"Hindalco Industries Limited Q1 FY-23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Hindalco Industries FY23 First Quarter Earnings Conference Call. As a reminder, all participants are in a listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Subir Sen, Head of Investor Relations of Hindalco. Thank you and over to you sir.

Subir Sen: Thank you. And a very good afternoon or morning everyone. On behalf of Hindalco Industries, I welcome you all to the earnings call for the first quarter of the financial year 23. In this call we will refer to the Q1 FY23 investor presentation available on our Company's website. Some of the information on this call maybe forward looking in nature and is covered by the Safe Harbor language on slide number #2 of the said presentation.

In this presentation, we have covered the key highlights of all the businesses for the first quarter of financial year 23 and a segment wise comparative financial analysis of aluminium and copper businesses in India and our overseas subsidiary, Novelis. Please note in this quarter results, we have presented our aluminium upstream and downstream financial and operational performances separately to truly reflect the individual business segment performances. The corresponding segment information of the prior periods have been restated accordingly for a comparative analysis.

We have with us on the call from Hindalco's management, Mr. Satish Pai, Managing Director, and Mr. Praveen Maheshwari, Chief Financial Officer. From Novelis's management, we have Mr. Steve Fisher, President & CEO and Mr. Dev Ahuja, Chief Financial Officer.

Following this presentation, this call will be open to any questions you may have. Post this an audio replay of this call will be available on our company's website. Now let me turn this call to Satish.

Satish Pai: Thank you Subir. A very good afternoon and morning everyone. Thank you for joining today's conference call of Hindalco's earnings for the first quarter of FY23. Let me now start with our progress in this quarter across various sustainability metrics on Slide #5 and #6.

On the environment front with a continuous focus on waste, water emissions and green belt biodiversity we have achieved 96% of total recycling and reusing of waste. 136% bauxite residue utilization at three out of our four alumina refinery this quarter. Utkal Alumina Refinery is conducting two pilot pits to reuse bauxite residue backfilling of mines and constructions of roads, of which pit one is ready and pit two is under construction. On fly ash recycling, I'm very happy to inform you that we have now attained a 116% of fly ash recycling at the end of the first quarter of FY23, which means that we are now recycling beyond what we generated and are sending to cement and other industries.

We are now received the single use plastic free certification for eight of our sites and are continuously working to attain this for the rest of our locations. On water management, we are committed to zero liquid discharge at all our sites and 20% reduction in specific water consumption by 2025 from the base year of FY19. We are working on several fronts, such as increasing rainwater harvesting through our CSR activities, reducing the consumption of fresh water and ensuring zero liquid discharge at all our facilities. In Q1 of FY23 we have developed an innovative modular sewage treatment plant at our Taloja and Alupuram downstream facilities. Our recycling of water across facilities was up 5% this quarter on a year-on-year basis. We are on our way to achieving net water positivity by 2050.

On green cover and biodiversity in line with the IUCN guidelines we are implementing biodiversity management plans at all our plants and mines. We will be further be implementing green belt at all our sites. We have cultivated Miyawaki patches at our Renusagar, Renukoot, Mahan and Aditya facilities. Utkal Alumina is now piloting the charging of biomass to substitute coal in our power plants. This biomass charging is also being implemented in Hirakud, Mahan and Renusagar facilities.

Coming to the renewable energy and safety updates on Slide #6. We are targeting to reach a total of 300 megawatts of renewables with 200 megawatts being without storage, that is solar and wind and another 100 megawatts which storage by the end of FY 2025. Of this we have already achieved 100 megawatts at the end of FY22. This year in FY23, a total of 109 megawatts of renewable projects our plan of wind, renewable hybrid, biomass, et cetera. Another approximately 57 megawatts of renewable projects are under execution, and finalization and hybrid and solar that had to be executed over the next three years. We are also working on large scale renewable hybrid project with a third party on pumped hydro, which can provide up to 100 to 300 megawatts to our Aditya plant, with connectivity to a 400KV grid. This is expected to be completed by December of 2023. The aluminium specific GHG emissions were recorded at 78.4% in Q1 FY23 from the base year of FY12

On safety we are committed to zero harm and have been continuously upgrading our safety programs and systems to meet international standards to provide a safe environment for each of our employees and contract workers across all our locations. LTIFR was recorded at 0.43 in Q1 FY23. There was one fatality of a contract worker recorded at our Indian operations this quarter.

Coming to Slide #8 on the key highlights of our performance in Q1 FY23. Starting with our consolidated performance, we delivered a record quarterly performance, supported by thrust on operational efficiencies, and a robust performance of copper and downstream businesses, despite rising input cost and inflationary pressures. EBITDA stood at a record Rs. 8640 crores up 27% year-on-year, quarterly consolidated PAT for continuing operations was at a record Rs. 4119 crores up 27% year-on-year compared to Rs. 3254 crores in the corresponding period last year. Hindalco continue to maintain a strong Treasury balance of around 1.4 billion dollars in the Novelis and Rs. 13,580 crores in India at the end of June 22. Net debt to EBITDA continues to remain well below two times at the end of June 22 at 1.4 times versus 2.36 times at the end of June 21. As far as business performance this quarter starting with Novelis, EBITDA stood at a record $561 million at 1% on account of higher product pricing, favorable product mix and higher recycling benefits. EBITDA per tonne this quarter was at a record $583 per tonne versus $517 in Q1 FY22, up to 2% year-on-year. Net income from continuing operations was recorded at 307 million this quarter, versus 303 million in the corresponding period last year. Novelis quarterly shipments in Q1 FY23 stood at 962 Kt in Q1 FY23 versus 973 Kt in the corresponding quarter of last year, lower by 1% year-on-year due to impact of supply chain disruptions in this quarter.

