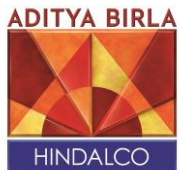


# “Hindalco Industries Limited Q3 FY19 Earnings Conference Call”

**February 12, 2019**



**MANAGEMENT: MR. SATISH PAI –MANAGING DIRECTOR, HINDALCO  
MR. STEVE FISHER – PRESIDENT AND CEO, NOVELIS  
MR. J.C. LADDHA – CEO, BIRLA COPPER  
MR. PRAVEEN MAHESHWARI – CFO, HINDALCO  
MR. SUBIR SEN – HEAD, INVESTOR RELATIONS, HINDALCO**



*Hindalco Industries Limited  
February 12, 2019*

**Moderator:** Ladies and Gentlemen, good day and welcome to the Hindalco Industries Limited Q3 FY19 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Subir Sen – Head, Investor Relations. Thank you and over to you, sir.

**Subir Sen:** Thank you. And good evening and a very good day to everyone. On behalf of Hindalco Industries Limited, I welcome you all to this Earnings Call for the third quarter of FY19. For this call, we will be referring to our investor presentation that is already uploaded in our company website. Some of the information on the call may be forward-looking in nature and will be covered by our safe harbor language on Slide #2 of the investor presentation.

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

On today's call, we have with us Mr. Satish Pai – Managing Director; along with Mr. Praveen Maheshwari –Chief Financial Officer; and Mr. J.C. Laddha –CEO, Birla Copper. From the Novelis management on this call, we have Mr. Steve Fisher – President and CEO.

Now let me hand over this call to Mr. Pai for his opening remarks. Thank you, and over to you, sir.

**Satish Pai:** Thank you, Subir. Good evening, good morning, everyone. Welcome to our earnings call for the third quarter of FY19 of Hindalco Industries Limited.

Let's move on to Slide #3. I will begin with key highlights of the company's performance in Q3 FY19. This will be followed by an update on macroeconomic and industrial environment. Later, I will be covering operating performance of the company for all our business segments in detail. And Praveen will elaborate on the financial performance in this quarter.

Let me start with the key highlights of this quarter, starting with Slide #5.

Hindalco had another strong quarterly performance, despite headwinds in terms of costs and global uncertainties. Our Indian business has achieved a quarterly EBITDA of Rs. 1,926 crores versus Rs. 1,861 crores in the corresponding quarter, up 4%, reflecting strong performance on account of supporting macros and better realizations, offset by a rise in input cost. This quarter, there was also



*Hindalco Industries Limited  
February 12, 2019*

a significant reduction in the interest cost by at least 12%., This was mainly due to a loan prepayment of Rs. 1,575 crores, continuing our focus on deleveraging.

Profit before tax was up 10% at Rs. 941 crores on the back of lower interest cost and higher EBITDA during the quarter. We have reported profit after tax of Rs. 713 crores this quarter. This was up 47% year-on-year, reflecting Hindalco's consistent strong financial performance. Net debt-to-EBITDA ratio continues to fall, this was at 2.36 times as on 31st December 2018 versus 2.67 times at the end of March 2018.

Let me now give some updates on each of the businesses.

Coming to our Indian aluminum business, In Q3 FY19 our aluminum EBITDA, including Utkal, was at Rs. 1,286 crores, up 8% versus the corresponding quarter. EBITDA margins were at 21% in Q3 FY19 and 23% for the nine months FY19 due to supporting macros and better realizations. This was despite the business facing headwinds due to oversupplied domestic market on account of continuous surge in imports, rising input costs and the effects of the ongoing US-China trade war.

Aluminum metal production was 324 KT, which was consistent with last year's figure. Alumina production was higher this quarter at 749 KT compared to the corresponding quarter last year due to better operational performance.

Moving to Slide #6. Our copper business reported higher volumes on account of ramp-up post maintenance shutdown. The plant is now reaching its optimal capacity again. EBITDA for the copper business in Q3 FY19 was Rs. 431 crores, marginally up year-on-year. This was on the back of higher volumes and better by-product realization.

Cathode production was higher at 105 KT versus 101 KT in the corresponding period. Our value-added copper rod production was higher by 59% at 66 KT due to the ramping up of the new CCR-3, which produced additional around 33 KT this quarter. So, the overall share of VAP in copper in the total sales volume was 58% in Q3 FY19 versus 40% in the corresponding quarter last year. DAP production was up 35% at 76 KT versus 57 KT in the corresponding period.

Coming to the performance of Novelis for Q3:

You must have seen the financial results that were declared earlier this month. I will share with you some key highlights of this performance. Novelis also had a record Q3 performance this year with adjusted EBITDA at \$322 million, up 6%; and overall shipments at 800 KT, up 1% year-on-year.



*Hindalco Industries Limited  
February 12, 2019*

The beverage can shipments grew 4% year-on-year. Overall, automotive shipments were the same as in the corresponding quarter. Novelis achieved quarterly EBITDA of \$403 per ton in Q3 FY19 versus \$383 per ton in Q3 FY18. This demonstrates consistent growth in its operational performance.

Net income was \$ 78 million in Q3 FY19 versus \$ 121 million in Q3 FY18, which had a write-back of deferred tax liabilities of \$ 34 million, arising from the tax reforms in the US that quarter.

On Aleris acquisition, various regulatory approvals are in progress, and we expect this to close in Q2 of FY20.

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

Overall, the global economic growth is mixed. The US economy continues to show strength, contrasted by weaknesses in Europe and China. The US PMI continued to be in expansionary zone with the January 2019 PMI index touching 56.6 versus 54.3 in December 2018.

