



“Hindalco Industries Limited Q1 FY-22 Earnings Conference Call”

August 6, 2021



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Moderator: Ladies and gentlemen, good day and welcome to Hindalco Industries First Quarter FY22 Earnings Conference Call. As a remainder, all participants' lines will be in listen-only mode. 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 is being recorded. I now hand the conference call over to Mr. Subir Sen – Head of Investor Relations of Hindalco. Thank you and over to you, Mr. Sen.

Subir Sen: Thank you, and a very good evening or morning to everyone. I hope you all are safe. On behalf of Hindalco Industries, I welcome you all to the earnings call for the first quarter of the financial year 2022. In this call, we will refer to the Q1 FY22 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 #No. 2 of the said presentation.

In this presentation we have covered the key highlights of all the businesses for the first quarter of financial year 2022, and a segment-wise comparative financial analysis of India business and our overseas subsidiary, Novelis. Please note in this quarter, unallocable corporate AS&G expenses which used to be apportioned to an individual business segment, on certain basis so far is now clubbed under unallocable expense or income in order to truly reflect individual business segment EBITDA in India operations. The corresponding segment information for the prior periods were also being restated accordingly for a comparative analysis.

We have with us from Hindalco's management Mr. Satish Pai – Managing Director; Mr. Praveen Maheshwari – Chief Financial Officer. From Novelis' management we have Mr. Steve Fisher – President and CEO; Mr. Devinder Ahuja – Chief Financial Officer.

Following this presentation, the call will be open to any questions you may have. An audio replay of this call will also be available on our website. Now, let me turn this call to Satish.

Satish Pai: Thank you Subir. A very good afternoon and a morning, everyone. Thank you for joining today's conference call for Hindalco Q1 earnings. I hope you and your families are safe and vaccinated as we continue to manage through this challenging pandemic situation.

Let me start with a short update on COVID-19 and our preparations:

Hindalco's management is fully prepared to tackle the third wave of COVID by fortifying its efforts to protect employees and the community. Hindalco has already vaccinated 93% of its employees and families with at least one dose including third-party partners. In some states, the government is collaborating with Hindalco to vaccinate the local population at the company's owned hospitals and health centers. Hindalco's dedicated team of 77 doctors, 245 paramedics is working round the clock to serve its employees and the community. Hindalco has boosted medical infrastructure and equipment in its own hospitals and health centers with critical care



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equipment such as CT scan machines, set up oxygen lines in remote locations to serve patients needing ICU care and enhanced its lab testing facilities. Hindalco has also strengthened its medical teams including adding pediatricians and upskilling its paramedics.

Let me now take you through Hindalco's progress across various sustainability metrics in Q1 FY22 on Slide #5 and 6:

On the environment, there's a strong focus on water waste, air emissions and biodiversity. Fresh water consumption was at 18.4 million cubic meters in Q1 of FY22 with a continuous reduction in the consumption of water at all locations over the years. Hindalco is adding one site each year to the zero liquid discharge to achieve water positivity at all its mines and downstream units. This has been done along with the development of healthy watersheds and rainwater harvestings and moving towards its target of all work sites zero water discharge by 2025. We are committed to 100% waste recycling in terms of all waste that are hazardous, non-hazardous and bulk waste such as fly ash and bauxite residue. We have achieved 82.7% recycling and re-use of waste in Q1 FY22. We have been consistently achieving 100% bauxite residue utilization at three out of the four Alumina refineries. Utkal Alumina Refinery is currently running several research projects to reuse bauxite residue for mine backfilling and road construction. We are committed to reducing landfill usage by 5% every year while moving towards our target of zero landfill by 2030.

On green cover and biodiversity, the company continues to do well to increase green cover with the scientific biodiversity management plan. Our green belt enhancement plan developed for 10 non-biodiversity management plan sites based on revised Forest Department SOPs for flora and fauna conservation. Our Aditya smelter cum power plant has implemented its first Miyawaki patch, a 3-tier scientific afforestation in a 400-meter square area with the laid down SOPs under biodiversity management plan by the IUCN. Our cumulative green belt at all our sites is now spread over 4,684 acres.

On Slide #6, the renewable energy and safety update:

We have assessed a total potential onsite solar projects across all our units to be around 246 megawatts. We are committed to attain our target of 100-megawatt capacity by the end of March 2022. Of this 100 megawatts plan for FY22, 49 megawatts have been implemented and the balance 52 megawatts are now currently under implementation and expected to come up by FY22 end. We have so far identified and are in the process of finalizing 32 megawatts solar projects to be executed in FY23. We are also in discussion with developers of renewable hybrid with pumped hydro storage for 100-to-150-megawatt power plant for our Aditya unit. The exploration and evaluation of emerging technologies in the space of energy storage, carbon capture and utilization and hydrogen to be used as a fuel is also being done. This is expected to improve with technology maturity and time. Currently the cost is high and utilization areas are hazy. We are planning pilot projects in FY23. The specific energy consumption in aluminum



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was recorded at 84.6 at the end of Q1 FY22 from the base year of FY15. The LTIFR was recorded at 0.35 in this quarter. There was one fatality recorded in Q1 FY22 of a contract workman in our Indian operations. We are committed to zero harm and have been continuously upgrading our safety programs and systems to meet international standards and provide safest atmosphere for our employees and contract workmen across all locations.

Coming to slide 8 on the key highlights of our performance in Q1 FY22:

Hindalco delivered its best ever financial performance in Q1 across all businesses backed by improved macros, better operational efficiencies, improved product mix and strong market recovery. Novelis recorded quarterly shipments of 973 Kt up 26% year-on-year and an all-time high EBITDA of 565 million up 119% year-on-year on the back of higher volumes, favorable product mix, favorable metal benefits and a 47 million gain related to a favorable decision in a Brazilian tax litigation. EBITDA per tonne also stood at \$570 a tonne, up 75% year-on-year and \$522 per tonne excluding the gain related to the Brazilian tax litigation. Net income from continued operation was at \$303 million in this quarter versus a loss of \$61 million in the corresponding period last year. Novelis launched an offering of two unsecured senior notes of \$750 million each at a coupon of 3.250% and 3.875% due in 2026 and 2031 respectively. Novelis also received credit rating upgrades by S&P Global Ratings to BB from BB minus on 22nd July 2021.

