



“Hindalco Industries Limited
Q2 FY '24 Earnings Conference Call”
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Moderator:

Ladies and gentlemen, good day and welcome to Hindalco Industries FY '24 Second Quarter Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this call is being recorded.

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

Subir Sen:

Thank you and a very good afternoon and morning, everyone. On behalf of Hindalco Industries, I welcome you all to the earnings call for the second quarter of financial year 2024. In this call, we will refer to the Q2 FY '24 investor presentation available on our 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 number two of the said presentation. In this presentation, we have covered the key highlights of our consolidated performance for the second quarter of the financial year 2024 versus the corresponding period of the previous year.

A business-wise comparative financial analysis of Novelis, Hindalco India aluminium and copper business is also provided. This presentation covers our Indian operations, aluminum upstream and downstream financials and operation performance separately to reflect the individual business segment performances in quarter 2 versus the corresponding period of the previous year. The corresponding segment information of the prior period will also be restated accordingly for a comparative analysis.

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

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

Satish Pai:

Thank you, Subir. Good afternoon and morning, everyone, and thank you for joining today's earnings call of Hindalco's performance for the second quarter of FY '24. At the beginning, let me wish all of you and your families a very happy Diwali.

On slide five and six of this presentation, you can see our progress across various ESG metrics for this year versus the prior year. In our continuous efforts towards increasing green cover and biodiversity, we have successfully completed an all-season study under our biodiversity management plan for 12 of our mine sites and 4 units in Hindalco. In addition to this, study at 2 sites and 1 mine clusters are also progressing well.

CII's Biodiversity Index and carbon sequestration ground assessment was completed in 6 of our units in the first half of this year. I'm also happy to share with you that Hindalco has won the UNDP Mahatma Award for Excellence in Biodiversity Management in 2023.



Hindalco continues to increase its share of recycling and reusing of waste. In the first half of FY '24, 80% of total waste were recycled and reused, in line with the same period of the previous year. We achieved recycling of 108% of bauxite residue and 103% of ash in H1 of this year.

On the emissions, Hindalco is now pursuing ozone-depleting substances i.e, ODS phaseout programs at all our sites and targeting to be ODS-free by FY '26. Our flue gas desulfurization projects at Mahan and Aditya power plants are now commissioned.

At the end of the first half, our aluminum-specific GHG emissions were recorded at 19.58 tons of CO₂ per ton of aluminum, which is a bit higher than last year on account of higher power consumption at some of our smelters. This is expected to settle down with better efficiencies across our plants in the coming quarters. In terms of our progress in renewables, we have already reached 50% of our target of 300 megawatts by 2025 this quarter and completed 150 megawatts of renewables. Further 50 megawatts of solar and wind are under execution and expected to be completed by Q1 of FY '25.

On the 100 megawatts of hybrid power project, the contract is executed with a target COD beginning in December 2024. On safety, the LTIFR in India was 0.18 in the first half, reflecting an improvement over H1 of last year's level and remains among the best in the industry. We have taken several initiatives to inculcate a safety culture, not only in our employees but also in their families.

In addition to this, we have taken digitalization initiatives to develop the contractor safety management and a comprehensive safety audit and assurance software to further strengthen our systems to monitor safety with a target implementation date of March 2024. There were no fatalities recorded at our Indian operations in the first half of this year.

We are on our way to achieve net water positivity by 2050. We stay committed to our zero liquid discharge at all our sites and a 20% reduction in specific water consumption by 2025 from the base year of FY '19. On the water positivity front, an additional 3 of our mine clusters have achieved water positivity in this quarter, taking the total to 5 as of September 2023. All these initiatives are in line with our target of achieving water positivity across all the mines by 2025.

The civil work on the 5,000 kiloliters per day project at Renukoot is underway. We are not only implementing water audits for assessing rain water harvesting and recycling capabilities at our plant locations but have also initiated various desalination and other projects to achieve this goal. As a result, our desalination project and tertiary water recycling units at Dahej enabled a significant drop in freshwater consumption from 18.5 cubic meters per ton of metal in H1 FY '23 to 10.4% in H1 FY '24.

I'm happy to share Hindalco's recognition as the world's most sustainable aluminum company for the fourth year in a row in the S&P Dow Jones Sustainability Indexes, Corporate Sustainability Assessment, CSA, ranking of 2023. This reflects our holistic approach to long-term ESG performance.

Let me now give you a glimpse of our quarterly consolidated performance in quarter 2 versus the previous quarter of this year on Slide 8. This quarter's performance on a consolidated basis

was driven by strong recovery in Novelis and aluminum India downstream businesses, backed by a record performance by the copper business.

Our quarterly consolidated revenue was INR54,169 crores this quarter, up by 2% sequentially. Our consolidated business segment EBITDA was up 14% Q-on-Q at INR6,896 crores, whereas our overall reported EBITDA was flat sequentially at INR6,096 crores this quarter. The consolidated PAT was down 11% on a sequential basis at INR2,196 crores this quarter.