In China, the GDP growth continues to witness moderation. In CY18, it recorded a growth of 6.6% year-on-year. The slowdown was largely due to the impact of the ongoing trade war, low domestic demand and increased government borrowings.

In the Euro area, PMI Composite Output Index edged lower in January 2019, falling for the fifth successive month to register its lowest levels of 51 in January 2019. The moderation in PMI was majorly driven by subdued economic activity in France and Italy. The current economic scenario is volatile, therefore, IMF has revised downwards its global economic forecast to 3.5% for CY19 from 3.7% estimated for CY18.

The Indian domestic economy remains strong. With moderation in inflationary pressure, RBI has reduced the key policy interest rate by 25 bps to 6.25%. This interest rate cut was the first one since August of 2017. The index of industrial production also strengthened in April to November 2018 to 5% year-on-year as against 3.2% year-on-year in the corresponding period of the previous year.

PMI manufacturing index is also indicating growth in the economy, as the index value remains in the expansionary phase at 53.9 in January 2019 versus 53.2 in December 2018. As per the latest estimates released by the Government of India, GDP is expected to grow by 7.2% for FY19.

Now let me move on to the aluminum industry overview in the next slide.

In CY18, global consumption of aluminum moderated to around 3% year-on-year versus 6% in CY17, majorly on account of moderation in demand from China. Consumption in China grew by



*Hindalco Industries Limited  
February 12, 2019*

4% in CY18 as compared to 8% in the previous year. Recently, China has announced a series of stimuli that are specifically focusing on infrastructure development, boosting demand in automotive and consumer durables. These measures are likely to support Chinese aluminum industry going forward.

Global production in CY18 grew marginally by 1% versus a growth of around 8% in CY17, thereby creating a deficit of around 1.5 million to 1.6 million tons in the global market.

Domestic aluminum consumption in India grew significantly, that is by 11% year-on-year in YTD December 2018. However, primary domestic producer sales witnessed a decline of around 1% due to low-cost imports majorly coming from China and FTA countries. Imports, including scrap, registered a growth of around 21% in the same period. The surge in imports also increased the market share of imports from around 55% in the April to December 2017 time frame, to around 60% in the April to December 2018 time frame despite growth in domestic production of around 12% year-to-date December 2018.

Among the user industries, transportation grew by 12%, construction grew by 10% and packaging grew by 9%, witnessing a robust growth scenario. Electrical and consumer durable segments account for 54% of the total consumption and grew by 7% each, respectively. We expect demand growth in FY20 to be 7% to 8%, majorly driven by transport, construction and packaging sectors. Despite increase in demand, the domestic players are struggling to gain market share as low-cost imports are dominating the market.

LME during Q4 CY18 remained muted on account of moderation in Chinese demand and intensifying trade tension between US and China. However, we are hoping that trade tension will ease out soon, and the recently announced policy stimuli in China will support demand of aluminum, coupled with the global market balance, which is likely to remain in deficit of around 1.5 million tons in CY19 versus a deficit of 1.6 million tons in CY18.

Our conservative view of LME price for aluminum in CY19 is around \$1,800 to \$2,000 a ton, largely supported by a significant rise in the cost of production. In the current scenario, around 50% of the smelters are unviable globally. Due to an increase in input cost, moderation in demand and environmental concerns, China has closed nearly 3 million tons of capacity in CY18. On the optimistic side, we are expecting the aluminum price to be in the range of \$2,000 to \$2,200.

I will now move to Slide #10 on the copper industry overview.

Global copper concentrate market balance in CY18 witnessed a further increase in surplus to around 190 KT as against a surplus of 120 KT in CY17. Refined copper consumption witnessed a marginal growth of around 2.8% in CY18 versus a growth of 2.7% in CY17. However, production



*Hindalco Industries Limited  
February 12, 2019*

growth in CY18 recorded a growth of 3% as against a growth of 2% in CY17. The global market was broadly balanced in CY18 with a marginal surplus of around 200 KT.

Domestic demand has grown strongly by 15% year-to-date FY19 year-on-year. Imports grew by 28% in YTD FY19 year-on-year. Share of imports grew from 37% to 41% YTD FY19. LME prices of copper moderated by 10% from US\$ 6,172 in Q4 CY18 from the US\$ 6,808 in Q4 CY17 due to trade tensions between the two largest economies of the World and concern over moderation in Chinese growth.

Let me now come to the operating performance of each of the businesses on Slide #13.

Alumina production reached its optimal utilization in Q3 FY19 at 749 KT due to better operational performance. Utkal continued to perform well as the most economical alumina producer globally.

Aluminum metal production was consistent at 324 KT in Q3 FY19, similar to the corresponding quarter as well as the previous quarter. For year-to-date December 2018, aluminum metal production was 973 KT versus 971 KT in the corresponding period. On the value-added side, production was at 120 KT in Q3 FY19, which was a slightly lower than the corresponding period. This was mainly on account of lower wire rod output in Q3 FY19 due to large volume of imports.

Moving on to Slide #14, on sales volume. Aluminum metal sales was 323 kt in Q3 FY19, which was the same as the corresponding period. Value added product sales in Q3 FY19 was slightly lower at 115 KT compared to the corresponding quarter. This was despite challenges with respect to the continuous surge in the flow of imports, especially scrap, fake semis and also primary VAP and wire rods.