Moving on to Hindalco's India Aluminium business performance in Q1:

Quarterly business EBITDA for Hindalco India Aluminium was at a record high of ₹2,352 crores up a 142% year-on-year. The EBITDA margin was at a high of 37.5%. This quarterly margin was the highest in the last 13 years of the company and continues to be the best in the industry. Metal sales were flat year-on-year at 303 Kt on account of a delayed shipment of around 10 Kt. Value added product sales were up at 82 Kt, up a 137% year-on-year supported by a continued revival of the domestic market. Our 500 Kt Utkal expansion project's commercial production is beginning in Q2 of the current financial year.

Turning to the quarterly performance of the copper business on Slide #no. 9:

Copper smelter three ramped up well, post the maintenance shutdown during this quarter. Cathode production was at 63 Kt up, 52% year-on-year while CC rod production was at 44 Kt, up 67% year-on-year. Metal sales was at 80 Kt, up 36% while CC rod sales were at 46%, up 50% year-on-year in line with market recovery. Copper EBITDA was recorded at ₹261 crores in Q1 FY22.

Coming to the quarterly consolidated performance:



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The EBITDA was at a record ₹6,790 crores, up 188% year-on-year. Quarterly consolidated PAT for continuing operations was at ₹3,254 crores versus a loss of ₹569 crores in the corresponding period of last year.

Hindalco continues to maintain its strong treasury balance of around \$872 million in Novelis and ₹9,425 crores in India at the end of June 2021. The consolidated gross debt was down by about ₹16,345 crores while net debt was lower by ₹10,389 crores from the peak on 30th June 2020, resulting in a significant improvement in the net debt to EBITDA to 2.36 times at the end of June 2021.

I am happy to share the recent credit rating upgrades for Hindalco. In July 2021 CRISIL upgraded Hindalco's credit rating by one notch to 'AA+' with stable outlooks for bonds. CARE ratings also affirmed the AA+ credit rating with an outlook upgrade from 'negative' to 'stable' for long-term loans and bonds of Hindalco.

Turning to the broader economic environment in Slide #11:

As per IMF's latest estimates, global economy is expected to expand by 6% in calendar year 2021 after contracting by 3.2% in calendar year 2020, largely supported by post-recession rebound in the major economies. The deepening divide between advanced and emerging economy growth performance is led by differences in the pace of the vaccine rollout and the extent of fiscal policy support provided by the government. Close to 40% of the population in advanced economies has been fully vaccinated compared with 11% in the emerging market economies and an even smaller fraction in low-income developing countries. Growth in advanced economies is firming up led by large scale fiscal support and the easing of pandemic restrictions primarily in the US and to some extent, Europe. Recovery in emerging economies is also supported by pent up demand and rising commodity prices to some extent.

On the domestic front, the momentum in economic recovery in the H2 of FY21 was interrupted by the second wave. However, recent uptick in indicators like PMI, exports, GST suggest that economic activity is showing signs of recovery in Q2 of FY22. The easing of supply side pressures gradual rise in pent up demand and expected acceleration in the pace of vaccination, should see improvement in economic activities. Downside risks in the form of third wave, limited direct fiscal support and rising inflation continued to remain a challenge. We believe that the government's targeted fiscal support and the RBI's accommodative monetary policy shall support economic recovery. The market estimates GDP in the range of 8.5% to 10.5% for FY22.

Now, let me take you through the aluminum industry overview in Slides 12 and 13:

The global production in H1 CY21 grew by 6% year-on-year to 34 million tonnes led by a 9% increase in production in China, and a 3% growth in the rest of the world. Global consumption in H1 CY21 also rebounded sharply by 14% year-on-year to 34 million tonnes due to the low



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base effect. In H1 CY21 the Chinese consumption grew by 12% year-on-year, while the rest of the world grew by 18%. With both production and consumption at 34 million tonnes, the markets were balanced as the Chinese deficit of 0.3 million tonnes was offset by a surplus of 0.2 million tonnes in the rest of the world.

However, in Q2 CY21 the overall world consumption saw a growth of 12% year-on-year due to the base effect reaching 17.5 million tonnes while production expanded by 7% year-on-year to 16.9 million tonnes. Hence in Q2 calendar year 2021, the markets were in a deficit of 0.6 million tonnes. In the world excluding China, consumption grew sharply by 33% year-on-year to 6.9 million tonnes primarily due to the base effect. The production grew by 4% year-on-year to 7.2 million tonnes leading to a marginal surplus of 0.3 million tonnes. In China consumption grew by 1% year-on-year to 10.6 million tonnes. Demand for ICE vehicles in the auto sector has softened due to the shortage of semiconductors and the withdrawal of some of the subsidies offered by local governments. However, the Chinese government's encouragement for EVs and renewables, especially solar is expected to boost Chinese consumption. The production increased by 9% year-on-year at 9.7 million tonnes with a consumption of 10.6 million tonnes in Q2 calendar year 2021. The Chinese markets were actually in a deficit of 0.9 million tonnes. With the markets balanced and improvement in global consumption aluminum prices continued to grow by 14% year-on-year to \$2,399 per tonne in Q2 calendar year 2021 from an average of \$2,096 per tonne in Q1 of calendar year 2021. On a quarter to date basis, the Q3 CY21 global aluminum prices continue to rise and have reached \$2,487 per tonne.

