"Hindalco Industries Q4 FY2022 Earnings Conference Call"

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MANAGEMENT:

MR. SATISH PAI - MANAGING DIRECTOR - HINDALCO INDUSTRIES
MR. PRAVEEN MAHESHWARI - CHIEF FINANCIAL OFFICER - HINDALCO INDUSTRIES
MR. DEV AHUJA - CHIEF FINANCIAL OFFICER – NOVELIS
MR. SUBIR SEN - HEAD OF INVESTOR RELATIONS – HINDALCO INDUSTRIES

Moderator: Ladies and gentlemen good day and welcome to Hindalco Industries Fourth Quarter FY2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference call is being recorded. I now hand the conference over to Mr. Subir Sen, Head of Investor Relations of Hindalco. Thank you and over to you Sir!

Subir Sen: Thank you, and a very good afternoon and morning, everyone. On behalf of Hindalco Industries, I welcome you all to this earnings call for the fourth quarter of FY2022. In this call, we will refer to the Q4 FY2022 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 #2 of the said presentation.

In this presentation, we have covered the key highlights of all the businesses for the fourth quarter of the FY2022, and a segment wise comparative financial analysis of India business and our subsidiary, Novelis. Please note that the unallocable corporate AS&G expenses, which has been used to aportion to individual business segments is now clubbed under unallocable expense or income to truly reflect individual business segment EBITDA in the Indian operations. The corresponding segment information for the prior periods have also been restated accordingly for a comparative analysis.

We have with us on the call from Hindalco's management, Mr. Satish Pai, Managing Director, Mr. Praveen Maheshwari, Chief Financial Officer. From Novelis's management, we have Mr. Dev Ahuja, Chief Financial Officer. Following this presentation, this call will be open to any questions you may have. An audio replay of this call, will also be available on our company's website. Now let me turn this call to Satish.

Satish Pai: Thank you, Subir. Hello everyone and thank you for joining today's conference call on Hindalco's earnings for the fourth quarter of FY2022. Let me now start with our progress for the FY2022 across the various sustainability metrics on slide #5 and #6. On the environment front with our continued focus on water waste, air emissions and biodiversity, we have achieved 86% of total recycling and reuse of waste, 102% of bauxite residue utilization at three out of our four alumina refineries.

Utkal Alumina Refinery is conducting two pilot pits for the re-use of bauxite residue by backfilling of mines and construction of roads, of which pit-1 is ready and pit-2 is under construction. We have already applied to the Indian Road Congress (IRC) for accreditation of bauxite residue as a replacement of natural material for roads subgrade and embankment construction. On the fly ash recycling, I am very happy to inform you that we are now within 114% of fly ash recycling this year, which means in this year we have recycled beyond what we generated and sent to cement and other uses.

On water in FY2022, we have achieved 9% and 25% reduction in specific water, freshwater consumption in terms of meter cube per ton in aluminum and copper respectively, which is well in line with a target of 20% reduction by FY2025 from the base year of FY2019. We are also adding one site each year to achieve zero liquid discharge by the year 2025. We are working on several fronts like increasing the rainwater harvesting, reducing the consumption of fresh water, and ensuring zero liquid discharge at all our facilities. Till date, we have created 3.14 million cubic meters of rainwater harvesting capacity through our CSR activities.

Overall, we have achieved water recycling of 16.1-million-meter cube in FY2022. We are on our way of reaching net water positivity by 2050. On green cover and biodiversity in line with the International Union for Conservation of Nature guidelines, we have implemented the BNP at two of our plants and mines. We are also implementing this at four of the other mine sites and further be implementing green belt at all our sites and this is now spread over 5100 acres of which 330 acres was developed in this fiscal year.

Coming to the renewable energy and safety updates on slide #6, I am happy to announce that we have reached our FY2022 targets of 100 megawatts of renewable capacity, of which 50 megawatt solar was installed at our Renukoot, Renusagar, Mahan, Mouda and Taloja facilities. Currently 33 megawatts of renewable projects is under execution and another 45 megawatts is under finalization, which includes floating solar, wind power, renewable hybrid etc. We are targeting to reach 200 megawatts of solar and wind, without storage and another 100 megawatts with storage by the end of 2025.

We are also working on large scale renewable hybrid project with a third-party on pumped hydro, which can provide up to 100 to 300 megawatts for Aditya plant with connectivity to the 400 KV national grid, targeted by December 2023. On safety, we are committed to zero harm and have been continuously upgrading our safety programs and systems to meet international standards to provide a safe environment. The LTIFR was recorded at 0.28. However, unfortunately there were two fatalities for contract workmen recorded at our Indian operations in this fiscal.

Coming to slide #8, on the key highlight for performance in Q4 FY2022, Novelis recorded quarterly shipments of 987 Kt in Q4 FY2022, which was up from 983 Kt in the corresponding quarter of last year. EBITDA stood at $431 million, down 15% year-on-year, primarily due to cost inflation, semiconductor chips shortage in automotive and short-term operational challenges. EBITDA per ton was at $437 per ton versus $514 in Q4 FY2021. Net income from continuing operations was recorded at $217 million up 21% year-on-year, this quarter versus $180 million in the corresponding period last year. Novelis recently announced its $2.5 billion Greenfield fully integrated rolling and recycling plant in the U.S. that will support the strong demand for aluminum beverage packaging and automotive solutions in this region.

