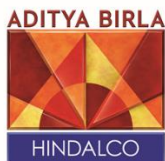


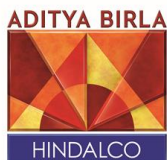


“Hindalco Industries Limited Q3 FY 2018 Earnings Conference Call”

February 02, 2018



**MANAGEMENT: MR. SATISH PAI -- MANAGING DIRECTOR, HINDALCO
INDUSTRIES LIMITED
MR. PRAVEEN MAHESHWARI -- CHIEF FINANCIAL
OFFICER, HINDALCO INDUSTRIES LIMITED
MR. J. C. LADDHA, HEAD -- COPPER BUSINESS,
HINDALCO INDUSTRIES LIMITED
MR. ABHISHEKH RUNGTA -- INVESTOR RELATIONS,
HINDALCO INDUSTRIES LIMITED**



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hindalco Industries Limited Q3 FY18 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case, you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note, that this conference is being recorded.

I now hand the conference call over to Mr. Abhishekh Rungta. Thank you and over to you, sir!

Abhishekh Rungta: Thank you and Good Evening or Good Morning, everyone. On behalf of Hindalco Industries Limited, I welcome all the participants to the Earning Call for Third Quarter Fiscal 2017 - 2018.

On this call, we will be referring to the presentation that is available on our website. Some of the information on the call may be forward-looking in nature and will be covered by Safe Harbor language on slide #2 of the Presentation.

On this call, we have with us Mr. Satish Pai -- our Managing Director; along with Mr. Praveen Maheshwari -- our Chief Financial Officer; and Mr. J. C. Laddha, Head of Copper Business.

Now, let me turn the call over to Mr. Pai.

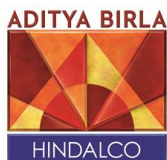
Satish Pai: Thank you, Abhishekh. Good Evening or Good Morning, everyone. Welcome to the Third Quarter Fiscal Year 2017 - 2018 Earnings Call for Hindalco Industries Limited.

Now moving on to slide #3. I will start by giving you the key highlights of the company performance including the business results. This will be followed by an update on the macroeconomic and industrial environment and highlights of the results. Later, I will be covering operating performance for all our segments in more details and Praveen will elaborate on the financial performance.

Let me start with key highlights, starting with slide #5. Hindalco delivered record EBITDA of Rs. 1,611 crore in Q3 FY18, up by 15% driven by stable operations and favorable commodity prices in both the businesses.

Earnings before tax and exceptional items grew 62% to Rs. 746 crore. Consequent upon our prepayment of project loans and also re-pricing of these loans, interest expenses reduced by around Rs. 100 crore compared to last year.

Net profit for Q3 FY18 was at Rs. 376 crore versus Rs. 320 crore in the previous year. This is after considering a provision for Rs. 115 crore based on a judgment of the Honorable Supreme Court on mining regulations.



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Utkal Alumina recorded a significant jump in EBITDA by 73% to Rs. 247 crore in Q3 FY18, and with Net Profit of Rs. 118 crore as compared to a net loss of Rs. 55 crore in Q3 FY17.

The Aluminium business performance reflects consistent track record of solid performance. All the plants operated at near full capacities and at designed operating efficiencies. Enhanced level of Aluminium prices in the London Metal Exchange has further improved the results.

The business faced headwinds in the form of over supplied domestic market and surging input cost, especially of Alumina, Carbon products and Caustic Soda. Although higher Alumina price is negative for the standalone operation the same is neutralized in the form of higher EBITDA at Utkal. Increase in electricity duty in Odisha (Orissa) also impacted the business significantly.

There has also been an increase in notified price of Coal by 11% effective January 2018, which will have an impact the results in the coming quarters.

Despite these headwinds, standalone Aluminium business EBITDA was up by 7% at Rs. 940 crore on the back of supporting macros and higher volumes.

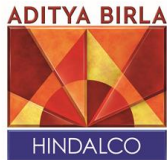
Moving to slide #6. Our Copper business significantly benefited due to higher volumes, Sulphuric Acid prices, and better macros. Lower TCRC and lower DAP volume impacted the results adversely. Despite this, the Copper business posted a 28% growth in EBITDA at Rs. 421 crore. We sold 41 KT of CC Rod in Q3 FY18 as against 35 KT in the previous year on improving market conditions.

Novelis delivered a record performance with highest ever Adjusted EBITDA of USD 305 million, up 20% year-on-year. Shipments increased to 796 KT, up 6% year-on-year. Automotive shipments increased by 12%. We are seeing signs of improvement in Can demand in Asia and South America.

Novelis has recently announced its plans to expand its production footprint in the U. S. with an approximate USD 300 million investment in Automotive finishing capacity in Kentucky, U.S. Novelis also has agreed to acquire the operating facilities and manufacturing assets for Euro 200 million at its Sierre, Switzerland plant that have historically been leased.

Novelis reported net income of USD 121 million in Q3 FY18 compared to USD 63 million in the previous year.

Let us now look at the broader economic environment in slide #8. The global growth momentum increased in the third quarter of the calendar year 2017 mainly driven by increase in investment and manufacturing activities. According to IMF, around 120 countries registered growth in the first nine months of the calendar year 2017 as compared to the corresponding period in the previous year.