Coming to Slide #12:

In Q1 FY22, the domestic demand is estimated at 884 Kt, a 54% growth year-on-year on account of the low base effect. However, if you compare Q1 FY22 sequentially, the consumption dropped 18% year-on-year due to the COVID second wave. Lower automotive production has led to a 10% drop in the import of scrap compared to Q4 of FY21. Furthermore, with lockdowns and phased unlocking in the country, trade markets were also soft during the quarter. Consequently, electricals, building and construction, consumer durables, industrial machinery were also affected in this quarter. However, the bright spot in this quarter was a strong demand in food and pharma packaging. Hence sequentially, the sales of domestic primary producers was lower by 19% year-on-year at a 173 Kt. Due to weak demand sentiments, import excluding scrap also sharply de-grew by 27% year-on-year in this quarter. Going forward with declining COVID cases, the economic sentiments are likely to revive.

Moving to Slide #14:

The global FRP demand is expected to grow by 9% in calendar year 2021 versus a contraction of around 4% in calendar year 2020 on account of recovery in demand and base effect. You must have gone through the details of the segment-wise end-market outlook in the Novelis presentation.



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I will just quickly refresh some specific end market outlook for calendar year 2021. The overall market demand for beverage can sheets is estimated to grow by approximately 3% to 6% in calendar year 2021 as beverage can continues to show its resiliency with increased demand for sustainable aluminum cans across all regions. Due to the highest demand in this segment, significant can making expansions have been announced coming up in the next two to three years.

The automotive segment is estimated to grow between 20% to 25% in calendar year 2021 due to the base effect and continued revival of demand. The semiconductor shortage is expected to have a short-term impact on OEM production and demand.

The overall demand in the aerospace sheet is expected to grow in the range of 5% to 10% in calendar year 2021 as air travel starts to normalize. As vaccine rollouts are a positive step towards increasing consumer air travel, demand for premium aerospace sheet from OEMs is expected to remain at similar levels as fiscal 2021 with an uneven recovery to follow.

India FRP demand will grow year-on-year due to the low base effect while it is expected to decline sequentially due to the impact of lockdowns in the country in Q1 FY22. Demand is strong in pharma and food packaging industry, whereas other segments including consumer durables, automotive, B&C sector faced headwinds this period. Domestic demand of FRP is estimated to recover in Q2 FY22 in a phased manner with unlocking in the country.

Turning to the copper industry globally on Slide #15:

In H1 CY21, global consumption of copper increased by 9% year-on-year due to the base effect. China production and consumption both grew by 9% year-on-year. World ex-China production grew by 2.5% while consumption grew by 9% year-on-year. The economic rebound with the push in demand for EVs and green energy has also boosted the global prices of copper to a lifetime high of \$10,700 a tonne in May 2021. In Q2 calendar year 2021, global production of copper grew by 6%, whereas the consumption increased by 5% year-on-year to 6.1 million tonnes as compared to the corresponding period of the last year. This was mainly on account of recovery in the world ex-China, where consumption grew at a faster pace by around 22% year-on-year. Chinese demand de-grew by 6% during the same period on account of lower physical demand for copper in China due to the steep rise in global prices of copper.

On concentrate supply side, there were major disruptions at the mines in Chile and Peru, which contributes about 40% of global production of copper. The COVID situation as well as the community unrest in Peru has caused several mine disruptions in the first few months of the year. The spot TC/RC was very tight during Q2 calendar year 2021, reaching a level of 9 to 10 cents per pound. However, Chinese smelters advancing their maintenance shutdown plans and replacing the concentrate with blister has led to an improvement in the spot TC/RC to reach 14 to 15 cents a pound level during July of 2021. The TC/RC is expected to improve further from



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these levels in the second half of calendar year 2021 as some new copper mines are being commissioned in the South American region.

Coming to Slide #16 on the domestic side:

The overall copper domestic market grew by 30% year-on-year at a 118 Kt, versus 91 Kt in the corresponding period of last year. On a sequential basis the domestic refined copper demand grew by 27% at a 118 Kt compared to a 161 Kt in Q4. Due to lower demand on account of COVID related lockdowns in the country. This demand is expected to improve steadily to a normalized level in the next few quarters due to the declining COVID cases and the phased unlocking in the country.

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

Praveen Maheshwari:

Thanks Satish. In this part of the presentation, I should take you through the operational and financial performance of each of our businesses.

Starting with Novelis on Slide #19:

Novelis clocked a record quarterly financial and operational performance. Novelis recorded a shipment of 973 Kt, up 26% YoY compared to the corresponding quarter of the last year. On the shipment mix in Quarter one, Cans sheets were about 58%, automotive was about 17% of the total volume, specialties were 23% and Aerospace was about 2%. We are doing equally well on the various ongoing expansion projects. Automotive finishing lines in Guthrie and Changzhou, China were commissioned last year and now are ramping up in line with expectations along with customers qualifications. The recycling, casting and rolling expansions in Brazil are on track and are likely to commission in the current quarter. Our expansion project in Zhenjiang, China, which is a part of our overall Asia growth strategy, is expected to begin in the current year. This will entail an investment of about \$375 million and is expected to take about three years to complete. This project will include a new cold mill, automotive casting house, recycling capabilities and hot mill upgrade in China.

On Slide #20 you can see the comparative financial performance trend of Novelis reflecting its record quarterly performance in terms of Revenue, EBITDA and EBITDA per ton. This is on the back of higher volumes, product mix, favorable metal benefits and a \$47 million gain, being related to a favorable decision in a Brazilian tax litigation. Excluding this one-off gain, the EBITDA was \$522 per tonne in this quarter.

Slide #22 shows the details of the performance of the Indian aluminum business segment. The aluminum metal production was 319 Kt up 9% YoY and 1% sequentially. The production of downstream products was also higher by 150% YoY at 86 Kt in this quarter. Alumina production



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stood at 718 Kt in Quarter one, up 15% YoY and 3% sequentially with a ramping up of Utkal post the maintenance shutdown in the previous quarter.