Moving on to Hindalco's India aluminum business performance in Q4, our business EBITDA for India aluminum was at record high of Rs.4,050 Crores up 123% year-on-year. EBITDA margin was at 41% and continues to be one of the best in the industry. Aluminum metal sales were up 2% a 336 Kt, while our value-added product quarterly sales was at a record 93 Kt this quarter up 1% year-on-year. During the quarter Hindalco won the Meenakshi captive coal mine with an annual capacity of around 12 million tons to enhance our coal security.

Turning to the quarterly performance of the copper business on slide #9, our cathode production in this quarter was 94 Kt while CC rod production was at 69 kt. Metal sales was at 105 Kt while CC rod sales were at 74 Kt up 1% year-on-year in line with market demand. Copper EBITDA was at Rs.387 crores this year, up 20% year-on-year on the back of better operational efficiencies and improved byproduct realization.

Coming to a quarterly consolidated performance, Hindalco EBITDA stood at Rs.7,597 Crores up 30% year-on-year, quarterly consolidated PAT for continuing operations was at Rs.3, 860 Crores up 98% year-on-year compared to Rs.1,945 Crores in the corresponding period last year. Hindalco continues to maintain its strong treasury balance of around $1.1 billion in Novelis and Rs.16,000 Crores in India at the end of March 2022. Net debt to EBITDA continues to remain well below two times at the end of March 2022 at 1.36 times versus 2.59 times at the end of March 2021.

On rewards and recognitions, I am pleased to share with you that Hindalco retains its position as the world’s most sustainable aluminum company in the DJSI 2021 ranking and the only aluminum company in the prestigious DJSI World Index 2021. Hindalco has also retained its prestigious Gold-Class distinction in the S&P Global Sustainability year book of 2022. Please refer to the annexure of this presentation on slide #33 for our other awards and recognitions.

Turning to the broader economic environment on slide #11, Global economic growth is expected to moderate to 3.6% year-on-year in calendar year 2022 after a post pandemic rebound of 6.1% in calendar year 2021. The Russia, Ukraine war, lockdowns in China and then aggressive tightening in monetary policy by advanced economies pose downside risks to the near-term growth outlook. These concerns; however, are being tempered by the resilience and economic activity outside China visible in the global PMI numbers and U.S. economic activity data.

Rising global inflation continues to remain a concern as broadening price pressures and firm commodity prices are expected to keep inflation elevated for a longer period. China's zero COVID policy is further exacerbating global supply chain pressures inflation concerns. IMF has predicted a global inflation of around 7.4% in calendar year 2022. Volatility in the commodity and financial markets, as well as supply chain disruptions are expected to continue in the near term until geopolitical tensions deescalate.

On the domestic front, despite global challenges, economic activity has showed resilience due to solid fundamentals and a favorable policy mix. Recovery in the context intensive service sector, increasing vaccination and gradual improvement in domestic demand is expected to support the ongoing pace of growth. The government's focus on capex improving capacity utilization, of the manufacturing sector, strong corporate balance sheets and comfortable forex results can achieve the economy to external shock.

Merchandise exports have recorded double digit growth for 14 consecutive months and then growth in imports has also signaled firm domestic demand. On the other hand, any worsening of the external environment, persistent supply bottlenecks and spillover from monetary policy normalization in advanced economy shall pose a downside risk to these growth projection. The RBI has projected FY2023 GDP growth of around 7.2% year-on-year. Global inflation dynamics are the driving part of inflation in India with both headline and core inflationary pressures rising in the last four months. Persistent global supply chain disruptions may keep prices higher for longer with some easing expected in the second half of FY2023. The RBI has projected an inflation rate of 5.7% in FY2023.

Let me now take you through the aluminum industry overview on slide #12 and #13. In calendar year 2021, the global production of aluminum grew 4% to around 67.4 million tons while global consumption rebounded sharply by 10% to around 69 million tons due to the base effect. Hence, the global markets were in a deficit of 1.6 million tons in calendar year 2021. On the region wise split, the Chinese production improved by 5% year-on-year to 38.5 million tons. The Chinese consumption was primarily driven by a sharp increase in demand for electric vehicles. This offset the subdued Chinese construction market and lower ICE vehicle production on account of the semiconductor chip shortage. Therefore, the overall Chinese consumption grew by 6% to 40 million tons in calendar year 2021 resulting in a market deficit of 1.6 million tons.

The rest of the world production grew by 3% year-on-year to around 29 million tons whereas consumption grew by 14% year-on-year to around 29 million tons due to the low base effect, resulting in a balanced market in calendar year 2021. In Q1 calendar year 2022, the overall world production was flattish while consumption grew marginally leading to a small deficit of 0.1 million tons. Talking about the region wise split of Q1 calendar year 2022, the Chinese production fell by 1% year-on-year to 9.6 million tons whereas consumption grew by 2% year-on-year to 9.3 million tons leading to a surplus of 0.3 million tons in China.

