



“Hindalco Industries’ Q1-FY24 Earnings Conference Call”

August 08, 2023



MANAGEMENT: MR. SATISH PAI - MANAGING DIRECTOR, HINDALCO INDUSTRIES
MR. PRAVEEN MAHESHWARI - CHIEF FINANCIAL OFFICER, HINDALCO INDUSTRIES
MR. STEVE FISHER - PRESIDENT & CEO, NOVELIS
MR. DEV AHUJA - CHIEF FINANCIAL OFFICER, NOVELIS
MR. SUBIR SEN - HEAD OF INVESTOR RELATIONS, HINDALCO INDUSTRIES



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Moderator: Ladies and gentlemen, good day and welcome to Hindalco Industries FY24 1st Quarter Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference call is being recorded.

I now hand the conference call over to Mr. Subir Sen – Head of Investor Relations at Hindalco. Thank you and over to you.

Subir Sen: Thank you. And a very good afternoon, morning, everyone. On behalf of Hindalco Industries, I welcome you all to the Earnings Call for the 1st Quarter of the Financial Year 2024. In this call, we will refer to Quarter One FY24 Investor Presentation available on the Company's 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 said presentation.

In this presentation, we have covered the key highlights of our consolidated performance for the 1st Quarter of the Financial Year 2024 versus the corresponding period of the previous year. A segment wise comparative analysis of India aluminum and copper businesses is also provided. This presentation covers our Indian operations, aluminum upstream and downstream financials and their operational performances separately to reflect their individual business segment performances in Quarter 1 versus the corresponding period of the previous year. The corresponding segment information of the prior periods has also been restated accordingly for a comparative analysis.

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

Following this presentation, this forum will be open for any questions you may have. Both this call and audio replay of this conference call will also be available on our Company's website. Now, let me turn this call to Mr. Pai to take you through our Company's performance in this quarter.

Satish Pai: Thank you, Subir. A very good afternoon and morning everyone. Thank you for joining today's earnings con call of Hindalco's performance for the 1st Quarter of FY24. On Slide #5 and #6 of this presentation, you can see our progress across the metrics of ESG for this year versus prior year.

In our continuous efforts towards increasing green cover and biodiversity, we have successfully completed an all-season study under our biodiversity management plan for 12 of our mine sites



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and six units in Hindalco. We are also pursuing plantation drives across all our buffer zones. Hindalco continues to increase its share of recycling and reuse of waste. In this quarter 90% of total waste was recycled and reused versus 88% in the previous year. We have achieved recycling of 127% of bauxite residue and 105% of ash in this quarter, which is a significant achievement over the last year. In addition, we are now single use plastic free certified at 14 of our plant sites this quarter and progressing well to become 100% single use plastic free certified Company in India soon.

In terms of our progress in renewables, we have already reached 50% of our target of 300 megawatts by 2025 this quarter and completed 150 megawatts of renewables. Further 140 megawatts of renewable hybrid wind and solar projects are under execution and expected to be completed over the next few years. At the end of this quarter, our aluminum specific greenhouse gas emission was recorded at 19.45 tons of CO₂ per ton of aluminum, which was a bit higher than last year on account of higher power consumption at some of our smelters. This is expected to settle down with better efficiencies across our plants in the coming quarters. On safety, the LTIFR in India was recorded at 0.22 this quarter, reflecting an improvement over FY23 levels and remains amongst the best in the industry. We have taken several initiatives to inculcate the safety culture, not only in our employees, but also in their families. In addition to this, we have taken digitalization initiatives to develop the contractor safety management and comprehensive safety audit and assurance software to further strengthen our systems to monitor safety with a target implementation date of October 2023. There were no fatalities recorded in our Indian operations this quarter.

We are on our way of achieving net water positivity by 2050. We stay committed to our zero liquid discharge at all our sites and a 20% reduction in specific water consumption by 2025 from the base year of FY19. On the water positivity front, two of our mines that is Samri and Bagru have achieved water positivity rate this quarter. All these initiatives are in line with our target of achieving water positivity across all mines by 2025. In addition to this our Silvassa and Taloja facilities have completed zero liquid discharge, erection and installation while its commissioning is underway. We are not only implementing water audits for assessing rainwater harvesting and recycling capabilities at our plant locations, but have also initiated various desalinization and other projects to achieve this goal. Our Dahej plant successfully commissioned its tertiary water recycling unit, leading to 700 kiloliters per day fresh water savings this quarter.

Let me now give you a glimpse of our quarterly consolidated performance in quarter four versus the previous quarter on Slide #8. This quarter's performance on a consolidated basis was driven by recovery in the Novelis and India, Aluminum India downstream businesses backed by a steady performance by the copper business. Our consolidated revenue was Rs. 52,991 crores this quarter, which was down 5% sequentially. Consolidated EBITDA was up 5%, Q-on-Q at Rs. 6,109 crores whereas the consolidated PAT was up 2% on a sequential basis at Rs. 2,454 crores this quarter. Hindalco at the consolidated level maintains its strong balance sheet with the net debt to EBITDA well below 2x at 1.73 at the end of June 2023. On the balance sheet, our



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consolidated net debt stands at Rs. 38,463 crore. The India operations net debt was Rs. 1,904 crore and Novelis was at Rs. 36,559 crore at the end of June 2023. In India aluminum business, we are currently hedged at around 11% at a price of \$2,755 per ton for the Financial Year 2024. All our strategic Capex in India as well as in Novelis are mapped with cash flow generations in the business and are in line with our capital allocation policy.