In India aluminum business, we are currently hedged at around 11% at a price of \$2,755 per ton for the remaining half of 2024. On the balance sheet side, our consolidated net debt stands at INR37,613 crores. The India operations net debt was INR1,174 crores, and Novelis was at INR36,439 crores at the end of September 2023.

During this quarter, we prepaid a long-term debt of INR2,120 crores in Hindalco India operation. Hindalco at the consolidated level continues to maintain a strong balance sheet with a net debt-to-EBITDA well below 2x at 1.66x at the end of September 2023.

Hindalco has recently signed an MOU with Odisha Mining Corporation for a long-term supply of bauxite for its 2-million-ton alumina refinery and 160-megawatt captive power plant at Kansariguda in the Rayagada district of Odisha. Hindalco will invest around INR8,000 crores in this project in 2 phases.

Our strategic capex in India as well as in Novelis are mapped to cash flow generation in the business and are in line with our capital allocation policy. Coming to our business-wide performance this quarter, Novelis shipments were at 933 Kt, up 6% quarter-on-quarter, primarily on account of higher beverage can shipments, which was up 12% sequentially, as destocking activity is largely behind us.

Novelis delivered a quarterly EBITDA of \$484 million, up 15% year-on-year on account of higher volumes and benefit on operating leverage along with better scrap utilization this quarter. The resulting EBITDA per ton stood at \$519 per ton versus \$479 in the previous quarter, up 8% sequentially.

On Hindalco's India aluminum business performance, upstream aluminum performance this quarter was impacted by unfavorable macros. Total upstream shipments were lower by 2% Q-on-Q at 334 Kt, where as revenues were down 2% sequentially at INR7,878 crores. Upstream EBITDA was up 7% sequentially at INR2,074 crores, supported by lower costs. The resulting EBITDA per ton was at \$751 per ton, higher by 9% sequentially.

EBITDA margins were also higher at 26.3% compared to last quarter and continue to be one of the best in the global industry in the current challenging business environment. Total third-party shipments were at 338 Kt, of which upstream was 245 Kt and downstream was 94 Kt this quarter. The downstream aluminum business shipments were up 15% quarter-on-quarter at 94 Kt, while revenues were up 8% sequentially at INR2,629 crores this quarter.

However, aluminum downstream delivered an EBITDA of INR171 crores, up 16% quarter-on-quarter on account of higher volumes. Our copper business continues to deliver consistent

performance this quarter as well. The overall metal shipments were at a record high of 134 Kt, up 13% Q-on-Q, of which CCR volumes were 100 Kt, up 2% sequentially this quarter.

Revenues were up 8% Q-on-Q at INR12,441 crores this quarter on account of higher sales volumes. The quarterly copper EBITDA was at an all-time high of INR653 crores, up 23% Q-on-Q on account of higher shipments and normalization of production of cathodes post the maintenance shutdown in the last quarter.

Now let me give you a glimpse of the current broader economic environment on Slide 10. Global economic recovery remains resilient despite multiple challenges. IMF projects global GDP growth to moderate from 3.5% in 2022 to 3% in 2023 and to 2.9% in 2024. Advanced economic growth is expected to moderate from 2.6% in 2022 to an estimated 1.5% in 2023 and 1.4% in 2024, amid strong U.S. but disappointing European Union performance.

Emerging market economies have remained buoyant with growth projected to moderately decline from 4.1% in 2022 to 4% in both 2023 and 2024. In China, encouraging economic activity data since August 2023 and a strong GDP report in Q3 indicate economic recovery is gaining pace despite challenges in the housing sector. While downside risks remain moderating inflation without a major downturn in global activity and buoyant labor market are consistent with a soft landing scenario.

As per IMF, global inflation is expected to decline steadily from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024. However, coal inflation is expected to decline more gradually.

On the domestic front, despite the challenging global environment, India's growth momentum is holding up driven by strong domestic fundamentals, robust consumption demand, infrastructure spending and service sector activity, which continue to drive growth. However, weakening global demand, rising geopolitical tension and tighter credit conditions pose downside risk.

RBI projects real GDP growth to moderate to 6.5% in FY '24 from 7.2% in FY '23 with evenly balanced risk. RBI's forward-looking surveys indicate better demand conditions, employment opportunities and industrial output going forward. Inflationary pressures have also eased with CPI inflation expected to moderate to 5.4% from for FY '24 from 6.7% last year in FY '23 on softer commodity prices and lower core inflation. The evolving geopolitical situation and its impact on crude oil and India's inflation trajectory is being closely watched by RBI, which has kept the rates on hold since February 2023.

Moving on to the aluminum industry outlook on Slide 11 and 12. First, let me talk about China. In Q1 calendar year 2023, production in China declined in certain provinces like Yunnan, Guizhou and Shandong due to tight power supply. In Q2, with improving hydropower situation, the government released power to the smelters, resulting in increased aluminum production, especially in provinces of Yunnan and Guizhou.