In the rest of the world, there was some disruptions in production due to rise in gas prices. Despite production cuts, the overall production grew by 2% year-on-year to 7.2 million tons, consumption grew by 3% reaching 7.6 million tons. This resulted in a deficit of 0.4 million tons in the rest of the world metal balance. As the global markets remain in deficit, inventory levels continue to decline. Consequently, the global aluminum prices continue to grow at $3280 per ton in Q1 calendar year 2022 from an average of $2762 per ton in Q4 of calendar year 2021. The rally in aluminum prices in Q1 calendar year 2022 was driven by Russia, Ukraine geopolitical situation and depleting global inventory. Global aluminum prices average for the current quarter is at $3100/ ton factoring in the impact of COVID-related restrictions in China.

Coming to slide #13, the domestic demand for aluminum in Q4 FY2022 is likely to reach 1038 Kt, reflecting a de-growth of 3% year-on-year and a 1% growth sequentially. The demand for aluminum packaging demand continues to rise in line with the rising demand for aluminum mainly from the pharmaceutical sector. Sentiments in the real estate sector were optimistic owing to the robust residential and commercial deals and government infrastructure projects like AIIMS, IITs, airports, railway station, metro stations, etc.

Growing e-commerce penetration is also benefiting the consumer durables sector. The automotive sector continues to face headwinds due to the semiconductor chip shortage. With a record vaccination of 192 Crores doses and supportive government policy, the economic sentiments are likely to improve driving a broad-based recovery in demand across all the sectors.

Moving to slide #14, the global FRP demand is expected to grow about 6% in calendar year 2022 versus 10% in calendar year 2021. The market demand for beverage can sheet is expected to grow by around 5% driven by consumer preference for sustainable packaging options and a package mix shift towards infinitely recyclable aluminum.

The automotive segment is estimated to grow at 10% in calendar year 2022. The mid to long-term outlook remains robust supported by growing consumer demand for vehicles that use the higher share of aluminum like SUVs, trucks and electric vehicles. However, in the near term continued semiconductor shortages are impacting the automotive industry combined with supply chain challenges on account of China's zero COVID lockdown and the ongoing conflict in Ukraine. These headwinds may impact the automotive business in the current year.

The demand in specialty segment is expected to grow by around 4% in calendar year 2022 with strong customer demand across markets including building and construction, consumer electronics, container foil packaging and EV battery enclosures.

The aerospace segment is expected to grow by 30% in calendar year 2022 as order bookings are now improving with the resumption of air travel and is expected to be back to pre-pandemic levels by fiscal year end.

The domestic FRP demand is expected to grow by 7% year-on-year this quarter while it is expected to grow 9% sequentially. Demand remains strong in the packaging and consumer durables sector. The building and construction demand improved due to government projects. However, automotive sector continues to face some headwinds. Demand is likely to grow in Q1 FY2023 due to stable demand in packaging, consumer durables and B&C demand.

Turning to the global copper industry on slide #15, in calendar year 2021, the global production increased by around 4% year-on-year while consumption increased by 6%. In calendar year 2021, production in China increased by 9% year-on-year and consumption by 5%. In the rest of the world excluding China, production remained at similar levels on a year-on-year basis while consumption grew by 7% year-on-year.

In Q1 calendar year 2021 global copper production increased by around 3.2% and consumption grew by 0.9% on a year-on-year basis. During this period, Chinese production grew by 3.8% year-on-year while consumption increased by 0.3% on a year-on-year basis. In the rest of the world excluding China production grew by 2.9% well as consumption increased by around 1.4% on a year-on-year basis. The spot TC/RC was higher at 17.1 cents per pound during Q4 FY2022 as compared to 15.7 cents per pound in Q3 FY2022. This increase was an account of multiple disruptions in smelters mainly driven by the temporary closure of the Chinese smelter, Xiangguang of around 400 Kt capacity. It is likely that this smelter shall restart in June of 2022 and is likely to coincide with multiple Chinese smelters restarting their facilities post their planned maintenance. The higher demand from all these smelters could have a negative impact on the spot TC/RC during the latter part of FY2023. However, with new buying being commissioned during the second half of FY2023, the spot TC/RC's are expected to improve during this period.

Coming to slide #16 on the domestic side in Q4 FY2022, the overall market demand increased by around 6.8% year-on-year to 172 Kt in Q4 of FY2021. Imports declined by around 21% year-on-year at 33 Kt in Q4 FY2022. On a quarter-on-quarter basis, the market demand increased by 6% while imports declined by 13% sequentially.

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

But let me now conclude today's presentation with our key focus areas on slide #30.

Our focus on cost optimization, integration and ESG has helped the company deliver consistent overall performance quarter-on-quarter in fiscal FY2022, despite rising input costs and inflationary challenges. Our focus on stakeholder value enhancement is at the core with our emphasis on value enhancing growth through organic expansion across our business in India and Novelis. Our recent acquisitions in copper and aluminum in the value added sectors during FY2022 in India as well as our growth capex plan are helping us reach our long-term goals. Hindalco’s product portfolio enrichment continues to help increasing the share of high-end value-added products in the overall product mix to strengthen its position as the world's largest aluminum downstream company.

Hindalco also continues to move strongly towards ESG 2050 commitments and is striving towards its integral way to become the industry leader in sustainability.