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World economy is witnessing this collective recovery in economic growth after 2010. In advanced economies, U. S., Japan, Germany and Korea, and in the emerging markets Brazil, China and South Africa, registered better than expected growth in 2017. The global economic growth is expected to touch 3.7% in calendar year 2017 as compared to 3.2% in 2016.

Going forward, IMF expects that growth will continue to move upwards and likely to grow by 3.9% in 2018 and 2019 respectively. Indian economic growth made a comeback in Q2 FY18 at 6.3% after hitting a three year low of 5.7% in the previous quarter.

The leading indicators for Q3 this year are positive. Manufacturing PMI touched five years high of 54.7% in December 2017 and the index of industrial production rose to a 17 month high of 8.4% in November 2017.

The economic survey indicated expected GDP at 6.7% this year and 7% to 7.5% next year. Thus, the growth momentum looks positive both globally and in India. However, elevated crude prices could impede growth and stoke inflation.

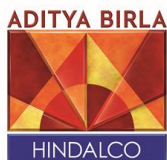
Turning to the Aluminum industry update on slide #9. Aluminum demand growth in China moderated to around 6% year-on-year as compared to a growth of around 8% in calendar year 2016. Moderation in demand was mainly driven by slower growth in building and construction and electrical sectors in China. But in the world outside China demand grew by 4% in the calendar year 2017 against a growth of 2.5% in 2016.

North America, Europe, and Brazil showed strong recovery in demand. Building and construction, auto and industrial sectors were the key drivers.

On the supply side, despite reforms in China, production grew by 13% year-on-year to 36.3 million tonnes in 2017 against a modest growth of 4% in 2016.

Production outside China faced disruptions in CY2017. As a result, it grew by 1% to 27.2 million tonnes in 2017 from a growth of 2.4% in 2016. The global market in 2017 was largely balanced as compared to a deficit of around 1.1 million tonnes in 2016. The Chinese market recorded a surplus of around 2 million tonnes in 2017, whereas the world outside China remained in a deficit of around 2 million tonnes.

In slide number #10 we will discuss about the Aluminium industry drivers and factors which affected the industry in Q3 FY18. LME in Q3 FY18 grew by 4% over the previous quarter and 23% year-on-year on the back of Chinese environmental reform. However, for domestic players, elevated rupee against U. S. dollar in Q3 FY18. Rs. 64.7/USD negated the impact, as compared to the previous year's rupee value of 67.4/USD.



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In Q3 FY18 the Japanese MJP Premium reported a significant jump of 27% year-on-year to USD 95 per tonne compared to USD 75 per tonne in Q3 of FY17.

On the domestic front demand from user industries continued to show signs of improvement. However, domestic player are facing stiff competition due to oversupply in the market.

Slide #11 captures the state of the Copper industry and the major external value drivers of the Copper business. The concentrate market recorded a marginal deficit of around 92 KT, due to major disruptions that happened at the world's two biggest mine at Escondida in Chile due to labor negotiations and Grasberg in Indonesia due to change in Government regulations on exports of concentrate.

Concentrate demand is estimated to increase in 2018. But supplies are expected to be tight and risk of disruptions may arise from major labor negotiations in Chile and Peru. Consequently, deficit in the concentrate market may widen further in 2018. Adverse concentrate market impacted TcRc for the calendar year 2018. It has declined around 11% to \$82.25 / 8.225 cents in 2018 as against \$92.5 / 9.25 cents in 2017.

But, Codelco has increased its Cathode Premium for European market from a seven years low of USD 82 per tonne in the calendar year 2017 to USD 88 per tonne for 2018. Cathode Premium for Chinese market also witnessed an increase from USD 72 per tonne in 2017 to USD 75 per tonne in 2018.

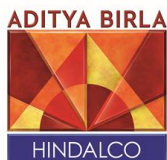
In the domestic market, demand from user industries have shown positive trends as compared to previous year but, low-cost imports from FTA countries continue to be a matter of concern for the domestic players.

Let us now turn to the operating performance of the Aluminium business in India on slide #13.

Aluminium operations continue to operate close to design capacity. During the quarter, metal production was at 323 KT Alumina production is lower by 10 KT due to certain operational issues at Renukoot. VAP i.e. Value-added products is our focus area and during the quarter the production of VAPs including Wire Rod, grew by 3% over the previous year. Against total metal production of 323 KT in Q3 FY18, sales in all forms was at 325 KT.

Moving to the operating performance of the Copper business in slide #15. In Q3 FY18 production of Cathodes was 101 KT, up 8% compared to last year when we had a shutdown in one of the smelters.

DAP production was lower at 57 KT, down 21% due to operational issues. It is expected to ramp-up by Q1 of FY19.



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CCR production stood at 38 KT, up 18% on improving market conditions. The new CCR project is progressing well as scheduled and commercial production is expected in Q4 FY18. Total Copper sales for the quarter was 102 KT.

I will now cover the operational performance of Novelis in brief. Many of you have heard the Novelis earnings call yesterday. Coming to slide #17, total FRP shipments at 796 KT grew by 6% largely due to a 12% increase in automotive shipments. Our focus across key metrics of recovery, metal mix, increased recycling, customer satisfaction and quality have helped us drive the strong results. We achieved highest ever Adjusted EBITDA per tonne of USD 383 in this quarter.

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

Praveen Maheshwari:

Thanks, Satish. Coming to slide #19. Higher Rupee LME prices of both Aluminum and Copper and higher volumes in both the segment boosted the overall sales.