Coming to our business wise performance this quarter:

Novelis shipments were at 879 KT down 6% Q-on-Q largely on account of lower beverage can shipments and specialties, especially the building and construction segment. This was partially offset by record automotive shipments this quarter. Novelis delivered an EBITDA of \$421 million, up 4% year-on-year on account of better cost control and favorable product mix. EBITDA per ton was \$479 versus \$431 in the previous quarter, up 11% sequentially. On Hindalco's India aluminum business performance, upstream aluminum performance this quarter was impacted by unfavorable macros. Total upstream shipments were up 5% Q-on-Q at 341 KT, whereas revenue was flattish sequentially at Rs. 8,064 crore. Upstream EBITDA was 12% lower sequentially at Rs. 1,935 crores, EBITDA per ton was at \$691 per ton and EBITDA margins were at 24% and continued to be one of the best in the global industry in the current challenging business environment. Total third-party shipments were 336 KT of which upstream was 255 KT and downstream was 81 KT this quarter. The downstream aluminum business shipments were down 9% Q-on-Q at 81 KT this quarter, while revenues were down 11% sequentially at Rs. 2,435 crores this quarter. However, aluminum downstream delivered an EBITDA of Rs. 147 crores up 31% Q-on-Q on account of better product mix this quarter. Our copper business continues to deliver consistent performance despite the impact of the planned shutdown we had this quarter. The overall metal shipments were at a record high of 118 KT up 1% Q-on-Q of which CCR volumes were at 98 KT, up 4% sequentially this quarter. Revenue was up 3% Q-on-Q at Rs. 11,502 crores on account of higher sales volume. The quarterly EBITDA was at Rs. 531 crores, down 11% Q-on-Q due to lower cathode production on account of the maintenance shutdown this quarter.

Let me give you a glimpse of the current broader economic environment:

After a resilient Q1 CY23, global economic recovery is losing steam amidst wide divergences across sectors and economy. High frequency indicators for the second quarter point to a broader slowdown in activity. As per IMF, global GDP growth is projected to moderate from 3.5% in 2022 to 3% in both 2023 and 2024. Slowdown is concentrated in advanced economies, where growth is expected to decline from 2.7% in 2022 to 1.5% in 2023. While emerging market economies are expected to grow at a steady pace of 4% in 2023. Restrictive monetary policy, slow recovery in China and sluggishness in manufacturing and trade activity are weighing on growth. On the upside, services sector expansion continues to drive growth. The battle against inflation is not yet over, with central banks focused on achieving sustained disinflation, especially with respect to poor inflation. Food and energy prices have come down considerably

from the war induced peak levels. Global headline inflation is expected to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024. However, core inflation is projected to decline more gradually. On the domestic front, economic momentum is holding up despite a challenging global environment. Economic activity remains resilient, albeit with some sequential moderation in the June economic data. Strong domestic demand, robust service sector activity and healthy public Capex momentum will drive growth in FY24. However, the impact of tighter monetary policy and slowdown in global growth may weigh on domestic growth going forward. RBI projects real GDP growth for FY24 at 6.5%, moderating from 7.2% in FY23, with risk being evenly balanced. Headline inflation has remained below 5% since April 23, driven by both core and noncore inflation. However, going forward, food price dynamics are likely to shape the headline inflation trajectory. RBI project CPI inflation to moderate to 5.1% for FY24 from 6.7% in FY22 on softer commodity prices and core inflation. RBI kept the policy rates unchanged in the last two meetings at 6.5%, stating durable disinflation in core inflation ,stating that durable disinflation and core inflation would be essential for a sustained cost.

Talking about the aluminum industry outlook in the first half of CY2023:

Global aluminum production grew at 2% year-on-year while global consumption degrew by 2% resulting in a surplus of 0.7 million tons. In Q1 calendar year, 23 Chinese production declined in certain provinces like Yunnan and Guizhou and Shandong due to tight power supply. In Q2 of calendar year 23, with improved hydropower situation, the government has released power to the smelters, resulting in an increase in aluminum production, especially in the provinces of Yunnan and Guizhou. Hence overall production in China grew by 3% year-on-year in the first half of CY23 to 20.1 million ton. The Chinese consumption in H1 CY23 faced headwinds due to weak construction demand and led to a decline in consumption by 2% year-on-year to 20 million tons resulting in a surplus of 0.1 million tons. In the world, excluding China, production increased in South America whereas it declined sharply in Europe. Hence, production was flattish at 4.3 million tons in the first half of CY23. Aluminum consumption faced headwinds across all sectors except the automotive segment. As a result, consumption degrew by 7% to 13.7 million tons, leading to a surplus of 0.6 million ton.