Lastly and most importantly Hindalco based on its strong balance sheet is ready to fuel the next phase of organic growth across its business. All our growth capex is planned for the next five years shall be funded in line with our overall Capital allocation framework while keeping the overall leverage at a consolidated basis well below 2.5 times. Thank you very much for your attention and the forum is now open for any questions you may have.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer sessions. The first question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Good evening, everyone and thanks for the opportunity. Great, congratulations on a very strong quarter yet another time. First question is to Mr. Pai. This is a very topical one we have seen last week government has imposed export duty on steel. Is there any talk, any fear or any risk of any similar action by government on aluminum as well?

Satish Pai: Our situation in aluminum is a little bit different because we export because the domestic market is oversupplied largely due to scrap coming in. As you know, 40% of India's aluminum is met through scrap imports. So I think if the government wants to do anything, they should increase the duty on scrap because when we export aluminum as you very well know, the realizations are lower than in the domestic market, so which is why I think that it does not make any sense to put export duty this year on the aluminum exports.

Sumangal Nevatia: Yes, Sir. We have got a lot of questions from investors on this and given that they have put also on stainless steel, it looks like government is looking more from a top down rather than a bottom up industry specific.

Satish Pai: Yes.

Sumangal Nevatia: Got it. The second question is on the cost inflation. If you can just share how are we seeing cost on the carbon front, on the coal front in the coming quarters versus Q4 and what will be our coal position in terms of inventory in terms of sourcing mix?

Satish Pai: Our situation on the cost inflation and coal. I think we had guided Q4 cost inflation and we have come in at 9.5%. So Q4 to Q3, the cost increase was 9.5%. The current situation is the rest of the cost has sort of, they remain high, but the majority of our problems today are related to coal. So let us talk a little bit about the coal. So what has happened is that with the power demand going up, the government has diverted majority of the coal to power plants and hence, the non-regulated sector, which is where aluminum and all come in, the domestic coal situation has become extremely tight and the e-auction premiums have shot up, so which is why our situation is quite tight right now. Normally, we would have been at about 20 days inventory, currently, we are at 10 days inventory. I have to say that it has been steady. So it is quite tight, but we are able to lift by roads and this is where I think a lot of the management time is going on coal right now. Now as far as guidance on the cost for Q1, before we had quite a tight handle, so it is a little bit difficult, but my expectation is it is going to be in the mid-teens. We are going to have another mid-teens increase over Q4 in Q1FY23 is what I can say at this stage.

Sumangal Nevatia: Okay and just a followup, what will be our mix, are we resorting to a lot of imports now given domestic supply is limited? And this mid-teens kind of cost inflation, are you also considering carbon cost, etc and that also is increasing with a lag?

Satish Pai: All costs included Sumangal, so mid teens is not just coal, everything is put together.

Sumangal Nevatia: Okay and the mix of?

Satish Pai: Yes, we have for the first time put in a few parcels in the import in Q1. We did not in Q4 but in Q1, we have both for Dahej as part of Utkal. So we have unfortunately started to import a little bit of coal. We are, of course, trying to ramp up our own mines as much as possible. The linkage percentage, which used to be running at around 60% of our total coals, are today running sort of 52% to 55% because even linkage, they have capped it what they give to the non-regulated sector.

Sumangal Nevatia: Thank you so much and all the best.

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

Pinakin: Thank you very much Sir. I have two questions on Novelis. My first question is that there has been some media talk about the current U.S. administration removing all the extra tariffs that they put between 2016 and 2020 including Section 232. If that were to happen, how would it impact the North American markets for Novelis, midwest premium should come off. Would it impact the margins substantially at Novelis in North America?

Dev Ahuja: Yes, we are also awaiting the same thing that you are reading in the recent days about the talking about reviewing the duty that were imposed mainly the entire dumping duties that were imposed on China now.

Dev Ahuja: So here is the situation Pinakin that we do not expect anything happening on this too quickly, number one. Number two, we are contracted for the whole of this year for sure, both on price and volume. Third, that if you simply look at supply chain situation, just the cost of importing material from China, we can be paid as much as $500 a ton, today to the importing material. So it is not like for the economics are anyway very favorable and you know very well that the direction in which China is going, it is no longer going to be like the past where it is going to be an subsidized export-based strategy. So, for a number of these reasons, we do not expect this to be a major impact and in any case, if at all hypothetically, if something like this happen, there will be enough safeguard because nobody here, no administration here want to impact local manufacturing based upon a lot of goods available. So I honestly think that regardless of any scenario, we see a limited impact of this happening on us. I hope that answers your question.

Pinakin: Just following up from the call in Novelis, we have got some investor confusion regarding the $2.5 billion facility and the expected returns. Now when we look at post tax returns of mid-teens, it works out to around $1000 per ton from that facility of 600 Kt. So is that a fair assumption that when that facility gets commissioned, the EBITDA per ton will be $1000 or are we misunderstanding the return profile from the project?

Dev Ahuja: I would not comment on specific EBITDA per ton numbers from the project. What I can tell you is that and what we have been saying consistently is that the pricing on these contracts is going to be significantly better. We are going to be seeing an exponential increase in the margin as compared to what it is today and it is not just on the output that is generated from the $2.5 billion Greenfield. We are going to get the higher pricing on all the volumes, which is not what we have counted in the mid-teens IRR is only the pricing and the volumes from the new plant, but the other benefit that we are getting is that we will get a higher pricing from all the can volumes. So all that I can tell you is that we have complete confidence in the economics of the project that nobody should doubt that this project is going to be extremely attractive.