Moving on to the operating performance of our copper business on Slide #16. Production of cathodes in Q3 FY19 was 105 KT, which was higher than the corresponding period due to optimal capacity utilization post the maintenance shutdown of approximately 55 days stretching over the last two quarters. On the value-added side, our new copper rod plant, CCR-3, is ramping up well and achieved a production of 33 KT in Q3. The overall CC rod production was 66 KT, up 59% year-on-year. DAP production was also higher by 34% at 76 KT in Q3 FY19 compared to 57 kt in Q3 FY18.

Let me give you our copper sales volume for the quarter on Slide #17. Overall copper metal sales was 99 KT in Q3 FY19, slightly lower than the corresponding period last year. CC rod sales in Q3 was 57 KT, which was higher by 40% year-on-year on account of higher sales from our CCR-3. The share of copper VAP sales to total sales volume increased to 58% in Q3 versus 40% in Q2 FY19.



*Hindalco Industries Limited  
February 12, 2019*

Now let me move to the operational performance of Novelis in Q3 in brief, coming to Slide #19. Novelis reported a record Q3 performance on the back of solid operational performance, better product mix, continuous cost focus and favorable market conditions. Demand for aluminum FRP remained strong across end markets. Overall, shipments increased by 1% year-on-year. The beverage can market continues to remain strong in the near and long term with can shipments growing 4% year-on-year. Automotive expansion projects in the US and China are under construction and on schedule and expected to commission by FY21. The recently announced expansion plan in Brazil of 100 KT rolling capacity and 60 KT recycling capacity is also under construction and on schedule. The regulatory steps for Aleris acquisition are at various stages of approvals and expected to close in Q2 FY20.

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

**Praveen Maheshwari:**

Thanks, Satish. Coming to Slide #21, this slide gives a brief snapshot of the key numbers of our financial performance during Q3 FY19 and its corresponding quarters for Hindalco standalone plus Utkal. As we informed earlier, this presentation includes the financials of Utkal Alumina.

Revenue in Q3 FY19 stands at Rs. 11,938 crores versus Rs. 11,044 crores in Q3 FY18. EBITDA at Rs. 1,926 crores in Q3 FY19 was higher by 4% year-on-year despite increase in input costs.

Profit before tax and before exceptional items in Q3 FY19 jumped to Rs. 944 crores in Q3 FY19, showing an increase of 10% compared to Q3 FY18 due to strong overall business performance and savings in interest outgo. As compared to the previous year, interest expense was lower by 12% due to prepayment and re-pricing of long-term loans in India. Profit after tax grew by 47% at Rs. 713 crores in Q3 FY19 versus Q3 FY18, reflecting a strong and sustainable performance.

Now I will move on to segment-wise performance. On Slide #22, I will share with you the performance of our Indian Aluminum business, which includes the financials of Utkal Alumina.

Revenue for aluminum segment for Q3 FY19 was Rs. 6,018 crores versus Rs. 5,346 crores in Q3 FY18, which was higher by 13% on account of better macros and stable operations. EBITDA was up 8% at Rs. 1,286 crores compared to Q3 FY18 on account of better macros and better realizations despite pressure on the input costs. EBITDA margin was at 21% despite high input costs. If you wish to know the results of Hindalco standalone, they are available in the appendix to this presentation.

Coming to the financial performance of copper business on Slide #23. Revenues in Q3 FY19 were Rs. 5,925 crores versus Rs. 5,701 crores in Q3 FY18. This was on account of higher dispatches in Q3 FY19 and also better realization of byproducts. EBITDA in Q3 FY19 for copper business was Rs. 431 crores, which was marginally higher compared to corresponding period last year.



*Hindalco Industries Limited  
February 12, 2019*

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

Novelis revenues were up by 3% to \$3 billion in Q3 FY19 versus \$2.9 billion in Q3 FY18. This was mainly driven by higher total shipments and favorable product mix. Novelis achieved adjusted EBITDA of \$322 million in Q3 FY19 versus \$305 million in Q3 FY18. This was mainly due to better product mix, effective cost management, better efficiencies and favorable market conditions. Novelis reported quarterly adjusted EBITDA per ton of \$403 in Q3 FY19 versus \$383 in Q3 FY18..

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

**Satish Pai:**

So, let me summarize on Slide #25 our overall business performance and some key risks.

In Q3 FY19 we achieved an overall strong performance across all our Indian businesses, despite a challenging environment in terms of high input costs and high level of imports. We reported a strong growth in profitability in this quarter, aided by continuous reduction in interest outgo on account of our focus towards strengthening our balance sheet.

Novelis also reported a continuous and steady performance in Q3 with growth in EBITDA and EBITDA per ton year-on-year on the back of cost optimization, recycling benefits, better spreads and overall favorable market condition.

Our consolidated net debt-to-EBITDA remains well below 3, at 2.65 at the end of December 2018. We prepaid Rs. 1,575 crores of long-term loans in October 2018.

On growth opportunities, our 500 KT, Utkal Alumina expansion is on schedule and is expected to be commissioned by FY21. This will take our total alumina capacity beyond 3 million tons per annum.

The value added CCR-3 expansion in the copper business is ramping up as per schedule. This year, it is expected to produce more than 100 KT and will continue to ramp up during the next year. This will further help to capitalize on opportunities in the domestic market and meeting customer demand.

Novelis' expansion projects are on schedule and expected to ramp up in the next two years. Approval for Aleris acquisition is in progress, and this transaction is expected to close in Q2 FY20.

Our key risks are the following: rising imports of aluminum, including scrap, fake semis and other value added products from China and FTA countries into India; rising input costs mainly of coal and furnace oil; weakening of global demand led by slow growth in China, which will lead to





*Hindalco Industries Limited  
February 12, 2019*

moderation and consumption growth for both aluminum and copper; and impact of Brexit on the automotive demand in Europe.

