



“Hindalco Industries Limited  
Q3 FY2022 Earnings Conference Call”

February 10, 2022



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**Moderator:** Ladies and gentlemen, good day and welcome to Hindalco Industries Third Quarter FY2022 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 of Hindalco. Thank you and over to you, Sir!

**Subir Sen:** Thank you and a very good afternoon and morning everyone. On behalf of Hindalco Industries, I welcome you all to the earnings call for the third quarter of the financial year 2022. In this call we will refer to the Q3 FY2022 Investor Presentation, available on the company's website.

Some of the information on this call may be forward-looking in nature and it is covered by the safe harbor language on slide #2 of the said presentation. In this presentation, we have covered the key highlights of all the businesses for the third quarter of this financial year 2022 and a segment wise comparative financial analysis of India business and our overseas subsidiary Novelis.

Please note, that the unallocable corporate AS&G expenses, which used to be apportioned to individual business segments, is now clubbed under unallocable expense or income to truly reflect our individual business segments EBITDA in the Indian operations. The corresponding segment information for the prior periods has also been restated accordingly for a competitive analysis.

We have with us on the call 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. A very good afternoon and morning, everyone, and thanks for joining today's conference call on Hindalco's earnings for the third quarter of FY2022.

Let me start with our progress for the first nine months of FY2022 across the 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 81% of total recycling and re-use of all waste generated in the first nine months of FY2022. We have achieved 95% bauxite residue utilization at three out of our four Alumina refineries. Utkal Alumina Refinery is conducting two pilot pits to re-use bauxite residue for mines backfilling, of which pit-1 is ready and pit-2 is under construction.



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We have already applied to the Indian Road Congress(IRC) for accreditation of bauxite residue as a replacement of natural material for roads upgrade and embankment construction. 105% of the fly ash from power was reused year to date at FY2022.

On water, our freshwater consumption in the first nine months was 54.2 million cubic meters with a continuous reduction in consumption of water at all locations over the years. Hindalco is adding one site each year to achieve the zero liquid discharge at all sites by year 2025. On green cover and biodiversity in line with the international union for conservation of nature guidelines, we have implemented biodiversity management plans at two of our plants and two of the mines, and we are in process of implementing this at four of the other mine sites. The cumulative green belt at all our sites in the first nine months of FY2022 is now spread over 4,980 acres an increase of 308 acres from the last financial year.

Coming to renewable energy and safety update on slide #6. I am happy to announce that we have reached our FY2022 targets of 100 megawatts of renewable capacity. We have identified nearly 69 megawatts of renewable projects including floating solar, wind power, renewable hybrid power, etc. We are targeting to reach 200 megawatts by the end of FY2025. We are also exploring emerging technologies in the space of energy storage, carbon capture and utilization, and hydrogen as a fuel. The specific energy consumption in aluminium was recorded at 82.4% in the first nine months of FY2022 from the base year of FY2012.

On safety we are committed to zero harm and have been continuously upgrading our safety programs and systems to meet international standards. The LTIFR was recorded at 0.25. Unfortunately, there have been two fatalities recorded of contract workmen at our Indian operations in the first nine months of this fiscal year.

Coming to slide #8 on the key highlights of our performance in Q3-FY2022, Novelis recorded quarterly shipments of 930 Kt in Q3 FY2022 which was flat year-on-year, as quarter three is seasonally a low shipment quarter, and was also impacted by ongoing semiconductor chip shortage, unplanned downtime and supply chain bottlenecks. EBITDA stood to \$506 million up 1% year-on-year and EBITDA per ton was \$544 a ton up 1% year-on-year. Net income from continuing operation was \$259 million up 33% year-on-year, this quarter versus \$195 million in the corresponding period of last year.

Novelis has announced an investment of \$365 million to build a highly advanced recycling center with recycling and casting capacity of around 240 Kt per annum in Guthrie, Kentucky.



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Moving on to Hindalco India Aluminium business performance in quarter three. Our business EBITDA for Indian Aluminium was at a record high of ₹3376 Crores up 131% year-on-year. EBITDA margin was at 41% and continues to be one of the best in the industry. Aluminium metal sales were up 3% year-on-year at 325 Kt whereas while our value-added product sales were up 8% year-on-year at 86 Kt this quarter. Hindalco acquired Hydro's high-end extrusion facility with a capacity of 15 Kt at Kuppam, Andhra Pradesh. This highly specialized and customized product portfolio at Kuppam will significantly enhance Hindalco's capability in high-end extrusions.

During the quarter Hindalco successfully renewed its 5.35 million tons of coal linkages with Coal India to ensure resource security.

Turning to the quarterly performance of the copper business on slide #9. All our smelters ran optimally and delivered a consistent performance in quarter three. Our cathode production in this quarter was at 102 Kt up 99% year-on-year while the CC Rod production was at 77 Kt up 15% year-on-year. Metal sales were at a high of 110 Kt, up 50%, year-on-year while CC Rod sales were at 71 Kt up 9% year-on-year in line with market demand.

Copper EBITDA was at ₹390 Crores this quarter up 63% year-on-year on the back of higher volumes, better operational efficiencies and improved by-product realization.