Pinakin Parekh: Understood. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Indrajit from CLSA. Please go ahead.

Indrajit: Good evening. Thank you for the opportunity. I have just one question actually. On the new smelter in India, any progress on the power supply arrangement, any kind of time line that you can indicate?

Satish Pai: No, I think that quite honestly, if you heard in the prepared remarks, we talked about the pumped hydro, which is the only stable power source that we can trust with the smelter. So we actually by December of this year, try to get that power and see how it works before committing to anything. What we will do, if you remember the investor call, is that some additional pots that we can add in both Aditya and Mahan, we are going to go ahead, which will probably give us about 50 Kt more metal, but any large smelter expansion till we get the power sorted out.

Indrajit: And one housekeeping question, approximately how much alumina sales we have done external sales from Utkal this quarter? And what would be our outlook for FY2023 in terms of alumina sales volumes?

Satish Pai: For Q4 FY2022, we sold 216 Kt, so the whole of FY2022 was 359 Kt. I think we will be in that 400 Kt type of sales for FY2023.

Indrajit: Thank you so much. That is all from my side.

Moderator: Thank you. The next question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: Thanks for the opportunity and congratulations for a good set of numbers. I have two questions. First one is essentially on the working capital buildup, which is like approximately Rs.8000 Crores this year. Now since we are seeing the aluminum prices at least going down compared to Q1, so how much normalization, how much working capital as unlocking we can expect in FY2023?

Praveen Maheshwari : So FY2023, we do not expect further buildup to a large extent. I do not know if you are referring to the consolidated numbers or the standalone numbers.

Amit Dixit: No, consolidated.

Praveen Maheshwari: Yes, console we had in Novelis because LME has shot up in this period and the copper also in Indian business, if we are comparing year-on-year, did shoot up significantly and that is the reason why you are seeing the working capital blockage between these two businesses largely. In aluminum business, we are more impacted by the cost of the input, to some extent it has impacted us, but it is not such a large amount in the last year. Going forward in FY2023 if the aluminum remains where it is, for both copper and aluminum on a consolidated basis, you will not see much impact there, but to some extent, small impact maybe there in aluminum because of the higher cost of inputs depending on where we are.

Praveen Maheshwari: In Novelis, if the LME, it depends on where the LME is and if it is, at today's level, for example, it has come down slightly to March level and there will be reduction further.

Amit Dixit: Okay. The second question is especially on capex, if you can give guidance, consolidated capex as well as standalone capex for FY2023 and FY2024?

Dev Ahuja: Just to repeat the guidance that we have given at our recent call, $1.3 billion to $1.6 billion would be our Total capex for fiscal year 2023.

Satish Pai: In India, we are going to be spending this year about Rs.3000 Crores of capex. So in the the capital market day call we did in March 2022, the projects that we had announced on basis of that these are the numbers for FY2023.

Amit Dixit: Okay, great Sir. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Thanks for the opportunity. A couple of questions, Sir, first is on hedges, how has it moved? How do you look at for the next year?

Satish Pai: Nothing much, the hedge position has not really moved much for FY2023, the total position is 30% at an average of $2500 / ton and 14% of the rupee at 81.4

Ritesh Shah: It has only marginally increased right, 30% you said at $2500 right Sir?

Satish Pai: Yes, I think the last set, we did when we got about $3300 or $3400, we got the last bit, which sort of made it to around 30% with the average going to $2500 now.

Ritesh Shah: That is useful. Sir. Given you have indicated hedges, how should one understand the realization into next quarter? What I am trying to understand is LME plus premium. How has the premiums trended basically so that if you can give some color in the next three months, six months, that will be great?

Praveen Maheshwari: As far as hedging is concerned, it is only for the LME. Premiums are not hedged and premiums, they move up or down, go directly into our bottomline.

Ritesh Shah: The question is how has the premiums moved. We understand aluminum has corrected. I just wanted to get a sense on premiums?

Satish Pai: I think the midwest has remained more or less at the same level and so as the MJP, so there has not been much movement on the premium.

Dev Ahuja: Not much movement. It is still well into the 800. So the premiums are continuing to be strong and we do not expect that to change anytime in the near future just given all the global situations around supply chain, lack of supply and difficulty material movement and all of that, so yes.

Ritesh Shah: Perfect and Sir, last question, if at all government had to tame inflation, is there scope for government potentially reducing import duty on aluminum as well as scrap and if that is the case, how should one look at the impact on the company?

Satish Pai: I do not think you realize, but the aluminum that is sold in India is not sold at import parity because the domestic market is oversupplied and hence, there is a discount to what we sell. So frankly speaking by playing with the duty of the aluminum, there is nothing to do with the inflation. Majority of the aluminum cost is based on LME plus premium. Unlike the steel market, which does not have a worldwide benchmark for pricing, aluminum has.

Ritesh Shah: Sure, this is helpful. Thank you so much for the answers.

Moderator: Thank you. We move on to the next question. That is from the line of Prashanth Kumar Kota from Dolat Capital. Please go ahead.