With this, I would like to thank you all very much for your attention. And the forum is now open for questions you may have.

**Moderator:** Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Sumangal Nevatia from Macquarie. Please go ahead.

**Sumangal Nevatia:** Sir, first question is with respect to the value-added volumes in the aluminum division. Now since last two, three years, we are still at 120, 115 range on a quarterly basis. So, I mean, if you can just explain why the volume here is stagnant? And from which period do we expect some step jump?

**Satish Pai:** So, if you will remember, the first thing I said is we are actually upgrading the quality of our downstream before we go for volume increase. Now, what you have seen in this quarter specifically, as I mentioned, is that we had to actually cut back on our wire rod production because of the high level of imports coming in from Malaysia, which is why the wire rod production was down. Otherwise, the VAP volumes would have jumped up as well. But take your second part of the question, really a step jump will come in when we put in more new capacity. Hirakud has got still about 20 KT to ramp up. So at the first stage, it is more about the quality improvement in the products that we had on the ongoing portfolio rather than a volume jump. And in this quarter, the EBITDA from the downstream products has started to show up already.

**Sumangal Nevatia:** Okay. Sir, is it possible to quantify as to what benefits we could get from this quality upgradation?

**Satish Pai:** So, what I have said is our historical EBITDA per ton on the downstream, because a large part of it was the 3000 series common alloy, was more like \$40 a ton. And our ultimate goal is to reach \$150 a ton on that 300 KT. But I think what you are seeing, it will take steps. So we have now reached about \$50 a ton.

**Sumangal Nevatia:** Okay, understand. Sir, second question is with respect to costs. If you could just share your latest thoughts on how we see cost shaping up in fourth quarter and next one to two quarters overall with respect to coal cost and also some of other raw materials like caustic, etc?

**Satish Pai:** So, the good news for this quarter actually if you see, I attribute a large part of our good performance this quarter is because we have managed to keep the cost of production under control. So if you will remember on the last analyst call, I had said that from this point onward, it will flatten. So actually, Q3 was flat with Q2 from a cost point of view. And Q4 will be flat to slightly down on a cost point of view for aluminum. Coal costs have remained flattish, so whereas coal availability is a bit tight, we still have to bring a lot more by road. If we could get more rakes, then the coal price also would have gone down for us. But if I presume that I won't get too many rakes



*Hindalco Industries Limited  
February 12, 2019*

and still have to continue with a large road movement, then Q4 will be flat to slightly downwards with Q3.

**Sumangal Nevatia:** Okay. Any other significant changes in other raw materials, caustic or anything, which is meaningful?

**Satish Pai:** Well, no, caustic prices compared to Q1 and Q3 have come down. It is also fair to say that some of the carbon product prices have started to come down with oil price. The only two that remain high is still furnace oil, it is still on the higher side, though Q on Q it is starting to show some signs of coming down. And coal prices remain flat on a rupees per million kilocalorie basis.

**Sumangal Nevatia:** Okay. So overall, flat to slightly negative in fourth quarter QoQ?

**Satish Pai:** Yes, negative meaning the price going down.

**Moderator:** Thank you. We take the next question from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

**Abhijit Mitra:** So, first is on the coal side. So we have seen hardly any auctions happening from Coal India in this quarter. So out of, say, a quarterly run rate of 4 million tons of consumption, if you can break it up between your linkage, captive and imports for the quarter, it would be of great help?

**Satish Pai:** Perfect. So own mines, 14%; linkage, 59%; e-auction, 21%. And we actually did a little bit of imports in Q3, about 2%.

**Abhijit Mitra:** Okay. So how much did you say e-auction? I missed it, sorry.

**Satish Pai:** E-auction was 21%. So about 940 KT of coal we got through e-auction. We consumed, to be very exact, 4.5 million tons of coal in Q3.

**Abhijit Mitra:** With e-auction, you see continuing in Q4 this much volume you can get in Q4 also?

**Satish Pai:** No. You see, Q4 our plan is to use, I think more or less yes, I think we should be able to get, though we are assuming that linkage could slightly pick up in Q4.

**Abhijit Mitra:** Okay. That's good.

**Satish Pai:** And even our own mines, we are planning to take a slightly higher amount in Q4.

**Abhijit Mitra:** Okay. That's helpful. And secondly, I think this is a question which was asked in one of your group entity call also. So we have seen Vodafone Idea planning to raise Rs. 25,000 crores. So we are trying to maintain our stake there? Or how do you see that happening?