On a quarterly basis in Q2, global aluminum production increased by 1% to 17.3 million tons, whereas consumption increased by 2% to 17.7 million tons, resulting in a deficit of 0.4 million tons. During this period Chinese production grew by 1% to over 10 million tons. Consumption improved to 10.8 million tons, up 6% year-on-year due to the base effect of the Zero Covid policy in the last year. Increased solar capacities and electrical vehicle production partially offset the demand weakness from other sectors during this period. This resulted in a deficit of 0.6 million tons in China. In the rest of the world, overall aluminum production grew marginally by 1% to 7.2 million tons, while consumption continues to weaken across all sectors except automotive which led to a 4% drop in consumption at 6.9 million tons, resulting in an overall surplus of 0.2 million ton this quarter. The global aluminum prices in Q2 CY23 fell to \$2,258 a ton against \$2,395 a ton in the previous quarter.



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On a quarter-to-date basis, the global price of aluminum is around \$2,150 a ton.

In Q1 FY24, the domestic demand is likely to reach 1.14 million tons at a 14% growth year-on-year, whereas sequentially this demand is expected to grow marginally by 1%. This sharp year-on-year growth is supported by strong demand from the electrical, building and construction sectors and a recovery in consumer durables. However, packaging and auto faced headwinds due to weakness in the export led demand.

The global FRP demand is expected to grow at 1% in CY23 versus a 3% growth in the last calendar year. The global demand for resistant beverage can sheet is expected to grow in the long run at a CAGR of 3%, although the customer inventory reduction now is largely complete. The return of promotional activities in North America shall boost consumption of beverages in the second half of FY24. The automotive segment demand is expected to grow at a CAGR of 11% over the next five years, driven by vehicle growth rates, light weighting needs for fuel efficiency, performance and electric vehicle range. This growth is led by elevated levels of pent-up demand and EVs are gaining share of the vehicle mix.

The demand in specialties, especially in building and construction segment, showed some softness on account of seasonality and the macroeconomic environment. While some optimism is seen in US building and construction market, full recovery in specialty demand is depending on the economic stabilization across regions. The Aerospace segment demand for premium aerospace plate and sheet is positive and is expected to remain strong. Aircraft OEMs are forecasting a strong growth in aircraft build rates over the next decade. In this sector, sustainability is also gaining importance, leading to higher consumption of aluminum. In FY24, Indian FRP demand is expected to grow marginally by 8% year-on-year due to stable building and construction demand and pick-up in consumer durable demand. This demand is likely to remain firm in the coming quarters.

With respect to the global copper industry, in the first half of CY23, overall global copper production grew by approximately 4% at 12.5 million tons, whereas consumption grew by 4% year-on-year at 12.4 million tons, resulting in a surplus of 0.1 million tons. On half yearly basis in CY23, China's production increased by 5% at 5.4 million tons, whereas consumption grew by almost 7% at 6.6 million tons resulting in a deficit of 1.2 million tons. The world, excluding China, increased their production by 3%, whereas consumption grew by 1% on a year-on-year basis. Resulting in a surplus of 1.3 million tons in H1 CY23. In the second quarter of calendar year 2023, the overall global production of copper increased by 3.4% year-on-year while consumption grew by 5.9% compared to the corresponding period last year, resulting in a deficit of 0.5 million tons. In Q2 calendar year, 23 Chinese production increased by 4.5% year-on-year, while consumption grew by 10.8, resulting in a deficit of 1.1 million ton. In the world. Excluding China, production increased by 2.5% and consumption was flattish year-on-year, resulting in a global surplus of 0.6 million tons this quarter.



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In Q1 FY24, the domestic market demand increased by approximately 10% year-on-year to 190 KT versus 173 KT in Q1 FY23. On a sequential basis in Q1 FY24 market demand increased by 5% while domestic producers share was close to 73%. During Q1 FY24, spot prices of TC/RC are around 21 to 22 cents a pound that remained below the annual benchmark of calendar year 23, which is 22.5 cents per pound, owing to the supply disruptions due to adverse weather conditions in South America and export license delays in Indonesia. Spot activity remained subdued as smelters are being sufficiently well stocked. This was coupled with weak spot demand from China, mainly on account of delays in commissioning of committed smelter projects combined with extended maintenance shutdown. Easing of supply disruptions in the near term will lead to improvements in spot TC/RC during the second half of FY24.

Details of our operational and financial performance in each of the business segments this quarter compared to the corresponding period of last year, as well as the previous quarters, are covered in further slides and annexures to this presentation. But now, let me conclude today's presentation by some key takeaways. We as a Company are working proactively to mitigate the current macroeconomic headwinds and cost pressures. Our resilient India business is providing solid financial prudence with its strong balance sheet for our organic growth strategies. We also continue to focus on resource security in terms of coal and bauxite, thereby reducing our dependency on external sources while expanding our value streams in terms of downstream products.