Prashanth Kumar Kota: Sir, good evening and thanks for the opportunity. My questions are two Sir. First one, broadly if you look at the business as a whole, one is aluminum; two, alumina; three, aluminum downstream; four, copper; five Novelis. On one hand of the carbon footprint spectrum is aluminum, although over there also, we are doing a lot of incrementally green etc and on the other end is Novelis, wherein we are the foster child for reducing carbon footprint for the world in terms of beverage cans, light-weighting, etc. So, different ends of the spectrum and alumina, is different and over there, we have a very good strategy on red mud disposal, etc? On the downstream side, in the past, you also alluded that generally downstream business has got a good valuation multiple, except copper is countercyclical, so these are five different businesses. Just on the carbon footprint and otherwise on the business dynamics side, somewhere is the value proposition loss? Is there any merits in trying to, if we do something like a demerger and list separately. I just want to know your thoughts strategically broad thoughts?

Satish Pai: I think it is very difficult on a call to give you broad strategic calls, so I will give you a broad answer to say that we are constantly evaluating all options to increase shareholder value.

Prashanth Kumar Kota: Understood, thank you. Sir, once the Meenakshi block is up and running by when do we expect that to start producing and by then what will be our mix, Sir?

Satish Pai: I told you Chakala will start by December of next year, Meenakshi will take at least another year or more, let us say about 36 months from today. When both those mines are running and we also have a mine called Bagru should bring on by next year. Then as I said, the amount that we will require from non-captive sources will be about 5% because Dahej you will still have to bring because it is from the jetty. It is far away from these mines, so Utkal, you will have to take a little bit, so we will be at about 5% from the outside. We will be completely self-sufficient.

Prashanth Kumar Kota: That is great Sir. Understood. That is it from my side. Thank you and wish you all the best.

Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Yes, good evening Sir. Could you just explain a little bit on this cash flow hedges, this consolidated, we have a loss of about Rs.4867 Crores and the standalone level, so does this pertain to a normal hedging activity? How will this flow through in the P&L and balance sheet in FY2023?

Praveen Maheshwari: You are referring maybe to the OCI number?

Palav Agarwal: Yes.

Praveen Maheshwari: OCI is a mechanism which is more notional and it is basically based on the current level of hedges and current forecast of the prices. We calculate what could be the potential loss and that loss could turn into profit depending upon how it actually turns out, so OCI is purely a notional number and tomorrow let us say aluminum turns around and this could turn into profits as well, so it is only for reference and I do not think we can say for sure that this will be the loss or profit going forward.

Pallav Agarwal: So to understand this, so if the aluminum comes down, then some of these losses can reverse, will that be a correct understanding?

Praveen Maheshwari: Absolutely.

Pallav Agarwal: Okay, but you may have a corresponding negative impact on the P&L?

Praveen Maheshwari: So if aluminum turns around then on hedges you will not hedge very much or you might gain, but the unhedged portion then we suffer a loss because that is not hedged and the LME goes down, so hedging is a defensive strategy for us. It ensures a certain level of realization and when you look at losses or profits, you are looking at the market opportunity in comparison to that.

Satish Pai: The other simple way is that as I said, we have 30% hedged debt, 2500. This 30% is hedged over April to March of this year, so every month as it gets unwound, the difference between the current LMEs and the $2500/ton is that negative that you are seeing, which will get coming into the P&L.

Pallav Agarwal: And as a matter of policy, do we go above 30% or is that something that you stay that number that is fixed?

Satish Pai: No, so the 25% to 30% is our defensive position that we take for the following year. For example, by October of this year to December, we would want to take the defensive hedge position for FY2024. Now during the current year, if we see the opportunity of getting any spikes or anything, we can increase beyond 30%. But generally, the defensive position that we have communicated, and we stick by is the 25% to 30%. As I just told you, it went from 25% to 30% because we got the last 5% in Q4 at a very high LME which is what we grab.

Pallav Agarwal: Sure Sir, yes thank you so much.

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

Vikash Singh: Good evening, Sir. In the past, you have given us a metrics like every $100 of LME coming down release roughly about 60 million of working capital in Novelis. Do we have similar metrics that every $100 midwest premium coming down, how does it impact our EBITDA?

Dev Ahuja: I can tell you is that the way premium impact us is that we have hedges on LME for the premium primarily exposed. We do not have any hedging mechanism on the premium, so what you see now a result is a big metal price lag impact last year.. If metal prices come down, we will see the other way, we will see metal price lag becoming a negative factor. So really, it is not an EBITDA sensitive largely. The largest part of that is really the metal price lag impact because of the unhedged premiums that we have. Now on the other side, to be completely sort of open that when prices come down or when the premiums come down, it also impacts a little bit on the spread side and that is the overall reduction in the price of metals. So basically spreads we get impacted. Now given the numbers that we disclosed publicly, what I can tell you is that we will watch for the metal price lag. For the time being, we do not see any big impact and the premiums are going to be steady and strong at some point. There will be some correction, and we have to be ready for that.

Vikas Singh: Understood, Sir. In terms of our total growth capex, which we have planned roughly about over $8 billion, how much of this is committed basically, what I want to know that even if the global growth softens? How much of this capex, what percentage still go ahead in terms of commitment?

Satish Pai: Look let me first give you a little broad answer on that. We have run a five year scenario using conservative assumptions to satisfy ourselves that this capex can be done with internal accruals, so that is point number one. Point number two on what is committed in the Novelis side, the $2.5 billion just got committed as we announced it and on the India side, we have got about Rs.3,000 Crores is actually committed. But as of assumption for the five-year have been done, with what I call historically conservative numbers because we have done what you may call a stress test, just to convince ourselves for about the question you asked. So even if we go through a little bit of a downturn especially on the commodity prices that can happen. We wanted to ensure that we can do our capex plan with our internal accruals. Of course, many of the projects that have not been approved can always be shifted out a little bit.

