



“Hindalco Industries Limited Q1 FY20 Earnings Conference Call”

August 09, 2019



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Moderator: Ladies and gentlemen, good day, and welcome to the Hindalco Industries Limited Q1 FY '20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subir Sen from Investor Relations of Hindalco. Thank you, and over to you, Mr. Sen.

Subir Sen: Thank you, and a very good day to everyone. On behalf of Hindalco Industries Limited, I welcome you all to this earnings call for the first quarter of FY '20. On this call, we will refer to our latest Q1 investor presentation available on our website. Some of the information on this call may be forward-looking in nature and is covered by the safe harbor language on Slide #2 of the investor presentation.

We have presented the consolidated quarterly financials, including all segments of India business and our overseas subsidiary, that is Novelis. This will provide you a comprehensive view of all our businesses. For this purpose, standard principles of consolidation have been applied as per the Ind-AS. For comparison purposes, all prior period consolidated financial numbers are being presented in a similar manner.

On today's call, we have with us from the Hindalco management, Mr. Satish Pai – Managing Director; Mr. Praveen Maheshwari – Chief Financial Officer and CEO-Copper Business. From the Novelis management, we have Mr. Steve Fisher – President and CEO.

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

Satish Pai: Thank you, Subir. Good evening or morning, everyone. Welcome to our earnings call for the first quarter of FY '20 of Hindalco Industries Limited. We have published our consolidated quarterly financials including all the segments of India business and Novelis for a broader view of the company.

Let's move to Slide #3. I will begin with the key highlights of the company's overall performance in Q1 FY '20. This will be followed by an update on the macro-economic and industrial environment. Later, Praveen will cover our operating and financial performance of all our businesses in detail.

Let me start with the key highlights of Q1, starting with Slide #5:



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So, Hindalco showcased a resilient consolidated quarterly performance despite a very challenging business environment. This performance was a result of another record results achieved by Novelis, stable operating performance by the Indian aluminum segment and a sustained performance by the copper business.

Let me start with Novelis and give some key highlights of its performance for Q1 FY '20:

Novelis reported a record adjusted EBITDA of \$372 million in Q1 FY '20, up 11% year-on-year, and an all-time high adjusted EBITDA per ton of 448 in Q1 FY '20, up 7% year-on-year. Net income without exceptional items in Q1 FY '20 was best ever at \$145 million, up 26% year-on-year. The overall shipments were 830 Kt in Q1 FY '20 compared to 797 Kt in the prior year. On the Aleris acquisition, the approvals are in progress. The deal is expected to close in Q3 of FY '20.

Moving to the Hindalco India business:

Stable operations have led to alumina and aluminum metal production of 686 Kt and 326 Kt respectively, in Q1 FY '20. The global aluminum prices have dropped significantly by around 21% year-on-year to an average of \$1,793/ton in Q1 FY '20.

The aluminum business including Utkal reported an EBITDA of Rs. 899 crores versus Rs. 1,532 crores in the prior period. This drop in EBITDA was mainly on account of lower realization. The EBITDA margin stood at 16% in Q1 FY '20, which is one of the best, amongst our global peers in this challenging business environment.

Aluminum VAP, excluding wire rod production, was flat at 79 Kt in Q1 FY '20 compared to the corresponding period in the previous year. The impact of the Muri Alumina refinery closure in Q1 FY '20 was partially mitigated by higher production of alumina at Utkal refinery. Brownfield expansion of Utkal Alumina by 500 Kt is on track and expected to be commissioned by mid-FY '21.

Coming to our copper business on Slide #6:

It recorded its highest ever quarterly production of copper CC Rod at 66 Kt and a sale of 63 Kt. EBITDA was at Rs. 267 crores in Q1 FY '20 versus Rs. 347 crores in Q1 FY '19. This was lower year-on-year due to lesser production on account of the planned maintenance shutdown and lower realizations. The copper smelter-3 ramped up smoothly post the maintenance shutdown in the Q1.

Let me now take you through our consolidated performance for the quarter:



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Hindalco reported its consolidated EBITDA of Rs. 3,769 crores for the quarter compared to Rs. 4,334 crores in the prior year quarter. The consolidated PBT before exceptions stands at 1,578 crores as against 2,275 crores in Q1 FY '19. The consolidated profit after tax was 1,063 crores compared to 1,475 crores in Q1 FY '19. The long-term loans as at 30th June 2019, remained unchanged from FY '19 end. The consolidated Net Debt-to-EBITDA stands at 2.69x at the end of June 2019 as against 2.48x at the end of March 2019.

Let us now take a look at the broader economic environment:

I'm on Slide #8. The global macroeconomic activities continue to get affected by the prolonged trade war between the U.S. and China. Recently, the U.S. has imposed an additional tariff on \$300 billion of Chinese imports, which were not covered under U.S. tariffs earlier. In Europe, the uncertainty around Brexit is also impacting regional economic growth adversely. In Q2 CY '19, the Chinese economy registered the slowest growth in 27 years at 6.2% year-on-year from 6.7% in the previous year of the corresponding period.