As you may be aware, the Revenue numbers are not comparable on year-on-year basis, as post-GST, the sales numbers have been reported net of GST. EBITDA increased by 15% over the previous year on the back of stronger commodity prices and volumes. Other income also rose to Rs. 250 crore.

As compared to the previous year, interest expense was lower by 18% due to prepayment and repricing of long-term loans. The average cost of long-term borrowings reduced from 9.25% in Q3 FY17 to 8.76% in Q3 FY18.

Earnings before tax and exceptional items for the quarter stood at Rs. 746 crore, up 62% as compared to previous year, due to strong overall business performance and savings in interest outgo.

Net profit stood at Rs. 376 crore. The net profit for the current quarter factors in exceptional items of provisioning of Rs. 115 crore based on judgment of the Honorable Supreme Court on mining regulations.

Moving to slide #20 on the financial performance of Aluminum business. Higher metal realization, volumes and stable operations resulted in higher EBITDA. Despite significant increase in Carbon and Caustic prices and a huge increase in electricity duty, from quarter one of this year Aluminum business delivered a strong solid EBITDA of Rs. 940 crore in Q3 FY18. This is about 7% higher than last year.

Coming to the financial performance of Utkal Alumina in slide #22 year-on-year EBITDA rose by 73% due to higher Alumina realization. As you know Utkal is a 100% subsidiary of Hindalco



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and a captive supplier of Alumina to Hindalco. Since Alumina is transferred by Utkal to Hindalco at market prices, higher alumina prices result in higher cost in the standalone financials but a higher profit for Utkal. Accordingly, net profit of Utkal was Rs. 118 crore in this quarter compared to a loss of Rs. 55 crore last year.

Now coming to the financial performance of Copper segment on slide #22. Higher rupee LME, volumes and by-products boosted Copper business revenues to Rs. 5,701 crore. Copper sales quantity was also higher at 102 KT versus 97 KT in Q3 FY17. These factors resulted in a stronger year-on-year EBITDA growth of 28%.

I will now take you through the financial highlights of Novelis for this quarter. The results are given on slide #23. Net sales increased 33% to USD 3 billion, driven by higher total shipments and higher average Aluminum prices.

Adjusted EBITDA at USD 305 million is up 20% mainly on the back of higher shipments operational efficiencies, favorable metal mix, and higher scrap spreads.

With this, let me hand it over to Satish for his closing remarks.

Satish Pai:

Stable manufacturing performance and favorable commodity prices resulted in robust financial performance across Hindalco. The outstanding results are despite a sharp increase in input costs and oversupplied market situation. We have already repaid long-term loans close to Rs. 8,000 crore including Rs. 2,300 crore at Utkal in the current year. This has led to significant savings in the finance cost and also improved the leverage. With a stronger balance sheet, we are now in a better position to focus on low-CAPEX, high-return proposals such as Utkal expansion and various downstream projects that I had spoken off before.

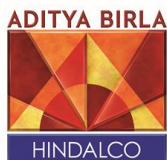
We maintain a very positive view of the growing demand for Automotive Aluminium sheet globally, with growing demand for electric and hybrid vehicles and we aim to reinforce our market leadership position by adding capacity to meet customer demand.

Buoyant demand and strong market recovery across businesses in India also augurs well for our Indian operations. We are also keeping a close watch on input cost movement as this may impact performance.

Thank you very much for your attention and we will now open up for questions.

Moderator:

Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. Anyone who wishes to ask a question may press * and 1 on their Touchstone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants and requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a



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moment while the question queue assembles. The first question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh: My first question is on coal cost trends. I mean how much of coal inflation did we see in the December quarter, and given what we have seen on Coal India increase in Coal prices. Broadly how would that impact cost of production for Aluminum for the March quarter?

Satish Pai: So the interesting thing is from Q2 to Q3 our coal cost actually on a rupees per million kilocalorie basis was slightly lower. And they were slightly lower because if you remember in the Q2 quarter, the linkage deliveries were not that good, most of it was being diverted to the power plants. So our linkage percentage went up in Q3 and hence, Q3 coal cost were actually quite benign. Now the 11% increase that has gone up in January, what that means is that it is going to be leading to, along with that Rs. 50 per tonne handling cost that they have done. About a Rs. 50 per million kilocalorie net impact. So, all I can tell you is from an annualized basis for the whole year that's a Rs. 300 crore impact on us going forward, for the whole year.

Pinakin Parekh: Okay. So Rs. 300 crore on basically 1.3 million tonnes of coal production, sir?

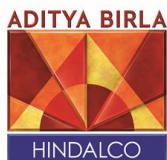
Satish Pai: No, 1.3 million tonnes of Aluminum production.

Pinakin Parekh: 1.3 million tonnes of Aluminum production, so that should be broadly the impact. Some of it will flow through from March quarter onwards. Around \$35 - \$40 per tonne of cost increase we should see for the Aluminum COP.

Satish Pai: So let us talk about the Aluminum COP. Because the Aluminum COP Q1 to Q2 was flat; Q2 to Q3 it went up by about 3% and now I expect Q3 to Q4 to go up by another 2% to 3% because of Coal and Carbon prices. So that is the sort of order of magnitude. Year-on-year we have seen about 6% to 7% increase because I am talking on a fully integrated basis. The Alumina which has been a huge increase, we are actually not seeing that impact. So all I am seeing is Carbon and the Coal from January onwards. So that's why our actually operating performance and cost control is helping keep our COP at much better level.