Coming to our quarterly consolidated performance, EBITDA stood at ₹7,624 Crores up 38% year-on-year, quarterly consolidated PAT for continuing operations was at a record ₹3,660 Crores up 81% year-on-year compared to ₹2,021 Crores in the corresponding period last year.

Hindalco continues to maintain its strong treasury balance of around \$808 million in Novelis and ₹15,870 Crores in India at the end of December 2021. Net debt to EBITDA continues to remain well below 2 times. At the end of December 2021, it was at 1.62 times versus 2.59 times at the end of March 2021. I am pleased to share with you that Hindalco retains this position as the World's most sustainable Aluminium company in the DJSI 2021 ranking, and the only aluminum company in the prestigious DJSI World index 2021. Hindalco has also retained its prestigious Gold Class Distinction in the S&P Global Sustainability Yearbook of 2022.

Now turning to the broader economic environment on slide #11. The global economy is expected to expand by 4.4% year-on-year in calendar year 2022 after a post-pandemic rebound of 5.9% in calendar year 2021. While the Omicron wave has not disrupted economic recovery, it may prolong the current high inflation scenario by accentuating the supply chain disruptions for a longer period of time than it was initially expected. However, as Central Bank's and Government's normalize policy



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by way of fiscal consolidation and interest rate high, inflation is expected to ease in the second half of calendar year 2022.

Faster pace of vaccination and resilience of business to respond to new COVID waves will continue to support economic recovery, however, slower growth in China and geopolitical tensions are some of the downside risks to growth. On the domestic front, Indian economic activity is gaining pace with most high frequency indicators bouncing back to pre-pandemic levels in Q3 FY2022. Government of India's economic survey projects India's real GDP growth of 8% to 8.5% in FY2023 on back of 9.2% estimated growth for financial year 2022.

The union budget of FY2023 will provide further impetus to this growth via public Capex push leading to a multiplier effect on other sectors of the economy. On the backdrop of rising global inflation, inflationary pressures have also been building up in India, while the Fed's tightening cycle will influence RBI monetary policy response, it will be mindful of domestic growth and inflation tradeoffs.

Let me now take you through the aluminium industry overview on slide #12 and #13. In calendar year 2021, the global production of aluminium grew by 4% year-on-year to around 67.5 million tons while the global consumption rebounded sharply by 9% to 68.5 million tons. This has resulted in a deficit of 1.1 million tons of aluminium in the global market.

On a region-wide split, the Chinese production increased by 5% year-on-year to 38.5 million tons in calendar year 2021. Whereas the Chinese consumption was up by 6% year-on-year. This was primarily driven by 60% growth in EVs and around 10% growth in installed solar capacity, which went to 53 gigawatts in calendar year 2021 from 48 gigawatts in calendar year 2020. This was offset by the subdued Chinese construction market and lower ICE vehicle production on account of semiconductor chip shortage. On the other hand, the overall Chinese consumption reached around 40 million tons in calendar year 2021 resulting in a market deficit of 1.4 million tons in calendar year 2021.

In the rest of the world, production grew by 3% year-on-year to around 28.9 million tons whereas consumption grew by 14% year-on-year to 28.6 million tons, due to the low base effect. This led to a small surplus of 0.3 million tons at the end of calendar year 2021.

In Q4 of 2021, the overall world production reported a marginal growth of 1% to around 16.8 million ton while consumption was flattish at 17 million tons leading to a market deficit of around 0.2 million tons. The Chinese production fell by 2% year-on-year to 9.5 million tons due to the power rationing and an accident in Yunnan. Consumption faced some headwinds from lower ICE vehicle production



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and softer construction demand. This led to a consumption degrowth of 1% year-on-year to 9.9 million tons in Q4 calendar year 2021. As the production was lower than the consumption, the Chinese market was still in a deficit of 0.4 million tons in Q4 of calendar year 2021.

In the rest of the world, despite some smelter production cuts due to rising energy prices, the overall production grew by 4% year-on-year to 7.4 million tons this quarter. Consumption expanded by 5% year-on-year reaching 7.2 million tons supported by the vaccination-led economic recovery and strong packaging growth. Consequently, the markets were in a small surplus of 0.2 million tons in Q4 of calendar year 2021.

As the global markets remain in deficit with rising global consumption and low inventory, the global aluminium prices continue to grow to \$2,762 a ton in Q4 calendar year 2021 from an average of \$2,648 per ton in Q3 calendar year 2021. This rally in aluminium prices was driven by power shortages, production cuts and depleting global inventories. However, as we speak aluminium prices averaged at over \$3,000 a ton in the current quarter sustained by global recovery, positive investor sentiments and low inventory levels.

Coming to slide #13, the domestic demand for aluminium is likely to reach 1033 Kt, a 1% growth year-on-year and a 10% growth sequentially this quarter. This is mainly attributable to a broad-based sustained recovery across all the sectors. The building and construction sectors witnessing a recovery in demand on account of government spending on projects like AIIMS, Metro Stations, the IIT's, Airports, Railway Stations, etc. A higher demand for aluminium in the consumer durable segment is witnessed with the penetration of e-commerce in India. The aluminium packaging demand continues to rise in line with growth, especially in the pharma sector. Despite the slowdown in automotive production due to semiconductor shortage, scrap import increased marginally by 3% year-on-year as other domestic producers are exporting higher quantity of alloying goods to China. The domestic sales of primary producers increased by around 10% year-on-year to 419 Kt this quarter.