Our copper business continues to deliver a consistent performance despite the impact of a planned maintenance shutdown this quarter. We continue to focus on our value-added products that will cater to the niche segments of special alloys and high purity copper rods and tubes. Novelis continues to show recovery, backed by better cost control and a favorable product mix. This is reflected in the sequential improvement in EBITDA and EBITDA per ton this quarter. Our approach to ESG continues to be comprehensive across value chains and in line with our interim as well as long term targets of 2050. We have already achieved 50% of our target of 300 megawatts in renewables by 2025. Our LTIFR continues to be among the industry best this quarter as well.

We continue to moderate and pace our new strategic CAPEX both in India and Novelis in line with our generated free cash flows. We stay focused with our value enhancing growth strategy directed towards organic growth and diversifying our portfolio to provide not only products but solutions while expanding downstream business in both aluminum and copper.

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

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Indrajit Agarwal from CLSA. Please go ahead, sir.



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Indrajit Agarwal: I have two questions. First on the Bay Minette cost inflation. In the last quarter's call, we had mentioned that we are expecting some support under the US Inflation Reduction Act. Any update on that, given that we have about \$200 million to \$300 million of cost inflation, will it be offset by that or it will be fresh out flow?

Steve Fisher: Sure. Not a large update. We have filed our requests under 48C. We will not have clarity as to any allocations towards either the Bay Minette project or Guthrie recycling project until probably the end of this fiscal year, that is March of 2024. And in the new Capex range of 2.7 billion to 2.8 billion for Bay Minette, it does not include any such funds that we might get allocated for this project.

Indrajit Agarwal: My second question is on the India aluminum business. So, we have seen global coal prices falling much sharply versus our coal cost being largely stable other than e-auction coal prices. So, in that respect and with other cost deflation, what kind of cost reduction, do we expect in 2Q and where does that put us in the global cost curve for aluminum?

Satish Pai: So, Q1 to Q4, cost came down by about 2% and Q2 to Q1, we expect to come down by a further 3%. So, most of the coal that we have been buying in the last few months, we have started to see quite a good reduction in coal prices. So, we are quite encouraged now, and we think that Q2 overall Costs is expected to go down by 3% from Q1 FY24. Now where we are on the cost front, Hindalco is very firmly in the left hand side of the first quartile. I mean if you look at our EBITDA margin of 24% in the aluminum business compared to most of our peers who have already declared, you will see that our EBITDA margins are much better than most of them.

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

Sumangal Nevatia: Sir, my first question is with respect to our coal mix, if you could share what was it in 1Q and how do we see it changing in the coming quarters? And also on the cost front, if you see international thermal coal prices back to almost two-year low versus what we are kind of guiding for next quarter when maybe on a normalized basis is still much higher versus what we were say two years ago or three years ago before the Covid era? So, what is the change over the last year? Is there a significant mix change in coal and change in the cost of linkage coal as well?

Satish Pai: You have got quite a few questions there, so let me first start by your first thing was in Q1, our linkage was 41% and the e-auction was 53%. In Q2, we think that the linkage coal utilization is going to be like 57% to 60% range, which is why we are guiding that we will be cost wise down another 3% sequentially. Now your second point is international prices of coal, you have to remember went up much, much more than what domestic prices went up. International prices had gone up to \$240 per ton. They have since moderated down, but it's still quite patchy. So, the third part of your question is coal prices in India. You're right, are still a couple of Rs. 100 per million kilocal higher than what they were pre Covid. Now I personally believe that it's only



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after the captive mines that most of us in the steel and aluminum industry have got, once our captive mine starts, then only you will see the coal cost going back to those early levels. I think as long as we are participating in auctions, you are going to see ups and downs. Structurally, the this cost shall change when our own mines starts in the coming years.

Sumangal Nevatia: Yes, sir. Sir, in terms of linkage coal, given that we participated in the auction, it is the cost which is getting consumed, now is very different from what it was 2-3 years back, is the premiums elevated as well?

Satish Pai: It's not very different, but it is higher. 2-3 years ago what we got in linkage and today compared to what we have gone through in the last few quarters is much lower. But if I compare it to three years ago, it is higher. And you have to remember that generally in India there is at least a 6% inflation in Coal India notified price every year anyway.

Sumangal Nevatia: And sir, what would be your, so you said 60% odd linkage from next quarter. Is that a normalized level or we'll see further increase in linkage proportion in coming quarters?

Satish Pai: I don't think so. I think that normally 60% is what our linkages are like because you have to remember these linkages are a rolling phenomenon. So, older ones get finished, new linkages starts, so that keeps going. So, if you go back and look, I think generally the best we have done is about 60-62% in a quarter.

Sumangal Nevatia: And sir, any update you would like to share on our coal mine, captive coal mines like Chakla and Meenakshi, where are we? Which approvals are pending and what's the latest timeline we are seeing?