Vikas Singh: Understood Sir and just one last question, please go ahead.

Dev Ahuja: On the economic downturn question, because if you confirm is what happens in case of an economic downturn, I think that the clarity that we need to give you is that we are today out of capacity when it comes to beverage cans. Now our customers expect the market to be growing much, much more than what we are expecting. Our baseline growth is more like 3% to 4% on the conservative side, customers are expecting it to be much stronger and can is a countercyclical business, so even if you say worst case scenario if the growth is like 2% hypothetically, nobody is looking at that scenario, but even if it is that they do not have any capacity, so you can see that this part of the investment we are making is catering to the growing plan market where anybody do not have capacity. So downturn or no downturn, we will need more capacity regards it, so, you just need to kind of keep that at the back of your mind.

Vikas Singh: Understood Sir and just one last question, is we already reached our bottom debt or since we have the capex plan going ahead or there is a potential for the debt to come down further?

Satish Pai: No, I think that again, we covered that in our March presentation, for us in Novelis, there is a small $300 odd million of term loan left that will get paid back and in India, we have said that the Rs.6000 Crores bond that is coming due we will pay back and about Rs. 2500 of long-term loan. So, the last remaining debt reduction will be largely in India of Rs.8500

Crores this year, but on the Novelis side, we have more or less done, net debt to EBITDA commitments remains firm there and we are going to put the cash generated into organic growth capex.

Vikas Singh: Thank you for answering my question.

Moderator: Thank you. The next question is from the line of Kamlesh Bhagmar from Prabhudas Lilladher. Please go ahead.

Kamlesh Bhagmar: Thanks for the opportunity, Sir. One question on the part of Novelis like we are highlighting that there will be a big supply demand gap, but if we see in 2023, a lot of supplies are going to come up there and apart from that like, I wanted to know like, how much of our contracts are going to get reset or repriced and this EBITDA run rate which we are guiding like say $500 odd plus levels? So how that will pan out over the coming years? No doubt you have guided like, mid-teens IRRs on the new project, but the situations improved further from these levels or back to pre-COVID levels, are we in the position to generate an EBITDA per ton of $600 because over the last couple of years, things have been volatile, but as things improve, what run rate we are looking at because that is the guidance really required from you Sir?

Dev Ahuja: A couple of things. One that for all the new expansion particularly the $2.5 billion greenfield expansion, that we have just announced, we have it all backed up by contracts and these are volume and price contracts. The market is very, very constrained. We are in a situation where anything that we produced today like the customers wanted, so the market is already constrained and will continue to be constrained for the next many years, actually. There is not enough capacity even despite this expansion, right. So, really speaking, we do not expect any kind of an uncertainty around the ability to sell this capacity. You made a mention that you expect a lot of supplies to come in CY2023, I do not know where that information is coming from? We are not going to be many new sources of supply in FY2023, but we need to keep it short. The market will continue to be constrained to your point about future EBITDA, we will not talk about long-term guidance, all that I can tell you is that there is a lot of earnings potential coming ahead of us and for the time being, let us just stay at about $500 per ton, but there is a lot of earnings potential that would come as some of our expansion get commissioned.

Kamlesh Bhagmar: But when we are so confident about mid-teen IRR on new capex, which is going to come up say roughly around, could it be for four five years from now. So, cannot we have the visibility like say for one year down the line?

Satish Pai: I think from a guidance point of view, we are constantly maintained that we will have a $500 plus which is what Novelis has said.. And the reason why we stick with this and not give exact numbers is because the market environment can be quite volatile, you have geopolitical issues going on, you have supply chain issues going on, semi-conductor chip shortage is going on, so to give a guidance like that, then I am going to ask, can I conclude that there is no more semiconductor chip shortage et cetera which is why we give you a guidance saying that we are quite confident in the mid to short-term, and we are quite confident that we will make that 500 plus. I think we cannot go beyond that to give an exact number.

Kamlesh Bhagmar: And lastly point Sir, in India like aluminum value added is roughly around 28% odd mix, So how do we see this mix going forward over next two, three years?

Satish Pai: The aluminum India out of 336 Kt we sold 93 was value added. So it is now running at roughly 100 Kt a quarter and our production on the prime is about 330 Kt a quarter, so we are at about 33% types and the expansion that we have announced for Silvassa extrusion, which is another 30 Kt will come online by sometime early next year and the FRP expansion actually will take two more years, which will add another 170 Kt. So these are already publicly announced projects.

Kamlesh Bhagmar: And Sir, when we do we plan to give a break up between downstream and upstream EBITDA and those details?

Satish Pai: Very soon.

Kamlesh Bhagmar: Thanks a lot.

Moderator: Thank you. The next question is from the line of Ashish Kejriwal from Centrum Broking. Please go ahead.

Moderator: We will move on to the next question that is on the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Good evening two questions. One on Novelis an earlier participant response, they suggested that, procurement volumes are contracted for the year and so are the prices did I hear it correctly?