Moving to Slide #9, Hindalco's India Aluminum Business Performance. This time we have segregated our aluminium upstream and downstream businesses to give you a more clear picture of our performance. Our upstream aluminium EBITDA stood at Rs. 3272 crore up 45% year-on-year on account of favorable macros, higher volumes and better operational efficiency, despite rising input cost. In this quarter EBITDA per tonne was up 32% year-on-year at $1,274 per tonne versus $966 per tonne in the corresponding period of last year. EBITDA margin was at 38% and continues to be one of the best in the industry. The overall shipments of primary aluminium were up 2% at 333 Kt in Q1 FY23 versus 325 Kt last year. Of this third party shipments was 245 Kt and 88 Kt was transferred to the downstream business. An additional Utkal Alumina 350 expansion via debottlenecking is progressing well and expected to be commissioned by next year.

Our downstream aluminium EBITDA stood at Rs. 158 crores up 305% year-on-year on account of better pricing this quarter versus the comparative quarter last year. EBITDA per tonne was up 306% year-on-year at $261 per tonne, versus $64 per tonne in the corresponding period of last year. The overall sales of downstream value added products that include FRP, foils and extrusion this quarter was 5% lower year-on-year at 78 Kt versus 82 Kt last year. This was mainly due to supply chain logistics constraints in this quarter.

I'm happy to announce that Hindalco has signed an MoU with Phinergy a leading Israel based pioneer in metal air battery technology, and IOC Phinergy Private Limited to develop aluminum air batteries for electric vehicles. This is a significant step towards decarbonizing mobility, while reducing dependence on battery imports in the country and boosting Atmanirbhar Bharat financing energy security.

Turning to the quarterly performance of the copper business, our cathode production this quarter was at 92 Kt up 47% year-on-year, while the CC Rod production was at 79 Kt up 80% year-on-year. Total copper metal sales were at 101 Kt, up 26% year-on-year, while copper rod sales were at a record at 80 Kt up 73% year-on-year in line with market demand. Copper EBITDA was at a record Rs. 565 crores this quarter, up 116% year-on-year on the back of higher volumes, better operational efficiencies and improved by-product realization.

Coming to the broader economic environment on Slide #11. Global economic growth momentum is currently slowing down due to aggressive monetary tightening and spillovers from the Russia Ukraine war. The IMF expects the global growth to moderate to 3.2% year-on-year in calendar year 2022 from a post pandemic rebound of 6.1% in calendar year 2021. Highlighting risks to the downside. Latest PMI readings are at a two year low indicating considerable slowdown in developed markets that is United States, Euro zone, UK, Japan and slow pace of expansion in China amplifying recession fears. The global inflation is expected to stay elevated for longer, owing to firm food prices and energy prices and lingering supply demand imbalances. With two thirds of the world suffering from an inflation of over 7% aggressive monetary policy tightening is expected to continue in the second half of this year as well. IMF expects inflation to be an average of 6.6% in advanced economies, and 9.5% in emerging and developing economies in calendar year 2022. However, high frequency data also suggests easing inflation rates on an average across the globe as cost pressures and selling price inflation ease, owing to some improvement in supply side constraints and a weaker demand. Resilient emerging market performance and recovering service sector performance remained as a silver lining amidst an uncertain outlook. Despite global headwinds, Indian economy is showing resilience. While high frequency economic indicators have been mixed latest PMI and GST data, on the back of a solid core sector output growth point towards robust economic momentum. Strong rebound in services, pickup in manufacturing activity, uptick in government CAPEX, stabilization of inflationary pressures, buffers in the form of adequate international reserves and a sound financial system has kept the Indian economy on a firm footing. The RBI projects India's FY23 GDP growth at 7.2% year-on-year. Inflation continues to be above RBI upper tolerance level of 6% for six consecutive months. Though we're elevated inflation seems to be on the back foot for now, with headline CPI easing for the second month in the row, on the back of moderation on commodity prices and some easing of supply side pressures. In the backdrop of elevated inflation levels and tighter global financial conditions, RBI has hiked rates at 50 basis point in August taking the cumulative hike 140 basis points in FY23. The central bank projects inflation of 6.7% in FY22, above its upper tolerance level of 6%.

Let me now take you through the aluminium industry overview on Slide #12 and #13. In the first half of calendar year 22. The global aluminium production grew 1% year-on-year to around 34.1 million tonnes while global consumption growth was flattish year-on-year at 34.3 million tonnes. Hence, the global market balance was in a marginal deficit of 0.2 million tonnes. Talking specifically on regions the Chinese production increased in Yunnan, Inner Mongolia and Hannan. However, the overall production in China increased by 1% year-on-year to 19.7 million tonnes. However, the consumption faced headwinds due to the zero COVID policy relating to the lockdowns in China, which impacted consumption of aluminium across all the sectors. Consequently, consumption in China declined by 2% year-on-year to 19.5 million tonnes leading to a slight surplus of 0.2 million tonnes in Chinese metal balance in the first half of CY2022.