Satish Pai: So, no real change. Chakla mine continues to move ahead as our plan. I think we have a box cut planned in FY25. That is next year somewhere in October. Meenakshi, we are still hoping for Meenakshi allotment, but maybe it is the time to tell you that last week we participated in Meenakshi West Coal mine, which is just sort of West of the existing Meenakshi mine and we won that as well. So, we are still hoping to get the Meenakshi mine allocated, but we have a Plan B which is Meenakshi West that we won last week, which is another six to seven million tons per year coal capacity. So, at least, we are adequately covered and hopefully we can start Meenakshi West if this Meenakshi does not get allocated going forward.

Sumangal Nevatia: And sir, just one last question. So, what is the reason for this delay in allocation? Because we're seeing this across many companies? So, if you could just share, what is the issue here?

Satish Pai: There is a fundamental regulatory issue related to what they call land acquired under the Coal Bearing Act. So, to allocate a mine to a private industry besides the subsurface rights, you will have to allocate the land as well to a private Company and the law did not really allow the CBA land to be transferred from a public sector unit to a private. So, the government has had to deal



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with that regulatory aspect. That's why many mines are stuck on this. But I think it's getting resolved now.

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

Pinakin Parekh: Sir, I have only one question which is on LME aluminum prices. Now essentially this year was supposed to be a story of Yunnan production cuts, China deficit and sharply higher aluminum prices and there has been a complete reversal of that situation and the market worries is that without drought, Chinese aluminum production surges further from here, which could push aluminum well below the cost curve. So, at this point of time, how is the Company looking at aluminum prices for the next two to three quarters and is there any recalibration of the near-term CAPEX plan with the outlook on aluminum prices?

Satish Pai: Let me handle the second part first. There is no recalibration of Capex plan because most of our Capex is towards the downstream side of aluminum. We already have sufficient cash reserves to fund our Capex, so we are not changing any Capex plan both in Novelis or Hindalco. Now to go back to your outlook on LME, it will be fair to say that every month or every week is a new story when it comes to China. And it's sort of couple of weeks back, everyone got very optimistic that stimulus in China and every LME prices jumped up by a \$100-\$150. Today they are pessimistic, so I think, Pinakin, we can all speculate what China is going to do, but our feeling is that LME will be between \$2100 and \$2300. The good news for us is that cost curves are moderating, so we should be able to go through even if it's a tougher second half of the year. And I think that largely the outperformance of Hindalco will rest on its downstream businesses. Whether it's Novelis, whether it's India aluminum or it's copper, I think on the upstream side we will be compared to our competitors in much better shape, which is all the best we can do. I think from an LME side. It's going to be tough until the situation in China gets clarified.

Pinakin Parekh: So, just to continue with that, are you given the view of aluminum prices of \$2100 to \$2300, as a Company, are you locking in more volumes as forward sales hedges at this price points or you have reduced your volume hedges for the next 12 months?

Satish Pai: We made there is no change in our Hedging from the previous analyst call, so we are 11% hedged at % \$2,755 a ton for FY24. We don't think that current levels are worth hedging.

Moderator: Thank you. The next question comes from the line of Amit Dixit of ICICI Securities. Please go ahead.

Amit Dixit: I have a couple of questions. The first one is on downstream aluminum, so India business. So, if I look at downstream aluminum EBITDA is formally above US \$200 per ton, while you indicated in the prepared remarks that this was due to the better product mix and the last two quarters we have been highlighting that consumer durables and all the things were down. So,



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what is the change in product mix that we have witnessed in this quarter and do we expect this label to be sustained?

Satish Pai: So, our calculation is \$220 a ton. So, what had happened is the consumer durables which is the cookware and things like also went through a bit of a destocking. Actually, April was still little bit tough, but May-June the volumes have bounced back. So, the product mix is that the consumer durable sector has come back, which is quite profitable to us. And what we are seeing in the July and even August is that the demand is quite strong. So, we are fairly comfortable that this 81 KT volume which is slightly on the lower side will cross 90 KT in Q2 and the EBITDA per ton will actually remain well above \$200 per ton. So, we are quite confident about Q2 in the downstream aluminum side.

Moderator: Thank you. The next question comes from the line of Pallav Agarwal of Antique stock. Please go ahead, sir.

Pallav Agarwal: Sir, so I had a couple of questions. First was, if I look at the slide on the India business, so the revenues over there, let's if I take Q1, let's say Rs. 20,230 crores, so they are higher than the standalone revenues. So, is this mostly due to the Utkal alumina external sales?

Praveen Maheshwari: No. So, you're asking whether the standalone revenue is higher than the consolidated India operations?

Pallav Agarwal: Yes, the reverse actually. I am asking the India consolidated revenues are higher than standalone?

Praveen Maheshwari: Obviously, so Utkal gets added. Utkal has a third party alumina sale.

Pallav Agarwal: And the copper?

Praveen Maheshwari: Copper is there in the standalone also, but Utkal yes, Utkal gets added for the third-party sale.

Pallav Agarwal: So, primarily the Utkal alumina external sales that's being added over there.

Satish Pai: In Q1, we had 95 KT of third-party sales in Utkal.

Pallav Agarwal: Is that come down because, I think probably in earlier quarters we have run rate of about 150 to 200 KT of external sales.