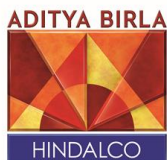
Pinakin Parekh: Understood, sir. And sir, secondly if we look at the total Alumina production and the Utkal Alumina production, the Alumina production at Hindalco standalone entity level is totaling around 358,000 tonnes which seems to be the multi-quarter highs. Now, just trying to understand, sir what has driven this increase in Alumina production, is it more economical given the increase in global Alumina prices and hence the trade-off or are there any specific factors at the manufacturing level driving the higher production?

Satish Pai: Sorry. Pinakin, the Q3 production of Alumina was 734 KT and your question was that in Q2 it was 712 KT.



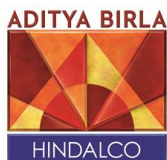
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- Pinakin Parekh:** Sir, basically if we take away the Utkal Alumina production, the standalone Hindalco Alumina production seems to be 358 KT versus 332 KT in 2Q.
- Praveen Maheshwari:** So maybe I can take that one. Q2 our production in the older plants was a little lower due to certain operational issues which are not there in Q3.
- Satish Pai:** So normally in Q2 Muri takes a shutdown because of the peak summer, the water gets less, so we keep our maintenance programs during the summer period in Muri and Renukoot.
- Praveen Maheshwari:** And just because Renukoot also in Q3 had a little bit of issues that is why we see Q3 2017 to Q3 Renukoot was slightly off which is now stabilized and will pick back up in Q4.
- Pinakin Parekh:** So is this the peak production at ex Utkal I mean 358 KT roughly works out to around 1.4 million - 1.45 million tonnes for Hindalco standalone or can this increase further?
- Satish Pai:** It can increase because it is directly proportional to the quality of Bauxite. So currently we are going through a little bit of disruptions in Jharkhand because you know with this common cause thing some mines working, some mines not working, so the mix are not being able to optimize. So if you can get the optimized mix where your total Alumina content is around 38% to 40% then you can produce more Alumina from the same volume of Bauxite.
- Moderator:** Thank you. The next question is from the line of Anuj Singla from Bank of America Merrill Lynch. Please go ahead.
- Anuj Singla:** Sir, my question relates to the hedging volumes for fourth quarter, what is the volume we should be expecting which are hedged and what is the price you mentioned I remember you mentioned around \$2,000 in the earlier conference call, Is that the level we should be expecting for the fourth quarter as well?
- Satish Pai:** The fourth quarter is slightly higher. The percentage is still around 50% but of course every quarter you go, the hedge value goes up slightly. But so, the question really is the hedging volume impact in Q4 will really depend on LME. In Q3 it was Rs. 2,100; Q4 looks like right now at Rs. 2,200 and as you remember quite correctly, we are hedged at around Rs. 2,000.
- Anuj Singla:** Okay. And sir, we still continue with our hedging policy, which on a rolling basis, so we continue to hedge our volumes for the next year as well at whatever the prevailing LME prices or is there a change in strategy on that?
- Satish Pai:** No. In fact, a similar question from the last call as well. So Q1 of next year we are about 28% hedged. We have not done too much more but the value for Q1 are already at the USD 2,200 type of LME.



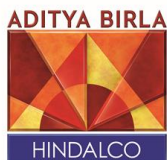
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- Anuj Singla:** Okay. And the quarters after that, sir nothing...
- Satish Pai:** Next year we are roughly at about 28% hedged on an increasing curve of Aluminum prices.
- Anuj Singla:** Okay. So 28% for the full year but the LME price from USD 2,000, it will go up to USD. 2,200 the hedged price.
- Satish Pai:** But you know basically on the rupees LME basis it is quite high because the rupee is hedged at a much higher level.
- Anuj Singla:** Right. Okay. And sir, the 2% to 3% increase on Q-o-Q basis for the fourth quarter. So, sir that will roughly translate into maybe a \$20 to \$25 kind of increase, is my assessment correct or it is going to be...
- Satish Pai:** Yes, you are correct. USD 20-25, yes. The big thing for me will be the spot caustic prices are already dropping. So, it really depends on how the caustic and CP Coke pitch play out but that is the right order of magnitude you have taken.
- Anuj Singla:** And on the sir Copper business side given that we will have the forces of one declining TCRC and the second a maybe higher DAP production going into the fourth quarter. So what kind of profitability level should we be expecting going into the fourth quarter?
- Satish Pai:** I think, we should be sort of flattish with Q3.
- Moderator:** Thank you. The next question is from the line Sumangal Nevatia from Macquarie. Please go ahead.
- Sumangal Nevatia:** First question on the Aluminium VAP division, now we are consistently at 120 KT - 125 KT per quarter. So, in the next one year to two years what sort of volume increase can we have in this division given overall volumes of Aluminum should remain flat.
- Satish Pai:** So that is the whole game plan for us as to double our downstream over the next five years. So next year itself you will see the whole Hirakud ramp-up and the Mouda ramp-up. So you should see I think about 40 KT - 50 KT increase in the VAP next year. And then, we are starting to do our CAPEX plans to increase the downstream capacity on extrusion, foil, so every year you will start to see it go up. But next year you should see about at least 40 KT because Bluefox will be completely ramped-up Mouda Foil will be completely ramped-up. So that is from a volume point of view. But I also want to make the point that we are also upgrading the mix. So from completely low-value VAP just hot-rolled coil that you talk about, we are moving towards higher EBITDA per tonne products.
- Sumangal Nevatia:** Is it possible to share what could be the blended benefit on the margin level?