Moving to slide #14, the global FRP demand is expected to grow by 6% in calendar year 2022 versus 10% growth in calendar year 2021. The market demand for beverage can sheet is estimated to grow by around 5% in calendar year 2022. Increasing demand of cans is driven by increasing can share as a sustainable packaging option for most of the beverages. The automotive segment is estimated to grow by 20% in calendar year 2022 by new program adoption and increased consumer preference for SUVs, pickup trucks, electric and premium vehicles. The semiconductor shortage uncertainty continues to impact OEM production and auto sheet demand. The demand in specialties is expected to grow by around 4% in calendar year 2022 with strong customer demand across markets including building and construction, consumer electronics, container foil packaging, and EV battery enclosures.



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The aerospace segment is expected to grow by around 30%, in calendar year 2022 as order bookings are now improving with the resumption of air travel. However, the recovery in this sector could be a bit uneven.

The domestic FRP demand is expected to grow by 9% year-on-year this quarter while it is expected to grow 17% sequentially due to the seasonal impact. Demand remains strong in packaging, consumer durables. The B&C demand has now improved due to government projects however the auto sector continues to face headwinds due to the chip shortage.

Turning to the global copper industry on slide #15. For the calendar year 2021 the global production of copper grew by 2.4% year-on-year while consumption increased by 4.7% year-on-year as compared to the previous year. In calendar year 2021, production in China grew by 6.3% year-on-year whereas consumption grew by 2.5% year-on-year.

In the rest of the world, production declined by 0.2% whereas consumption grew by 7.3% year-on-year. On a quarterly basis in Q4 2021, global copper production declined by around 2% while consumption of copper in Q4 declined by 1.6% as compared to the corresponding period of last year. During this period, production in China declined by 2.8% year-on-year while consumption declined by 2.9% on account of lower demand. In the rest of the world, production and consumption were flat year-on-year in Q4 calendar year 2021.

The annual benchmark TC/RC's of calendar year 2022 settled at 16.7 cents per pound, which is an improvement around 9% over calendar year 2021. During Q3-FY2022, disruptions at one large Peruvian mine, Las Bambas on account of some local community issues has led to tightness in the spot market. However, there was no major impact on spot TC/RC's as demand for copper at the spot rates by the smelters was relatively low, as they were focusing on the final settlement price at the annual benchmark negotiation. The spot TC/RC during the quarter was around 15.7 cents per pound compared to 14.6 cents per pound during Q3 FY2021. Spot TC/RC's are now expected to improve from current levels during the second half of calendar year 2022 as a couple of new mines are expected to be commissioned in this period resulting in additional concentrated supplies in the market.

Coming to slide #16 in Q3 FY2022, the overall domestic copper market declined by 2% year-on-year at 162 Kt on account of low demand in segments like B&C, Railways, transformers, consumer durables, etc. Imports declined by 36% year-on-year. On a sequential basis, the domestic copper demand was almost flat while imports declined by 12%. The trend of operational and financial performance for each of our business segments this quarter and that of the corresponding period of



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last year are covered in further slides and annexure in this presentation. but let me now conclude today's presentation with our key focus areas on slide #30.

Our focus on cost optimization and integration has helped the company to deliver a consistent performance over the quarters despite input costs and inflationary challenges. With the focus on stakeholder value enhancement at the score, Hindalco continues to focus on profitable growth through its investments in organic expansion in the stable and predictable downstream businesses in India and Novelis.

Our recent acquisitions in copper and aluminium both in value-added segments in India is also helping us grow in line with our long-term goals. 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 mix to strengthen its position as the world's largest aluminium downstream company.

Hindalco continues to move towards its ESG 2050 commitments. We have consistently been positioned at the top in the aluminium segment at the DJSI index and have been awarded the Gold Class Distinction in the S&P Global Sustainability Yearbook of 2022 as well. These are leading examples of our commitment of making ESG an integral way of our business while we strive to become the most sustainable company in the world.

Lastly and most importantly, Hindalco on the basis of its strong balance sheet, is now ready to embark on the next phase of organic growth. The consolidated net leverage is well below 2 at 1.62 times at end of December 2021.

Thank you very much for your attention and the forum is now open for any questions you may have.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Anuj Singla from Bank of America. Please go ahead.

**Anuj Singla:**

Thank you very much for the opportunity. Mr. Pai, my first question is on your last line. You are now deleveraged to an extent where you are comfortable with the new organic growth opportunities. If I were to juxtapose that with the high aluminium prices \$3,000 plus, which was the level we had indicated couple of quarters back for a new smelter; should we be expecting a new smelter on the upstream aluminum side in India and secondly if not that what are the other kind of segments you will be looking at for pursuing the growth opportunity.