Satish Pai: Yes, it is lower because every sort of second half of March, 1st half of April, we have the annual shutdown of the calciners in Utkal for maintenance. Yes, that's why Q1 was a bit lower.



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- Pallav Agarwal:** Also, in the annual integrated report of FY23, the Supplier's Credit was at a level of about Rs. 5,600 crores. So, is this primarily on account of copper concentrate, this is a credit that we avail or it's also an account of some other supplier's credit?
- Praveen Maheshwari:** Yes, absolutely. So, that is a kind of a trade payables supported by financing arrangements. So, it's a suppliers credit.
- Pallav Agarwal:** For copper, is it?
- Satish Pai:** For copper concentrate.
- Pallav Agarwal:** And I'm assuming the discounting rate would be lower than the normal rates of interest that we would pay on other borrowings?
- Praveen Maheshwari:** Interest rates are different for different kinds of borrowings. So, on project loans today, that is the most expensive one. Earlier, you remember we had the bonds which were the highest ones which we paid off last year.
- Satish Pai:** Leasing suppliers credit interest rates are lower.
- Praveen Maheshwari:** So, it's lower than the project loans. We have basically two types of loans only now.
- Pallav Agarwal:** Sure, Sir. So, if I could also just ask you we had mentioned that India was net debt free in our last call, but if I look at the annual report, there's still some amount of net debt there. So, is this because Utkal is net debt free or the whole India operations are net debt free?
- Praveen Maheshwari:** So, when we talk about India operations, we combine Utkal into that and then there was a small net debt, which was still there. So, we had I think 0.03 times as net debt to EBITDA with a net debt, of around Rs.300 crores at the end of fiscal 2023.
- Moderator:** Thank you. The next question comes from the line of Ritesh Shah of Investec. Please go ahead.
- Ritesh Shah:** Couple of questions. Sir, first is on Meenakshi, you use the word backup. Sir, why do you use the word backup specifically? I think the recent amendment it takes into consideration the issue that you highlighted on the sub surface, right. And sir, if the allotment comes through, what will be the timeline that we'll be looking at? That's the first question.
- Satish Pai:** Yes, I think that Meenakshi, the strip ratio is very low. So, I think we should be able to get coal there in about 2 years. The reason I use the word backup is that until I have the paper in the hand, the mine next week came up for auction, so we decided to participate and take that.
- Ritesh Shah:** This is helpful. Sir, my second question is on Novelis. I think in the Q1 call for Novelis, what it was indicated is EBITDA run rate in second half of the fiscal at \$450 to \$500. Earlier during the



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Capital Markets Day, we had indicated a number of \$525, so just wanted to get a sense, was there any change in communication or the interpretation is not right from my end?

Dev Ahuja:

No, I think our communication first of all is not inconsistent at all, Ritesh. We continue to say that as we close this fiscal year, which means in the Jan-March quarter. Our confidence has gone up even more as compared to what it was at the Capital Markets Day that we will be getting to \$525 per ton. Now until then, we had said that we should be prepared for \$400 to \$450 and as you would have heard at our earnings call, we are now saying that we will be confidently in the range of \$450 to \$500. So, in fact the journey has become a lot better compared to what we indicated at the capital markets day. So, there is no inconsistency whatsoever, in fact looking at the latest business environment and everything that is happening, we have actually come back to say that we will be better than what we said at the Capital Markets Day. So, I think there should be no confusion.

Ritesh Shah:

Perfect, that helps. And last question for Mr. Pai. Sir, you have always emphasized a lot on operating leverage when it comes to Novelis. This quarter, they put it pretty decent set of numbers despite negative impact of operating leverage. Product mix was a little different and the recycling spreads not so of favorable. So, sir, if one had to balance each of those 3 variables and better appreciate the quality of earnings, if you could provide some color, that would be very useful sir. Thank you.

Dev Ahuja:

So, Ritesh, again I don't think there should be much of any kind of ambiguity on why we are saying that there is a lot of dry powder when it comes to operating leverage. We are at a level of volume which is unprecedented on the low side post Aleris acquisition. So, the point we are making is that this quarter was like, the third quarter last year was a low point on EBITDA, we are telling you that this quarter is a low point on volumes and from here onwards we are pretty much seeing destocking behind us. So, that itself is a positive trigger when it comes to volume. So, basically the incremental volumes that will come in can in particular because auto is good, specialty in the given situation is also good. So, what will happen if that all the incremental volume from here onwards to bounce back to 900 Kt levels on volumes is going to bring in a very high operating leverage that should not be very difficult to sort of acknowledge because also can comes with a relatively higher recycled content. So, we have a double positive here. One is the incremental volume and the other is the recycled benefit which is disproportionate with can ,even if the metal prices are not great at this point in time. So, that is really what is about to happen in the forthcoming quarters.

Ritesh Shah:

So, last quick one for Mr. Pa., Sir, would you be keen on an inorganic chase, something on the copper smelter if at all? I know we have a capital allocation framework in place, but what will be our thought process if hypothetically some copper smelter is up for grabs perhaps at the right valuation?