The Eurozone economic growth moderated to 1.1% year-on-year in Q2 CY '19 versus 1.2% year-on-year, despite the fall in the unemployment rate to a 11 years low. The economic growth also came under pressure in the U.S. during Q2 CY '19 as GDP growth moderated to 2.1% year-on-year from 3.5% in Q2 CY '18. Increase in consumer and Government spending supported the growth in Q2 CY '19 in the U.S. Due to the subdued macroeconomic conditions, the governments and central banks across regions are adjusting their policies to support growth.

According to the IMF, global growth is likely to moderate from 3.6% in CY '18 to 3.2% in CY '19. The domestic economy in India also slowed down as GDP growth moderated to 5.8% year-on-year in Q4 FY '19 versus 8.1% year-on-year in Q4 FY '18. This moderation was majorly driven by low consumption and subdued investments. In the recent monetary policy statement, the RBI has reduced the key interest rates by 35 bps to 5.4%. This is the third rate cut in a row in the current financial year. The reduction of rate cuts is expected to revise aggregate demand leading to private investment in the economy. According to the RBI, the Indian economy is likely to grow by 6.9% in FY '20 versus 6.8% in FY '19, with a probability of more downward risks.

Let me take you through the aluminum industry overview on Slide #9:

Further escalation of the U.S.-China trade war has dampened the global economic environment. As a result, aluminium consumption and prices were negatively impacted. In H1 2019, primary aluminum consumption growth moderated to 0.1% year-on-year from an increase of 3.6% year-on-year in H1 2018. The world, excluding China, reported a decline in consumption growth to 0.3% in H1 2019 year-on-year, from an increase of 2% in H1 2018 year-on-year, owing to



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subdued demand in the Middle East, Europe and North America. The Chinese demand also underwent moderation in H1 2019 to 0.4% year-on-year as against 5% year-on-year in H1 2018. China domestic demand remains unresponsive to the announced stimulus barring the construction sector.

China also exported around 3 million tonnes of aluminum in all forms, an increase of 10% in H1 2019, primarily to the E.U., Japan, India, Vietnam and Malaysia. Global consumption growth in Aluminium is expected to be around 0.5% to 1% in CY 2019, with the market balance remaining in deficit of about 1.2 million tonnes.

Given the subdued domestic macroeconomic environment and sentiment, growth moderated from 11% year-on-year in Q1 FY '19 to 7% year-on-year in Q1 FY '20. We have observed the moderation in demand in the user industries like automotive, construction and electrical sectors. The slowdown in these sectors was primarily driven by tight liquidity conditions in the domestic market. Imports continue to be a cause of concern for domestic players in India, as the market share of imports is still high at 59% in Q1 FY '20. The overall imports including scrap is at 585 Kt in Q1 FY '20 as compared to 555 Kt in Q1 FY '19, registering a growth of 5% year-on-year, majorly driven by the surge in scrap imports to ~8% year-on-year to 339 Kt.

Going forward, with the further intensification of the trade war coupled with the continued emphasis on downstream production and exports by the Chinese government, this will likely to result in a surge of imports into India. With China imposing restrictions on scrap imports, more scrap could also flow into India.

In CY '19, in Slide #10, the global FRP demand is likely to grow by ~3%. Global can stock has started to grow, with demand increasing on account of continued shift from glass to can, new end-use segments like energy drinks, sparkling water and craft beer in aluminum packaging. This has resulted in a strong mid- to long-term growth of ~3% in the beverage can market. Continuous adoption of strong, lightweight and formable aluminum sheets in vehicle parts and structures is leading to growth in the Automotive Body Sheet segments. This market is expected to grow at a CAGR of ~12% between CY '18 and CY '25.

Domestic FRP demand is currently growing at a steady pace of ~4% year-on-year in Q1 FY '20, primarily driven by construction and packaging segments. This is expected to grow at a CAGR of 7% between FY '18 and FY '22.

Moving to Slide #11. The U.S.-China trade dispute, strong U.S. dollar, moderate economic activity also kept the global copper prices subdued in H1 CY'19. Global refined copper demand was lower in H1 CY '19 due to subdued industrial activities across all geographies, especially in China and Europe.



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During the period, demand recorded marginal growth of 0.5% year-on-year versus 4% year-on-year growth in H1 CY' 18. The global market for refined copper in CY 19 is likely to remain subdued and is expected to grow below 1% as compared to 3% growth in CY'18. Refined copper market was primarily balanced in H1 CY '19 and is likely to remain the same during the current year.

On the supply side, the copper concentrate market was largely balanced in H1 CY'19, as part of the smelting capacity in China was on planned maintenance shutdown. However, the concentrate market has tightened significantly during end of H1 CY'19, as mines production was affected by disruptions at Grasberg in Indonesia, Las Bambas in Peru and in the African Copper belt.