On the market front, the domestic market was rather soft due to the second wave of the pandemic, although it shows a huge growth compared to the corresponding quarter of the last year which was even more impacted by the first wave and the lockdowns. The share of domestic sales in this quarter was 44%. VAP sales were at 82 Kt which was 27% of the total metal sales in Quarter one.

Moving on to the financial performance of the Indian aluminum business on Slide #23:

This segment posted a revenue of ₹6,267 crores in this quarter, reflecting a growth of 41% YoY on account of higher global aluminum prices. Aluminum EBITDA was at a record high of ₹2,352 crores, up 142% YoY on account of favorable macros, better efficiencies, improved product mix and a strong market recovery. The EBITDA margins in this quarter were highest in the last 13 years at 37.5%.

Moving to Slide #25:

The overall copper cathode was at 43 Kt in this quarter, up 52% YoY. Relative to the capacity, copper production was low due to maintenance shutdown in smelter 3 during the quarter. This smelter has now successfully ramped up and is performing well. On a comparative basis, production of CC rods was higher by 67% year-on-year at 44 Kt, while sales stood at 46 Kt, higher by 50% YoY with the corresponding period of last year. Sequentially, overall metal and CC rods sales was low due to lower production and softening of the domestic market in this quarter.

The financial performance of the copper segment is on Slide #26:

Revenues were up 134% YoY at ₹7,094 crores, because of higher global prices of copper. EBITDA was at ₹261 crores in this quarter compared to ₹66 crores in Quarter 1 of FY21.

Let's turn to consolidate financial numbers for Quarter 1 on slide 28:

Hindalco reported an outstanding consolidated financial performance in this quarter with revenues of ₹41,358 crores, EBITDA of ₹6,790 crores and PAT from continuing operations at ₹3,254 crores. The detailed quarterly comparative financial numbers are attached as an annexure to this presentation on slide 34.

The Indian Businesses of Hindalco also reported a remarkable performance in this quarter with revenues of ₹13,349 crores, EBITDA of ₹2,513 crores and profit after tax at ₹1,037 crores. These details are also provided as an annexure to this presentation on slide 35.



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Slide #29 shows the reduction of over ₹16,000 crores in our consolidated gross debt and over ₹10,000 crores in our consolidated net debt from the peak in June 2020 levels. This along with increasing EBITDA has led to a substantial improvement in the net-debt-to-EBITDA ratio from a peak of 3.83 times in June 2020 to 2.36 times at the end of June 2021. The improved performance and strong balance sheet have resulted in a rating upgrade of both Novelis and Hindalco by their respective credit rating agencies.

Let me now hand over this call back to Satish to summarize and take you through our key focus areas.

Satish Pai:

Let me conclude today's presentation with our key focus areas.

We continue to deliver a strong performance across all our business segments while maintaining safe and stable operations, supported by improved macros and operating efficiencies. Our focus on cost optimization has helped the company to position itself in the first quartile of the global cost curve. With the prime driving force towards stakeholder value enhancement Hindalco continues to focus on profitable growth through its investment in recycling, debottlenecking, and organic expansions in the stable and predictable downstream businesses in India and Novelis. Hindalco's product mix diversification will help enriching its product portfolio by increasing the share of high-end value-added products in the overall product mix so as to strengthen its position as the world's largest aluminum downstream company. Another critical area where Hindalco has done remarkably well over the last few years is on the ESG front. Hindalco continues to focus on its ESG commitment while creating a sustainable greener, stronger and smarter world together and strive to be the most sustainable aluminum company in the world.

Lastly, and most important, Hindalco is focused on strengthening its capital structure with a strong balance sheet by accelerating the pace of de-leveraging with robust cash generation in line with its capital allocation framework.

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. We have the first question from the line of Anuj Singla from Bank of America.

Anuj Singla:

First question is on net debt. While on a YoY basis it's a pretty impressive performance, more than ₹10,000 crores of deleveraging. But I look at on a QoQ basis there seems to be built up of around ₹4,500 crores. Just thinking aloud, this could be due to working capital requirements in copper, but if you can just throw some more light on that and give us some more color that will be great.



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Praveen Maheshwari: You are right. In the Indian operations, the main reason is the copper business requirement of working capital. And this is largely driven by the higher LME in copper. You would remember that it's really gone up very high and this has resulted into extra working capital blockage. But you must remember that copper working capital is funded by a very low-cost buyer's credit and dollar denominated working capital loans. So, really speaking it doesn't really matter much for us. And working capital requirements are transitory. They move up and down with the LME movements. So, it is not really a cause of major worry for us.

Anuj Singla: If I were to exclude this, will it be fair to assume on a debt side excluding this buyer's credit that we did we would be down maybe on a QoQ basis?

Praveen Maheshwari: When you look it in rupee terms, you see, Novelis debt is the same as before, but when you convert this into rupees, there's a little bit of a dollar-rupee exchange impact as well on the rupee side. There's a ₹1000 crore coming purely arising from that. So that's the other part of it.

Anuj Singla: Secondly, one data reconciliation. You mentioned in the presentation on the first slide that the business EBITDA is ₹2,513 crores. But when I add up the segmental EBITDAs for aluminum and copper, it comes to ₹2621 crores. So, I think probably it includes a part of other income as well, or which is a part of these two numbers? Can you help me reconcile these two numbers? And if we were to just focus on the operational EBITDA which is the number we should refer to?

Praveen Maheshwari: So, really speaking as we have mentioned at the beginning of this call, one change that we have made in the definition of segmental EBITDA is that corporate overheads that were earlier apportioned between the two businesses in India, they are no longer apportioned there. So, it comes as a kind of unallocable expense below the segmental EBITDA line. That minus the treasury income. So, for this for example in this quarter, we had about ₹200 crores of the corporate overheads which is coming below and ₹100 crores of treasury income which is coming in there. So, there is a net of ₹100 crore which is a negative, net unallocable expenses, which has to be reduced from the overall segmental EBITDA.

Anuj Singla: Understood. Lastly, given the cost pressures and the inflationary concerns, can you talk about how should we look at the cost of production in aluminum over the next quarter? And given the aluminum prices are also high, any change in the hedging strategy there?

