream projects.
- Tarang Agarwal:** My second question is has Utkal incremental production in comes onstream and can you discontinue procurement of alumina from some of your other refineries. What kind of margin expansion can we see on our per ton of alumina?
- Satish Pai:** You will have to take into account is that Utkal is probably a 100% more efficient than the Muri and the Renukoot alumina refineries. But of course, as I have said that some part of their demand, we will try to meet with Utkal but if we also balance the fact that the Renukoot refinery is tightly integrated, no logistics costs and it goes straight away. If you can make a very good margin with alumina prices are at \$450, then we do the cost analysis and probably better to sell it to the third-party market.
- Moderator:** The next question is from the line of Ritesh Shah from Investec.
- Ritesh Shah:** So, two questions, one is, have you already defined the scope of pumped hydro? That's one and is it replicable across different sites in India? That's says the first question. Second related question. Anything incremental on the gas supplies, costing, anything from the government based on our interaction?
- Satish Pai:** On the natural gas first, the gas pipeline we are expecting somewhere around January-February 2022, for the Sambalpur pipeline to come up. That's why I think that will be a very important event for us because then we will experiment in Aditya with the 50% coal, 50% gas-fired. And if that works, then we are making a big step towards our carbon commitments. We will get to know some time next year.



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On the pumped hydro you can't just replicate it everywhere because the provider has to have that ability to pump the water to a reservoir at a height. Currently we are talking about to someone who has that facility in Telangana and talking about billing it to Orissa. It's not easy to just replicate everywhere because you need to have the ability to pump it high and then transmit it. But I think if the national grid takes off and some of these cross subsidy billing charges can be moderated, then you can take it in a place where it's generated and move it to the grid to anywhere in the country.

Ritesh Shah: Just to check, basically you indicated 50% gas and 50% coal. This is very interesting. What should the indicative pricing on gas that we are looking at? I think earlier you had given numbers on parity, like around \$4/MMBTU only that it makes sense for us. Can you help us some...?

Satish Pai: Actually \$5/MMBTU is what would make sense but it depends also on the coal price and what will happen with the carbon taxes and all that if it gets introduced, but currently the parity price is around \$5/MMBTU.

Ritesh Shah: How is Novelis Europe placed? Just in case if Europe comes up with some curbs on exports of non-ferrous scrap. Is it something which is going to be good for us? We are already self-sufficient and we procure it from the region itself? I am just trying to make sense of LME scrap spreads. If some change in regulation happens in Europe?

Dev Ahuja: We are very self-sufficient in Europe so we see really no concerns. The largest part of our scrap is really procured from Eastern Europe besides we also buy scrap in the UK where we have our recycling facilities. In both these places we are very locally dependent. We have really no concerns on availability in case of any change of policy.

Ritesh Shah: So, it could it be a positive for Novelis given the exports will reduce and at the same situation which happened in North America versus China a couple of years back?

Dev Ahuja: Yes, so really, I think we will see what happens. Again, we are getting into speculative territory but really all that, we would like to say is that our position there in terms of supply, availability and logistics has been steadily very good and then we really see no concerns for the future.

Moderator: The next question is from the line of Kamlesh Bharmar from Prabhudas Lilladher.

Kamlesh Bharmar: One question on the side of Novelis. We had guided \$1.5 billion of CAPEX over next 5 years. As we are seeing a strong demand in North America, so would we be doing the CAPEX beyond that guidance or it would be within that guidance?

Steve Fisher: I think we talked this morning about some very significant opportunities in the marketplace, driven by the sustainability trends around beverage cans and so we continue to evaluate those opportunities and so we as Praveen had said earlier, we had put out some guidance a year ago.



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We see more opportunity probably strategically than that guidance but it's let us come back in that February timeframe and we will be able to talk I think in more specifics about, some of the growth CAPEX at the Novelis level.

Kamlesh Bharmar: What considerations would be there on that part like say on the net debt to EBITDA or with the capital allocation policy which we had highlighted that what percentage of cash flows would be dedicated on that part. Will there be any color on that?

Satish Pai: No, I think the issue that we are talking about it's not the percentages, it's that the cash flows that we had talked about in February, the amount of the cash flow is going to be larger. The point is that you probably will have 55% or 60% of the cashflow. That 55% or 60% will be lot more than \$1.5 billion capex number, I think that as Steve said why we do recognize and I think that going to be more expansion organic projects and we will outline that in February, we are working on it now.

Moderator: Thank you. Ladies and gentlemen due to paucity of time, that will be our last question for today. I now hand the conference over to Mr. Satish Pai for closing comments. Thank you and over to you sir.

Satish Pai: Thank you very much. I think we are quite happy that between Novelis and Hindalco, we had a great quarter I would dare to say that it probably shows the advantage of the integrated model between upstream and downstream now because the downstream is steadily performing, market is good and when the macro is good, the upstream pitches in nicely, I think that is what shows in an integrated model that we have delivered a fantastic quarter. Thank you very much for your attention..

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