On the demand side, 1.3 million tonnes of new smelter capacities are coming online in China. As a result, the above-mentioned factors have led to moderation in the TC/RC and lower smelter profitability.

In the domestic market, consumption grew by 9% year-on-year to 188 Kt in Q1 FY '20. Imports from ASEAN and other FTA countries continued to put pressure on the domestic pricing. Imports grew by 11% to 79 Kt in Q1 FY '20. As a result, the overall market share of imports in the domestic market increased from 38% in Q4 FY '19 to 42% in Q1 FY '20. Major imports happened in wire rods category.

Praveen will take you through the business performance highlights of each of the business segments in Q1.

Praveen Maheshwari:

Thank you, Satish. Coming to Slide #14, Novelis delivered its best-ever quarterly performance with a significant rise in adjusted EBITDA, adjusted EBITDA per tonne and net income in Q1 FY '20. This performance was on the back of strong operating performance with favorable market conditions.

The global demand for aluminium FRP remains strong, as is reflected in the growth of overall shipments that grew by 4% Y-o-Y in Q1 FY '20. All the organic expansion projects of Novelis in the U.S., China and Brazil are progressing on time and budget. All these are expected to be completed as per the schedule.

Slide #16 shows an excellent quarterly performance of Novelis in financial terms in this quarter. Adjusted EBITDA at \$372 million. EBITDA per tonne at \$448, which grew 11% and 7% Y-o-Y in Q1 FY '20, respectively, are the highest ever in any quarter so far.

Slide #17 shows the detail of the performance of the Indian aluminium business, which includes Utkal. Total Alumina production in Q1 FY '20 was 686 Kt. Metal production was at 326 Kt,



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reflecting stable operations. Value-added products excluding wire rods in this quarter reached 79 Kt versus 78 Kt in same quarter, the last year.

Coming to Slide #18:

Aluminum metal sales volumes were at 320 Kt in Q1 FY '20 versus 300 Kt tonnes in the corresponding quarter of the previous year. The VAP sales excluding wire rods were up 13% Y-o-Y at 77 Kt in this quarter. Share of value-added products in total sales has improved to 24% in this quarter versus 23% in corresponding quarter of last year.

Moving on to the financial performance of the Indian aluminium business on Slide #19:

This segment recorded revenue of Rs. 5,472 crores in Q1 FY '20 versus Rs. 5,668 crores in the last year. This was lower due to lower LME in Q1 FY '20. EBITDA in Q1 FY '20 was at Rs. 889 crores versus Rs. 1,532 crores in Q1 FY '19. The EBITDA margin, however, stood at 16% of revenue.

Moving to the copper business, on Slide #21:

The overall copper metal production was lower at 76 Kt tonnes in this quarter compared to 81 Kt in Q1 FY '19. This drop was mainly due to a planned maintenance shutdown in Q1. Quarterly production of CC Rod, however, was the highest ever at 66 Kt in Q1 FY '20, supported by the newly commissioned CCR-3. DAP production was 36 Kt in Q1 FY '20 versus 70 Kt in corresponding quarter of the last year, lower due to planned maintenance shutdown and certain operational issues.

Coming to Slide #22, on sales volume of the business. Copper metal sales were at 82 Kt tonnes in Q1 FY '20. CC Rod sales in Q1 '20 were higher by 3% Y-o-Y at 63 Kt tonnes.

On Slide #23, the financial performance of the copper business is given. Revenue was Rs. 4,593 crores in Q1 FY '20 versus Rs. 5,012 crores last year. This was marginally lower year-on-year due to lower LME and the impact of a planned maintenance shutdown. EBITDA stood at Rs. 267 crores in this quarter versus 347 crores in Q1 of the last year. This was comparatively lower on account of lower byproduct volumes and realizations in Q1 FY '20.

Let me now hand over to Satish to give you a brief on our consolidated results and a summary.

Satish Pai:

Thanks, Praveen. On Slide #24, Hindalco reported its consolidated quarterly results for Q1 FY '20. The company reported revenue of Rs. 29,972 crores, EBITDA of Rs. 3,769 crores and a PBT before exceptional items of Rs. 1,578 crores and a PAT of Rs. 1,063 crores in Q1 FY '20.



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The detailed quarterly consolidated comparative financial numbers are attached as an annexure on Slide #28 of this presentation.

Hindalco standalone, including Utkal, reported revenue of Rs. 10,055 crores, EBITDA of Rs. 1,275 crores and a PAT of Rs. 167 crores in Q1 FY '20. These details are also provided as an annexure to this presentation on Slide #29 for your reference.

So, let me now summarize on Slide #25 Hindalco's sustainable business model. This resilient performance in Q1 FY '20 despite challenging business environment reflects the strength of our balanced portfolio, our integrated business model and our excellent operational capabilities, along with our enriched product portfolio.

This sustainable model is driven by: number one, a balanced product portfolio. Even with low LME during the quarter, the company delivered an EBITDA of Rs. 3,769 with 79% of this EBITDA from non-LME linked conversion business.