**Satish Pai:**

Yes, I think that we have announced both in Novelis and in Hindalco, whether it is the Silvassa Extrusion Facility, the ₹3,000 Crores FRP expansion in Sambalpur and I think now you will be seeing





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the next announcement that is coming out will be a PLI linked on aluminium AC fins and inner group copper tubes that we will be announcing in India soon. I think that just taking your question and going forward, we are looking at further expansion of alumina, because we think that, that is also going to be a fairly remunerative going forward, and as far as the smelter expansion go, we are actively considering Brownfield expansions, but looking at energy sources that can help us reduce the carbon footprint. Today in India, those energy alternatives are available. So long story short, I think that over the next six to eight months both from Novelis and Hindalco in India, you will be seeing a number of organic Capex projects announcements that are going to come. As you said, we are now pass that deleveraging stage, I have to add that in India we still have the ₹6,000 Crores of bond that we told you we will repay which will then complete the India sort of deleveraging story as well. Novelis at 2.3 times is at a very comfortable position. This year the cash generation was a little bit lower because of working capital blocks with the high LME, but next year that cash will now come and we will be generating quite a lot of cash. We will be very actively looking to announce more organic projects.

**Anuj Singla:** Thank you very much for the elaborate answer. Sir, second question is on the coal sourcing and the availability in India. Can you talk about what kind of cost escalation we should be anticipating in aluminium in 4Q and what is the coal situation in India and the 5.35 million coal-linkage renewal has it happened at the same terms or there is some high premium where we will be paying to Coal India for this renewal. Thank you.

**Satish Pai:** Starting from the latter part, the 5.3 million tons linkage coal, actually came at a slightly better price than our existing linkage, so that is the first question. The second is the total cost of production escalation Q2 to Q3 was 7.5% and to be fair to say in that 7.5% cost inflation coal did not play a major role. It was largely caustic, carbon that played a more significant role. We had a lot of coal inventory that means we did not have to hit the spot market a lot, so we managed to keep that cost inflation compared to some of our competitors at much lower levels at 7.5%. I think that some of the coal inflation will now come in, in Q4, because the supply of coal was very much diverted towards the IPPs and we had to buy some on e-auction, so my guidance for cost increase Q3 to Q4 is expected to be in the range of 9.5%.

**Anuj Singla:** Got it Sir, thank you very much.

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



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**Sumangal Nevatia:** Thank you for the opportunity and congratulations on another great set of results. First question just continuing on the previous commentary on the Brownfield smelter expansion of aluminium. If I understood correctly, are we now evaluating or actively considering a smelter Brownfield expansion given that we have some better clarity on the alternate source of power other than coal, is that the right understanding and if that I mean what could be the ticket size in terms of Capex and given Brownfield any further details in terms of timeline if you could share?

**Satish Pai:** Look I cannot go much, I have already sort of said that we are evaluating. We had always said that both in Aditya and Mahan, we have sufficient land, water and all the other things, so we are evaluating that. As I said, the largest part of the evaluation is around the energy source, so for example in Aditya we soon be connected to the 400 KV grid, which allows us now as you know a lot of people are providing 80% to 85% renewable power on the National Grid, so I think give us some time there because the Capex and all that, we will get back. We are very concerned on still trying to meet our energy carbon reduction targets, at the same time. Please bear with us for another quarter or so when we finish our evaluation.

**Sumangal Nevatia:** Second Sir. Is it possible to share our hedge position and outlook on the aluminium?

**Satish Pai:** Compared to last quarter, the only thing is we have added for next year another 60 Kt at an average of \$3000 a ton. Since we last talked, we felt that \$3000/ton was a good level so we locked in another 60 Kt so the total hedge position of FY2023 now is 28% at \$2360/ton. the last 60 KTt.

**Sumangal Nevatia:** Understood, and just one last question on the value-added link on the Indian aluminium business, we are still clocking 80, 90 KT a quarter we have done some inorganic growth and also we are pending on the organic front, so over the next two, three years when do we see a meaningful increase in this volume run rate?

**Satish Pai:** Let me give you the exact number. Silvassa will add 30 to 35 KT of extrusion, Kuppam, as we have taken over, has added 15 Kt of extrusion, the Sambalpur expansion will add 170 KT of rolled products, so those are already within the announced projects. Now the aluminium AC fins that will announce will be another 20 Kt, so we are steadily adding and heading towards our 600 Kt target, which you remember I have been always talking about. Many of those projects now Capex approved statutory clearances. Silvassa by the way will have its first rolling press, that should be commissioned by December of this financial year.

**Sumangal Nevatia:** What should we expect in terms of margin or profitability, profitability delta from this value addition, maybe around \$150, \$200 in that a broad range?



