"Hindalco Industries Limited Q3 FY '24 Earnings Conference Call"

February 13, 2024

MANAGEMENT: **MR. SATISH PAI – MANAGING DIRECTOR – HINDALCO INDUSTRIES LIMITED**
MR. PRAVEEN MAHESHWARI – CHIEF FINANCIAL OFFICER – HINDALCO INDUSTRIES LIMITED
MR. SUBIR SEN – HEAD OF INVESTOR RELATIONS – HINDALCO INDUSTRIES LIMITED
MR. STEVE FISHER – PRESIDENT AND CHIEF EXECUTIVE OFFICER – NOVELIS
MR. DEV AHUJA – CHIEF FINANCIAL OFFICER – NOVELIS

Moderator: Ladies and gentlemen, good day and welcome to Hindalco Industries FY '24 Third 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 call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference 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 or morning everyone. On behalf of Hindalco Industries, I welcome you all to the Earnings Call for the Third Quarter of the Financial Year 2024.

In this call, we will refer to the Q3 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 #2 of the said presentation.

In this call, we have covered the "Key Highlights" of our "Consolidated Performance" for the third quarter of the Financial Year '24 versus the corresponding period of the previous year. A segment-wise comparative financial analysis of Novelis, India Aluminum, and Copper business is also provided. The corresponding segment information of the prior periods has also been reinstated 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; Mr. Dev Ahuja – Chief Financial Officer.

Following this presentation, this forum will be open for any questions you may have. Post this call and an 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 Con-Call for Hindalco.

Let me start with some good news:

Hindalco is among the top 1% in the aluminum industry in the recent S&P Global DJSI Sustainability Yearbook 2024. A total of 66 companies are in the top 1% out of the total 9,400 companies that were assessed. And only two Indian companies are in the top 1% based on the ESG score in which Hindalco is one of them. This recognition emphasizes our unwavering commitment and a comprehensive strategy that we have towards our long-term ESG excellence.

On Slide #6 and 7 of this presentation, you can see our achievements and progress across metrics of ESG for this year versus the prior period.

I will now take you through some “Key Highlights” of this quarter:

We have successfully completed an all-season study under our biodiversity management plan for four more sites taking the total number to 20 sites now. The CII Biodiversity Index and Carbon sequestration ground assessment were completed in five additional units, taking the total number to 11 till date.

In the first nine months of FY '24, 84% of the total waste generated was recycled and reused. We have achieved recycling of 107% of bauxite residue, excluding Utkal and 106% of the fly ash in this period.

Our aluminum-specific GHG emissions was recorded at 9.46 tons of carbon dioxide per ton of aluminum, which is a bit higher than last year in the same period on account of higher power consumption at some of our smelters. This is expected to settle down with better efficiencies across the plants in the coming months.

In terms of our progress in renewables: We have already achieved more than 50% of our target of 300 megawatts by 2025 and have completed 152 megawatts of renewable till date. Further, 50 megawatts of solar and wind renewable projects are under execution and will be completed by Q1 of FY '25. A 100 megawatts hybrid power project is on course to be commissioned in Q4 Calendar Year ‘24. Two battery storage projects at two of our mining locations have also been commissioned during this quarter.

Our LTIFR in India, was recorded 0.21 in the first nine months of FY '24, showing an improvement against last year's performance, while remaining among the best in the industry.

We continue to take digitalization initiatives and comprehensive safety audits to further strengthen our systems to monitor safety across our plant locations. There were no fatalities recorded at our Indian operations during the first nine months of FY '24.

We are on our way to achieving Net Water Positivity by 2050. We have recently collaborated with CII's Triveni Water Institute for certification at five of Hindalco's plants in line with our target of achieving water positivity across all mines by 2025.

We have also initiated various desalination and other projects to achieve this goal. As a result of our desalination project and tertiary water recycling at Dahej, this enabled us to significantly drop the freshwater consumption from 17.74-meter cube per ton of metal in the first nine months of FY '23 to 9.4 in the current period.

On “Research and Development”: We have started projects like removal of aluminum fluoride from affluent generated from our smelting operations and post trials will now go for upscaling.

Let me now give you a glimpse of the last quarterly “Consolidated Performance” in Quarter 3 versus the same quarter of last year on Slide #8: This quarter's performance on a consolidated basis was driven by strong recovery at Novelis and cost control in the Aluminum India business, backed by a continuing record performance by the Copper business.