In Q3, production continued to grow by 4% at 10.7 million tons. Therefore, year-on-year basis, the overall production in China grew by 3% year-on-year at 30.7 million tons. On the consumption side, Q1 faced headwinds due to weak construction demand that led to a decline of 2% year-on-year to 9.4 million tons. In Q2, the Chinese demand recovered sharply by 7% to

10.9 million tons. And in Q3, this demand improved further to 11.1 million tons. These demands were strongly led by solar and EV markets, partially offsetting the weak construction demand. Hence, on a year-on-year basis, the overall consumption of aluminum was at 31.5 million tons. As a result, the Chinese market was in a deficit of 0.7 million tons at the end of September 2023.

This quarter, aluminum Chinese production was at 10.7 million tons and consumption at 11.1 million tons, leading to a market deficit of 0.4 million tons. In the world excluding China, in Q1 of this calendar year, production was flattish year-on-year at 7.1 million tons. In the subsequent quarters, that is Q3 and -- Q2 and Q3, production improved marginally to 7.2 million and 7.4 million tons, respectively. Therefore, on a year-to-date basis, overall production grew marginally by 1% at 21.7 million tons.

Moving on to consumption with rising interest rates. Except for automotive, all other segments faced some headwinds. As a result, consumption declined sharply by 10% year-on-year in Q1 to 6.8 million tons. In the subsequent quarters, consumption grew to \$7 million each in Q2 and Q3. This decline was mainly due to headwinds in the building and construction sector as well as industrial machinery and consumer durables.

Hence, on a year-to-date basis, the overall consumption stood at 20.7 million and production was at 21.7 million tons, resulting in a surplus of 1 million. Therefore, on a year-to-date basis, with the overall global production at 52.4 million and consumption at 52.2 million, the market is in a surplus of around just 0.3 million tons.

In this quarter, both global production and consumption were at 17.5 million each, resulting in a balanced market. The global aluminum prices in this quarter were range-bound and averaged at \$2,154 against \$2,258 a ton in Q2. On a quarter-to-date basis, the global price of aluminum is around \$2,200 a ton. In Q2 FY '24, domestic demand is likely to reach 1.3 million tons, reflecting a growth of 10% year-on-year and 13% sequentially.

This sharp increase was supported by strong demand from electrical, building and construction sectors. However, the packaging segment faces some headwinds due to weakness in export-led demand, and consumer durables showed weakness in the cook ware segment.

The global FRP demand is expected to decline by 3% in calendar year '23 versus a 3% growth in the last calendar year on account of softer macros. However, the FRP demand is expected to return in calendar year '24 to low to mid-single digits with demand recovery across all major sectors. The global demand for resilient beverage can sheet is expected to grow in the long run at a CAGR of 3%, although the customer inventory reduction is largely behind us now. The U.S. market demand is strong as promotional activities in North America will boost consumption of beverages in the coming months. The South America market is also strengthening as we proceed towards the summer with demand from beverages starting to pick up.

The automotive segment is expecting to grow at the CAGR of 11% over the next 5 years driven by vehicle growth rates and lightweighting needs for fuel efficiency, performance and electric vehicle range. This growth is led by elevated levels of pent-up demand and EVs are gaining

share of the vehicle mix. The settlement of the UAW strike is a positive development for all auto sheet makers.

The demand in specialties, especially in building and construction segment, remains cloudy due to seasonality and the current macroeconomic environment. While some optimism is seen in the U.S. building and construction market with higher share of new home build rates and ongoing demand for repair and remodel.

The aerospace segment, demand for premium aerospace plate and sheet remains strong. Aircraft OEMs are forecasting a strong growth in aircraft build rates supported by multiyear backlogs of aircraft deliveries. In this sector, sustainability is also gaining importance, leading to higher consumption of aluminum. In FY '24, Indian FRP demand is expected to grow by 7% to 8% year-on-year, supported by growth in auto and packaging segment. This demand is likely to remain firm in the following quarters.

Turning to the global copper industry on Slide 14. On a year-to-date basis, calendar year 2023, overall global copper production grew by approximately 5% to 19.2 million tons. In contrast, consumption also grew by 2.8% year-on-year at 18.9 million tons, resulting in a surplus of 0.3 million tons.

On a year-to-date basis, in calendar year '23, China's production increased by approximately 11% at 8.6 million tons, whereas consumption grew by almost 7% to 10.6 million tons, resulting in a deficit of 2 million tons. The world, excluding China, increased its production by 1.2%; whereas consumption declined by 1.9% year-on-year, resulting in a surplus of 2.3 million tons on a year-to-date basis calendar year '23.

In the third quarter of calendar year 2023, the overall global production of copper increased by 4.6% year-on-year, while consumption grew by 1.8% compared to the corresponding period last year, resulting in a flattish growth year-on-year. In this quarter, Chinese production increased by 9.7%, while consumption grew by 4.6% year-on-year, resulting in a deficit of 0.8 million tons.