In the rest of the world production of aluminium in the first half of calendar year 22, grew in the Middle East, but production declined sharply in the European region due to energy prices. The overall production in the rest of the world increased by 1% year-on-year to around 14.4 million tonnes. In this period, the consumption growth for the rest of the world was supported by a strong demand in the packaging segment which led to growth of 4% year-on-year at 14.9 million tonnes in the first half of calendar year 2022. As a result rest of the world reported a deficit of around 0.4 million tonnes in the metal balance in H1 calendar year 2022.

On a quarterly basis in Q2, the global aluminium production increased by 2% to around 17.3 million tonnes while the consumption declined by 2% to around 17.3 million tonnes, resulting in a balanced market in this quarter. In the same period, Chinese aluminium production grew sharply by 4% to round 10.1 million tonnes, led by a significant increase in production at the Yunnan province. In Q2 calendar year 2022 the consumption de-grew sharply by 7% due to zero COVID policy of China at 10 million tonnes resulting in a balanced market in China.

In the rest of the world, there was some disruptions in the production in the European region on account of rising gas prices due to the ongoing war. However, in regions like Middle East, increase in production lead to an overall production increase in the rest of the world that grew by 1% to round 7.3 million tonnes in Q2 calendar year 21. Despite headwinds in consumption in the rest of the world the overall consumption also improved by 3% year-on-year, reaching 7.3 million tonnes in Q2 calendar year 22, leading to a balanced market on a year-on-year basis.

The global aluminium prices on an average have declined from $3,280 per tonne in Q1 calendar year 2022 to $2,882 per tonne in quarter two, and it continues to fall reaching $2,400 per tonne currently. This fall in aluminium prices is led by worries about recession, a weaker Chinese demand and hawkish monetary policy.

On Slide #13, domestic demand of aluminium in Q1 of FY23 is expected to reach 1.06 million tonnes reflecting 11% year-on-year growth. However, in the corresponding period, the domestic consumption was impacted by this second wave of the pandemic in 2021. On a sequential basis in Q1 FY23, there was a marginal de-growth of (-3%) compared to the previous quarter. As per SIAM automotive production in Q1 FY23 increased by 5% sequentially which reflects as a positive indicator for this industry segment. Domestic demand in terms of government infrastructures is stable, while packaging demand remains steady. However, some headwinds are seen in the building and construction segment due to the rising interest rate by the RBI. On an overall basis with record vaccination and supportive government policies like PLI scheme, domestic aluminium demand is expected to remain strong.

Moving to Slide #14, the global FRP demand is expected to grow by 6% in calendar year 2022 versus 10% growth in calendar year 2021. The market demand for recession resistant beverage can sheet is expected to grow by around 5% in calendar year 2022 driven by stable and strong demand as consumer preference for sustainable packaging options continues to rise. Driven by package mix shift towards more infinitely recyclable aluminium. The automotive segment is estimated to grow at 10% in calendar year 2022. This growth is led by elevated leverage of pent up demand supported by growing consumer demand for vehicles that use an higher share of aluminium like SUVs, trucks and electric vehicles. However, in the near term continued semiconductor shortages are impacting the automotive industry, though some easing is currently visible. The demand is speciality segment is expected to grow by 4% in calendar year 22, with the near term order book remaining strong, including consumer electronics, container foil packaging, EV battery enclosures, et cetera. The aerospace segment is expected to grow around 30% in calendar year 2022, as order bookings continue to improve with the resumption of air travel, and is expected to be back to pre-pandemic levels by fiscal year end.

In Q1 of FY23, domestic FRP demand is expected to grow in double digit by 14% year-on-year due to the base effect. Demand remains strong in the packaging sector. The B&C demand also improved due to stable government projects. Automotive demand was stable with sharp increase in production and with a greater focus on localization. Demand is likely to grow in quarter two of FY23 due to stable demand in packaging, consumer durables and building & construction.

Turning to the copper industry on Slide #15. In H1 calendar year 22 global production of copper grew by 1.6% year-on-year and consumption grew by 1.3% on a yearly basis. Chinese production of copper declined marginally by 1.9% year-on-year by consumption grew marginally by 0.6% year-on-year in the same period. In the world excluding China copper production increased by 4.3% year-on-year, whereas the consumption grew around 2% year-on-year.

On a quarterly basis in Q2 of calendar year 2022 global production of copper declined by 2.5% year-on-year, whereas the consumption grew by 1.6% year-on-year compared to the corresponding period last year. Chinese production of copper decreased by 8% year-on-year, while consumption growth was flattish on a year-on-year basis. In the rest of the world, excluding China, production increased by 2.8% year-on-year whereas consumption grew by 3.6% on a yearly basis in Q2 of calendar year 2022.

During the first part of Q1 FY23 April and May 2022, the spot TC/RC was close to 20 cents/pound due to the lower demand of copper concentrate by Chinese smelters on account of the smelter disruption and maintenance in this period. The mine disruptions from Peru combined with restarting of many of the Chinese smelters led to the tightening of the market during June, July 2022, resulting in a drop in sport TC/RC to the current level of around 18 cent per pound. The TC/RC is expected to be range bound at current levels to Q4 of calendar year 22. Until the availability of copper concentrate from new mines in Peru and Chile that are being commissioned. That will help the TC/RC move up again.