Our consolidated business EBITDA was up 36% year-on-year at ₹6,985 crores, whereas our overall reported EBITDA was up 61% at ₹6,322 crores this quarter. The consolidated net profit after-tax was up by 71% on a year-on-year basis at ₹2,331 crores.

In India Aluminum business, we have currently hedged at around 22% of the commodity at a price of $2,636 per ton for the last quarter of the financial year 2024 and around 5% of the commodity for FY '25 at a zero collar with a bottom at $2,200 and a ceiling at $2,500 per ton.

On the “Balance Sheet” side: Our consolidated net debt stands at ₹34,835 crores. In the Indian operations, we have net cash of ₹3,632 crores, while Novelis net debt stands at ₹38,467 crores at the end of December 2023. During the period, we prepaid long-term debts of ₹4,370 crores in the Hindalco India operations.

Hindalco, at the consolidated level continues to maintain a strong balance sheet with a net debt-to-EBITDA well below 2 times at 1.43x at the end of December 2023, which is lower than last quarter as well as the same period of last year. All our strategic CAPEX in India is mapped with the cash flow generation in the business and is in line with our capital allocation policy.

Coming to our “Business-Wise Performance” this quarter: Novelis shipments were at 910 Kt versus 908 Kt in the prior period due to softer market demand and impacted by seasonality, but more than offset by recovery in the beverage packaging and automotive demand.

Novelis delivered a quarterly EBITDA of $454 million, up 33% year-on-year on account of favorable metal benefit from recycling, higher pricing, and lower operating costs this quarter. The resulting EBITDA per ton stood at $499 versus $376 in the previous quarter, up 33% YoY.

On Hindalco's India upstream aluminum performance this quarter, shipments and revenue both were lower by 1% year-on-year. EBITDA was up 54% year-on-year at ₹2,443 crores, primarily supported by lower input costs. The resulting EBITDA per ton was $880 higher by 53% year-on-year. EBITDA margins were also higher at 30.7% this quarter and continue to be one of the best in the global industry.

This quarter, the India downstream aluminum business was majorly impacted by unfavorable product mix and lower realizations, which led to a 34% year-on-year decline in the quarterly EBITDA at ₹103 crores versus ₹157 crores in the prior period.

The resulting EBITDA per ton was recorded at $137 per ton lower by 35% year-on-year basis. This is transitory and is expected to recover in the coming quarter with domestic demand for aluminum growing at a CAGR of 6% to 7% across product segments. Our aluminum downstream continues to be an exciting space as we explore new solutions, particularly for new age mobility.

Our copper business continues to deliver consistent performance this quarter as well. The overall metal shipments were at a record high of 119 Kt, up 9% year-on-year, of which the CCR volumes were at 93 Kt, up 6% year-on-year. The quarterly copper EBITDA was at an all-time high of ₹656 crores, up 20% year-on-year on account of higher shipments and robust operations this quarter.

Now, let me give you a glimpse of the “Current Broader Economic Environment” on Slide #11:

As per the IMF, global growth is focused to remain steady at 3.1% in calendar year 2024, maintaining its 2023 pace. Advanced economy's growth is forecast to remain steady at 1.5% in 2024 from an estimated 1.6% in 2023, led by resilient growth in the U.S. and a mild recovery in the Euro area region.

Growth in emerging market economies is projected at 4.1% in 2024, mirroring the growth recorded in 2023. In China, growth is said to moderate from 5.2% in 2023 to 4.6% in 2024 due to deflationary pressures, a continued slowdown in consumption, and strains on the housing sector, thereby constraining investments.

Risk to the outlook is balanced at steady growth and moderating inflation paved the way for a soft-landing scenario. The upside risk to global growth projections is from faster than expected disinflation, leading to monetary policy normalization by major central banks.

Geopolitical tensions and political uncertainty due to the busy electoral calendar present key downside risk to the global growth outlook. As per IMF, global inflation is expected to continue its ongoing decline into the current year from 6.8% in 2023 to 5.8% in 2024. However, core inflation may prove to be stickier and is expected to decline more gradually.

On the domestic front, despite several external headwinds, economic activity in India is expected to remain resilient. Going forward, the RBI projects the GDP growth to remain robust at 7% in FY '25, driven by private CAPEX and consumption demand compared to 7.3% in FY '24.

The downside risk from a deteriorating external environment as geopolitical tensions may lead to commodity price fluctuations and external demand remains weak. Assuming a normal monsoon and bearing further shop, inflation is projected by RBI to decline to 4.5% in FY '25 from 5.4% in FY '24.