In the world, excluding China, production of refined copper increased by 0.8% and consumption declined by 1.8% year-on-year, resulting in a global surplus of 0.9 million tons this quarter. On the domestic side, in Q2 FY '24, market demand increased by 7% year-on-year at 201 Kt versus 187 Kt in Q2 FY '23. On a sequential basis, in Q2, the market demand increased by 3%, where as domestic producer share was close to 72%. The copper concentrate market was balanced this quarter with mine production in line with demand from global smelters.

As a result, the spot TC/RC remained steady throughout the quarter, closely aligning with the benchmark TC/RC for calendar year '23 at \$0.225 per pound. Looking ahead to the next quarter, an upswing in buying activity is anticipated due to the expected ramp-up and resumption of a few smelters, which were under maintenance in China. Details of our operational and financial performance in each of the business segments this quarter compared to the corresponding period of last year as well as sequential quarters are covered in further slides and the next years to this presentation.

Now let me conclude today's presentation with some key takeaways. We, as a company, are working proactively to mitigate the current macroeconomic headwinds and cost pressures. Our resilient India business with a strong balance sheet is providing solid financial prudence to our organic growth strategy. We also continue to focus on resource security in terms of coal and bauxite, thereby reducing our dependency on external sources while expanding our value streams in terms of downstream products.

Our Copper business again delivered its best-ever performance this quarter. We continue to focus on value-added products that we cater to the lease segment of special alloys and high-purity copper rods and tubes. Novelis continues on a strong recovery path with higher can shipments, resulting in benefits of operating leverage due to higher volumes and also higher utilization of scrap this quarter. This is reflected in the strong sequential improvements in both EBITDA and EBITDA per ton.

Our approach in ESG continues to be comprehensive across value chains and in line with our interim as well as long-term target of 2050. We have already achieved 50% of our target of 300 megawatts in renewables by 2025. Our LTIFR continues to be among the industry best this quarter as well. We continue to moderate and pace our new strategic capex both in India and Novelis in line with our generated free cash flow. We stay focused with our value-enhancing growth strategy directed towards organic growth while expanding downstream businesses in both aluminum and copper. We stay committed to maintain a strong balance sheet position and focus on shareholder value creation in the long run.

Thank you very much for your attention, and we'll now open the forum up for your questions.

Moderator: Our first question is from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: My first question is, sir, with respect to the copper division. So if you can just elaborate, what are the drivers for such a strong performance? Is it value addition, by-product credits or better TC/RCs? And should we extrapolate this sort of run rate of both volumes and profitability in the future?

Satish Pai: So I think that it's a combination of all. It's certainly not higher TC/RCs because TC/RCs were not that high because we bought concentrate which were more richer in gold. So I think that the higher thing is because of higher volumes. So we took the opportunity of a higher market demand.

And besides our cathodes, Sumangal, we also imported cathodes and converted to rods. So if you look at the sales volumes that we achieved, these contributed to this very strong quarter, besides the other value streams that we have, which is gold, silver, sulfuric acid, et cetera.

Now on the run rate going forward, I think that we would stick to a guidance of INR500-550 crores a quarter. I would not extrapolate from the INR650 crores.

Sumangal Nevatia: Got it, sir. Sir, second, with respect to the aluminum division, is it possible to say how are we looking at the coal cost in coming quarters and overall other costs shaping up in the aluminum division in the next 1 or 2 quarters?

Satish Pai: Yes. I think that, first, the coal cost Q1 to Q2 was 15% down sequentially. So our cost of production was down 6% Q2 to Q1. Now in the month of October what -- September, October, with power demand again going up, we have started to see spot auction rates coming up again. So we have looked at the mix of coal and the other input costs. I think coal is going to be slightly up in Q3, but some of the other input costs are continuing to trend down, like caustic, furnace oil, CP coke. So what we are guiding now is that in Q3, you should see a flattish cost of production versus Q2.

Sumangal Nevatia: Understood, understood. And just one last question. Last quarter, sir, you said your outlook in aluminum prices, and you set a range of 21 to 23, and looks like the prices is stuck in this range. Incrementally, are you turning more cautious or bullish given the recent development of maybe Chinese weak demand and offsetting by some production cuts in Yunnan? Any incremental update on your thoughts on medium-term price outlook?

Satish Pai: So look, what is clear to me after the London Metal Exchange week is that demand for aluminum in China remains quite steady. So any down in the demand due to B&C seems to have been more than made up with solar and electric vehicle aluminum demand.

So I think that if you look at the supply-demand that I had in my prepared remarks, China is in a quite a big deficit for the metal. And in fact, it's being made up by the Rusal metal coming into China. So I personally believe -- and now Yunnan, again, the water has got less so they have had to announce production cuts.