*Hindalco Industries Limited  
February 12, 2019*

- Satish Pai:** Yes, I think we have been fairly consistent. I mean, we have a small 2.6%, and this is a 25-year investment. And we think at the current levels, we will maintain that 2.6%. We have no intention of increasing it, but we will keep that 2.6%.
- Moderator:** Thank you. We take the next question from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.
- Kamlesh Jain:** Sir, just one question, like, why your other expenses has been rising so sharp like, say, year-over-year, quarter-on-quarter despite the fact that our production sales volume has been on the same levels?
- Praveen Maheshwari:** No. So actually, it is a classification issue. When our own mines' production goes up, some part of the expense actually goes into that. Actually, this classification as per the SEBI does not completely reflect the true picture. You should look at the overall expense and not just the other expense.
- Kamlesh Jain:** Okay. But like, say, if we take that premium on extraction of that, the premium which we are paying on the extraction of coal, so how much quantum that would be like, say, vis-à-vis last year in nine months period?
- Praveen Maheshwari:** We can give you breakup offline. But if you look at the overall cost, you should look, when you are looking at power, you should look at rupees per million kilocal, which has been more or less flat with the previous quarter. That has not gone up, despite the fact that we faced coal shortages in the country and there have been infrastructure bottlenecks.
- Satish Pai:** Yes. Year-on-year, it has gone up.
- Praveen Maheshwari:** Year-on-year, it has...
- Satish Pai:** Sequentially, it has been flat, yes.
- Moderator:** Thank you. Next question is from the line of Amit Dixit from Edelweiss. Please go ahead.
- Amit Dixit:** What would be the level of hedges in Q3 and Q4?
- Satish Pai:** So Q4, we have 27.5% at LME of Rs. 141,700/ton, and 11% at a commodity only of USD 2,287/ton.
- Amit Dixit:** Okay, wonderful. The second question is on your financials. If I compare EBITDA at a stand-alone level and stand-alone plus Utkal, so there is one other component. The EBITDA is like Rs. 250 crores in the stand-alone level. But including Utkal, it is around Rs. 205 crores. So what is this negative component?



*Hindalco Industries Limited  
February 12, 2019*

**Praveen Maheshwari:** Yes, so there is one item which I think I need to explain. Hindalco had given guarantee for Utkal, Utkal's loan from the banks, but since we have repaid half of the loan in Utkal, that guarantee we have been able to negotiate with the bank is to fall off. So there, the guarantee no longer exists. As for the accounting standards, we are required to fair value even the value of the guarantee. So there was a certain item which was residing unamortized as a cost and liability in the books of Utkal and Hindalco, respectively. Now when this guarantee falls off, you have to write off and write back. So write-off is in Utkal's books. And in Hindalco books, it is a write-back. So in the stand-alone books, it will appear as an income. But when you consolidate, the expense in Utkal is offset against the income in Hindalco. So really speaking, that is why we publish now the standalone plus Utkal results, which is consolidated, so that these kinds of inter-unit transactions get offset. So you should really look at the Hindalco plus Utkal as an entity together.

**Amit Dixit:** Okay. Are there any more guarantees that we have provided? Or it is the end of it?

**Praveen Maheshwari:** No, this was the only guarantee. It is a 100% subsidiary. When we took these loans, you will remember this was almost four, five years ago when the times were tough, our projects were not up and running. So that time, for taking a loan in Utkal, it required Hindalco to support it by providing a guarantee for the loan. Anyway, it was a 100% subsidiary. So for Hindalco, the economic exposure was anyway there. But bankers required us to provide that guarantee. There are no more financial guarantees at this time.

**Moderator:** Thank you. Next question is from the line of Rajesh Lachhani from HSBC. Please go ahead.

**Rajesh Lachhani:** Sir, my question is regarding the Copper segment. So basically, we had a production of 105 KT, and we sold 99 KT. So I just wanted to understand why our sales were lower than the production. That is one. Second question would be, sir, the TC/RCs, you have mentioned, have been lower in this quarter. So I just wanted to understand the absolute quantum of the TC/RCs QonQ and YoY. And the third and last would be your views on the hedging going into FY20.

**Satish Pai:** Yes. I will let you Laddha Jagdish answer the copper. I will take the hedging.

**Jagdish Laddha:** On the first one, see, the Q3 Production was 105 and Sales was 99. This was mainly because we wanted to keep some inventory for the next month because we had planned a short shutdown. So that in the era when the Sterlite is not working, we are able to consistently supply to the customers. That's the only reason.

**Satish Pai:** So you basically smelter one is going through a shutdown as we speak now. So we wanted to ensure enough cathodes for that.

**Rajesh Lachhani:** So sir, the TC/RCs have fallen quarter-on-quarter. So I just want to understand the reason. Like what was the quantum of the TC/RC fall?



*Hindalco Industries Limited  
February 12, 2019*

- Jagdish Laddha:** Basically, we have the long-term contracts. So in the -- for the last year, the TC/RC was \$21.98. And based on whatever contractual commitment we had, we had received that concentrate. So basically, it was the impact of that. That's why the TC/RC for this quarter, quarter three, was \$21.98 and quarter two was \$23 all the opportunities in quarter two. That was the only reason.
- Rajesh Lachhani:** So sir, what is the contract TC/RC over the next half year or one year?
- Jagdish Laddha:** So basically, the TC/RC is a global negotiated item, which is lower by 2.7% in this calendar year...
- Jagdish Laddha:** It is \$20.70, Rajesh, for calendar year 2019.
- Rajesh Lachhani:** Okay. And sir, the last one. So going forward, like, you've not done any hedges for FY20. So is this our stand for 2019?
- Satish Pai:** FY20, we have 11% Rupee LME hedged at Rs. 152,400/ton and 4% only commodity at USD 2,421/ton. So we have roughly about 15% hedged for the next year.
- Moderator:** Thank you. Next question is from the line of Pinakin Parekh from JPMorgan. Please go ahead.
- Pinakin Parekh:** Sir, two questions. My first question is, sir, can you refresh us in terms of where you are? Where is the company in terms of ramping up its own coal mines? What was the stated capacity across all the mines and have we achieved full production on those mines?
- Satish Pai:** So Pinakin, if you remember, we got four owned mines. So we have had three operating. And the three operating, we normally use balancing what we get from the linkages and the e-auction. So normally, monsoon times, we ramp it up. Winter times, we ramp it down because with the own mines on a rupees per million kilocal is higher than what we get on the linkage. The fourth mine, Dumri, should start middle of this year. So Dumri, we are expecting will start sometime around June. Then all four mines will be running.
- Pinakin Parekh:** Understood. And my second question is, if you look at standalone plus Utkal basically for the last three quarters' run rate of net profit plus depreciation, it annualizes to roughly Rs. 5,000 crores. Now, sir, going into FY20, the next couple of years, if we do not assume any change in these levels of profitability, how much more debt paydown would the company be looking to do?
- Satish Pai:** So that is a, Pinakin, good question in the sense that if you take going forward, it depends on the LME profile that you will see. Because our CAPEX for the growth next year will be slightly higher because a large part of the Utkal expansion will come next year. So this year's CAPEX has been around Rs. 1,300 crores, whereas next year's will be around Rs. 2,000 crores. So the first use of the cash will actually go towards that growth CAPEX. So we will only repay more after we have done our growth CAPEX projects. So we are currently comfortable at the 2.35 times net debt-to-