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- Satish Pai:** Yes, I think more towards \$200 levels and I think that we will probably be start sharing the downstream EBITDA separately, probably from Q1 of the next financial year.
- Sumangal Nevatia:** Okay that would be great. Thank you so much Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.
- Pinakin Parekh:** Thank you very much Sir. My first question goes back to the smelter. Now over the past few quarters, Hindalco management has been consistent about not wanting to focus on upstream aluminum and not wanting to add smelters even in fact the last capital allocation day management clarified that all the capacity additions and Capex would be in downstream in India versus Novelis. Now while you did mention about renewable energy and everything, ultimately the smelter economics would be a function of LME prices, so what has changed for management to be open to considering a smelter addition even though if it is not decided yet because the issue is that by the time the company starts working on a project even if it is a Brownfield expansion, it could easily take three years for the project to be fully up and running and we do not know what happens to aluminum prices after then.
- Satish Pai:** Fair question Pinakin. I think the real issue that we have seen over the last year is that the demand for aluminium because of its various uses from a sustainability angle, which is an electrification, electric vehicles, packaging all that continues to grow whereas the supply side is constrained. We do not see a lot of new capacity that is going to come in whereas the demand is going to continue to grow, so I think that most of the people now are going to look at, and the problem of primary aluminium smelting is energy intensive and hence you have to be careful of the energy source. Why we are considering is because we believe that the LME is got a strength over the next five years. I do not know whether it will stay about \$3000 for the five years, but it is certainly going to stay at a reasonably good level because demand is strong, and supply is going to remain constrained. That is why we are considering it and I would again try to remind you of the sequence, in which I answered most of our Capex's we are announcing are all downstream capex then I talked about alumina expansion and then I talked about smelter expansion if any, so just for the record.
- Pinakin Parekh:** Just to clarify, at this point in terms of the smelter I mean, we understand that management is not finalized anything but between the two variables, which will go into the decision-making process one is the LME aluminum price outlook which as you now believe is very strong and the second is the energy source now if the energy source non-coal is not available, would it mean that the smelter expansion will not be considered even if it is a high LME aluminum price environment.
- Satish Pai:** I am considering it because I have got offers for non-coal energy, so it is not a "variable" anymore. The point that we are looking at now is how will it work what is the landed price because sometimes



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it has to be wheeled from outside the state. So it is not a question of if there is no coal or not. We have firm offers for energy to be delivered at 85% renewable in front of us. I think you have seen that in the market a lot of players are providing that, so they balance it out with about 15% thermal and with our installed capacity of power, which means that I am not adding anymore new carbon, I could be able to balance and do Brownfield expansion.

**Pinakin Parekh:** Understood, make sense and then last point just being that you mentioned that 60 KT of hedging has been done on \$3000 aluminum now given that where prices are and given that 1.3 million ton portfolio and only 28% volume being hedged, why would the company not consider more volumes to hedge at \$3000. Does management believe that aluminum prices should even rally further from here over the course of the next 12 months?

**Satish Pai:** First of all, the aluminium curve is in a huge backwardation, for us to get this 60 Kt at \$3,000, the aluminium had to cross that \$3200 for us to get \$3,000/ton because of the backwardation and in fact if you go to FY2024, yesterday we did about 6,000 tons a small amount to get \$3000 was very difficult, so the curve is in a huge backwardation that is first the second thing is yes in the next three to six months aluminium prices could go higher because of various reasons one being geopolitics, which is happening in Europe as well as very constrained aluminium in China, so yes it could go higher so that is why we had put ourselves that we need to get at least \$3,000 before we look at it and we rather keep it a little bit open now because when you are in a backwardation curve, then every quarter itself is a good you do not need to over expose yourself.

**Pinakin Parekh:** Understood, thank you very much, Sir.

**Moderator:** Thank you. The next question is from the line of Prashanth Kumar Kota from Dolat Capital. Please go ahead.

**Prashanth Kumar Kota:** Good evening Sir, thanks for the opportunity and congratulations for a good set of results across the board. My question is regarding the fear for carbon and decarbonization story; to better express myself I will ask my question with a small example. There is a housing colony where there are two families family I and family W. Family I is historically been in agriculture, now they have five sons who have all grown up, one is into banking, one is into IT, one is in a small scale enterprise, one is in small garment export things like that, and with a lot of struggle just now they bought a secondhand car for a family car, which is probably more polluting in the same house neighborhood there is family W which is since 1960 they run a huge industry, they also had a huge rail business in the transportation business, they generated a lot of emissions over the last 50, 60 years, and they become very, very rich now and same the community, same neighborhood, now W says to I we are very rich



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our tolerance to any kind of pollution is very low, so you better scrap your old car and buy a 1 Crore Tesla, EV or something and that it is literally being forced upon family rights. So now coming back to the larger frame of things. Family I is India, W is the West and the housing colony is Earth India as and it is an aluminium sector in India, we have just started to make some money, we are just starting to move out of that poverty and still we have so many deaths due to malnutrition, this, that, etc., and livelihoods is still a big thing in India. Should we be bogged down by the demands of the West. They have been polluting from 1960 and we have just started to pollute, so should we not be continue to pollute.

**Satish Pai:**

No I understand what you are trying to say and I understand the point, but you see the problem is that Hindalco is a large multinational; 50% of our metal gets exported to international countries and international companies, so I do not think and by the way the positioning of Hindalco and its subsidiary Novelis, which is more than 60% of the combined company in the international world, from a sustainability angle is very important, so I get what you are saying and that is why I think that some of our Indian competitors who do not have such compulsions have already announced large smelter expansion. So it is not that in India some people will not do it, though I personally believe that it does not matter whether you are rich or poor I think that environment is something that all of us should be concerned about, but let us forget that philosophical thing. For Hindalco, we are one of the largest and most reputed aluminium companies in the world now with international customers, international shareholders and hence our sustainability positioning is important and we have made commitments on that we will get to net zero carbon by 2050, so I think that we have to stand by the commitments we make.

**Prashanth Kumar Kota:** Sir just from the India perspective, our rich neighbor is having 10 times our capacity, if we are restricted by this passport pollution passport if we have to, how will we grow, how will our sector grow, how will our country make room for growth and if they fund us for the company let us say they give us a zero cost 50-year loan yes we will take care of all the whatever is needed.