The interim Union Budget FY '25 held good on fiscal consolidation. The budget announcements were focused on growth-enabling sectors like infrastructure, affordable housing, green energy and bode well for the private sector. Headline inflation impacted by fluctuating oil and food prices will be closely watched by the RBI, which has kept rates on hold at 6.5% since February of 2023.

Moving on to the “Aluminum Industry Outlook” on Slide #12 to #14:

Let me first talk about China. In Q1 Calendar Year ‘23, production in China declined marginally due to tight power supply in Yunnan-Guizhou. But in subsequent quarters, this production improved due to the government releasing power to the smelter and the improved hydropower situation in these provinces.

However, in Q4 Calendar Year ‘23 due to power-related shortages in Yunnan, production declined marginally. The resultant overall production in China stood at 41.5 million tons at the end of Calendar Year ‘23, reflecting a growth of 4% YoY.

On the “Consumption Side”: Chinese demand spurred by 5% year-on-year in Calendar Year ‘23 at 42.8 million tons, led by strong Solar and EV productions that were offset by the weak construction demand. As a result, Chinese market ended up in a deficit of 1.3 million tons in Calendar Year ‘23.

In the world excluding China, production was flattish year-on-year in Q1, whereas production improved in the subsequent quarter. In Q4, production continued to remain flat, and overall production in calendar year 2023 stood at 29.1 million tons, reflecting a growth of 1% year-on-year.

On the “Consumption Side”: Except for automotive, all other segments like building and construction, industrial machinery, consumer durables faced headwinds due to rising interest rates. Hence, in Calendar Year ‘23, the overall consumption declined by 4% year-on-year, to 27.3 million tons, resulting in a surplus of 1.9 million tons at the end of Calendar Year ‘23.

So, the overall global production stood at 70.6 million, whereas consumption was 70.1 million, resulting in a surplus of 0.6 million tons in Calendar Year '23.

The global aluminum prices in this quarter improved marginally to $2,190 a ton as against $2,154 a ton in Q3 of Calendar Year '23. On a quarter-to-date basis, the average global price of aluminum is around $2,200 a ton.

In Q3, Financial Year '24, the Indian aluminum demand is likely to reach 1.3 million tons, reflecting a growth of 9% on a year-on-year basis. This sharp increase is supported by very strong demand from the electrical sector and good demand from the building and construction and auto sectors. However, the packaging segment faced some headwinds due to weakness in the export-led demand, whereas consumer durables showed weakness in the Cookware and the Cooker segment.

The global FRP demand is expected to grow by 4% in Calendar Year '24 versus a 4% decline in the last calendar year, with demand recovery across all major segments of beverage packaging, automotive, specialty, and aerospace, giving a CAGR of 4% to 7% over the next three to four years.

The Indian FRP demand is expected to be flattish on a year-on-year basis as estimated growth in the automotive, building and construction, and consumer durables segment will be offset by ongoing weakness in the packaging segment.

Turning to the "Copper Industry" on Slide #15 and #16. In Calendar Year '23:

The overall global copper production grew by approximately 3.7% at 25.6 million tons. In contrast, consumption also grew by 2.4% year-on-year at 25.4 million tons, resulting in a surplus of 0.2 million tons.

In Calendar Year '23, Chinese production increased by approximately 8.7% at 11.5 million tons, whereas consumption grew by almost 6.5% at 14.5 million tons, resulting in a deficit of 2.9 million tons of copper.

The world excluding China, production declined marginally by 0.1%, whereas consumption declined by 2.7% year-on-year, resulting in a surplus of 3.1 million tons in Calendar Year '23.

In the 4th Quarter of Calendar Year '23, the overall global production of copper increased by 0.4%, while consumption declined by 0.6% compared to the corresponding period of last year, leading to a deficit of 0.3 million tons.

On the “Domestic Side”: In Q3 FY '24, market demand increased by approximately 4% year-on-year at 198 Kt versus 190 Kt in Q3 of FY '23. On a sequential basis, market demand declined marginally by 1%, with domestic producers shares at 67%.

For the Calendar Year ‘24, the annual benchmark TC/RC settled at 20.5 cents per pound. This settlement reflects a decrease of 9% compared to calendar year 2023, benchmark of 22.6 cents per pound.During Q3 FY '24, the supply side faced challenges due to lower guidance from Anglo-American for the year 2024. This, combined with the closure of Cobre Panama led to the tightening of market conditions. The spot TC/RC this quarter was around 19 cents per pound. The ongoing strong demand from Chinese smelters coupled with tight supply, may influence the spot TC/RC further.