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- Satish Pai:** Hypothetically, we will continue to look for any opportunity that makes sense for Hindalco and shareholders.
- Moderator:** Thank you. The next question comes from the line of Anupam Gupta of IIFL Securities. Please go ahead.
- Anupam Gupta:** Couple of questions. Firstly, if you look at the India debt that has risen 4Q versus first quarter, any specific reason which drove the increase.
- Satish Pai:** You said the India debt has increased. Actually, India debt has not increased. I think there's been a little bit of a working capital block on the copper side that has impacted the Net Debt in Q1.
- Praveen Maheshwari:** So, Quarter 1 typically is a quarter where we see some buildup of inventories etc. So, working capital debt does go up in the 1st Quarter, that's about it. There is no increase in the long term loans in India.
- Anupam Gupta:** And secondly on copper business, what will be the outlook for volumes for second quarter given that you had the shut down and there was no major impact on shipment?
- Satish Pai:** It is not that there will be a much upside in volume, but what we have to tell you is that a large part of the volumes this time we had actually imported the cathode and then converted and sold. So, the margins were not as good. So, in Q2, it will be more with our own cathodes which we get from our concentrate route, hence the performance in Q2 will be better than Q1.
- Anupam Gupta:** And volume wise, it should be stable effectively?
- Praveen Maheshwari:** Sales volume will not be different, cathode production volumes shall go up.
- Moderator:** Thank you. The next question comes from the line of Satyadeep Jain of Ambit Capital. Please go ahead sir.
- Satyadeep Jain:** My first question is on the business update that you have given the press release on collaboration with Tata Motors to build aluminum cargo body for Tata Ace EVs. So, just wanted to know what kind of aluminum would go into maybe one car and what additional demand could we see from that section?
- Satish Pai:** So, look, the amount of aluminum is roughly about 55 to 60 Kgs to make that box at the back. Now the second part you have to know is that when we get into these downstream businesses, it's not just the weight of the aluminum because we're actually doing some machining, welding to make that box. So, we're getting more and more, doing extra machining and things like that. We have year to date in the last six months delivered thousand and now the run rate is more like 200-300 per month. The next thing is that those last mile vehicles, everybody's electrifying it



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and hence need to lightweight it. So, we are in talks with another two or three clients who want to build more of these aluminum boxes on their last mile vehicles.

Satyadeep Jain: Thank you. And my second question is on the capacity expansion. So, we had 170 KTPA continuous casting plus cold rolling facility coming up at Aditya Aluminum. So, any update on its commissioning, timeline?

Satish Pai: We just reviewed the project last week, so it's going as per plan. I think the first coil should come out somewhere in end of FY25, next year.

Moderator: Thank you. The next question is from the line of Gaurav Singhal of Aspex Management Hong Kong Limited. Please go ahead.

Gaurav Singhal: So, one is you mentioned that aluminum, you expect LME to be roughly around let's say \$2100 to \$2300 whereabouts which is only slightly lower than I think, where this average this quarter. So, for the India upstream business, should we expect like \$650 a ton to be like a normalized EBITDA level for this kind of LME price? And also, once our mines come online, how much can the cost reduction benefit on a dollar per ton basis to be in the upstream?

Satish Pai: So, I think that your first, I would say is roughly in the right ballpark. If it is in that range, the number that you had is more or less, right. I think how much you can get once the mine will come, it's better if we wait till the mines get commissioned and then we'll give you a more accurate number because the cost can come down by another 5% or 8% more with our own mines.

Gaurav Singhal: And then the second question more on the Novelis side. So, for the Bay Minette facility, where I understand, we have contracts with our customers. So, are these like take or pay contracts because let us say if macro weakens and for whatever reason the situation is very bad, how firm are these contracts? Like does the customer like have to pay. Is it like a take or pay or is there a risk that may not get the price that we contracted at?

Steve Fisher: So, as we said on our call last week, we are fully committed with some contracts and it's very late stages of other contracts for two-thirds of the Bay Minette facility that will be for beverage packaging. We are also in line with our contracts on the auto sheet side. As relates to the contracts, these are multiyear contracts with like our current contracts and with take or pay arrangements.

Gaurav Singhal: And if I may ask like so when we sign these contracts, these are with the Can companies or is it like a tripartite arrangement with the ultimate brand owner as well or do we just sign with the Can Company and then the Can Company would sign separate contract with the brand owner?



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Steve Fisher: Yes, it's a combination in North America directly to some brand owners. We announced I think a couple of months ago, a long-term contract relationship with Coca-Cola Company and then also some contracts that are obviously attracting with the can makers. So, it's a mix.

Moderator: Thank you. The next question is from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead.

Kirtan Mehta: You mentioned that we are formally on the left side of the cost curve on the global aluminum market. Would you be able to indicate the advantage that we have on aluminum and coal versus the midpoint of the cost curve, some sort of quantitative indication on the numbers?