Coming to Slide #14 on the domestic side of copper demand, overall demand increased by nearly 47% year-on-year at 173 Kt in Q1 of FY23. Imports declined by around 25% year-on-year at 33 Kt in Q1 of FY23. On a quarter-on-quarter basis, market demand increased marginally by 0.7%

year-on-year while imports remained stable to a marginal increase of 0.5% year-on-year in Q1 FY23.

The trend of operational and financial performance for each of our business segment this quarter, and that of the corresponding period of last year are covered in further slides and an annexure to this presentation.

Let me now conclude today's presentation with our strategic priorities for this year on Slide #30. Cost optimization will be a key focus. We successfully delivered based on this, another consistent overall performance in the first quarter of fiscal 2023. Although rising input cost and inflationary challenges continue to put pressure on us.

On this slide, let me share with you our strategic priorities to provide a glimpse of our overall focus for this fiscal year. Our topmost priority is maintaining our robust capital structure with a thrust on our capital allocation framework, strong balance sheet to fuel our next phase of organic growth and our continuous emphasis on shareholder return. Our next priority will be our value enhancing growth directed towards expanding capacities in various business segments and diversifying our portfolio to provide not only products, but solutions, while expanding downstream businesses in both aluminium and copper organically.

Next is our focused approach on the 2050 ESG commitments, by taking sustainability initiatives across the value chain and aiming to become the industry leader in sustainability. Last but not the least, our portfolio enrichment strategy of advancing from a manufacturing company to manufacturing solutions provider with an enriched product mix with the highest share of value added products, across segments and end market. Thank you very much for your attention and the forum is now open to any questions you may have.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Indrajit from CLSA. Please go ahead.

Indrajit: Couple of questions. First, on Novelis, we have seen the commentary by Ball Corp last week, where they have kind of sounded a warning on the demand side on beverage can. Now this is one segment, which has been very strong over the past few quarters so what has changed suddenly. And do you think by extension, we could see more such demand warnings or capacities being shut?

Steve Fisher: So, as we said on our call last week, we continue to see a very strong demand for beverage packaging. Our growth projections have been consistently 4% and that's kind of the near term and long term growth that we see in this business. If you look at some of the customer, or can makers, comments in their earnings calls, which you can go back and look at the transcripts, specifically, Ball Corp has stayed at a 4 to 6% growth rate in the near term. And I believe the 4 to 6% growth rate for Ball Corp was their long term growth rate previously as well. So, where they saw some more near term demand for their business, that pullback. But we continue to see the growth at 4% which is on the conservative side all of the Can makers projections for North America. So, we continue to see the long term trends associated with the conversion of infinitely recyclable aluminum packaging taking share, and feel very comfortable about the continued growth in this marketplace and the investments that we are making specifically in the North American marketplace as well.

Indrajit: All right, thank you. My second question is on the India aluminum business. So, versus our guidance on last quarter, what kind of cost of production inflation have you seen in this quarter and what would be the guidance for the following quarter?

Satish Pai: We saw roughly 17% increase in our cost of production in Q1FY23 versus Q4FY22. And that probably Q2 is going to be in some ways our tough quarter from a cost of production point of view, because the majority of the coal problems and the high cost coals that we had to buy during May and June will get consumed in Q2. So, we are expecting in Q2, another high teens increase in the cost of production. So, the coal has been the biggest impact on our cost of production. We have already started to see post monsoon and heat going down, the linkage coal supply starting to increase so we think that Q3 and Q4 of FY23 will start to get better. But Q2FY23 is going to be sort of from a cost of production point of view the highest quarter for us.

Moderator: Thank you. We have a next question from the line of Sumangal Nevatia with Kotak Securities. Please go ahead.

Sumangal Nevatia: First question is just an extension of the previous question on the cost front mystify. So, is it possible to share how is the coal mix in 1Q, 2Q where we are seeing a lot of inflation and how is it changing in 3Q, 4Q and this 17% increase for some reason, we are not able to reconcile and of course, this is just a coal cost increase and did we see some other cost increase in 1Q, because the cost increase on our number is much, much lower than the 17% what you said?

Satish Pai: Yes, so first let me answer the coal question. So, what basically happened is that, when the government prioritize the IPPs for power sector, they reduce the amount of linkage coal that we will get, they first went to the 75% of cap and at one point went down to 65%, which meant that we had to buy coal on the e-auction market. And hence, the premium in the auction market went up to nearly 500%. So, if you look at Q1 or linkage coal was only 50% whereas e-auction goal was 31%. Now, the projection for Q2 are still in that same ballpark, but towards the let’s say, now in August and September the linkage goal is going up. So, in Q3, we should get back to more of a 60%- 65% linkage coal. And then hopefully in Q4, we are back to a higher percentage. So, that is the progression of coal which is impacting our cost of production. Now, Sumangal the overall cost of production this quarter, you are not able to reconcile I understand because some of it is also because of our inventory positions, we had certain low cost inventories that got transferred over to Q1. So, some tailwinds were there from that as well.

Sumangal Nevatia: Understood. And sir the remaining 20% is imports right, in our mix?

Satish Pai: Yes, coal from our own mines and imports together were 20% in Q1. Remember that and of course as you know even the imports cost has gone through the roof.

Sumangal Nevatia: Okay, Understood. Sir second question is with respect to the copper business. We saw this record EBITDA this quarter, is it possible to just explain what sort of drivers and how much is it sustainable, should we now built in North of Rs. 500 crores quarterly EBITDA or this is like a one off quarter?