**Satish Pai:**

You should just that is why watch what Pinakin was asking our smelter expansion if we can pull it off, which I am fairly confident with 85% renewable power that will set the direction it can be done.

**Prashanth Kumar Kota:** Okay Sir, thank you. Thanks for your time.

**Moderator:**

Thank you. The next question is from the line of Indrajit from CLSA. Please go ahead.

**Indrajit:**

Hi thank you for the opportunity. Again, going back to the growth outlook. Between aluminum and alumina, how do we see the tightness of the market because as you mentioned you would first consider alumina and we are in even long alumina right now, so would we be comfortable exporting



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or selling out large quantities of alumina initially, maybe next two, three, four years and then when our capacities of aluminum come up then we utilize that so how should we look at overall alumina?

**Satish Pai:** Yes, actually that is the right sequence you have said. We have said we think that with our bauxite capacity and what if now we get the next mine in Odisha, we can get fairly quickly, with the not a lot of Capex, add another million tons capacity. There are aluminum producers in the Middle East who will happily sign an index-based pricing for as much as we want to give them on this alumina, so you are right. We would want to do that alumina and then let the aluminum maybe catch up.

**Indrajit:** Will this all be at Utkal only right the entire expansion?

**Satish Pai:** Well, it will be in Odisha. It will be in that area need not be from that same Utkal because Utkal is now already at two million tons capacity. There are more and more mines that are going to come up in that part of Odisha.

**Indrajit:** And if I may ask a couple of housekeeping questions. What was the alumina sales this quarter and the working capital block and Capex for nine months for console, if you can help with the number?

**Satish Pai:** The alumina sales for the third quarter was 100 Kt and in Q4 we are planning to sell 150 Kt

**Praveen Maheshwari:** We will give you separately for India and Novelis. We can just add that up. In India we have seen for the first nine months about ₹2400 Crores or so in terms of working capital block. It does vary in quarter by quarter because particularly in the copper business concentrate arrival sometimes gets delayed or sometimes gets early, so it does change based on that. Aluminum working capital by in-large goes along with the cost increases and then so on, but I can assure you that quantity wise, I do not think, we block unnecessarily any working capital anywhere so primarily any working capital changes reflect the rate changes that take place. On the Capex side, this year has been a little slow in terms of cash outflow. We have spent about a ₹1,000 Crores in India on Capex so far, but I think we intend to catch up in the last quarter there is some payments are due in the last quarter. The total guidance for the year would be not more than ₹2,000 crores for this year.

**Satish Pai:** Yes, even on the Novelis call some of their Capex got delayed and in India too because of COVID and trying to get requisite clearances. The Capex that we wanted to spend we have not been able to, but we think that next year we should be having a very strong Capex here.

**Indrajit:** Sure, thank you so much.

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



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**Amit Dixit:** Thanks for taking my question, Sir and congratulations for a good performance. My first question is on coal sourcing mix. What was the sourcing mix in Q3 and how is it going to change in Q4 if you can group them in Coal India versus your own mines and imports that kind of bucket?

**Satish Pai:** 60% was linkage, 26% was e-auction, 9% was our own mines and import was about 4-5%.

**Amit Dixit:** Okay and how is it going to change?

**Satish Pai:** We hope that the linkage percentage will go up because if they diverted a lot of the linkage coal to the power plants. In the month of January, the diversion was still there. We are told after 15th February we will get more of our linkage and I hope it will at least in the second half of this quarter and in the quarter one of next year the linkage percentage should go up.

**Amit Dixit:** The second question is on your smelter again. Are you only open to setting up this smelter or Brownfield expansion in India and not looking at Greenfield, let us say smelter elsewhere? The renewable sources are available or at least the lesser carbon footprint sources are available for instance in Middle East; are you open to that auction as well?

**Satish Pai:** Not really. The Middle East they may have gas by the way and gas is not, of course the carbon footprint is lower than coal, but it is not zero, so if you look at companies like Dubal and Emal, they are also struggling so and they have no bauxite there. Saudi has a little bit, but Middle East does not have bauxite, so I do not think we will be interested in looking at a Greenfield smelter anywhere outside of India, no.

**Amit Dixit:** Okay fair enough. Thanks Sir and all the best.

**Satish Pai:** Thank you. The next question is from the line of Vishal Chandak from Motilal Oswal Financial Services. Please go ahead.

**Vishal Chandak:** Thank you for the opportunity, Sir. Continuing with this question on smelter, just a couple of thoughts I had. First of all you have highlighted that the aluminum is now under backwardation and for FY2024 even getting 6000 tons is getting difficult over \$3000/ton and at the same time we are saying that the aluminum outlet looks very promising on the back of issues, which could be temporary or could be permanent, we do not know. For example, the Russia, Ukraine there could be a pullback so the energy crisis could actually go down. China economy slowdown can actually pull them back into production and whatever we are seeing right now over the last six to nine months, can actually unwind over the next three to six months very quickly, so in that light because quarter-on-quarter you



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have been highlighting that simply because one year is a good year, we will not commit to next three years and it is just a U-turn, so how do we kind of look at this going forward?