Satish Pai: If you remember last quarter guidance, so Q4 to Q1 the cost was up 4%. And what we are seeing is Q1 to Q2, the cost will be up 5%. And the cost inflation is starting to kick in because coal is sequentially up by 8%, CP Coke is the biggest culprit, up 25% now. So, we are seeing Q2 at 5% more than Q1 cost of production. So that's the first part. Second part, hedging as I said, this year we don't intend to do any more, last time whatever I had said for this year which was 32% at an average of \$1913 per tonne we have not done anything. Next year that FY23 we were at 18%. We have now done another 5% more at least. In fact, we just did it last few days, we got about



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\$2,560/ton . So, we are 23% hedged at \$2229 for next year that FY23. So, we have more or less reached our insurance level for next year.

Moderator: The next question is from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: First question on the copper side now that the maintenance shutdown is behind us, can we now expect for a quarterly run rate volume slated 100 Kt every quarter and then from a profitability side what sort of quarterly EBITDA should we bake in given that large part is already fixed at annual TC/RC?

Praveen Maheshwari: Copper, you see is driven by many value drivers and therefore sometimes some of the things like sulfuric acid prices, what is happening on the DAP side, all these things also sometimes make a difference. But you're right, in a broad sense you should see a sustained performance now, looking at what has happened in July, we are expecting Q2 to be a operationally a strong quarter. On the other hand, of course, the market has been a little soft as we mentioned in the call earlier. Going forward again, market is likely to improve, let's wait and watch how much does it improve. The more the domestic market improves, the more is the profitability for us. Exports are less profitable in copper business. So really speaking, it's driven by many of these factors. But if you want a kind of guidance, on the new definition of copper segment, as we have called it out now, you should expect ₹300 crores or thereabouts to be the normal level of the segmental EBITDA now, maybe a little higher or lower, depending upon how these things work. Some of the accounting noise also comes in copper business reporting. So, really speaking, in some cases you will see derivative accounting playing some role there. But if the LME and the rupee remain stable, then that should not contribute to too much volatility there, but this is the broad guidance.

Sumangal Nevatia: Understood. And given the maintenance shutdown if it was behind us, so 100 Kt every quarter, I mean volume in the coming quarters should be stable?

Praveen Maheshwari: Roughly about 90 Kt is the quarterly production that we target, but we also do some kind of additional sales

Satish Pai: So, the sales is expected to be around 100Kt, production around 90Kt.

Sumangal Nevatia: The second question we have seen in the last couple of months, few of our peers announcing some debottlenecking and constant upstream capacity. Any updated thoughts on that, just want to understand from medium to long-term and what sort of sustainable LME levels would you like to see and for what period before reviewing our thoughts on capital allocation on upstream?

Satish Pai: I think that on the debottlenecking side, even we had one line in Renukoot smelter shutdown, we have pots in HiraKud that we can bring back on. So, we are working on all those. I think from a longer-term sustainable strategy, I think you have asked me this question before we stick to



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our capital allocation to value added downstream for now. The issue Sumangal, is not just the LME, it's the source of power and the cost of power as well. Because LME today is at \$2,600 and I keep reminding people the last expansion was done in 2008 when LME was at the same \$2,600. So, in three to five years, when the projects come in the LME goes down. I think we will stick with our strategy of putting most of the CAPEX that we will generate during this high LME period into our downstream value-added capex.

Sumangal Nevatia: You mentioned about some bit of debottlenecking, what sort of volumes can we add?

Satish Pai: About 50 Kt annually more.

Sumangal Nevatia: Just one last question. We have seen some credit rating upgrade even on Hindalco side so any transition of interest cost saving do we expect in the coming quarter?

Praveen Maheshwari: Our current loans are mostly bank loans, project loans. They are not impacted directly by this credit rating upgrade. Our existing bonds, which is actually due for repayment next year, has a fixed coupon rate. How it can help is in case we decide to raise any money through bonds and refinance depending upon the cost, etc., then those can be availed at a much cheaper rate. So that is how it can help.

Moderator: The next question is from the line of Pinakin Parekh from JP Morgan.

Pinakin Parekh: My first question is on coal. We have recently seen thermal coal auctions take place for new block. From Hindalco's perspective, is it fully covered on thermal coal because we have not seen any aggressive participation by the company in the coal block auction?

Satish Pai: No Pinakin, we participated in Burapahar, and we were the only bidder. That's why it's not happened, but if you know the process, the government will bring it back. And then if we are still the only one, we will get the coal block. Chakla coal mine, we got for 5 million and Burapahar is also another 4-5 million. So, we would love to get majority of our coal 75% to 80% in-house now, rather than we expose to e-auction and linkages, etc.

Pinakin Parekh: Just going back on the aluminum smelting capacity addition, I know you have answered this before as well in previous calls, but if tomorrow over the next few months if the company has more visibility on captive coal production within its own mine, then will it relook at smelting capacity expansion?

Satish Pai: All I can tell you Pinakin, we will continue to evaluate, and I'll tell you that it's not related to coal. It is very unlikely we will put new smelting capacities as coal-based. If you look at even my remarks which we are talking about in Aditya, we can get now 130-150 megawatts of power from Pumped Hydro. We have to put some additional pots in Aditya, we will try to do it with a cleaner source of energy. That's what we are evaluating, not coal based. Are we looking at other



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energy so that we can put more smelting and in Aditya and Mahan? Yes, but it's not related to coal.

Pinakin Parekh: My second question is on copper, now copper smelting over the years has been, I won't use the word difficult, but it has been volatile business in terms of quarter-to-quarter. At this point of time, in terms of the overall EBITDA contribution to Hindalco, it's less than 5%, but there is a meaningful working capital block and from quarter-to-quarter there is volatility. How do you see the future of the copper smelting business within the overall Hindalco framework? Will it grow, if it won't grow, will it remain within the company, or do you think that at some point of time that divestment is potentially an option?