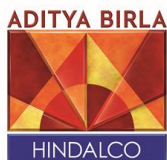
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- Satish Pai:** So I think on the margin level blended I would go something like \$70 - \$80 a tonne. Our ultimate goal which I have said quite often is to reach a \$150 a tonne EBITDA on our downstream portfolio.
- Sumangal Nevatia:** Understood. Okay. Next question, sir with respect to the Utkal refinery expansion, in between there were articles with regards to environment clearance. Are we in a position to share some more details in that?
- Satish Pai:** All I can say is that we have all the necessary clearances already the pre-engineering work has started, and we are on our way for the expansion.
- Sumangal Nevatia:** And this is from 1.5 million to 3 million tonnes?
- Satish Pai:** No, 1.5 million to 2 million this is a Brownfield expansion, Rs. 1,300 crore.
- Sumangal Nevatia:** Understood. Just one last question, you mentioned about the cost inflation with regards to coal given the price hike by Coal India. Also, they are moving to a new pricing policy on kilocalorie basis rather than grade basis. So I mean there are various news articles that this could result in lower prices. Any views on this area?
- Satish Pai:** So look, it is true that if we actually got the Coal that we have contracted for, our price per million kilocalories will be lower. So normally, we do get quite a lot of grade slippage when we get the coal delivered. So we are completely with Coal India and if they can increase them. I don't want them to increase, if they can give us the quality we have contracted, of course, our Coal cost will go down. It will more than negate this Rs. 50 per million kilocal that I just mentioned.
- Sumangal Nevatia:** But we are not doing any third-party sampling currently?
- Satish Pai:** On the Coal India they have started to do third-party sampling now. In fact, just started in the West coal fields, I think in Q3.
- Moderator:** Thank you. The next question is from the line of Rajesh Lachhani from HSBC. Please go ahead.
- Rajesh Lachhani:** Sir, two questions from my side. One is regarding this TCRC, they are down for 2018. So is this an annual contract for 2018?
- Satish Pai:** Yes, I will just pass it to Laddha Ji.
- J. C. Laddha:** Generally, the TCRC's are declared on an annual basis and these are negotiated between Chinese smelters and the miners and generally, they declare this for the next year sometime in December or January. So for 2018, it is lower by 11%.



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- Rajesh Lachhani:** So for the entire year this is lower, right?
- J. C. Laddha:** Jan to December.
- Rajesh Lachhani:** Okay. And sir, regarding one question on Novelis, if I may? So we are expanding our capacities in U. S. so just trying to understand what is our automotive capacity across regions now and how much capacity increase will happen? So it is 200 KT, but what would be the share of the capacity now and once we increase the automotive share for Novelis?
- Satish Pai:** So I think in North America our auto capacity currently is 350 KT, so we will add 200 KT with the Guthrie expansion. In Europe, it is another 350 KT and 100 KT in China. So we have about 800 KT of auto capacity in Novelis. And we have just announced the 200 KT expansion in the U. S.
- Rajesh Lachhani:** Okay. Sir, so currently we have close to 150 KT quarterly production which takes us to 600 KT. So is not our capacity utilization lower because I was assuming our capacity utilization is very high in U. S. and Europe both.
- Satish Pai:** The U. S. is pretty full up. But in Europe, we still have about 30 KT more than we are actually selling and in China, the full ramp-up will be completed in March 2018. If you remember the China tiger line, it just started about 12 months to 14 months ago. So we are not fully ramped-up there. So that will happen by March 2018.
- Rajesh Lachhani:** So sir, what is the capacity utilization in Europe and China for automotive sheets?
- Satish Pai:** In Europe it will be about 80% - 85% probably if I take the 30 KT that is still there and in China we have now just hit on a run-rate, I think 60 KT or 55 KT in Q3 and we will be at a run rate of 80 KT to 90 KT by March 2018.
- Rajesh Lachhani:** Okay, sir. And sir, this Switzerland facility what is the capacity there that we have acquired.
- Satish Pai:** So Switzerland capacity, by the way, we have been running this plant ever since we acquired Novelis. The only problem was, it was under the terms of, when we bought it, it was a leased facility. So it is a hot mill, cold mill capacity. So if you look at its auto capacity, the auto capacity in Sierre is about 100. But the hot mill of Sierre provides more or less a total 350 KT cold rolled coil that goes to Nachterstedt as well. So the hot rolling of Sierre provides the coil for all the auto in Europe mostly.
- Moderator:** Thank you. The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.



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Ashish Jain: Sir, the question is again you know going back to the Coal cost, if I got it right, you were saying that with a grade slippage which is currently happening, will all the impact they reversed for you the Rs. 50 impact that is there?

Satish Pai: No, with Coal that we are getting today, the price increase has an impact of an additional Rs. 50 per million kilocal. The question that was asked to me is that Coal India is working on third-party sampling and trying to get the Coal quality improved. I said that if I can get the Coal quality that I have contracted for it more than negates this Rs. 50 increase.

Ashish Jain: Yes. Sir, that was my question. So are we already doing some third-party sampling at our end also?

Satish Pai: We have always been doing sampling. The problem is that it has to be done by third-party, approved by Coal India and it has to be accepted by them. Our third-party is always doing it. So we know what we are getting. So in fact, when we buy, we do our calculation based on, it's a mine by mine, we know all the mines, we know what quality we can get from the mine.