Satish Pai: I wouldn't say it's one offs, I still think that they are going to have sort of Rs 400 crores plus quarters now. The strong performance was also because sulfuric acid prices were very strong, as well as the gold as the duty went up, we've benefited so as a combination. They had a good operational performance, good CC Rod sales, cathode sales combined with high realization of sulfuric acid and precious metals has led to this strong numbers in this quarter.

Sumangal Nevatia: Understood, got it. And just one last question if I may squeeze in, more of a big picture question. Novelis is, as we know the business, the non-cyclical model of the business still appears a bit underappreciated is it possible to share, what are your thoughts on a separate listing of Novelis in US with some broad level thoughts and how should we expect in the coming years?

Satish Pai: So, Sumangal we always look for opportunities to increase shareholder value.

Sumangal Nevatia: Okay. And do you use separate listing as an opportunity to unlock some value?

Satish Pai: We always consider all possible avenues to increase shareholder value, that's all I can say.

Moderator: Thank you. We have next question from the line of Pinakin Parekh with JP Morgan. Please go ahead.

Pinakin Parekh: Now when the CAPEX plan was announced back in March, there were a few projects which were under appraisal. At this point of time sir can you give us a status of those under appraisal projects have they progressed and what is the visibility of the consolidated CAPEX for this year and next year?

Satish Pai: So, let me start with the CAPEX numbers. So, we had guided that this year our CAPEX plan will be around Rs 3000 crores. We have no change to this year's CAPEX plan, though because of the rate at which we'll be able to spend because most of the suppliers are all tied up, the actual cash out maybe more like Rs 2500 crores. But this year's CAPEX plans, mostly which were heavily weighted towards the downstream expansion in Aditya, finishing of Silvassa exclusion, doing the 350 Kt expansion brownfield of Utkal Alumina all those are progressing quite well. Now, the under appraisal projects that you talk about, the downstream ones actually are progressing quite fast, the two upstream ones one was alumina expansion, and one was the aluminium pot expansion. The alumina ones we are still waiting for the Bauxite mine auctions to come. And we think that that will come first, the Aluminium Smelter expansion continues to remain under appraisal.

Pinakin Parekh: Understood sir. And, the quarter-on-quarter increase in debt, is it all translation or has there been any other issue as well?

Praveen Maheshwari: No, so Pinakin the first quarter typically is a quarter where working capital block is generally higher. In case of Novelis, it's been higher LME as well, which has contributed to this in case of copper it is also because at the end of March, we had the smelter shutdown. So, there was some kind of refilling there. But yes, and in case of aluminum India, because the higher input cost, which actually goes largely into our working capital, that has contributed there. So, we would see some of this coming off again in Q2, and that pressure will get released.

Pinakin Parekh: But is it fair to say that broadly, the company believes this to be plus minus 10%, as a steady net debt or would you expect this to even structurally come down more over the next few quarters?

Praveen Maheshwari: No, so you're talking about the working capital blockage or overall debt?

Pinakin Parekh: Overall net debt sir.

Praveen Maheshwari: Overall net debt will always continue to come down, if not the same. It will not go up, because we are very focused on the leverage both in Novelis and in India there is a very strong focus. So, net debt will not go up, there may be fluctuations between quarter-to-quarter based on working capital fluctuations, but long-term debt we are not planning to increase at all.

Satish Pai: The next few quarters as the LME has come down we'll see some working capital releases as well.

Praveen Maheshwari: And since you are talking about debt, it will be good to mention here that in India, we had rs. 6000 crores of bonds, which were the most expensive bonds so far, at a cost of 9.55% and 9.6%. Those have been fully repaid between Q1 and Q2 of FY23. So, that gross debt will definitely come down. In March 31st of 2022, we had a Rs. 2500 crores borrowing in Hindalco of a long term nature which was in lieu of a Rs. 2500 crore repayment that we are making in Q2 of the current quarter. So, these are the changes in the long term loans. So, effectively between February to now, we are bringing down the gross long term debt by Rs. 6,000 crores which is the most expensive debt also in Hindalco. So, that should actually help us in reducing our interest burden significantly going forward.

Moderator: Thank you. We have next question from the line of Satyadeep Jain with Ambit Capital. Please go ahead.

Satyadeep Jain: And thank you management team for providing all the details on India downstream business. A couple of questions on that one only, pretty impressive performance on margins in that business compared to what we saw historically for that business. Is it possible to provide more details on what is the recycling mix in India and what is the product mix and what actually led to with an annual pricing reset for or maybe some of these contracts expiring and you're getting higher pricing for these contracts in domestic business or was it more of export opportunities for this business. That's the first question on that business.

Satish Pai: This is a result of the last few years, we have been always talking to you but we have not actually come and split it out. So, over the last three or four years, we have exited the bottom. And we have improved the quality, focused on segments that are more profitable. And this has been combined with a high market price that has been achieved over the last year. So, it's a combination of all of that and the focus on operations, quality, et cetera. We are now in good market segments that have got good EBITDA per tonne. So, I actually believe this $260 per tonne will head more towards $275 and $300 per tonne in the coming quarters.

Satyadeep Jain: And what's the recycling mix for you in India?