Hindalco's resource security, with the fully integrated aluminum business model is providing support in low commodity cycles. In copper business, its long-term contracts with the miners assures uninterrupted supply of copper concentrate. Operational excellence also helped to reduce costs in challenging times to deliver superior performance. Novelis' continued focus on optimizing manufacturing operations and product mix has also helped Novelis to maximize its capacity in favorable market conditions and deliver its best performance consistently.

The consolidated net debt-to-EBITDA is well below 3 at 2.69x at the end of June 2019. This was achieved by deleveraging in the last 3 years, providing strength to our balance sheet.

So, thank you very much for your attention, and we open the line now for questions that you may have.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: I have two questions. The first one is on the hedging book going ahead. And the second one is with respect to Muri plant. We have taken certain exceptional items with respect to that. So, is the repair complete? Or can we expect something else going forward? And similarly, is the increased volume from Utkal sustainable?

Satish Pai: Alright. So, let me take your question #1 first. So, for the remaining 3 quarters of FY '20, 15.7% of the total is hedged at \$2,191 per tonne. So, of this 15.7%, 11% is rupee LME at 1,53,137 and



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4% is only commodity at US \$2,260 per tonne. So, that's our hedged position. Now also 31% of the currency is hedged at Rs. 75.44/\$ for the remaining 3 quarters. So, that's our hedged position.

Coming to Muri. So, I'm happy to report that we have now cleaned up the whole spill and in fact have started the process for the restart, which I think should happen by late September. The impact in quarter 1 was a total of Rs. 80.5 crores. And as you may have noticed, Rs. 47 crores, we took as an exceptional item because these were what we felt was a onetime, which was carting away the red mud, which was the largest part of that. And Rs. 33 crores were taken in the EBITDA. So, the results had an 80.5 crores impact in Q1 of FY'20. I think going forward; we do not have any more impact from a cleanup. The impact that we will have in Q2 is that before we start, we will still have the fixed costs of the Muri refinery and the mines and also any delta because of the imported alumina that we will need for the coming few months. So, my estimation of the impact in Q2 is around Rs. 50 crores. But I think I'm happy to report that the Muri thing is more or less cleaned up now and hopefully we will be starting by September 2019.

Amit Dixit: And this Rs. 50 crores is EBITDA, none of it is exceptional items? The repair and everything is complete?

Satish Pai: That's right. I don't think that in Q2, there will be any more exceptional items.

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

Pinakin Parekh: So, just going back to your comments on the India aluminium demand. And you mentioned that while demand is still holding out at 7%, the domestic market share of scrap has kept on increasing. So, what is the latest update that with the government in regards to the policy of aluminum in India? Do you think we can expect some kind of protection for the domestic aluminum industry? Or will status quo continue?

Satish Pai: So, there are 2 aspects to what the Government is now dealing with. One is the RCEP negotiations because majority of the imports, not on the scrap but all the downstream finished goods, actually comes from ASEAN and China. So, the RCEP negotiations that the Aluminum Association is deeply involved with, the government as you can see is taking quite a firm stand. And we are hopeful that large number of the lines will be in the exclusion list or on very long periods, before the duties go down. So, the RCEP negotiation is one way that the government is looking at to slow down the imports. And the second very important thing that they are now very seriously working on is the scrap standards. So, the scrap standards are being looked at because what's happening is the largest driver for scrap into India was the automotive sector. Now the automotive sector as you know is slowing down. But now the scrap that's coming in, because the arbitrage is so big, is going into things like electrical wires and utensils, which it should not.



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So, we are working with the NITI Aayog, BIS to get a scrap standards in place. And the Government is I feel quite serious now, to get that standard in place, which I think will have an impact to make sure that the scrap does come in but it goes to the right end-use industries.

Pinakin Parekh: Can you fill us in on the coal situation regarding what has happened in Coal India's Mahanadi Talcher Coalfield? And if it has impacted Hindalco's coal sourcing and costs?

Satish Pai: No. Actually, we don't get too much coal from Talcher. So, I am happy to say that our coal costs actually have been slightly lower compared to Q4 FY19. And quite happily, we are going into the rainy quarter with adequate coal stocks. Even the rakes, we have been getting is quite well currently. So, actually, for us, the availability of coal is not an issue at all, Pinakin, at this point.

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

Anuj Singla: Mr. Pai, two questions on aluminum. Firstly, during the course of this quarter, what kind of cost decline or cost change have you seen on the aluminium cost of production Q-o-Q?

Satish Pai: Yes. So, following on from the question of Pinakin on coal, so our overall COP is ~3% down Q4 to Q1 FY'20. Now besides coal slightly going down, both CP coke and Pitch prices have also gone down between 5% to 7% QoQ. And in Q2, we'll start to see impact of Caustic Soda prices also going down because our supply contracts for Caustic Soda are also Q minus 1 and also Caustic prices have moderated. So, I think that from a cost perspective, which I guess is true with all commodity prices coming down; our input costs are also expected now moderating downwards currently.