Satish Pai: Pinakin let me just tell you what our next three-to-five-year plan for copper is. I think that in the next three to five years, we are going to add further downstream capacity in copper CCR, in copper tubes, we are looking at about 100 Kt of copper cathode production coming from the scrap route to be added. So, these are the two things that we are going to do. I think as a part of our sustainability strategy, both aluminum and copper fit in quite well, both are in high demand for the electrification. So, this is why we think at least in the next three to five years, our strategy is to expand copper downstream as well as craft-based copper production.

Pinakin Parekh: That CAPEX should happen over the next 18 to 24 months or it is slightly more medium term?

Satish Pai: I think that we will probably finalize that copper rods (CCR) one you are going to see fairly quickly.

Moderator: Moving to the next question from the line of Amit Dixit from Edelweiss.

Amit Dixit: I have two questions. The first one is on the recent board approval on ₹3,000 crores investment for the production capacity of one 170 Kt in FRP. So, what kind of incremental EBITDA do you expect from this?

Satish Pai: Look, I am not going to give you our RFA details, but its 170 Kt of high-end FRP product that are going to come out of the Hirakud and Aditya complex.

Amit Dixit: What could be those FRPs products, if you can just detail those products?

Satish Pai: Mostly we are going to do a combination of Hard alloys which go into defence and industrials. It is going to do ACPs that going to B&C, is going to be certain amount of Canbody stocks. These are probably the three major products that it's going to do. Certain number of foils as well. By the way, one thing I wanted to tell you guys in general is that we are flat out on the FRP side trying to meet the local demand.



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Amit Dixit: A follow-up on this is, if the local demand remains as strong as it is, then can we expect some more capacity expansion at Aditya and Mahan?

Satish Pai: Look, this what we announced, which I think I have been talking about is good you caught the Board approval today, is the second phase of Hirakud which is 170 Kt, that will take us two to three years to execute. Simultaneously the extrusion expansion in Silvassa is going on. I think the next two to three years, we are going to focus on implementing these two projects. And then of course the phase 3 will come as well. Because the hot mill in Hirakud is about 450 Kt. With this expansion we would have reached 270Kt. So, we still have more space to expand in Hirakud.

Amit Dixit: Very helpful. The second question is one coal sourcing linkage mix. If you can let us know for this quarter, how much was linkage, your own coal, and imports if any and what is the likelihood of this mix in a FY22 going ahead?

Satish Pai: This quarter coal mix was linkage at 69%, e-auction was 22%, own mine was 5%. I think that going forward the own mine part will go up a little bit because we are getting now coal from Kathautia, so that 5% may become 10% in Q2-Q3.

Moderator: The next question is from the line of Ritesh Shah from Investec.

Ritesh Shah: A couple of questions, first one ESG, you did touch upon in the initial remarks about renewable projects with storage Pumped Hydro and you did indicate a number of 130 megawatt and incremental scope of smelting capacity. Is it possible, can you detail more on the concept of Pumped Hydro, that's one. And secondly you also touched upon CCUS pilot project by FY23. Just wanted to understand what is the eventual, basically gain plot over here and the sort of investments it will attract? This was the first question on ESG.

Satish Pai: The first part I think you should check out companies like GreenCo, which I think you probably are following in India. In the state of Andhra they have a Pumped Hydro basically they pass the water up and then use it to generate energy. We have been trying to work with them to see if they can at least replace one full unit of Aditya which is 130 to 150 megawatts. If we can get that at reasonable economics, that is the project that we have been discussing with them. On the second part on carbon capture and sequestration, the facts that makes coal dirty is the high CO2 emission. There is a lot of work going on in seeing how you can capture the carbon and sequester. It's not a new concept. The cost of sequestration can be quite high. There are many Western projects going on, but as those things pick up momentum and the technology evolves, we are trying to work with some companies to see if that we can do a pilot in India as well.

Ritesh Shah: Specifically on Pumped Hydro any specific numbers on the call that we are looking at for the hurdle rate for us to shift for one specific unit, 130-140 whatever you indicated?

Satish Pai: Look, something around ₹4 to 4.5 will make it economically viable.



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Ritesh Shah: My second question is, you touched upon the FRP investment of 170 Kt, that broadly implies around \$2,300. What sort of IRR are we looking at over here? And I think earlier in our commentary we have indicated that we were looking at certain trade measures from the government before we embark and think material on the downstream side. Any updates over there? And you did indicate the hot mill capacity was 450Kt and the post current announcement it will go to 270Kt. Can you help reconcile a bit I think 34Kt extrusions 170Kt recent announcements and finishing assets was 50Kt. There is some missing reg over there, if you could help reconcile that number, please?

Satish Pai: Don't mix extrusion with rolling. Extrusion is completely a different process from billets. So, the hot mill for rolling product take it at 450 Kt. So currently 100Kt FRP, you add 170Kt expansion you are at 270Kt FRP. So, you have another 170-180 Kt more to do for another cold mill expansion further down the road. That's the reconciliation on the Hirakud hot mill.

Ritesh Shah: On the CAPEX intensity, it comes around \$2,300. How should one look at the IRR and ROCE over here, especially with respect to trade measures?

Satish Pai: The IRR of the project with the current product-mix we are looking at should be around north of 15%.

Ritesh Shah: Is that number a bit conservative?

Satish Pai: You could say because, it depends on the pricing and the product-mix, but IRR of 15% on a base case I think I am quite happy to launch the project.

Ritesh Shah: Last one, are you expecting anything from the DGTR on any of the products we are putting on capacities?

Satish Pai: There are three trade cases going on right now. So, the first one is under Malaysia for wire rods, foil stock from ASEAN as well as FRP from China. So, all three are in fairly advanced stages. I guess we will just have to wait and see. The government is quite serious about these cases.

Moderator: The next question is from the line of Indrajit Agarwal from CLSA.