Satish Pai: Very little, in fact that's why it's running at this 275 odd because the recycling portion is very, very little we are only doing what we call run around scrap and no sort of pre or post consumer scrap yet, that we are starting to work on those projects now. So, very little scrap benefit in the India EBITDA per tonne.

Satyadeep Jain: Second question was tied to be downstream expansion, you're looking in India at Aditya Hirakud, I believe you already have excess Hot Mill capacity there and you're looking at only adding Cold mill. And is that also largely tied to export markets and are you looking at any particular split between autos, cans, foils any other product mix you're looking at?

Satish Pai: So, we have a product mix, but you're right, we have access Hot mill in Hirakud, so it's a Cold mill and finishing line. And the mix is going to be Cans, foil stock, hard alloys, et cetera

Moderator: Thank you. We have next question from the line of Amit from Edelweiss. Please go ahead.

Amit Dixit: So, my question is that, there are two questions that I have. The first one is essentially on macro. So, you are seeing that Chinese aluminium exports have been at phenomenal level in fact enough to cover 20% of global, Ex. China demand. So, do we see further headwind, to LME, aluminium prices due to this, while other regions might face aluminum cut, but unless and until something happens in China, we are going to see LME prices remains under pressure. So, just wanted to get your thoughts on that?

Satish Pai: So, I don't know whether I would agree with that it's 20% of the rest of the world demand, because that's a pretty large no, but yes, their exports have gone up. But if you saw recently, Europe in spite of their problems has introduced ADD on Chinese aluminium. The post COVID type of lockdown, the Chinese demand should come back internally a little bit. Their ability to export will still remain fairly restricted to the US. So, I don't necessarily think that a huge Chinese export of aluminium will bring the aluminium prices down further. I don't think so.

Amit Dixit: That's helpful sir. The second question is essentially you indicated that because of supply chain issues downstream aluminium sales volume was lower in this quarter. So, if these supply chain issues had not existed, how much incremental sales volume would have been there and whether the sales volume is pushed to the Q2?

Satish Pai: Yes, roughly about 10 Kt got blocked so that will be pushed to Q2.

Moderator: Thank you. We have next question from the line of Vishal Chandak with Motilal Oswal. Please go ahead.

Vishal Chandak: Sir my question was with regard to yours smelter expansion where you had mentioned that the pump hydro project would be under observation for some time. So, just wanted to understand where are we on that stage, have we started the pump hydro operations and what kind of expectation do you have right now on that?

Satish Pai: So, look, you'll probably see an announcement soon, the pumped hydro will come online Dec 23. So, that any smelter expansion we are talking about is a 2024, 2025 type of so it remains under appraisal. Right now we are focused on trying to get the pump hydro up the downstream projects and the alumina.

Vishal Chandak: So, if I understand correctly, the pump hydro gets installed in December 23, another year of at least observation when if it goes through, then we put up the plants for CAPEX as in when we place orders. So, 24th onwards we place orders?

Satish Pai: No, then we actually do the proper appraisal looking at the LME and all and see whether it still makes sense. I just want to repeat, the smelter expansion of 180 Kt we announced is our last project on our priority list. we have a lot more projects to complete before that.

Vishal Chandak: Got it, sir that's very useful. Second question was with regards to the hedging, if you could just help us on the LME hedging where are we and what is the plan going forward?

Satish Pai: We are at 30% of $2500/tonne for this financial year, and currency we are 14% hedged at Rs 81.4/$. And in FY24, we have about 60 Kt hedged at $3000/tonne. So, we have not done any further hedging in the last two months.

Moderator: Thank you. We have next question from the line of Ritesh Shah with Investec. Please go ahead.

Ritesh Shah: Sir my first question is you emphasized on the word solutions and solutions provider, would like to have your thoughts over here.

Satish Pai: Yes, because as we get into these downstream business, and we move out of just providing what we call common alloys, which was 3000 series. We are now providing foils stock, we are providing housing foils, we are providing Can body stock, we are providing ACP sheets, we are providing extrusions doors and windows. So, we are getting more and more closer to the end product and hence, we are getting into more of machining and doing fabrication. So, this sort of margins go up and the valuation also goes up. So, that's what we mean.

Ritesh Shah: Sure, that helps. Sir my second question is, when we do give a guidance on cost of production. How should we understand this, is it something our consumption cost basis that we guide for on a sequential basis?

Satish Pai: Yes, the cost of production is based on consumption, it's our actual cost of production. It's not based on what we have in inventory. So, when I tell you, it's going to go, it went up 17% that was the actual cost of production went up in Q1 17% versus Q4. And I'm saying high teens again for Q2FY23.

Ritesh Shah: Okay. Let me put it the other way. If the number for the cost what you're saying, if we did that again, what essentially implies is the premium have moved up very sharply. Is that inference, right and if you can provide some color over there, that would be useful.

Satish Pai: MJP has not gone up sharply. The MJP actually has gone down a little bit.

Ritesh Shah: Sir what I'm trying to tie up is on the EBITDA per tonne moment on a sequential basis, the cost of production what you've indicated is higher based on our implied maths, that number hasn't moved up very sharply. So, the premium should have moved up that's the missing link. So, just trying to comprehend the operational metric?