So I think that, personally, the market seems to be very sensitive to any remarks coming out on either the Chinese economy or interest rates. So I think that till things settle down, I stick with our guidance of 2,100 to 2,300. I still believe that supply and demand remains very tight and that any clearing up of the macroeconomic environment, you should start to see a positive trend in the prices.

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

Indrajit: Two questions from my side. Following on from the earlier question, given that you are still positive on aluminum price outlook, any change in thought process or what is our current hedging in -- for FY '25?

Satish Pai: Good question. So, what we did is -- we don't believe that this is a time to take a forward position. So what we did for FY '25 is that we actually hedged around 5% taking a zero collar, the bottom at 2,200 and a ceiling of 2,517. So it's a -- we hedge for insurance, not to take a forward look.

So for next year, we started at that 5%, taking this collar. So at one hand, we are protecting the downside at 2,200. And of course, we are accepting a ceiling at 2,517. So that's what we have done for next year, Indrajit.

Indrajit: Sure, sir. My second question is on -- again on cost of production. While you have given a very good outlook on how it is going to shape up in Q3. If you can help us understand, what is your actual cost of production for aluminum at smelter level, only for upstream, right?

- Satish Pai:** Yes. We don't give that out, Indrajit. I'm quite sure with your model, you can back calculate, but I -- we don't give out the exact cost of production number.
- Indrajit:** Okay. Then I'll put it differently. At current levels, is there either a 2Q or a spot basis, where are you on the global cost curve?
- Satish Pai:** So look, we are firmly in the first quartile. And Aditya, Mahan, Renukoot are fully in the first quartile. And Hiralud the only one which is sort of on the right-hand side. So as a consolidated Hindalco, we are firmly in the first quartile and well to the left.
- Indrajit:** Sure. One last housekeeping question. If you can give the quantum of alumina sales...
- Satish Pai:** Yes. This quarter, we sold 138 Kt of alumina. I just wanted to remind you that our brownfield expansion of 350 Kt is now on stream. So I think you will start to see third-party sales in Q3 and Q4 being at a higher level.
- Indrajit:** So we are not looking to take some shutdowns in the earlier legacy refineries?
- Satish Pai:** No. We'll evaluate that because what is happening in Muri is that even though the cost is higher there, we are not using it for smelters. We are actually selling it into the third-party market where there's a good demand for hydrate.
- Moderator:** Our next question is from the line of Amit Murarka from Axis Capital.
- Amit Murarka:** On alumina, so you have mentioned that you plan to set up this 2 million ton facility. So could you just provide some more details around that, like -- as to when will that come up exactly? And will that be fully for market sales? Or you plan to kind of back it up with some smelter capacity as well in the future?
- Satish Pai:** So look, this Aditya alumina refinery is actually a very old project. And we had actually put it on hold because the -- we did not have the bauxite mine security. Now what has happened is that with the Odisha government, we have signed an MOU to get that bauxite supply. And hence, we are putting it up because we think it makes great economical sense.
- I think that the first 1 million tons will go in 2 phases: 1 million plus 1 million. The first 1 million is around slightly below INR6,000 crores of capex that will come up in the next 36 months. Because we already have the land, we already have the environmental clearance, we have already done the public hearing, so that's done.
- Now we -- our current plan is to sell it in the third-party market. As you remember, I have frequently reminded that until we try out the 100-megawatt of round-the-clock power in Aditya for next year, we will only expand aluminum capacity when we have more renewable power in the mix. It will not be coal-based.
- Amit Murarka:** Sure, sure. Got it. Also, regarding the Chakla coal mine, I believe you had said that this will start operating in October '24. So those time lines are still holding or we should...
- Satish Pai:** Yes. October '24 box cut, we are still holding that time line.

- Amit Murarka:** Okay, okay. And any update on Meenakshi?
- Satish Pai:** The good news is we won Meenakshi West, which we have got notified and we'll start to work. On Meenakshi itself, we are still awaiting the CBA land issue. We are optimistic about it, but we do not know when that will come. But the next door mine, Meenakshi West, we bid on it and we have got the order and things like that. So we'll take a call -- if we get both mines, we will take a call on probably to keep Meenakshi. But at this stage, we are working with Meenakshi west.
- Moderator:** Our next question is from the line of Amit Dixit from ICICI Securities.
- Amit Dixit:** The first question is, if you can detail about the coal sourcing mix in this quarter?
- Satish Pai:** Yes, sure. So the coal mix impact, we had very good materialization of the linkage. So linkage coal was 53%, e-auction was 40%, own mines were 5%, and import and others were 2%. So I think that this was the mix that we had. And as I said, our coal costs were sequentially on a consumption basis down by 15%.
- Amit Dixit:** Sir, going ahead, since the Coal India's production is continuously increasing and they are also satisfying power demand fully, you expect a further materialization now -- further higher materialization of linkage? Or 33% is something that we are looking at the optimum level?
- Satish Pai:** No. You see 53% towards of our mix. Our materialization of the linkages were nearly 90% this quarter. That's why we could get the coal costs down. So they are giving -- whatever linkages we have, they're giving -- in Q2, they gave a good materialization.
- As I said, towards the end of September and in the month of October, the temperatures still were very high, the power demand in India was high. Then they again started to divert coals to IPP, which is why the spot auctions in October, again, premiums jumped up.
- So that's why we are a bit cautious and we are saying that in Q3, coal price could be a little bit higher. But we'll balance it up with the lower input costs from the other side, and we are guiding for a flat cost of goods production.
- Amit Dixit:** Okay. That's very helpful, sir. The second question is on the note number nine of the consolidated financial statement wherein you mentioned that in October '23, you have decided to close the cold-rolled and finishing line in the U.S. So just wanted to understand the -- what are the typical products for which segment they are being closed down? And when you have mentioned that the total expense would be \$25 million to \$35 million. Some of it is accelerated depreciation. So just wanted to understand the cash outgo out of the \$25 million to \$35 million.
- Satish Pai:** You are talking about the shutdown that we have announced of our plant in Clayton ?
- Satish Pai:** Guidance is that the cost of shutting down could be \$20 million to \$25 million. It's in one of the notes. So, Dev, if you can just give an update on that.
- Dev Ahuja:** Yes. So yes, I wasn't able to hear the question earlier. But basically, just as a full background. So this is a plant which economically simply does not make sense because of the kind of products