**Satish Pai:**

First again I have to tell you, when I talk about the Capex, I came to this at the end then I said I am evaluating it so it is not a U-turn. All my announced Capex's are all downstream, but it makes sense for me to at least evaluate the economics and as I told the Pinakin's question, I do not think that just the Ukraine thing sorting itself out for the production will largely increase because China has been very clear on its ESG commitments and is not increasing capacity, so people are saying that China will never produce more than 40 million tons of aluminium. In fact people are actually saying China will go into deficit, so I do not think that in the longer-term there is going to be new supply coming in that easily. There could be strength in aluminium for the next few years and which is why I think that we should evaluate it. I do not want to give the impression on this call that we have decided to do a smelter expansion, not really, we are evaluating it. Whereas the downstream projects are being rolled out as we speak.

**Vishal Chandak:**

Because my point was more from a China perspective. Two days ago, China rolled back the peak emission deadline for steel industry from 2025 to 2030, so given the slowing economy they gave them five-year breather, that means steel production in China should essentially move up. If we see something like this on an aluminum front, the whole thesis of aluminum being a scarce commodity and the pricing should move up, but I understand you are still on the drawing board stage. The second question was, how about looking at smelters and in places where you have renewables hydropower etc., like Scandinavian countries are having alumina over here and then smelting over there. Does that as an option or doing the smelting under Novelis where cash flows are really very strong, was that also an option being discussed?

**Satish Pai:**

No not with Novelis, and by the way just take a look at the EBITDA per ton of Norsk Hydro even now with \$3000 LME prices, so yes, they have hydropower that is cheap but every other thing cost five times more. I do not think if you walk in today you are going to get a new power agreement at those prices. The reality of Iceland, Norway and all is that there are no new smelter projects being announced there, why? If they have excess hydel power and they are green why is not Hydro not announcing any expansion. They are a Norwegian company because they do not have more hydel power; that was a historical thing that they had, number two there are various ESG studies that have come out that if you put new hydro capacity by damming or something you actually create more environmental damage, so I do not think you are going to get new hydel power being installed that easily as well.

**Vishal Chandak:**

Yes it make sense. Thank you very much. Thank you.





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- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Hi! Sir, thanks for the opportunity. My first question is from a unit economy standpoint you indicated what the sourcing for coal war. Possible to indicate how much would they translate on the rupees per basis.
- Satish Pai:** No, we do not give out that number. We think that is a competitive advantage. We give you the overall COP increase percentage, so as I said it grew by 7.5% Q2 to Q3.
- Ritesh Shah:** Sure, the reason I asked this is I wanted to ask you the second question which was linked to the first one wherein you indicated that we are looking at alternative sources of energy and 85% renewable is something which can be actually tied up, so it is great that we are moving in the right direction from a USD standpoint but just trying to understand from a unit cost economics point of view, how much is the incremental cost will have to incur to achieve this goal?
- Satish Pai:** That is exactly the point that we are looking at and working with the Government, but fair to say if you look at our solar installations, which we crossed 100 megawatts already, Aditya and Mahan both are 35 megawatts each, there the cost of power is much lower than thermal as well. Now the problem is the wheeling and subsidy charges that the state electricity grids put on, which is why my answer said that once we can get onto the national grid, and if you take the benefits of the green energy meaning we do not have to buy RECs and all that, we think an economic case can be made, which is what we are evaluating.
- Ritesh Shah:** This is helpful, Sir earlier you had indicated on pumped hydro and also possibility to have possibly switch onto gas and there were negotiations which are going on with the government. Any update over here Sir?
- Satish Pai:** We think that couple of things have happened that gas pipeline in Sambalpur should be ready by the end of this calendar year somewhere around December 22, because it also got delayed because of COVID. But the problem with gas now is that because of what has happened in Europe etc., gas prices have gone through the roof and if you remember what I told you before, we need gas landed at about \$5 in MMBTU whereas today it is running at \$15 to \$18 an MMBTU, so economically it makes no sense right now.
- Ritesh Shah:** Sir. On pump hydro?



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**Satish Pai:** Pumped Hydro can be quite cheap, in fact, it is as cheap as solar there the installed capacities in Andhra Pradesh, they are talking about new projects in Madhya Pradesh etc. If it crosses a straight boundary then the wheeling charges etc., make the price a little bit too high.

**Ritesh Shah:** The reason I asked it I think we had indicated earlier that we were looking at 200 megawatts of pump hydro and you had indicated GreenCo as well that the company that we are working with; just curious on that and any update.

**Satish Pai:** We continue to work. There are other people now also coming into the market. There are a lot of players today who are trying to provide a majority renewable power mix on a high PLF basis, so we are evaluating with a lot of them and we will probably do some pilots in the near future.

**Ritesh Shah:** And you use the word hydrogen in the initial commentary any thoughts on viability what is the time line that we are looking at or is it something?

**Satish Pai:** We are doing a couple of pilot projects on carbon capture and utilization as well as hydrogen, so those are pilot projects at this stage. We are more focused on the carbon capture by the way because if you can actually make that successful then coal becomes very much usable, so the carbon capture and utilization is where we are trying to really focus on.