Indrajit Agarwal: A couple of questions from my side. First on the Utkal Alumina expansion. I think the presentation mentioned that it will be commissioned in this quarter. So, have we tied up buyers for that alumina or what stage we are in, or are we in advance stage of like reducing the utilization of our existing refinery?

Satish Pai: As I had mentioned before, some part of it will be internal, some part we are talking to one domestic user of Alumina and trying to finalize it.



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Indrajit Agarwal: So, when it starts the next quarter, so it will be sold in open market in spot cases, is that a correct understanding?

Satish Pai: By the way, this week it is already starting to produce. I think that we will sell it initially to a domestic user of Alumina.

Indrajit Agarwal: My second question is actually for Dev. One clarification from the earlier Novelis concall, I think in three years' time you will be at \$220 million plus annualized run rate of synergies from Aleris. And I think Dev highlighted that we would achieve that \$350 million annualized EBITDA run rate again in three years' time. So, how should we look at it, that the erstwhile without synergy EBITDA would be just about \$150 million or actual EBITDA could be much higher including the synergies for Aleris?

Devinder Ahuja: So, here's the thing. We are talking about the short term. We are talking about the next two to three years, synergies will play a significant role much better and faster. Then beyond the momentum, just because recovery of aerospace for example, wherein in next two years I would say more, long-term there is going to be more momentum and it is not doing to stop. We are very comfortable with it going well above \$400 million in next couple of years.

Indrajit Agarwal: That's helpful, thanks.

Moderator: We take the next question from the line of Vishal Chandak from DAM Capital.

Vishal Chandak: My question is with respect to this Duffel divestment. So, nine months ago the consideration worth €100 million and we were pretty confident when we launched the arbitration that we would require this €100 million. But in a span of 9 months, we have actually written off more than half of what we were aspiring to proceed with the arbitration. Now, just wanted to understand whether the balance €45 million, are we still confident or we could see some more write offs going forward? And also, what was the reason for writing off this €51 million within 9 months of launching this arbitration?

Steve Fisher: So just make sure that you understand, we had an agreement to sell the Duffel plant for €310 million. And there was a dispute over a Euro 100 million. We closed the transaction; we received the Euro 210 million and Euro 100 million is what's left to be settled through arbitration. We feel very comfortable with what we had perceived would be the outcome and arbitration based on the notes and facts of the case and we continue to feel very good about that. With that said, that process takes a tremendous amount of time. It distracts management's attention away, comes with a lot of legal expenses to get there and ultimately you never know exactly how an arbitrator would roll, even though we feel very good about the facts. And so, we did have some discussions with the party to try and settle this and would be willing to settle this today or in the very near future for €45 million and we think that would be a good place to settle it in the near term because of all the time value of money and legal fees to get there. If we can't settle this, we still feel very



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comfortable. We will continue with the arbitration. It will just take a period of time to ultimately get the final ruling up somewhere in the 1 ½ to 2-year time frame. So, nothing from a factual standpoint has changed. This is more a way to get to move on and settle at a level that we felt very comfortable with today.

Vishal Chandak: What you have mentioned is that you think it would take a lot of management's bandwidth and it doesn't sound very convincing honestly for a simple reason that if we have a very strong case why leave that €51 million, number one. Number two, if we have a weak case then eventually what we have said is that the entire transaction of Aleris, net of divestment has been very expensive.

Satish Pai: I think that the issue that Steve is trying to outline is that the time value of the money. So, if we do the arbitration with lasts over two years, with an entity that is facing, as you know, some pretty clear financial stress versus if they are trying to do a settlement, sell the Duffel assets to someone else then we can, the emphasis on what Steve is saying is in the very near short term we can get Euro 45 million, then to our stakeholders that may be a better option than trying to wait and fight an arbitration with a company that we are not sure will, how strong they are going to be or survive going forward. So, that's the sort of judgment call we are taking. So, if we don't get the Euro 45 million in the next very short term, we will proceed with the arbitration. So, this is a receivable that we will be sort of taking a call on it at the end of every quarter. I don't know if that's making sense.

Vishal Chandak: This makes perfect sense. As you rightly explained, as compared to, whatever receivable from a sinking ship better get it fast than be it lost forever. I completely agree with you. Thank you very much for the help.

Moderator: The next question is from the line of Gopal Nawander from SBI Life.

Gopal Nawander: Realization during this quarter on the aluminum side seems to be a bit better, aluminum movement and the hedging which we have. What would have helped in this?

Satish Pai: We had about 80 Kt of downstream products as well that gets an additional EBITDA.

Gopal Nawander: Sequentially I was checking, so is there any change in the mix sequentially?

Satish Pai: No, actually see sequentially, because in this quarter the sales has been a little bit lower. If you notice at 303 Kt, because we are 10 Kt of shipments that is stuck at the port. And the domestic market was weak, so we exported a little bit more. So, really the discounting this quarter has been little bit higher than the discounting in Q4. So, any higher realization has been purely because of LME.

Moderator: The next question is from the line of Satyadeep Jain from Ambit Capital.



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Satyadeep Jain: A couple of questions. One on HiraKud again. The capital intensity of \$2,300 seems pretty low. Is it just because of Brownfield expansion? And if you could remind, I could not understand, is there hot mill capacity that is already there, and this investment is only on cold mill, or this is hot mill also?

Satish Pai: That's why I said, the Hot mill is already there. This is adding casting capacity remelt cold mill and some finishing equipment. The hot mill that we got from Novelis right at the beginning of the HiraKud project, it's a 450 Kt hot mill. So, the first phase of the project was about a 100 Kt of rolled products that we got off the ground and now with the help of Novelis experts, we are now launching the next 170 Kt and we are going up the value-added product level. And I keep saying there's a third cold mill that will come in after this one is finished.

Satyadeep Jain: When you look at a return expectation of 15%, that is basically implying EBITDA per tonne close to what you see in your Novelis developed markets. Are you pricing in increased pricing for such products in India or is it just the advantage of having a lower cost base or a combination of both?