we are making there. We don't see any future. It's an old plant with high fixed costs. And so most of the impairment or write-off is going to be basically book value of assets. And it's going to be a couple of million of severance costs. So it is simply good economics and just makes sense to get the Facility to closure.

As we announce the next quarter, we will give some more details. But the headline is that these products don't have too much of a future. They are in a highly competitive segment. Fixed cost is -- fixed cost savings is going to be extremely good in order to sort of really quickly pay back on the onetime cost that we are going to incur to close the plant. That's really what it is.

Amit Dixit: Are there any other sites that might be in your radar at this point in time that are having high fixed cost and uneconomical product that you might decide to close later on?

Dev Ahuja: Well, we keep looking at it. I mean there is -- we always keep looking at rationalization opportunities. And so it's like never say no. This is a continuous evaluation that we keep doing based upon market, based upon sort of really what makes sense in the overall strategy. So at this moment, this is what we have, but it's a continuous process of review.

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

Satyadeep Jain: Just a follow-up on the alumina question, Mr. Pai. It seems like the company is increasingly going along alumina. What's the strategy or thought behind that? Do you see a shortage of alumina globally? Do you think the mines, the facilities you're looking at could be maybe lower cost compared to some of the other refineries? What's the thought process behind? Will you already long alumina and you're going further long. That's the first question.

Satish Pai: Yes, good question. I think that what we look at is a fairly regional market, largely taking the Middle East smelters into view. So if you look at the whole spectrum from EGA to Sohard, to Alba, I mean, for us to sell about 1 million to 2 million tons of alumina in this market. And we found that the pricing we get is linked to -- indexed to LME. And as you rightfully said, the cost of production of alumina that we can achieve, there is a very healthy return on these investments, so which is why we are doing it.

Satyadeep Jain: So on this new facility you're looking at and the new OMC, just tied to that would be there is no further potential to expand Utkal? And also the Baphlimali mine that you have is one of the cost-competitive advantages you have in producing alumina at Utkal. Would you not have capability to use that mine? And if not, would OMC mine also have similar characteristics to be able to give you that kind of advantage?

Satish Pai: No. See, the issue with Utkal is we started, I think, the 1.5 million tons when we originally set up Utkal. Today, its capacity is already 2.5 million tons, so 2.5 million tons into 3 million tons. So what is getting clear is that if you keep expanding in Utkal, the Baphlimali mine will run out very fast. So we wanted to preserve at least a certain mine life in Baphlimali and open up a new source of bauxite. This is really looking into the next 10, 15 years for the company, so which is why we did as much brownfield expansion, which is nearly 1 million tons we added to the Utkal capacity. And we think the time is right now.

And by the way, as I said, it's not a new project. This was always in our plan ever since I joined Hindalco, but we didn't have that bauxite security, which is why we waited until we got that do this project. And alumina certainly seems to be a pretty safe investment and a good return right now.

Satyadeep Jain: Okay. Just one quick question on the linkage coal. I think a couple of quarters ago, you mentioned the 3 million ton of tranche 2 and 3 that expired, and you were in the process of auction, and maybe they will get settled by 1Q. What's the update on those auctions that we got those 3 million tons back?

Satish Pai: Yes, yes. We got tranche 2 and tranche 3. In fact, now we are focused on tranche 4, which is going to expire in January of next year and the upcoming auctions and all to secure that. So tranche 2 and tranche 3, we got and we got it at reasonably good prices. I mean it's slightly higher than what we had but not much.

Satyadeep Jain: And how much is tranche 4?

Satish Pai: So tranche 4 is another 3 million that will come up in January, largely in the NCL region. And we are working on securing that now.