**Ritesh Shah:** Sir, would it be possible for you to comment on the Opex over here to my understanding and they are still at around \$40, \$50 per ton of carbon which is quite high. Is that the broad number that one should look at it or are we looking at economics which is actually better than that?

**Satish Pai:** The number you are talking about was in the carbon capture and storage, it was around \$40 to \$50. Now actually what we are looking at is after capturing the carbon, whether the by-product can be sold in a profitable way, that can change the economics rather than sequestration if you can use that carbon.

**Ritesh Shah:** And sir last question if hypothetically we had to go for a smelter is there some different technology possible on the PCB side something like IPCC which can replace super critical which can actually make more sense from a carbon intensity standpoint. Is this something that we are looking exploring at?

**Satish Pai:** We are certainly looking at the latest technology if we do anything, yes.

**Ritesh Shah:** Sure, Sir, thank you so much.



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- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Good evening, Sir. On the Question on the India Capex, you mentioned you spend around ₹1,000 Crores in first nine months. is this including maintenance Capex because I believe your maintenance Capex run rate is roughly around that number, which means you have not spent anything on growth Capex.
- Satish Pai:** The growth Capex part that is why most of the orders are going out now so we will do that catch up mostly in Q4. We are hoping to hit about ₹2,000 Crores by the March.
- Bhavin Chheda:** That is including growth plus maintenance India Capex is roughly around ₹2000 odd Crores.
- Satish Pai:** Yes, if you remember our original guidance, we were planning to spend ₹2700 Crores this year.
- Bhavin Chheda:** They had that number in the capital allocation framework when we have to...?
- Satish Pai:** Yes, we had April, May, June which was one wave then we had November, December another wave it has not been easy; a lot of the Sambalpur public hearing and clearance which we thought will be done by April and May, is now going to happen in this March and a lot of delays have come in unfortunately.
- Bhavin Chheda:** Second question on the Brownfield expansion of smelter. When you consider this decision, you consider the renewable source of energy for this incremental Brownfield or are you thinking of the eventually the total smelter has to be run on renewable energy over next 15 odd years, so you have to transition it and how is the internal IRR when eventually you decide on this Brownfield expansion.
- Satish Pai:** No, I think any Brownfield will be looked at from an IRR perspective on its own merits. It would not be mixed up with the existing thing, especially, when it comes to the power sourcing. I said we already have land we already have water we have already got logistics, we have all the rest is a sort of a positive, but when it comes to the energy source, it will be looked at on its own merits that as one of your colleagues asked it will be based on what is the price of power that we can afford.
- Bhavin Chheda:** Sure, and my last one Sir. On the coal sourcing mix, what is the actual linkage you are supposed to receive versus the 60% you got in this quarter?



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- Satish Pai:** It should be roughly 75% linkage, if we got everything that we are supposed to get. By the way, you never get 100%, but we normally used to get around 90%. That percentage it now has officially gone to 75% because they are diverting the coal to IPPs.
- Bhavin Chheda:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Samuel Chen from Alliance Bernstein. Please go ahead.
- Samuel Chen:** Thank you for your time and I promise I would not ask another smelter question, so just a couple quick ones. You mentioned about the eventual capacity getting to about 600,000 tons for the downstream aluminum in India, if my rough calculations for 320Kt annually right now maybe a little more than that and then you bought it 15,000 tons for hydro; can you lay out like what is the pace is this going to take about two years, three years to get to 600,000 tons. If you can give me a timeline, I would be great.
- Satish Pai:** Yes, your 320Kt number is right. We will get to that 600Kt in three to four years
- Samuel Chen:** That is more or less on an even pace right, so that about 280 over four years. We are looking about 60, 70 coming up every year. Is that the pace?
- Satish Pai:** No when the Sambalpur expansion happens, that is a 170 Kt, which we should be able to commission probably within the year, so you are going to see a sharp jump when that project commissions.
- Samuel Chen:** Okay all right. Thank you that is very helpful. Second question is fairly simple. Vodafone, Idea is continuously looking for money, I know it is part of the group and you guys own about 2.6% stake can I assume that you guys will automatically subscribe to that to your 2.6%.
- Satish Pai:** No. First our Chairman has publicly on record that Hindalco will not be investing in Idea anymore and has already got diluted right when the Government took over here.
- Praveen Maheshwari:** We did not participate in the recent thing and therefore we are even now at around 1.9% or something.
- Satish Pai:** We have already gone down from 2.6% to 1.9%, after the government increased its stake, which we did not participate.



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**Samuel Chen:** Okay got it and I am assuming you would not be looking to sell at the current price level, so you are just going to leave the stake the way it is.

**Satish Pai:** Yes, we will just leave it.

**Samuel Chen:** Okay, thank you very much for your time. All the best.

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

**Satish Pai:** Thank you everyone for your attention I think my only closing remark is that we are mindset wise now moved from a deleveraging focus because we think now, we are strong on the balance sheet and now we will be focused on growth projects going over. Both in Novelis and in Hindalco, the focus going forward will be on growth now and with that, I thank you for your attention.

**Moderator:** Thank you. Ladies and gentlemen, with this we conclude today's conference call. If you have any unanswered questions, please reach out to the Investor Relations Team. On behalf of Hindalco Industries Limited, we thank you for joining us and you may now disconnect your lines.