Details of our operational and financial performance in each of our business segments this quarter, compared to the corresponding period of last year, as well as the previous quarters, are covered in further slides and annexures to this presentation.

So, let me conclude today's presentation through some key takeaways and our way forward:

Our resilient India business with its 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.

Once again, our copper business delivered its best-ever performance as we continue to focus on value-added products in copper. Hindalco acquired land and began to work on India's first of its kind copper and e-waste recycling project in Dahej, Gujarat. Meanwhile, our Inner Grooved Tubes project, which is under execution, is expected to be commissioned by end of Calendar Year ‘24.

Novelis delivered $499 per ton EBITDA this quarter despite the seasonal impact. Our Q4 guidance of delivering a sustainable $525 EBITDA per ton remains intact as the market continues to recover in beverage packaging and other markets show resilience.

While the capital expenditure for the Bay Minette project has escalated primarily due to higher civil and construction costs than initially estimated, I have to repeat that the strategic rationale remains firmly in place. This investment provides a first-mover advantage with a highly efficient facility that is being built as a long-term investment. Once it is established, this capacity can be doubled in a cost and time-efficient manner as experienced in various other brownfield projects done by Novelis over the last few years.

Our approach to ESG continues to be comprehensive across value chains and in line with our 2050 ESG targets. Our first-of-its-kind energy transition initiative is on course to begin ramp up of 100 megawatts of round-the-clock Carbon-free power for our Odisha smelter by Q4 of Calendar Year '24. Our recent global recognitions are testimony to our ESG efforts as Hindalco continues to be among the top 1% in the aluminum industry in the S&P Global DJSI Sustainability Yearbook of 2024.Hindalco also recently won the Energy Transition Changemaker Award at COP28 for setting up one of the first round-the-clock renewable energy projects backed by pump hydro in the aluminum sector.

We stay focused with our value-enhancing growth strategy directed towards organic growth, while expanding downstream businesses in both aluminum and copper. We also 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 will now open the forum for questions-and-answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: I have two questions. The first one is again on Bay Minette project. So, while you indicated that the cost escalation has been primarily due to civil contribution, so just wanted to understand if the scope of work has been increased or was this something we found during oil testing phase that we had to buttress it and whether we expect more escalation due to equipment ordering or, I mean, where are we on that? I just wanted to understand if there are any more contingencies that we could expect going ahead in Bay Minette?

Steve Fisher: So, as on cost increase, 80% of this is associated with increase in civil and structural costs on the total cost of the project. . A lot to do with the soil condition where the location is, something that as we did more engineering understood requirements of quantities of concrete, quantities of steel, quantities of piling. These are all things that have driven the cost up. As we have talked about, where we are at today at $4.1 billion, we are confident that we have included appropriate levels of contingencies for a project at this stage. As I spoke yesterday, we have a P85 confidence level of bringing the project in at the $4.1 billion. As it relates to equipment, something that we are honestly better off because of the brownfield expansion in the past, we are very close to our original estimates on equipment. We ordered all the equipment ahead of building completion. We have contracted and/or finished some part, some of the equipment as we speak, and everything is well on schedule at the various equipment, and I would not expect any further escalation on the equipment side.

Amit Dixit: My second question is essentially on domestic Aluminum upstream business. What was the cost? How did the cost change quarter-on-quarter in Q3 and guidance for Q4, please?

Satish Pai: So, I was just saying that if you saw that this quarter, our EBITDA margins expanded. And largely, that's because I had thought that the cost would be flat, but the costs were down 3.3% Q3 to Q2. And a large part of that was coal costs coming down as well as carbon that is CP Coke, which is why with the flattish LME, our margins expanded. Now, in Q4, I am expecting the overall cost of production to remain flat with Q3.

Amit Dixit: Sir, just a follow-up on this. When I saw Coal India's numbers yesterday, their e-auction price, now, your coal cost has gone down possibly because of the inventory effect. Now, going forward in Q4, since e-auction prices, we know that at the entry of Q4 itself, they are down. So, wouldn't you expect some relief on coal cost front in this quarter?

Satish Pai: So, really, Amit, how it works is that if we procure the end of January, February, the consumption will happen in April, May, June. So, when I give you the cost, I give you on a consumption basis and not on a receipt basis. And currently, right now, normally another question gets asked. Our linkage coal percentage has been steadily going up, and it's now nearly 60% and the e-auction is 36%. So, I have a feeling that the coal cost, I hope they go down a bit more, but I am conservatively estimating Q4 to be flat. We will have to see what how Q1 pans out.