Anuj Singla: Okay. So, if we were to look at let us say for FY '20 for the next 3 quarters, obviously the LME prices don't seem to be any triggers to move them up at this point of time given the global recessionary fears. So, what kind of cost efficiencies we can expect to see in the numbers which can probably support our profitability going through this difficult time?

Satish Pai: Yes. That's a good question. I think that with the oil prices, I can see now furnace oil and some of the carbon-related input product prices also going down. Imported coal prices are also heading down. Let me also tell you our current coal mix in terms of linkage coal it was at 63%, the e-auctions coal was at 24%, own mines was 10% and balance was through the imports that were at 3% in Q1 of this year. What's happening now is that on our own mines production, we are slowing down a bit, started importing more coal, as the international prices have lowered now. So, I believe that going forward, the quarterly aluminium EBITDA should be in the range of ~Rs. 900 crores odd, if average LME prices continues to stay at today's level.



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- Anuj Singla:** Understood. Lastly, a question for Mr. Maheshwari. Sir, can you just remind us what is the debt levels or the net debt levels we have for this quarter on a consolidated basis?
- Praveen Maheshwari:** Yes. So, on a consolidated basis, the net debt stands at about Rs. 39,868 crores including Novelis.
- Moderator:** Thank you. The next question is from the line of Rajesh Lachhani from HSBC. Please go ahead.
- Rajesh Lachhani:** Sir my question is with regards to the copper segment. So, we have seen, due to the maintenance shutdown, the copper production has come down. So, I just want to understand, does it change your guidance for the full year, which was 400 Kt earlier?
- Praveen Maheshwari:** Not significantly, I would say. We will see as we go down. But the good part is that the ramp-up of the smelter -3 has come back smoothly and they're running fine. So, currently, I think on an ongoing basis we are doing fine.
- Rajesh Lachhani:** So, can I assume Q2 production will be closer to normal level of 100 Kt? Or is there some production disruption, supply disruption in Q2 as well?
- Praveen Maheshwari:** So, Q2, we are looking at 90 to 100 Kt in this quarter. We had some heavy rains, which has impacted our production just last week. So, we are looking at about 90 to 100 Kt for this quarter. We are trying to make it up.
- Moderator:** Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** First question is in relation to the scrap and increasing scrap imports, which I think was shown in Slide #10. I'm just curious whether this demand of scrap and primary aluminum, are they absolutely fungible? I mean is it true to say that they're eating into your demand? Or there are sort of segregated areas where these 2 elements work?
- Satish Pai:** So, look, the scrap the way it works is that majority, let's say 70% of it actually goes into making alloy ingots for the automotive market. I think that part you can say really does not have any overlap with mostly our business or the domestic products that we serve. What has happened ever since the last, let's say year and half is that, after the U.S.-China trade war, where China stopped importing U.S. scrap, the prices of scrap and the spreads have benefited. This by the way has benefited Novelis as well. But the scrap imports coming into India has sharply jumped up from the U.S. And the point of this is that it's not just the automotive any more. It's going into people are using that as a replacement for primary metal in end-use segment where they should not, like the electrical wire sector or the utensils sector. So, there are some sensitive sectors where the scrap is going in and then creating a little bit of public concern as well. So, I



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guess this is the part that a scrap standard and an end-use certificate and things like that are being looked at.

Abhijit Mitra: Yes. And understanding is that Zorba which is mainly, which is coming in. So, Zorba can we use in those, as in wires and utensils around?

Satish Pai: Yes. It is being used. That's the problem.

Abhijit Mitra: Okay. And the second question is this concern has been raised, I think, in the past also. But given that there is a very significant cash burn that we are seeing in your group entities, namely Idea Vodafone. So, are there any safeguards that you're creating to sort of shield any further investment into that entity? As analysts or investors, we look forward to any sort of safeguard that Hindalco is sort of putting forward that no more investments, no more money transfer is going to happen to sort of other linked entities.

Satish Pai: Look, I think I've been very transparent. The only investment we did was participating in the rights issue of Idea where we held 2.6%. And I think I've been very transparent saying we didn't want to go dilute our position there. But let me assure you very categorically that there is absolutely no other investment plans by Hindalco into any of the group companies.

Abhijit Mitra: Okay. And lastly on the P&L side. The reported consol financials that you have sort of published, there seems to be some elimination. So, if I add the index number of Novelis and standalone, including Utkal, there's a 200-crore gap that I see. Is there some sort of elimination at play here which is sort of feeding into that consol number, consol EBITDA number?