Moderator: Thank you. The next question is from the line of Nitesh Jain from Axis Capital. Please go ahead.

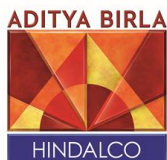
Nitesh Jain: Sir, you spoke about the cost increase in the Aluminium business. But my question was on the Alumina side. So on the Utkal front, what is the cost increase because of this very high caustic soda price, and this caustic soda price is changing now direction wise is it going down or it is you know settled at a higher level? This is point number one. And question two is if you can share the Aluminium industry and Copper industry demand growth for Q3 for India?

Satish Pai: Yes. So the Q3 was the bright spot. I will answer your second question first. From a demand growth point of view. So the Aluminium grew 6% quarter-on-quarter and the Copper grew 10% Q3 to Q3.

Nitesh Jain: So basically this is on year-on-year basis?

Satish Pai: Yes, this is on a year-on-year on the quarter basis. Now if I look at the Year to date basis, year on year, Copper is still in a de-growth of about minus 5% and Aluminium is about 6% growth. I mean honestly most of the growth has come in this quarter 3 and that is what is making us a little bit hopeful. January has also been very strong. We are hoping that post-GST the market growth especially in the electrical sector, consumption wise, and the packaging sector had started to pick-up, okay?

Nitesh Jain: Sir, just to go a little bit more on this. Nothing specific to Hindalco but looking at the kind of infrastructure work that the Government is talking about the roads and everything and the electrification that they are achieving. It is very hard to believe that the Copper being a very basic commodity Y-T-D demand growth is (-5%). I track Cement as well and in Cement also



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we are not witnessing any great demand growth. So what is your opinion like why such basic commodities are having the growth rate which is much lower than China and China is being on such a great size?

Satish Pai: It is a good point and I think really what has happened is GST was a very important event and I think that pre and post-GST there has been quite a lot of de-stocking for various reasons that you know. And I think that's why the actual demand cycle, and it is reflected in the economic growth of the country as well. I mean Q2 at what 5.57 was the lowest in the last 13 quarters. That growth has just started to pick-up in Q3. So we are now hoping that especially with this new budget and its renewed emphasis on the infrastructure and the GDP numbers picking up because of the reality, we hope that this growth that we are seeing now will be sustained. But during that Q2, early Q3 period there was a lot of impact with GST de-stocking various reasons why both know, all metals demand actually did not do well and the economic growth was also quite low as you well know.

Nitesh Jain: Sure, sir. And secondly on the Caustic Soda and the Aluminium?

Satish Pai: Yes, for Caustic Soda Q2 to Q3, my cost of production of Alumina went up by Rs. 1,000. So in the big scheme of thing, Utkal still remains very cost effective and low at around \$150 a tonne. But that was the impact of Caustic along with certain transportation issues. So in Q4 now the spot prices of Caustic have already started to come down. So roughly we should be around Rs. 10,500 per tonne of COP there.

Moderator: Thank you. The next question is from the line of Bhaskar Basu from Jeffereys. Please go ahead.

Bhaskar Basu: Couple of questions, firstly on the hedges if you could just give us some color on the hedge impact this quarter in terms of what price were the hedged at and what kind of quantity or the total impact from the Aluminium hedges?

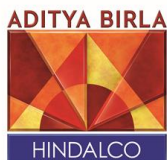
Satish Pai: So just to be consistent because I think you guys have modeled it quite well. As I said \$2,000 LME we are breakeven. So I think you can just do the math of the impact on Q3.

Bhaskar Basu: Okay. And the currency because the currency is the other leg to this hedge.

Satish Pai: I am giving when I said \$2,000 that is a rupee-dollar combination.

Bhaskar Basu: So this is for current, the average for the quarter \$2,000 would be the adjusted levels is what you are saying?

Satish Pai: For Q3, yes.



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Bhaskar Basu: For Q3. Okay. The second question is on Novelis, just wanted to understand the thought process behind the Sierre deal you paid about (+200) million where I think the lease charges were about 7 million what was the thought process?

Satish Pai: Yes. Let me explain this here. You see we had due to the way the lease terms were set when Alcan which was actually the father split the assets between Novelis and Constellium. Our issue with Sierre was that we were having a lease that we had to renew every five years and they were quite stringent conditions as to what you can do on site as far as expansion, upgradation, adding capacity, etc., so as a sign of confidence with the balance sheet deleverage looking at growth opportunities further in Europe, we decided that this was a right time to purchase what we were renting because then it gives us the flexibility and the freedom to do the upgradations and add further capacity as needed, going forward. So that was really the logic.

Bhaskar Basu: But I mean basically, is this facility generating any EBITDA or what kind of EBITDA level because 200 million is a reasonable consideration for something which you had leased and of course, you would look at expanding that asset. But that would be an additional CAPEX from the side. So why 200 million, why not 100 million or whatever?

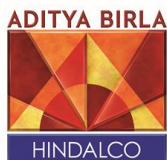
Satish Pai: We are going to own the hot mill, cold mill, and the finishing assets that we have there. That is number one. Second thing is that Sierre for us is the heart of our automotive capacity in Europe as I mentioned to the previous gentlemen because all the auto rolled, hot rolled, cold rolled coils for your Europe comes of there and gets finished partly in Sierre and partly in Nachterstedt. So for us, with the growth that we see coming in auto in Europe. We think that it was very important for us to gain control over the assets in Sierre and from a profitability point of view, it is one of our most profitable parts of the Europe operation.