*Hindalco Industries Limited  
February 12, 2019*

EBITDA, but we are conscious of the fact that we still have Rs. 18,000 crores of long-term loans. So depending on the cash generation, any time we have excess cash, we will repay more down. We are not going to guide anything specific at this stage.

**Pinakin Parekh:** But sir, would it be fair to assume that there should be some paydown? The quantum will depend on the moving parts in terms of the actual cash generation and the CAPEX?

**Satish Pai:** Absolutely yes.

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

**Sanjay Jain:** My question is on the line items below the EBITDA level, especially this depreciation number, which has been a little volatile. So, I mean, it is not moving too much but still, like, it is moved up and down. So any reason why the depreciation has gone up...?

**Satish Pai:** Yes, Praveen will answer that.

**Praveen Maheshwari:** Sanjay, a couple of things. Actually, the base depreciation hasn't really gone up much. But this quarter, we had higher production from Kathautia. And as for the accounting standards, again, the stripping cost has to be allocated in accordance with the production. So higher production means higher stripping cost, and it is allocated more. So that goes into depreciation itself. So that is one reason. A couple of other reasons were, we had some accelerated depreciation on a couple of smaller plants, which were kind of plants, I would say these are equipments which were discarded during the period as we had a shutdown in copper and when you write down old equipment, that goes into an accelerated depreciation. That is the reason. There is nothing to worry about there.

**Sanjay Jain:** Yes. So, I mean, is that a normalized rate? Or we should take a number between this and the second quarter? Or is there no...

**Praveen Maheshwari:** Yes, somewhere between that. This is very difficult to predict exactly what will be the amount. But yes, last quarter was...

**Satish Pai:** 470 level is the...

**Satish Pai:** 475 was last quarter. This quarter is 505. Somewhere in the middle is where normal is.

**Sanjay Jain:** And similarly, on other income, any guidance? Like apart from the interest income, what are the other moving parts in this?

**Praveen Maheshwari:** See, everything other than the business income actually resides in this other income. It is net of expenses. You know that we have Rs. 6,000 crores of treasury, which gives us about 7% to 8%



*Hindalco Industries Limited  
February 12, 2019*

interest. So that is one part of regular income, which sits in the corporate income. But any other income that we get, for example, sometimes we get some refunds, some interest, any other income that comes, some write-backs sometimes, so all that goes into this other income category, and therefore it is very difficult to predict the quantum of this particular box. But roughly, about Rs. 100 crores, Rs. 120 crores is something that we can normally take it as minimum. And then anything that comes on top of that gets added to this.

**Sanjay Jain:** Noted. So you have no intention to bring down this treasury from Rs. 6,000-odd crores level, right, until...

**Praveen Maheshwari:** I can say we have no intention to take it up further. Rs. 4,000 crores is something we feel comfortable with. Rs. 6,000 crores is even more comfortable. It is not required generally speaking. But like this year, we have seen a huge swing of working capital for various reasons, for costs going up and many other reasons. So some amount of treasury is required to take care of these working capital swings. But to answer your question, Rs. 4,000 crores is our comfortable level anyway. We also have to keep in mind that, as we mentioned, CAPEXs sometimes, especially the growth CAPEXs, do not come in a specific pattern. So for example, next year, we are going to have a higher CAPEX. We are also guided by the fact that we are a commodity business, so we should be better prepared not only in terms of net debt-to-EBITDA but also in terms of real cash in the treasury to be able to sustain if the macroeconomics turns adverse.

**Sanjay Jain:** Noted. One more question. Under line item increase, decrease in stock. So for the last 3 quarters, you have continuously seen an increase in stock. I mean, you did explain something on the third quarter, but, I mean, we didn't discuss this for the first half. I mean, actually, every quarter, it has gone up.

**Praveen Maheshwari:** Yes. So in fact this it relates to the previous question, when I said working capital swing, so this year in the nine months, we have seen a large swing in the working capital blockage and for various reasons. But hopefully, some of it will come off in the coming year or so. And that is reflected in the higher inventories as well, part of that.

**Sanjay Jain:** But is it the raw material, sir, of the finished products?

**Praveen Maheshwari:** It is a mix of many things. You see, one is the rate increase. And so you've seen the costs going up everywhere. So when the costs go up for the same level of inventory, you have to invest more in the working capital. There are certain other items. For example, we talked about the copper finished goods inventory being higher. So that has contributed in Q3. So similar things. Coal advances, for example. Coal situation has been pretty bad. So some of the coal we have seen a higher level of coal advances getting stuck there. So there are many factors which have contributed, but I am saying that working capital is something that we are very watchful of, and we are likely to see some correction going forward.