Satish Pai: No, I can't give you much more to say that probably our biggest part of the advantage is our alumina cost because we have Utkal, the alumina cost is certainly one of the big ones besides other benefits that we may have. So, a large part of our differentiation comes because of the cost of alumina.

Kirtan Mehta: Sure, sir. And in terms of from the perspective of the thermal coal has been sort of weakening in the international market, at this point of time are the sort of the global thermal coal still in the positive area or are there any sort of, I just want to understand how much the cost support we have at the current price level? Would you be able to give some indication around that?

Satish Pai: Look, a few of you have asked me, but let me tell you that international prices of coal and domestic prices of coal, while there could be some correlation, largely it's not. Both are not related because the Indian domestic coal market is driven by its own supply demand and what happened last year is it was a very hot summer, so a lot of coal got diverted to IPPs and hence the e-auction coal in India went up. Now, yes, coincidentally, the war in Ukraine happened and the international prices of coal went up, but it's not a direct one-to-one correlation. We in India, besides Dahej, which is on the coast, so takes imported coal. Large part of our aluminum is run on domestic coal and we do not normally import coal for our aluminum smelting needs. So, I am more interested in Coal India's production, how hot the Indian summer was, which was not so much availability of coal in India and hence e-auction prices coming down.

Kirtan Mehta: Thanks for clarifying this. I had a slightly different question in terms of, I wanted to understand for the global smelters who are running on the global prices of coal, are they currently profitable at the current price levels or there is an X percentage of the smelters. which are sort of at this rate?

Satish Pai: So, you see what happened in Europe is that most of the smelters shut down when gas prices went above \$15 per MMBtu and most of them remained shut down. There is quite a lot of Chinese smelters that are the closest to India, which run on coal and it depends on the coal prices in China and some of them are on the right-hand side of the cost curve. Large parts of the Middle East run on natural gas, which is provided by their governments, and Hydro and Rio Tinto run



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on hydropower. So, the basket of international smelting is quite varied. So, it's only India and China that are very much coal dependent.

Moderator: Thank you. The next question is from the line of Vikas Singh of PhillipCapital. Please go ahead sir.

Vikas Singh: I have just one question pending. Sir, like in Novelis, you said that you have taken a price hike in Europe after the energy cost appreciation. Is there any risk to repricing these to a lower range because now the energy costs have come down significantly, and you have to pass on certain benefits to the customers?

Dev Ahuja: So, first of all, for the largest part, our contracts are driven by PPI and a lot of the costs pass through happens through PPI clauses and they remain consistent. Second of all, we have long term contracts and so there is really no pricing volatility. Generally, the direction of pricing on the Can side is upwards and so on that front, we don't have any really concerns of any margin dilution. In fact, as inflation is settling down, we will see some accretion in margins. Now coming to the main point of your question, in the case of specialties, we have annual price negotiations and just given the overall discretionary environment, which includes energy deflation when it comes up for price negotiation, we will have to give some part of it and that includes some contracts where we had a specific indexation of energy. But what I can tell you is that net-net, we do not expect any margin dilution because with all the settling down of overall inflation, we will still be able to preserve our margin. So, all that I want to say is that we don't foresee any margin dilution even though there may be some price adjustment as we get into the next round of negotiations, given inflation is settling down. I hope that's a helpful answer.

Moderator: Thank you. The next question is from the line of Vishnu Kumar from Avendus. Please go ahead.

Vishnu Kumar: Most of my questions have been answered, but just on the CAPEX, capital expenditure number for full year for both Novelis and India, if you could just remind us the total number and how much has been spent for the 1st Quarter?

Satish Pai: So, for India this year, we will be at roughly Rs. 4,000 crores to Rs. 4,500 crores for FY24 and of this we spent Rs. 800 crore plus in this quarter. Dev, your guidance for this year?

Dev Ahuja: Yes. So, \$1.6 billion to \$1.9 billion is our annual guidance for Capex. And in the 1st Quarter, our CAPEX was around \$333 million. So, we expect that to go up as the growth projects including Bay Minette are ramping up.

Vishnu Kumar: My second question is on the India downstream side. What could be the theoretical number that we can do, assuming if we can full run full blast and when the new projects kicks in from next year, I mean FY25 and FY26, where this theoretical number can get to?



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Satish Pai: So, the Silvassa 34 KT extrusion commissioning has started in the last few months. So, we will add 34 KT of extrusion and then the rolling capacity is 170Kt. So, you will add another 200Kt, we are roughly at around 400Kt plus now. So, in the next two years, we will get to about 600 KT. EBITDA per ton is running north of \$200 per ton already. So, that's your numbers.

Moderator: Thank you. Due to the time constraints, that was the last question. If you have any other question, you can connect with the Investor Relations team for your further queries.

Moderator: With this, I would like to hand over the conference to Mr.Pai for any closing comments.

Satish Pai: I think that on behalf of Hindalco and Novelis, we thank you all for participating in the call and I hope we have managed to cover all the questions that you had and we look forward to talking to you in our next quarterly earnings. So, thank you.

Moderator: Thank you. 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.