Satyadeep Jain: Wish you all a happy Diwali.

Satish Pai: Yes. Thank you.

Moderator: Our next question is from the line of Kirtan Mehta from BOB Capital Markets.

Kirtan Mehta: Going back on alumina, do you plan to enter into any long-term offtake agreement with the Middle East smelters that you're talking about? Or would you largely follow the spot model?

Satish Pai: No, no. We will do -- we have already been with the expansion that we did in Utkal. We are signing annual to bi-annual contracts, which are indexed prices to LME. You get a percentage of LME price. So we will be doing a reasonable amount of longer-term contracts. No, we will not be doing -- trying to sell 1.5 million tons on the spot market.

Kirtan Mehta: Right. Another related question was we have seen sort of the alumina capacity expansion in China and effectively, China turning into sort of an exporter rather than an importer. So looking forward over, say, 5, 7 years, do we expect aluminum market to still remain in deficit globally with...

Satish Pai: See, it's a little bit, as I was trying to explain, of a regional play. I don't think that China will become a big exporter of alumina per se. I do know that they are sending a lot to Russia now to Rusal. But for us, the market that we are looking at is really the Middle East. And the Middle East, we will be tying up with longer-term contracts, which they're quite happy to do.

Kirtan Mehta: Right. Sir, understood. One more question was about your accounts under the comprehensive income, where we are indicating the effective portion of cash flow has a loss of INR2,272 crores. Could you explain what does that pertain to?

- Dev Ahuja:** So these are just MTM gains and losses on the cash flow hedges, which is the hedging that we take. And this basically reflects the movement of LME or the currency, depending upon where the hedge lies. So this just goes to the other comprehensive income, and it does not have a direct impact on our P&L because it can change next quarter again.
- Kirtan Mehta:** This is the 5% hit that we have taken for 2025 or the 25% hedge that we had for '24? Corresponding entries are here marked-to-market?
- Devinder Ahujal:** It is for all the existing hedges that exists on the date of the balance sheet or, let's say, the quarter end.
- Kirtan Mehta:** But apart from the aluminum price hedges, do we hedge any other component as well?
- Dev Ahuja:** So basically, it's LME. Then we have currency hedges in certain cases, then we have sometimes the furnace oil. So those are the hedges that we typically take, commodity hedges basically.
- Kirtan Mehta:** Is it primarily for the India operations? Or is it all for Novelis as well?
- Dev Ahuja:** So it includes Novelis as well because Novelis also takes hedges. These are offset hedges typically for their operations because they deal with aluminum.
- Moderator:** Our next question is from the line of Pallav Agarwal from Antique Stockbroking.
- Pallav Agarwal:** So the first question was on the Novelis term loan that we've taken. So given that interest rates are going up, so is it that the new borrowings are at a higher rate of interest than the earlier one? So what exactly is the rationale for this new borrowing?
- Dev Ahuja:** Actually, that's at a more favorable spread. It's floating, right? So you are right that right now, SOFR and in general, interest rates are at an elevated level. But as far as the spread goes, we have refinanced our \$750 million at a more favorable spread on SOFR.
- We also believe that sometimes starting middle of next year, interest rates will start coming down. But to your precise question, this has been refinanced on slightly more favorable terms. And the rationale is basically that this term loan would have matured in early 2025. So we just wanted to refinance it well in time. So that's really what it is.
- Satish Pai:** The existing loan was also on a SOFR plus X basis points.
- Dev Ahuja:** Exactly. So it's had a more favorable spread on SOFR, basically.
- Pallav Agarwal:** So given that our credit metrics have improved substantially, so I guess that would also help get a more favorable rate of interest?
- Dev Ahuja:** Yes, you can say that.
- Pallav Agarwal:** Sure, sir. Sir, the other question was on the alumina expansion. Now if I look at probably the Chinese cost of production of alumina is probably north of \$300. So whereas we have very

competitive cost of production at the Indian facilities. So is that something of an arbitrage that can sustain going ahead as well?

Satish Pai: Yes. I think the Chinese alumina -- the existing alumina they have is boehmitic. So it's not -- the high cost will remain. And then they have to bring in bauxite from Australia and out. So -- but you see, it's not a market that we export to. So the difference in alumina costs will remain, but it's not something that was a part of our decision-making. I repeat again, we looked at the market in the Middle East and which we are already selling to now based on the excess long alumina position we have.

Pallav Agarwal: Yes, yes. But that set that probably helped support global alumina prices as well, right, so the Chinese...

Satish Pai: Yes. So -- and the way our contracts are built is as a percentage of the LME aluminium price, so normally running at roughly 14% or 15%. So it is also linked to how aluminum moves.

Pallav Agarwal: Sure, sir. So also, if you could just throw some more color on the aluminum pricing because crude oil has come off significantly from the recent highs. So even though it's winter and probably natural gas prices could go up, but how do you see the energy cost push playing out in the short term with respect to aluminum prices?