*Hindalco Industries Limited  
February 12, 2019*

- Moderator:** Thank you. We take the next question from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** Sir, my first question is on the hedging impact for this quarter's numbers. If you could just help us with the numbers, how the impact actually was.
- Satish Pai:** First quarter, it was positive impact. So Praveen will provide...
- Praveen Maheshwari:** Total hedge gain is about Rs. 90 crores in this quarter.
- Ritesh Shah:** Okay. And sir, under what line item would this be?
- Praveen Maheshwari:** This will be sitting in the realization line itself. It goes into the top line for us.
- Ritesh Shah:** Okay. And sir, how should we look at the incremental volumes? You indicated around 38% of the volumes for Q4 and around 15% of volumes for FY20. I think you earlier stated guidance was core hedges would be around 25%, 30% of the volumes. So sir, how should we look at this?
- Satish Pai:** Well, as you said, we would like to be 25%, but we did not get the opportunity from sort of October, November onwards, which is normally the period when we do the next year's hedging. So we are basically now not able to go to our 20%, 25%. If the LME spikes up or so, we will do it. But otherwise, we are at the 15% that I just mentioned. We don't want to hedge at lower levels.
- Ritesh Shah:** Okay. That helps. Sir, my second question is on the CAPEX side. You indicated around Rs. 2,000 crores of CAPEX for next year. Is that correct?
- Satish Pai:** No, I will tell you what. I will give you the full guidance of CAPEX after the March budget meeting. So in the next quarter's call, we will give you because we have not finalized that yet. But it will be higher because Utkal expansion, most of the costs will come in during next year.
- Ritesh Shah:** Okay. Sir, I just wanted your thoughts on the incremental downstream CAPEX that we have spoken about, right, Rs. 5,000 crores over for the next five years. So what is the kind of products that we are looking at? Specifically, you indicated on the aluminum upside, there were certain imports and we had to cut down on wire rods. I was just trying to get some sense of how are we looking at that part of capital allocation.
- Satish Pai:** See, wire rod is what you call primary value add because it is a fairly simple product to make. What we were talking about in downstream is extrusions and rolled products and foil. So if you remember in Gujarat, we have signed an MoU with the government to put up a big extrusion farm, looking at the building and construction sector. So that is one part of the strategy. The second part is in Hirakud, we are doing more on the rolled products, trying to focus on 5000 series, hard alloys, more for the transportation sector and at the industrial sector. So this is more on the higher value-





*Hindalco Industries Limited  
February 12, 2019*

added side we will be putting, not on the wire rod. Wire rod, we have no intention of expanding our capacity anymore.

**Ritesh Shah:** Okay, that helps. And sir, lastly, anything incremental on import duties on scrap? Anything that you are hearing from the government?

**Satish Pai:** All I can say is we continue to make a very strong case that the import level is too high. It is because India is getting caught in the sort of trade war between US and China. And hence, the Chinese rolled products are now streaming into India. What the government will do from an action point of view, I would not like to guess anymore. I mean, we are in a very difficult period now before the elections.

**Ritesh Shah:** Right. Sir, can I ask what has been proposed by the industry or the aluminum association to the government on import duties?

**Satish Pai:** Yes, that I can tell you. I mean, what we have actually proposed is that the duty should be increased on primary and scrap and the downstream. And we have said increase the downstream more than the primary. So that's the downstream. SMEs can actually benefit. So to give you an example, current duty levels are 7.5% for primary, 2.5% for scrap, 7.5% for downstream up to a certain level and then 10%. What we have actually told the government is make 7.5% of primary 10%; 2.5% was scrap, make it 5%; downstream, 7.5%, make it 12.5%; and the 10%, make it 15%. That's our recommendation.

**Moderator:** Thank you. Next question is from the line of Dhawal Doshi from Haitong Securities. Please go ahead.

**Dhawal Doshi:** Sir, just a couple of questions regarding news articles with regards to disruptions in the Kathautia mine yesterday. If you could just elaborate a bit on that. And do we see some impact in terms of the output from that mine?

**Satish Pai:** Oh, wow, I had no idea there was a disruption in the Kathautia mine.

**Dhawal Doshi:** No, it was to do with an old case wherein some bit of forest land, we've been told, that we can mine out or the...

**Satish Pai:** So, just so that you... Yes, so that we are very clear, in Kathautia there is a certain amount of Forest. And for the last year, all our mining is being done in the non-forest land. So...