Satish Pai: The cost actually is quite favorable. But I think the real differentiator is the type of products we are selling. So, this 170 Kt, nearly 50% of it will be exported. So, it is a much higher end product with a higher EBITDA per tonne. In fact, for the first time we are going to be selling Can body stock as well which is quite a much higher EBITDA per tonne than what we are normally use to in India.

Satyadeep Jain: Second question would be for Dev. I think in the pie for the volume mix for this quarter, it seems the autobody shipments utilization was close to 95% on the face of it and 17% volume. Did you see any material decline in autobody sheet shipments in this quarter?

Dev Ahuja: No, we do not see any material decline at all. In fact, we will see an increase in the autobody sheet shipment because the semiconductors shortage is actually not going to be as bad as it was in this quarter that we have just reported. Things will get better. Remember, we are also starting commercial shipments from our new lines that have been commissioned. Customers are actually very eager to qualify the line soon, so we will start having shipments in time from the new lines. And also, we will see a ramp up starting to come at Guthrie. We don't see any capacity issues coming in the way. I think we are pretty well set for this quarter it will be better than the past.

Satyadeep Jain: But in first quarter did you see a sequential decline in autobody shipments?

Devinder Ahuja: We had a sequential decline and that was really the impact of semiconductors.

Satyadeep Jain: If you look at 17% of 973 Kt, that's almost of 165 Kt, you are operating at 95% utilization. So, it didn't seem like a material decline quarter-on-quarter in autobody sheet which we would have expected based on semiconductor shortage.



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- Satish Pai:** I think your calculation of 95% I hope you are taking into account that the China line is producing commercial coil now, the new one.
- Devinder Ahuja:** That's what I was trying to say that we are starting to have shipments from the new line right now. We are already starting to see the impact of the 300 Kt capacity expansions. So, we are in a good place. I mean, if your point is that we are seeming very capacity constrained on that side, no. Overall, yes, we are tight on capacity on the coil side, but not on the finished side.
- Moderator:** The next question is from the line of Bhavin Chheda from Enam Holdings.
- Bhavin Chheda:** Congratulations on all-time high numbers and also recently getting a 1 lakh crore market cap creating a lot of shareholder wealth. I think management team has done a phenomenal job both in India and at Novelis. The few questions on, obviously the future growth from here on, you mentioned on upstream capacity expansion you are adding pots wherever you are adding renewable capacity. So, this model will be applicable for your other smelters also and you will keep evaluating this because I think there's a lot of demand and you are already operating full on the upstream capacity and there lies an opportunity since India is rich in bauxite, so what would be the roadmap for next 3-4 years for an upstream capacity?
- Satish Pai:** Honestly, I am saying again, our majority of the management bandwidth is focused on downstream expansion. I think on the upstream side, Aditya, and Mahan, the two new smelters we have enough land, and we have enough water. So, these are the places we will evaluate whether we get like a pumped hydro or something, or some natural gas pipeline coming in, and we will evaluate it at that time. But I still think I want to repeat that majority of our bandwidth is focused on this downstream expansion.
- Bhavin Chheda:** Second one on the coal price which recently has seen a sharp increase. So, what kind of cost escalation we should model in the coming quarters?
- Satish Pai:** I said next quarter 5% more than Quarter one.
- Bhavin Chheda:** And the last one on the net debt increase, you mentioned mainly driven by copper working capital requirements. Now since the copper prices adjusted to a high level of \$10,000 odd tonne, so we do see some unwinding over next few quarters as your EBITDA run rates remain strong.
- Praveen Maheshwari:** In copper you see LME remains where it is. You will not see a further drain on the working capital, but it has remained at that high level. But as I mentioned, in copper it is funded by buyer's credit which is available like a sub 2% kind of a funding because it's a dollar denominated business, so we don't have to really hedge or anything. It's an offset which is available. So, really speaking the cost of that extra working capital is not very high for us.



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Satish Pai: I mean, it's counted in our deck numbers is what Parveen's point is but it's not really a debt that way because we have a very cheap working capital working by this credit lines.

Bhavin Chheda: I understand. It's on a reported net debt basis, I am saying since the cash flows are very strong so based on reported net debt numbers, if the copper remains at current level our reported net debt would go down by next fiscal end, right?

Praveen Maheshwari: Again, see, there are 2-3 aspects to it. Operationally, we are generating good cash flow both in Novelis and India. So typically, this cashflow if not totally utilized for CAPEX, etc., should reduce our debt, at least net debt, even if it is not gross debt. Now in Quarter one what has happened is both in Novelis and in copper business in India, the working capital requirement has gone up because of the LME of both copper and aluminum going up. And therefore, the Quarter one cashflow has largely been consumed by the working capital requirements at both. In fact, it has added to our net debt. Going forward, if the LME doesn't move up from here, and if we keep generating the kind of cash we are generating, obviously you will see some net debt reduction and if the LME comes down again, for whatever reason let's say in copper, then that will help in de-blocking the cash which is already there in the copper.

Bhavin Chheda: India CAPEX number for 2022?

Satish Pai: ₹2700 crores.

Bhavin Chheda: And what was the MJP premium realized in Q1?

Satish Pai: Realized is a difficult one, depends on many things, but MJP is running I think currently at \$160-170.tonne. So, when we export most of our contracts, we get the full MJP. Domestic is different because it's a net realization, but export we are getting the full MJP.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand the conference over to Mr. Pai for his closing comments.

Satish Pai: So, thank you everyone and I think that we are in a very favorable environment both in Novelis and in the Indian business. And I think that as long as we can take care of our employees and handle this COVID situation which has not really gone away. And I think that the people that can manage the situation properly are going to benefit. So, the market will be there, and the demand will be there. So, I think that that is our focus to make sure that we keep our employees and our plant safe and operating, and then take advantage of a very favorable macro environment that exists. So, thank you very much for your attention.

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