Praveen Maheshwari: Just to answer your question, one reason as we explained in one of the earlier answers as well, why doesn't tie up when we talk of cost of production, it is the current cost of production. But let's say when we started the quarter, there is a certain amount of metal inventory which is sitting with us. That is based on the cost of production of the previous quarter, which was lower than the current quarter. So, the benefit of that low cost inventory at the beginning flows through in this quarter. So, that is the reason why you see some kind of a difference between the cost of production as we are talking about and the EBITDA that you're trying to calculate.

Praveen Maheshwari: And before you ask the next question, let me also clarify, when we move from Q1 to Q2, there is no low cost inventory sitting in our books at the end of Q1, because by the time Q1 end came, we were already the cost of production had already moved up significantly.

Ritesh Shah: Last question, how should one read into effect portion of cash flow regions of Rs. 3050 crores, which is there in the statement?

Praveen Maheshwari: You are referring to the OCI sheet, right?

Ritesh Shah: Correct.

Praveen Maheshwari: It basically means that whenever the LME goes down, the cash flow hedges become positive, because, effectively your benefit from the hedges goes up, or the losses on the hedges goes down. And the vice versa happens on the other way as well. That's how you should read it.

Ritesh Shah: So, what that number will be at this point in time?

Praveen Maheshwari: We don't calculate this on a day to day basis, it is calculated at the end of the quarter, or end of the month. But really speaking that number is more notional, because that does not really tell you what would you finally realize or not realize, because that's a notional number at the end of the period.

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

Abhijit Mitra: Just to sort of clarify one thing, since we are calculating as an outsider and you are suggesting that the inventory has helped the cost this quarter, or at least the EBITDA. So, next quarter, from where we will be looking, we'll be seeing about 25, 30 percent annual cost increase, if I understand you correctly, because there's an accumulated cost increase of Q1 plus a mid teen cost increase of Q2, which will come through. Reported numbers from an external observation point of view it look like a 25%, 30% increase on cost?

Satish Pai: I'm saying a high teen increase from the cost level of Q1 not cumulative.

Abhijit Misra: Yes, but from where we will be observing, it would be cumulative because this quarter we will not be able to see any cost increase, because of the inventory impact which you seeing?

Praveen Maheshwari: No. So, look at it in two parts, one is the cost of production. And the second is the benefit of the low cost inventory at the beginning of the quarters. In Q1, you will see that there is a certain cost of production that we talked about, which is what we said 17% higher than the previous quarter, that gives you a certain cost of production. Now in the EBITDA tally, or EBITDA reconciliation you would factor in the benefit of certain inventory that is lying in the beginning of the year, not so much of the raw material, but more of the metal inventory, where the cost of production of the previous quarter has gone into it. That benefit will not be available in the coming quarter. But on the cost of production excluding that benefit, you will see a high teen increase is what our expectation. So, you can imagine in different ways, and you can compare, but this is a essence of what is happening.

Abhijit Mitra: Got it. And the second question is on downstream volume value. You mentioned something about the valuation did I heard it right you said that over a point of time, it will sort of lead to improvement in margins and valuation are you looking at a separate business now or what are your thoughts there?

Satish Pai: Let's go step at a time. We have just first quarter, we just split out and reporting. So, what I meant by a valuation point of view is that our pricing and all that that we can command is also going up, that's what I meant.

Moderator: Thank you. We have next question from the line of Kamlesh Bagmar with Prabhudas Lilladher. Please go ahead.

Kamlesh Bagmar: So, one question on the part of your downstream. So, if you look at your CAPEX plans like you are increasing your downstream capacity at a cost of around $2500, $2,600, against that let say we would be making an EBITDA per tonne of around $300. So, it's almost a recovery of around eight to eight and a half years. So, do we see these margins to elevate to a higher level or because honestly, on a medium-term basis, these are not yielding that great returns what we are doing in the upstream extensions or capacity?

Satish Pai: No, look any of our new projects and I've discussed it before this what you're seeing today is the basis of investments done long before that we have just cleaned up for better quality than that, the new projects are all in mid-teens IRR, so they are all coming at a higher EBITDA per tonne.

Kamlesh Bagmar: Sir I was looking at your CAPEX announcements which you have done in March, so around $400 million for a capacity of 170 Kt, which translates to around $2,400. So, based on that, and that also for just for the cold rolling.

Praveen Maheshwari: This whole investment is still underway, this has not resulted it'll take. And you're forgetting that we already have the hot mill which is a large part of the investment. So, additionally, we'll get the benefit of that hot mail available in our system.

Satish Pai: That project has been approved on the basis of an IRR which is mid-teens.

Kamlesh Bagmar: And sir lastly, I maybe dwelling again on that cost part. Sir, we have an inventory of max 15 days not beyond that because in aluminium, nobody carries such a high inventory. So, if you see the dollars on dollar cost basis, last quarter, it was 2180 based on the data which has been provided separately for the upstream. So, it was 2180 and in this quarter it is $2,109. Effectively cost has come down in dollar terms and on rupee terms also it has come down. So, honestly, it's very difficult to gauge the fact that, because we had the inventory so our cost has not gone up, but inventory can't book more than 15 days or 20 days?

Satish Pai: So, look, I'm going to ask you to do a little bit of reconciliation with Subir offline. But our costs from our base cost have gone up by 17%, is what we have. So, what numbers you're using we will have to, I'll get Subir to sit with you and reconcile.

Moderator: Thank you. We have next question from the line of Ashish Kejriwal with Centrum Broking. Please go ahead.