**Dhawal Doshi:** Okay. So it does not impact any of our mining plans going ahead as well, right?

**Satish Pai:** No.



*Hindalco Industries Limited  
February 12, 2019*

- Dhawal Doshi:** Okay, great. Sir, secondly, can I get the exact quantum of debt for the India business?
- Satish Pai:** Praveen, go ahead.
- Praveen Maheshwari:** Yes, I can take that. So realistically, India debt is about Rs. 18,100 crores on long-term basis and about...
- Dhawal Doshi:** Including Utkal?
- Praveen Maheshwari:** Yes, including Utkal. Whenever we are talking about India, we are talking including Utkal. And this includes bonds as well, Rs. 6,000 crores of bonds and Rs. 12,000 crores of project loans. So that's about Rs. 18,000 crores. And short-term loans are about Rs. 4,600 crores at the end of December. Short-term loans are basically copper financing. So that keeps going up and down based on the requirements. So as of end of December, gross debt is about Rs. 22,700 crores.
- Dhawal Doshi:** And treasury would be Rs. 6,000 crores, as you mentioned?
- Praveen Maheshwari:** Treasury is about Rs. 6,400 crores. So net debt is about Rs. 16,400 crores.
- Moderator:** Thank you. Next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.
- Ashish Jain:** Sir, my first question is pertaining to Novelis. So on the Novelis call, the management had indicated that some part of the auto contracts with the largest customers would come up for renewal. And I just wanted to see if you can share the volumes that it accounts for. And how confident are we that our margins, whatever number that is, we will be able to maintain on this contract in particular given increased competition or increased supply that we have seen on the auto line side globally?
- Satish Pai:** So I will let Steve answer this question.
- Steven Fisher:** Yes, thanks, Satish. As I said on the call last week, we continually will be in negotiations with various auto customers. We did talk about a large contract in the US market, which is coming up for renewal over the next 12 months. We are very confident in retaining our same share of that contract. And as it relates to margins, you got to go region-by-region. Certainly, there is more competition over time. We will have to be much more competitive on the cost side, to maintain the overall margins as competition comes into the marketplace. But I think from an outlook standpoint as it relates to the US, which is the contract we are talking about, we are comfortable with the same level of EBITDA margin moving forward, a combination of pricing and combination of further cost initiatives at Novelis.
- Ashish Jain:** And Steve, can you just speak a bit about the nature of these contracts? The volumes are fixed and the margins are at conversion cost? Is that how these contracts are determined?



*Hindalco Industries Limited  
February 12, 2019*

- Steven Fisher:** Yes. So the contracts are long-term contracts. They are life-of-vehicle contracts. They are for a percentage of sold volume of the vehicle. So it is based on the number of vehicles sold. But the overall pricing would be fixed for the period of the contract.
- Ashish Jain:** Okay. Got it. And from Hindalco perspective, so just based upon my calculation, our per ton cost for aluminum has actually risen on a sequential basis, including the impact of Utkal. Is that right? And if yes, what has led to that increase that we are seeing on a sequential basis?
- Satish Pai:** It is actually it is flattish. In fact, it is around Rs. 1,000 less than Q2. So it has not gone up.
- Ashish Jain:** Okay, fine. So maybe I will just rework my numbers.
- Satish Pai:** Yes.
- Ashish Jain:** So just one more thing if I can. The aluminum EBITDA that you have put in the presentation, does that not include any part of other income at all? It is part of...
- Praveen Maheshwari:** Oh, not at all. Maybe I will just take a minute to clarify one thing. If you notice, in Q2, other income that we have taken previously and Aluminum EBITDA is different from what we have published now. The reason is that Utkal entire profit we were earlier taking a aluminum segment, because we have a treasury in Utkal as well, and there's an interest which is earned on that. To give a sharper focus, we have reclassified that also as a part of the other income. So that correction we have made now. But now that the numbers are represented in the presentation, they are comparative to each other.
- Moderator:** Thank you. We take the next question from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.
- Ashish Kejriwal:** Sir, my question is on our aluminum realization in terms of primary aluminum realization. So what we are seeing is higher increase of imports going up. So my question is, what kind of price difference which we are looking at or which we are observing right now as compared to imports in India?
- Satish Pai:** You mean export versus import difference?
- Ashish Kejriwal:** No, imported landed price versus our price.
- Satish Pai:** So look, first of all, primary aluminum is not imported into India. That's why I used the word fake semis. So there is a certain amount of alloy in that that's coming from auto side. But large part of the imports we are concerned about is rolled products that come in, and scrap. So scrap comes in at a discount to LME, which is the scrap spread. And those scrap spreads are very favorable now because there's a large amount of US scrap available in the market and the Chinese have put



*Hindalco Industries Limited  
February 12, 2019*

barriers to scrap going into China. So scrap coming into India is very profitable right now. And on the rolled side, the Chinese are bringing in rolled products at a very low price because... and why they can do this is because the LME and SHFE has a \$250 gap. So the rolled products, the value added products coming in from China can be anywhere between \$200 to \$250 less.

**Ashish Kejriwal:**

Okay. And sir, because now our demand in India is continuously growing. So do we have any understanding on whether increase for the scrap to the company or in the industry as a whole has a capacity to grow in line with the increase in demand? I mean, companies which are using scrap despite scrap label and other things?

**Satish Pai:**

No. But you see the scrap usage was largely in the auto sector for many years. In the last two years, because of the availability of this scrap spread, a large part of the scrap is now going into other products, which is leading to a lot of imports going on. Now it depends on the scrap spreads. If the scrap spreads tighten, then the scrap will not be profitable that much. Then the amount will go down. Depending on the different products, you can use anywhere between 30% to 40% as scrap. So unless you are using scrap for the wrong end use, which we also believe some part of it happens, I mean, let's say, for aluminum vessels and pressure cookers, normally people are not supposed to use scrap. But that is also going into scrap is going in there because of the low price at which it is coming into the country.

**Ashish Kejriwal:**

Okay. Sir, lastly, is it possible to quantify what the current scrap spread which is prevailing in India as compared to...

**Satish Pai:**

I like to give you that offline. I don't have it on the top of my head what the scrap spread is. And just give Subir a call later. He will give you that number.

**Moderator:**

Thank you very much. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

**Satish Pai:**

So yes, thank you very much for everyone. I think that we had another good quarter, and we hope that going forward, Q4 is obviously going to be a bit tougher quarter with the aluminum LME down. But as I said, that clarity will come more in the March time frame. So hopefully, in the next quarter's call, we will be able to give a clearer picture what will happen in FY20. Thank you.

**Moderator:**

Thank you very much. Well, ladies and gentlemen, on behalf of Hindalco Industries Limited, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.

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