Bhaskar Basu: The asset itself?

Satish Pai: Well facility meaning the total output of what comes out of Sierre; the majority of it is auto.

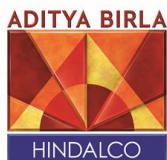
Bhaskar Basu: Right. Okay. And does Constellium still have 50% stake on the extrusion side or something that is what I kind of...

Satish Pai: No, let me explain that. That site in Sierre has got extrusion and plate finishing lines of Constellium along with nearby casting capacity. So it is a shared facility. What we have a joint venture is what we call the common services which is electricity, water, compressed air, security. So the management of the facility from an admin point of view after we bought our part has now become a shared venture. I hope that explains, it is a collection of production facilities we have ours, they have their extrusion plant and their plate capacity and casting and we now share the admin for the electricity, water, compressed air, etc.



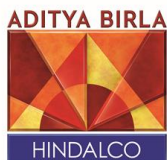
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- Bhaskar Basu:** So basically, the common facilities is still shared is a kind of JV still between both of you. But the auto side is now fully with you?
- Satish Pai:** Absolutely. Just so that you know the admin was 100% with Constellium before.
- Moderator:** Thank you. The next question is from the line of Amit Dixit from Edelweiss. Please go ahead.
- Amit Dixit:** I have a couple of questions, one is regarding other expenses we saw it going up Q-o-Q by almost 28%. So is there a one-off element out there or I mean is it general norm what we see in Q3?
- Praveen Maheshwari:** No, it is a typical classification under the SEBI format. A large portion of that is the royalty payment on Coal. So this is really effectively from a management information perspective. This is the increase on account of royalty which should actually be a part of power and fuel. So otherwise, there is a normal increase in overheads. So there are some repairs, maintenance, etc., but that's all I would say a normal increase.
- Amit Dixit:** Okay. The second question is regarding the provisions that we have made, we made such provisions in last quarter also and this quarter as well pending the judgment of honorable Supreme Court. So is there a possibility of further provisions going ahead and or is there a possibility of all these provisions being actually reversed. I mean where do we stand on this?
- Praveen Maheshwari:** So difficult question to answer because this all depends upon how the courts give judgments in the country. We do not make advanced provision for something nor would we keep those provisions if they are not required. So hypothetically let us say if there is a judgment in favor of the industry, you will see every company reversing these kinds of provisions. We had a reversal if you remember in quarter two on DMF which was made last year but the Supreme Court reversed the decision and therefore we got it back. So these are something completely you call exceptional in nature. So nobody can predict but we make it based on whatever the current status of the court orders is.
- Amit Dixit:** Sir, just a fundamental follow-up on this regard because we have also mentioned that we are not a party in this particular step. So why are not we required to make provisions then?
- Praveen Maheshwari:** See, the principle is that if there is a matter which has been settled at a High Court or a Supreme Court particularly then if you apply the same principle to our own matters there is a possibility of a liability coming up. So the Accounting Standard says that you have to look at the probability of that happening. You may be wrong in providing it. But you have to estimate, management estimate has to be made and accordingly if you believe that it may happen then you have to provide for it. So it is a question of the application of the accounting standard to the available judgments and how you apply that to your own matters.



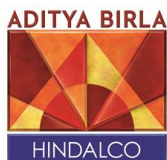
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- Amit Dixit:** Okay. So just to understand there was a precedent and you actually applied that precedent to your own case and made provision thereby?
- Praveen Maheshwari:** Yes, this case is known as common cause judgment in Odisha (Orissa). So that is the principle which was settled by Supreme Court in August and since we got some demands we applied it to our own mines, in Jharkhand. It is on Bauxite mines, so it is not related to the judgment directly but if the same principle is applied there is a likelihood of some demand coming on us. So that is why following a prudent accounting policy we have made this provision.
- Moderator:** Thank you. The next question is from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.
- Ashish Kejriwal:** Sir, when we talked about COP that in the fourth quarter also we are going to increase by 2%. So is it possible to see in the light of the falling commodity prices like Caustic Soda and others that will be the peak cost of for us?
- Satish Pai:** Well, certainly I am hoping that. So we would like to see it going down next year sometime. You see there are a couple of factors we will have to look at. What is the prediction for oil prices? Because today oil is now nearly \$70 but people are expecting oil prices to moderate down. If that happens CP coke pitch will also come down. Now, Caustic had gone up because there has been a lot of storms in the Gulf of Mexico, Europe had banned membrane production, so there was a shortage of caustic. I think that is now slowly picking back. That's why I mentioned Caustic price on the spot market has started to dip. So it is a call. Do I think this is one of the highest? Yes, probably. But you know it will depend on how oil price behaves in the next three months to six months.
- Ashish Kejriwal:** So we have taken into consideration the Rs. 50 increase of coal entirely for quarter four.
- Satish Pai:** That is our estimate of I am actually giving you that guidance for Q4.
- Ashish Kejriwal:** Sure. And sir, secondly, you talked about hedging. So when we talked about that in quarter four our hedging will depend on the LME price. So we have already hedged 50% of volume. So like in quarter three when we are breaking even at \$2,000 is it possible to share the similar number for quarter four?
- Satish Pai:** It will be slightly higher. So look the impact in Q3 will be more or less the same impact in Q4.
- Ashish Kejriwal:** Okay. And when you talked about that for FY19 we have hedged at around \$2,200 for 28% of the volume. And rupee you have hedged at a higher level. So in rupee terms, is it possible to share what price we have hedged?