Satish Pai: So -- I'm sorry, I didn't get your question. Energy costs in India or in Europe?

Pallav Agarwal: Globally. I'm talking about crude oil prices have declined pretty sharply off late. So would that offset some of the cost push from higher natural gas prices?

Satish Pai: Not really. I mean we see crude oil comes down. The linkage for crude oil to us is a little bit of a linkage to the furnace oil, and furnace oil prices are also coming down, which is why I said in our Q3 cost/mix, even if coal goes up a bit, CP coke, furnace oil, caustic prices are down. So -- and the natural gas prices, the only effect for us is Novelis in Europe, which has no real linkage to crude oil prices. That's going to depend on how severe the winter is there.

Moderator: Our next question is from the line of Rajesh Majumdar from B&K Securities.

Rajesh Majumdar: Sir, I had a couple of questions. One is on the working capital side. We have seen a release of working capital in this quarter, which was aided in our capital expenditure. So what is the outlook for that and whether we can see the same kind of run rate to complete all expansion project on time?

Dev Ahuja: I'm sorry, I was on mute. So we have a pattern where in the first 6 months of the year, we build inventory and we basically have use of cash when it comes to working capital. And in the second part of the year, most pronouncedly in the fourth quarter, we have a big release of converting capital primarily because of inventories going down. So we build up using capacity in the earlier part of the year while shipments are more weighed towards the end of the year. And so we have a release of working capital.

So basically, what has happened this year is that there is a use of cash. And the use of cash is related to buildup of inventory, number one; number two, it is reduction of payables. Because we had purchased metal and we are now processing that metal and we are not replacing that metal, and so therefore, they don't build new payables. So that is really the dynamic. So it's basically a seasonal dynamic that happens. In short, that's really what it is.

Rajesh Majumdar: Right. And sir, at the company level, what is the guidance for capex for the next 2 years?

Satish Pai: So look, I'll go ahead and -- Dev give the Novelis and I'll give the India. Go ahead.

Dev Ahuja: Yes. So basically, at the Novelis level, we expect the capex now to be much lower than our earlier guidance. We expect the capex to be in the \$1.6 billion to \$1.8 billion and most likely, it will be at the lower end of the range. So basically, that is what we are at right now.

Satish Pai: Yes. And I think for India, this year, we will be between INR4,000 crores to INR4,500 crores. I think that for the coming year, we'll give you that guidance probably in the February call once we firm up our plan.

Rajesh Majumdar: Okay, sir. And sir, my last question on what is our cost of production of alumina and the current realization you've made for this quarter, alumina.

Satish Pai: We don't -- both for aluminum and alumina, we don't give you our cost of production. That's a little bit of a competitive information.

Rajesh Majumdar: But alumina also, you are in the first quartile? I'm just talking specifically the merchant alumina business in terms of COP.

Satish Pai: I think in alumina, it's not just the first quartile, but the number one rated lowest cost in the world for the third-party market we sell from Utkal.

Rajesh Majumdar: And could you share the realization for 2Q for aluminum and alumina that you can share in dollars per ton?

Satish Pai: Yes. I mean the NR realization for -- I think for alumina, it was in Q2 was about \$337 per ton was the metal bulletin price in Q2. And the aluminum NR for the quarter -- you, guys, have it handy? It's INR199 per kg, the net realization of aluminum.

Moderator: Our next question is from the line of Aditya Welekar from Axis Securities.

Aditya Welekar: On the aluminum downstream side, sir, do we expect higher shipments next year as our Sambalpur FRP will come online? And also correspondingly, our EBITDA per ton will improve because in this quarter, it was almost flat sequentially despite the shipments rising by 15%.

Satish Pai: Yes, we are running at about \$220 per ton. So what will happen is that the Silvassa extrusion, which is a 30 Kt expansion we did and is ramping up, you will see all 30 Kt of that come in next year. The Sambalpur 170 Kt of FRP will start sometime end of next year. So you will only see that the year after.



- Aditya Welekar:** Understood. One -- and the last one, if you can just confirm on the commissioning date of Bay Minette facility? And will it ramp up to the full 600 Ktpa once it gets commissioned? Or it will have some ramp-up time? And do we have all the downstream facility to consume that 600 Ktpa?
- Steve Fisher:** Yes. So the commissioning time frame is late calendar year 2025. That is what we guided to last quarter as well. The 600 Kt, we have all finishing equipment to be able to supply primarily the beverage packaging and the automotive markets.
- Moderator:** Ladies and gentlemen, that is the last question of our question-and-answer session. I would now hand the conference over to Mr. Pai for closing remarks.
- Satish Pai:** I just wanted to again reiterate that we had another steady quarter with great performance coming from Novelis, the Copper business in India. And based on a good cost of production performance, the upstream aluminum business, even though LME was down 5% we improved the EBITDA margin Q1 to Q2. So with that, I thank you for your attention, and wish you all a very Happy Diwali. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Hindalco Industries Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.