Praveen Maheshwari: So, elimination is typically only between Hindalco and Utkal, which already gets done when you look at the Hindalco including plus Utkal numbers. With Novelis, what happens is the Novelis numbers in U.S. dollars that you have seen in Novelis results, they are as per the U.S. GAAP. And that is an adjusted EBITDA that we talk about. When their numbers are consolidated whether with Hindalco, 2 things happen. One is the U.S. GAAP is converted into the Ind AS, which is more an IFRS standard. So, this has certain adjustments. And second is the rupee-dollar exchange rates, can sometimes make some differences in terms of conversion. One quarter, let's say, the exchange rate is different compared to the other. That will get reflected in the rupees crore numbers. So, that is why you may not be able to exactly match up to the last crore in terms of total numbers.

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



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Bhavin Chheda: So, couple of questions. What's the CAPEX target for this year? And how much would be the debt repayment? Second is what was the LME premium you earned this quarter vis-à-vis the last quarter and last Q4 and Q1 of last year? And third one is what the pending things are for Aleris? And what are the important dates we should track for the deal to go through?

Satish Pai: Okay. So, let me see the first question yours was on...

Bhavin Chheda: CAPEX and debt repayment.

Satish Pai: You want the CAPEX for the Hindalco business or the Novelis business?

Bhavin Chheda: Total consolidated. And if you can give break up, it's also fine.

Satish Pai: Okay. So, I'll let Steve give the Novelis CAPEX first, and then I'll add the Hindalco. So, Steve, go ahead.

Steven Fisher: Total CAPEX projection for Novelis for Current fiscal year is at approximately \$700 million.

Satish Pai: Yes. So, that is the strat CAPEX combined with the maintenance CAPEX. And for Hindalco, our CAPEX plans were Rs. 2,600 crores, of which the sustenance was around Rs. 1,000 crore and the growth CAPEX was around Rs. 1,600 crores. Now that Rs. 1,600 crore strategic CAPEX may actually end up lower because as we are going through the downstream expansion projects, we talked about trying to finalize land, etc., the cash out may not come to that Rs. 1,600 crore level. So, I think in India, we'll be more like Rs. 2,000 to 2,200 crore levels this year, is my current view. So, that's the CAPEX. Debt repayment, we don't have any plans this year. I think with the LME at this level, we will concentrate on generating cash and keeping our CAPEX plans going so that we don't have any plans to repay debt this year. So, that was question one. Then your question 2 was, I think, on premiums.

Bhavin Chheda: Yes.

Satish Pai: So, look, domestic premiums and so about 50% or more of us is exported. So, we get the MJP premium for that. Domestic premium actually is based on the domestic prices. And we have been getting more or less the premiums that by the way; I don't think there's a much difference between the premium of Q4 and Q1. Let us put it that way.

Bhavin Chheda: Yes. What was that number?

Satish Pai: Domestically, the MJP premium was \$85 in Q4 FY '19, and we got \$97 in Q1 FY '20.

Bhavin Chheda: Okay. The Aleris pending, what happened?



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Satish Pai: So, Aleris, I think, as Steve has already said on his call on Tuesday, we are working with the European Union and the U.S. Anti-trust authorities, and we are confident that we will be able to close the pending issues of the deal by Q3 of this year.

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

Sumangal Nevatia: The first question is with respect to CC rod volumes. Now despite commissioning last year, I mean the ramp-up is very slow. So, is that also was affected because of shutdowns? And secondly, you said there are a few operational issues also apart from the planned shutdown, which has impacted the volumes. So, is there anything else we should know about that?

Praveen Maheshwari: Well, as far as CC rods are concerned, I think the ramp-up is going fine. Last quarter, we also had a shutdown in CC Rod facility, because we had to upgrade a few things, and now it's back to normalcy. So, going forward, I don't see any issues. In terms of last quarter's operational issues, we faced some issues on the fertilizer facility. So, the remark was more with respect to the fertilizer plant, which we are in the process of fixing it up.

Moderator: We move to the next question from the line of Vikash Singh from Phillip Capital. Please go ahead.

Vikash Singh: Sir, I just want to understand, with the monsoon kicking in, how is our coal situation right now? And what kind of cost reduction we are expecting this quarter?

Satish Pai: So, as I said I think to an earlier question, we have probably got the best levels of coal inventories, going into the monsoon season currently. So, we have currently no shortage of coal in any of our plants. In Q1, we saw a 3% reduction in COP versus Q4 FY19. I would say, because of monsoons, costs should flattish in Q2 vs Q1 of FY20, though if input costs further goes down further with oil prices currently going down, we may see an impact on the COP. But I think, conservatively, I assume the COP in Q2 to be flattish with Q1.

Vikash Singh: And sir, in that absence of Muri, how much of the quantity we are purchasing from outside? And what was the production for Utkal for this quarter?

Satish Pai: So, Utkal's Alumina production was ~418 Kt in Q1 FY20. So, that was slightly higher than normal Utkal quarterly production. But we also imported ~55 Kt in Q1. We have ordered in Q2 FY20 another, 60 Kt of Alumina as imports. So, we have in total imported ~105 Kt of Alumina since its closure in April 2019. I think the advantage right now we have, is that the alumina prices worldwide have also come down to around the \$300 levels, so which is why I think that, in Q2, you will not see sort of a price impact of Muri .