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- Satish Pai:** Actually I am converting that for you and saying that at an LME of \$2,200 we will break even. I have taken the rupee into that equation. So it makes it simple. You just follow the LME, if it continues at this level we are hedged at this level.
- Ashish Kejriwal:** Okay. And sir, lastly we were about to commission our copper rods capacity in this quarter. So what is the status on the same?
- Satish Pai:** I will let Laddha Ji comment on that.
- J. C. Laddha:** Actually the rod capacity is ahead of schedule, it is getting commissioned now and the production will be out by the middle of February-March.
- Ashish Kejriwal:** Okay. So despite the kind of demand pressure we are seeing in Copper, we think that we will be able to successfully ramp-up and produce and sell in the market?
- J. C. Laddha:** Yes, that is right because we hope that the demand is likely to move up and will be replacing the imports.
- Satish Pai:** Yes. Key point is that we will be replacing the imports.
- J. C. Laddha:** That is right.
- Ashish Kejriwal:** And sir, lastly, in opening remarks you told about some disruption in Jharkhand due to common cause. So that does mean that any supply issues of Bauxite which we are facing?
- Satish Pai:** It is not supply, it is the previous point that Praveen just explained on the common cause, you know we are having some mines that got, production got stopped or challans were not given and things like that. So we have more or less resolved it. I mean we did not have any shortage of Bauxite. But our blending capacity to get the right mix was a bit constrained.
- Moderator:** Thank you. The next question is from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.
- Sanjay Jain:** Hi, There are two questions, one is on the copper segment. You mentioned there were a certain problem with DAP and we read in the media that there were some cargos of concentrate which were diverted. So how serious is this problem? Is it going to affect our production or just the byproduct?
- Satish Pai:** I think that the two issues are not related. The DAP production was because of our DAP production plant Phosphoric Acid one, we went through some operational issues that will be finished by the next few months and by Q1 of next year it will get ramped-up. So nothing to do with copper concentrate what you read. There is no issues with our Copper smelting operations.



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- Sanjay Jain:** I see. But I mean there was some reporting that...
- Satish Pai:** You see the copper concentrates come from Chile and Peru. So there is a huge amount of time spend on seas. So every now and then there is a little bit of movement of these cargos trying to get in a little bit early, or getting a little bit late. This is normal operational issues.
- J. C. Laddha:** But we maintain sufficient inventory, so it will not impact the operation.
- Sanjay Jain:** Okay because that article was mentioning that there was some technical problem that is the reason I ask you. Anyway, so the second question is on can you share some CAPEX estimates for FY19?
- Satish Pai:** So the CAPEX for FY19, I think we are planning around Rs. 1,600 to 1,700 crore. Our normal run rate is about 1,000 - 1,100 but we will be doing the Utkal expansion and a little bit more downstream project. So it will be around Rs. 1,600 to 1,700.
- Moderator:** Thank you. The next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.
- Anshuman Atri:** My question is regarding the secondary market of both Aluminium and Copper, how has it been impacted by GST and how is the import pressure on both primary and secondary of India?
- Satish Pai:** So I think we covered in the commentary. The GST did impact local demand. We said that in Q3 we have started to see both of them pick-up. So both Copper and Aluminium saw in Q3 a 10% increase Q3 to Q3. So the GST did have an impact in Q2 and the first month of Q3. But Q3, in general, the market has picked-up and in January we are seeing that pick-up continuing.
- Anshuman Atri:** It was more in terms of the scrap imports that were pressuring the market?
- Satish Pai:** You know the scrap import, yes it can put pressure on the primary market but here we are talking about the overall Copper and Aluminium demand in the country regardless of the source of whether it is scrap or primary. So what I was saying is that if you take year-to-date basis the copper consumption for the country, primary scrap, wire everything put together actually, is running at year-to-date minus 5%. And Aluminium is running at a (+6%). Now the Q3 to Q3 was 10% - 10%. So if can see Q1 to Q2 it was quite slow. It just started to pick-up a lot in Q3. This is from a consumption point of view not from a source point of view, scrap or non-scrap.
- Anshuman Atri:** Yes, sir. Sir, the second question is regarding our resource allocation. Do we expect more of Coal and Bauxite allocations to come up from the Government side and because oftenly we have not seen much of auction on both Bauxite and Coal from the Government? How do you see it pan out in the next one year to two years?



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Satish Pai:

I expect because the Government I think has constituted certain committees to give some guidance. But I think we should see some more mines coming for auction that is my belief. But you see the complication is that they have to get all the necessary forest clearance, land issue sorted out because what they learned from the last auction is that you can auction it but then to get it started there are so many basic regulatory hurdles that need to be crossed, so I think this is what is being done. Now in the Bauxite mine if you look at Maharashtra they have auctioned a few mines. I think, Chhattisgarh auctioned a few mines and we expect Odisha (Orissa) may auction, or the second way that they do is get their state mining cooperation to actually be allotted the mine, mine the Bauxite and then auction it.

Moderator:

Thank you. Ladies and gentlemen, due to time constraints that were our last question. For any further queries, you may reach out to Mr. Abhishekh Rungta or MrR. Romi Talwar. Thank you. On behalf of Hindalco Industries Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.