Dev Ahuja: Yes, so, if it was in the context of the duty question, I was talking about the yearly volumes, which would be the impacted part and the antidumping duties are essentially relevant for the specialty business. So yes, what I said is that for the specialty business, we have annual contracts and so the volumes and the prices are contracted, so it is in that context and for other businesses of course, there are longer term contracts to be clear.

Tarang Agrawal: Got it. The second question is the TC/RC charges for the year that went by and for the upcoming year?

Satish Pai: TC/RC in the year that went by was just let me give you the number 15.3 cents per pounds and the current year TC/RC benchmark is 16.7 cents per pound which is an increase of 9% over last year. These are calendar year numbers by the way.

Tarang Agrawal: Okay, thank you.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: India at Rs.3000 Crores capex is including maintenance capex or this is a growth capex number?

Satish Pai: Including maintenance.

Bhavin Chheda: Okay, thank you.

Moderator: Thank you. The next question is from the line of Vishal Chandak from Motilal Oswal Financial Services Limited. Please go ahead.

Vishal Chandak: Thank you very much. Sir, my question was with regards to your continuity of capex, do you have when you have mentioned that most of your capex would happen through your internal accruals and on the second end, you have also mentioned that your threshold for your net debt to EBITDA will always be around 2.5x. So currently the net debt to EBITDA stands at about 1.4x and I am not sure if your net debt also includes working capital if you may kindly clarify that as well. So is it fair to assume that in case your earnings falter because of the commodity cycle, you will still continue with your capex trajectory and raise that to the extent of hitting the 2.5 internal ceiling?

Dev Ahuja: No, we will only be funding our capex through internal accruals yes, I confirm that and I keep saying that, we are at this stage committed like in Novelis, the 2.5 billion project, in Hindalco, the FRP and the remaining capex projects, we have the flexibility to decide when we started if we do get into, I do not know, severe trouble with the earnings.

Vishal Chandak: That is pretty clear, so that implies that in case commodity cycle goes down below our threshold levels, there is a possibility of deferring the uncommitted part of the capex?

Satish Pai: Yes, we will not allow the net debt to EBITDA to go above our guidance and at this stage, we have no plans with the capex that we have announced to add any debt to finance them.

Vishal Chandak: And lastly just this, the debt numbers that you have included in the presentation also includes your working capital debt or it is only part of the long-term debt?

Satish Pai: It includes all debt, including working capital.

Vishal Chandak: Thank you very much.

Moderator: Thank you. The next question is from the line of Samuel Chen from AllianceBernstein. Please go ahead.

Samuel Chen: Just one quick question. This is regarding the potential renewable power that you guys are evaluating. I am not sure if it is mentioned in the previous call, is there any possibility to increase potential size of that power maybe just a range that will be great and also let us assume that enrollment plan is everything goes well, relative to your existing smelter operations where is this potential plant in terms of cost curve? Thank you.

Satish Pai: I think that A, the potential of the pumped hydropower theoretically, the numbers are quite large, but what we want to ascertain is the plant load or the loading factor at which we can get it because the problem with renewable is people will tell you 70%, 75%, 80% load factor that is over a period of one year, there are times when they can go down to 50% so, which is why this pumped hydro promises a more than 90% steady. So, we want to take the first 100 megawatts at Aditya the existing plant to check out the viability and once that viability works, the price of that power is not going to be much higher than what we have for our thermal power plants. So it is not a cost driven issue, it is more from a getting a green power, which is driving our thought process.

Samuel Chen: Okay, thank you very much.

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

Satydeep Jain: Thank you for the opportunity. Just a follow up to the questions around the capex. On the India's smelter one that you outlined on field 180 Kt. First of all, the capital intensity seems a little high sort for Brownfield standalone smelter of almost $4000 per ton if you look at $685 million for 180 Kt. What is driving that kind of capital cost inflation for Brownfield standalone smelter and prior to that would be the decision to ultimately go ahead with it. This is still under review as per the presentation at the Capital Markets Day. Now, you also have I believe finalize the pumped hydro contract. The decision to finally give it a go ahead or not will be predicated on the economics or aluminum price. If aluminum prices do not pan out in a certain range, would you look to just not go ahead with the project? Those are the two questions on smelter?

Satish Pai: Let me say that first, the current priority is our downstream projects that we have already announced and that is where the next two years capex is going. Point number two is that we will get this power hopefully by December of this year and we are going to try it out for at least one year to see how the stability costs, everything goes. So I think that you know, we have at least another two years before we do anything with the smelter. So I would not honestly spend too much time worrying about smelter expansion at this stage.

Satydeep Jain: And the capital costs of that smelter?

Satish Pai: So the capital costs, I do not think it is a very high intensity, those are the current pricing. If you actually look at most equipment and pricing now, it is relatively on the higher side compared to the past, so this is a sort of a budgetary allocation we have taken, but it is not out of the WACC is all I can say.

Satydeep Jain: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.

Satish Pai: Thank you. I think that thanks for the attention. I just wanted to reiterate that. Fundamentally, whether it is Novelis or Hindalco, we have a very strong operational base and a very strong balance sheet now. So I think that demand looks very good. We may have macroeconomic uncertainties, cost inflation, but I think that we are quite confident that we will be a delivering steady results going forward. So thank you very much for your attention.

Moderator: Thank you. Ladies and gentlemen on behalf of Hindalco Industries Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.