Ashish Kejriwal: Sir, this is again on the cost side only. You mentioned about 17% increase in costs. But, it's better if we can provide something like on a per tonne basis, if not this quarter maybe next quarter onwards, because the kind of numbers which we get from you as an external way, we are unable to calculate the cost. And as earlier participants are also questioning the same that on our calculation, even if we exclude the downstream businesses, and just derive costs by reducing our revenue minus EBITDA, and on a per tonne basis seems to be lower on a quarter-on-quarter basis.

Praveen Maheshwari: Yes, so we will look at it and see how we can make it clearer for you guys, point taken.

Moderator: Thank you. We have next question from the line of Satyan Wadhwa with Profusion Investment Advisors. Please go ahead.

Satyan Wadhwa: Can you just provide some clarity on the downstream business and why we've got such a big jump in EBITDA per tonne and what sort of number is sustainable going forward in terms of per tonne basis?

Satish Pai: I don't think sequentially such a big jump, the Q1 of last year is a little bit misleading, because that was the second phase of COVID. And most numbers when you look at it in Q1 of last year to comparison look a little bit misleading, if you look at my historical discussion we were having, we were already always saying that the existing business is around $100, $120 EBITDA dollars per tonne. So, now over the last year, we got to be fair, like we have seen in the Novelis business very good price increases. So, we got a lot of price increase, and then we exited some of the sort of common alloy low end of the market and went heavily into foils, foil stock, and all those have paid off and given us a good EBITDA per tonne. You will see in the next few quarters that we are going to do little bit better than the $260 and be nearly $275 to $300 per tonne is my guidance.

Moderator: Thank you. We have next question from the line of Indrajit with CLSA. Please go ahead.

Indrajit: Macro question. So, we have seen some of the downstream companies talking about FMC and you are marking maybe 10% of input materials to be taken from only companies from net zero. How does that impact us given our carbon driven or coal production, how is the medium-term plan, I understand that the new capacities would have been renewable based, but what happens to the existing capacity?

Satish Pai: Yes, we have made a plan out to ESG commitments 2050 when that is dependent on a number of things happening, by the way India has made a plan to Net Zero by 2070. So, the power source in India also has to change with time. So, we have got certain things that we are doing in the short term, certain assumptions in the medium term, were pumped hydro and some other natural gas and all will come in and that's how we have built a model which will take us to 2050. It's a issue that is facing all aluminium and all power users in India, to transition out of coal. But this is a long term, I want to emphasize that it's more of a Net Zero by 2050 than the 2030.

Indrajit: Sure. With second question again is on the hedging side. So, how do you see prices move up in the sense that do you not see merit in hedging more for 2024 yet or do you see prices to have an upside risk from here and that is why we are not hedging more for 24?

Satish Pai: A very good question, I honestly don't know, we are expecting to see what happens when the current uncertainty goes away. Because fundamentals of supply and demand say that the LME should be higher. Right now there is a fear about recession, Chinese, the war that's keeping it down. And the forward contango is very small. So, we are waiting for the macro environment to get a little bit more clearer before taking longer term position.

Moderator: Thank you. We have next question from the line of Pallav Agarwal with Antique Stock Broking. Please go ahead.

Pallav Agarwal: Sir could you give us a quantity of external Utkal Alumina sales?

Satish Pai: Yes, the sales was a little bit on the lower side, of about 67 Kt. So, some of the ships were actually could not go. So, Q2FY23 we expect to sell about 150 Kt.

Pallav Agarwal: Sure, sir. Sir and very broadly, if I were to try and get Utkal EBITDA or derive it from the segmental EBITDA. So, do I use the upstream numbers that you reported and remove them from the standalone to get some sense with Utkal EBITDA is that the right way to approach it?

Satish Pai: You should not try to get Utkal EBITDA besides the third party sales. The stuff that goes directly into our aluminium is in our cost of production, which we tell you. The separate EBITDA which is the real EBITDA that contributes to our bottom line is the third party sales.

Pallav Agarwal: Okay. Which is significant at least in this quarter?

Satish Pai: This quarter it was not, but I gave you the number for next quarter is 150 Kt, so it will become sizable in Q2. And this year FY23, our target sales is roughly 450 Kt of third-party sales.

Pallav Agarwal: Sure sir. Sir also a question, MJP has been pretty subdued. But probably the premiums in other regions of the world still remain very strong. So, what sort of disconnect, is there more supply in Asia compared to the rest of the world?

Satish Pai: The MJP is down because of the Chinese demand being weak. Large part of the MJP is because the Japanese premium is Japan exports a lot of cars and aluminium things into China. So, it's driven a little bit by the weakness in China. In the Asian market regional premiums tend to be driven by freight cost and handling cost on a local basis. So, right now the European premium is very high and US is moderated. Steve, do you have any comments on the Midwest Premiums?

Steven Fisher: No, it's moderated a bit and it is just flow of metals and some level of tariffs and duties that drive some of the different premiums in Midwest premiums and ECDP.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to turn the call back over to Mr. Satish Pai for closing comments. Over to you sir.

Satish Pai: Yes, thank you for the comments. So, look, I think that our broadly diversified business model between Novelis, copper, India upstream, downstream plays off to get these good results. It be fair to say going ahead, the cost pressures are going to impact the aluminium upstream business, whereas we expect the other three businesses to do well. So, with that, I thank you for your attention. Thank you.

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