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- Moderator:** Thank you. The next question is from the line of Ashish Kejriwal from IDFC. Please go ahead.
- Ashish Kejriwal:** Sir, you mentioned that still we are exporting 50% of our products despite the fact that in India we have seen demand growing by 7%. So, what could be the possible reason for the same? Is it because scraps are coming at a lower price, and we are unable to compete with that?
- Satish Pai:** So, yes, I mean I think that 59% of aluminium imports that come in, and a large part of that, more than half of it is in the form of scrap. Scrap comes at a big discount to the LME price. So, that is one big reason. And the second big reason is we have seen a big surge of imports to India from China. China, by the way, in H1 of 2019 has exported 3 million tonnes of FRP. So, that's a run rate of 6 million tonnes on their normal production of 36 Million Tons. So, as the Chinese domestic consumption has slowed down, they have started to aggressively exporting metals. So, I think these are the 2 things that are causing us the problems that we have in the Indian market.
- Ashish Kejriwal:** So, sir, in case of value-added products and on a quarterly basis, we are seeing a slowdown over there. So, this is mainly because of consumption demand slowdown? Or it's mainly imports are taking share of it? Like, for example, we sold 77 Kt versus 83 Kt in the fourth quarter?
- Satish Pai:** No. So, normally, you should look at it Q-on-Q as well because the last quarter of the year we actually really tried to sell a lot and bring the inventories down. So, the Q1 sales level was actually more or less at the same level of Q1 of the previous year. So, actually, the FRP demand in Q1 FY20 was actually in line and actually not slowed down.
- Moderator:** Thank you. The next question is from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.
- Dhruv Muchhal:** Sir, some basic understanding on the currency hedge, when you say 31%, does it mean that 31% of our revenues of aluminium business, is hedged at Rs. 75?
- Praveen Maheshwari:** Yes, that's right. The exposure is hedged ~31%.
- Dhruv Muchhal:** And this is equally across the quarter.
- Praveen Maheshwari:** More or less, yes.
- Moderator:** The next question is from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.
- Kamlesh Jain:** Just one question on the part of the cost. So, when you talk that the cost would be flat quarter-on-quarter, is it on the coal cost or on the COP side?



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- Satish Pai:** Actually, the coal costs could go down slightly, though I'm a bit careful because we are in the sort of middle of the thickest monsoon now. So, when I meant flat, I was talking about the total COP of the aluminium.
- Kamlesh Jain:** Okay. But sir, as you had talked about this pitch and CP coke and apart from that crude variance, another crude variance as well, coal as well. So, like going forward like in Q3, Q4, how much reduction can we see? And the caustic soda prices also come down. So, in Q3, what run rate can we look at from the current levels in terms of..
- Satish Pai:** That's a good question. I would expect that we should see another 3% to 5% reduction in the Q3 and Q4 of the current year, if the input prices continues to go down.
- Kamlesh Jain:** From the Q1 levels?
- Satish Pai:** Yes.
- Moderator:** Thank you. The next question is a follow-up from the line of Rajesh Lachhani from HSBC. Please go ahead.
- Rajesh Lachhani:** So, my question is on Aleris. So, sir, the media articles suggest that you might block if we don't give them concessions. So, I just wanted to know your thoughts to that whether this deal can go ahead with or without concessions.
- Satish Pai:** So, Rajesh, I think we have already replied that we are working with the European Union, and we are confident that we will be able to close the deal in Q3 of this year. I think this is all I can say at this point.
- Rajesh Lachhani:** Yes. But are we willing to give some concessions as well in order to close the deal?
- Satish Pai:** Rajesh, we are working with the European Union to try to close the deal in Q3 of this fiscal.
- Moderator:** Thank you. The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.
- Sumangal Nevatia:** So, second question is with respect to the hedging strategy. Now you've shared our current hedge positions. But at LME, sub \$1,800/t. I mean will we continue to hedge, say, 15%, and 20% of overall volumes?
- Satish Pai:** No. I don't think, at this level, we will hedge anymore. We have taken a view, we will wait till LME prices reaches a certain level. I think, in one of the week, in last few when LME went about to about \$1,850 - \$1,860 levels and that level gave us a very good forward contango. And we



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then caught a few percentages for next financial year, that what I can say. But to answer your question, at current levels of LME, we do not plan to hedge.

Sumangal Nevatia: Okay. So, next year, I mean, if in case these prices stay where it is, I mean overall position would be much lower.

Satish Pai: Yes. I think we have about, what, 2-3% already hedged for next financial year. So, yes. But the way this works is that we take the approved levels and we try to catch the spikes whenever they come into the market. So, at certain events, it can suddenly spike, and then we try and catch that those levels. That's what we did about a month or so ago as I said in my earlier answer to one of the questions.

Sumangal Nevatia: Understood. Okay. Sir, one question with respect to the dynamics for our captive coal cost versus import. So, at what level does import make more sense? And is there any penalty or any liability we face if we produce less from our capital mines?

Satish Pai: No. Actually, to take your last question first, we had won these mines in the first auction, so we had to meet that time, what they call the peak production only in the first year of production. So, we have already met that. And From second year onwards, we had to ramp it up and down, which I've, already explained in my earlier calls. And without getting into much details of each and every coal mine, so at current import prices of coal , which is, I think is at ~ \$60 to \$65/t, and therefore imported coal is currently cheaper than our own mines at Gare Palma IV/4 and IV/5.

Sumangal Nevatia: So, if I may just squeeze in one more question. Sir, value-added products for aluminum, I mean we've been talking about investing \$1 billion and focusing more and increasing then, but since many years, it's been in the range of 250 to 300 Kt. So, what exactly are the issues we are facing here? And why are we not able to increase value-added volumes?

Satish Pai: Yes. To be fair, we did say a few years ago, I think I started to say that about from last year. So, there are 2 things that we are doing. As I said, the first thing is the existing 300 Kt in VAP, we are trying to move it up the value chain. So, we are investing quite a lot in the upgradation of our mills and technology to get the quality from the existing 300 Kt of VAP. And I think that from the coming quarters, we'll probably be able to share with you as it starts to contribute to our aluminium EBITDA, as we go up the value chain. So, that's the first part.

The second part of your questions with regards to the Greenfield expansion, which is the Gujarat extrusion park and the Hirakud expansion plans. So, on the Gujarat extrusion park, what took us time, is that we tried to get that largest piece of land near Mundra, which we have to finalize. So, we now have got that in there, and we have started the land acquisition. So, the Greenfield



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part, unfortunately, will take some more time. The existing brownfield part, which is upgrading the quality, in some places and the capacity, you will start to see the volume outcome steadily, from sort of the second half of this financial year.

Sumangal Nevatia: Okay. And sir, we also had a MoU with Odisha government for FRP unit at Sambalpur. So, what is the status of that? That also comes under Greenfield, right?

Satish Pai: That sort of is a greenfield/brownfield. So, the first part of that will be an additional cast house in Aditya, which we have already started working on. We have put in an alloy ingot facility, which will come up by December of this year. So, that MoU has got multiple pieces around it. So, downstream part, unlike upstream, happens in modules. So, you will start to see small small pieces start coming in. So, that we have already started work on.

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

Amit Dixit: It is with respect to Novelis. This time around, we saw that EBITDA per tonne particularly in North American operations was quite high and the commentary of various players suggest that it is due to increase ABS shipments. As well as I feel that beverage can market is also kind of constrained, so therefore, we are getting advantage from that. Just wanted to understand how sustainable is this particular EBITDA number of \$582 per tonne odd? And what is the outlook going forward? Because in automotive, we are seeing slowdown. And beverage can market, if you can give some color on that, that would be great.

Steven Fisher: Yes. So, as we talked about a little bit earlier in the week, North America had a very strong quarter, and a lot of that has to do with the dynamics that you just mentioned, a very strong automotive market in North America, strong beverage can market in North America, strong specialty market in North America and some benefits from inter-regional shipments coming into North America as well from other regions that we spoke about. So, overall, from a sustainability standpoint, if you go back and just look at our consolidated EBITDA per tonne over the last 12 months, it's \$425 per tonne. And we do think that is a sustainable under the current market conditions, we do think that's a sustainable level that you should be thinking about for Novelis.

As it relates to the specific end markets, automotive, I'll start with first. Again, we see continued strength in the U.S. market even with the overall build rates coming down on a year-over-year basis. Where you see more aluminum in certain vehicles are in trucks and SUVs, larger vehicles, luxury vehicles, and those markets continue to stay very strong, if not, having some growth on a year-over-year basis. So, we feel good about the overall U.S. automotive market for the near future here. We also feel good about the European market. We do have a little bit overweight exposure to a single automotive producer in that marketplace in the U.K. that's given us a bit of headwinds from what they're seeing in their overall sales. But overall, the general conditions in



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Europe, we feel good about the continued penetration of aluminum and continued overall European automotive market. And then the one spot weakness is in China, where the global or the U.S.-China trade war has caused some consumer confidence erosion. And we've seen overall vehicle sales decline on a year-over-year basis. With that said, in the medium term, we do see that as a growth area for us as the automotive build rates pick up and then electric vehicles pick up in that market as well..

From a beverage can standpoint, we see a lot of strength right now, growth driven by mix shift dynamics, good economic conditions in a number of parts of the world and also a sustainability trend away from other substrates towards aluminum that we're receiving benefit for. And we see that market continuing with some strength over the next several quarters.

Moderator: Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you, sir.

Satish Pai: Yes. Thank you for your attention. I think this quarter, with the consolidated results that we have published, it shows our resilience of the diversified model we have, which is a mix of the upstream and downstream business. And I think that in the tough LME times, our business model is going to help us outperform versus our competition. So, thank you very much for your attention.

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