Moderator: Thank you. The next question is from Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Firstly, congratulations, Mr. Pai on your reappointment and extension of term. Sir, a couple of questions. Firstly, just want to understand, I mean, I am not able to clearly understand what is this 85% probability of no further increase in cost? Can you explain how do we arrive at this number? Number one. I am talking about Bay Minette.And second, since there is such a significant deviation, is it possible just for some more comfort to give some breakup of this $4.1 billion? What is the civil structure costs, equipment costs, some breakup to kind of better appreciate this change?

Steve Fisher: So, to be clear, on the P85 confidence level, we have had both our EPCM, another engineering firm and a third firm take a look at the rebate lining that we have been doing over the past three months as it relates to completing the detailed engineering at a high level now. As that's completed, we are confident with where we are at from units in quantity and what we have ordered so far. From there, we would attach confidence levels as it relates to the stage of the project, the level of engineering done to be able to say, are we able to complete this project for $4.1 billion that we had disclosed and on schedule that is in the second half of calendar '26. And this shows, with those analysis done three different separate ways and analyzed by the management team, that we are 85% confident that we can deliver at $4.1 billion.

On the second, as we have said, 80% of this is associated with civil and structural. I won't give out specifics, but it's a larger needed quantities, whether it be tilings, whether it be concrete, whether it be steel, whether it be electrical throughout the plant. These are some of the categories of which we have seen significant increases in as we finish the engineering design work on it. And of course, what comes with that is the inflation and labor costs on top of that too. So, again, where we have a lot more experience associated with projects like this on the equipment side where we have not seen the equipment increase except for where we have had small amounts of increase in the type of equipment that we want to put into the plant to make sure that it is highly efficient.

Satish Pai: So, Sumangal, just to clarify, the EPC firms use this terminology like P85. So, where we areat P85 is a fairly good probability number is what I just wanted to add.

Sumangal Nevatia: And during what phase of this next three years of construction do we move to more closer to 100%? I mean, 90%, 95%, how is this timeline?

Steve Fisher: It's linear. Obviously, as we get larger parts of the construction completed, that contingency will continue to come down. And as we talked about yesterday, we will continue to update on a quarterly basis where we are, as it relates to the construction.

Sumangal Nevatia: And is it possible to get some sense out of this $4.1 billion, what is the percentage of equipment costs and other costs? I mean, just some breakup.

Steve Fisher: Yes. So, when you start to think about the other 20%, there is some small amounts of additional equipment that we put into the plant. You know, this is not huge amounts. It's additional piping electrical for the equipment layout as we finalize the equipment layout in the plant, its control system. It's, as I said before, the need for additional warehouses because the equipment is actually well on schedule, and it's going to come ahead of the plant construction itself because of the civil and structural engineering was behind. And so we have had some costs associated with storing equipment as well. And then, of course, as we lengthen the schedule, owners' costs as well.

Sumangal Nevatia: That's clear. One question I have for Mr. Pai, and this is more a common question we are getting from various investors during the day. I mean, given this substantial rise in CAPEX, structurally lower returns that we expect now at least from Phase 1, I mean, was there a discussion consideration of scrapping the entire project, writing off given that, I mean, it's such a huge commitment into some bit of uncharted territory. So, any consideration on these fronts happened within? Just want to understand.

Satish Pai: Yes, I mean it's fair to say we had a lot of discussions on this project. Sumangal, our view is the following. So, Novelis is the market leader. It's by far the largest rolling Company in the world. North America is the one market in the world that is undersupplied and is actually importing can body sheets into the U.S. coming from Asia, China.

All our customers wanted this. Based on this project, we managed to get the can pricing to substantially move higher, which benefits not just Bay Minette, but our whole can portfolio going forward, which is why I think yesterday, they already, you must have heard Dev and Steve talk about $600 per ton EBITDA target going forward. So, I think that for us, the other, let's put it very purely financial metric is that a double-digit on a dollar return is still much better than the cost of capital that Novelis has. And then the next point, which you have seen, what has happened with Novelis over the last two or three years. This project, we can go from 600 Kt to double with the CAPEX of $1,500 to $2,500, depending on the mix and the finishing equipment we put in. So, you will see that the sort of double-digit can go as we go forward to much higher returns. And it puts a platform in the largest rolling market in the world, which is the U.S.

So, I think that for us, we are quite committed to getting this project forward. It's fair to say that the onus is on us to now execute and deliver this as we said. I know that we will not get any more margin for error. That I accept.

Sumangal Nevatia: Just one last question. And thanks for the detailed explanation, sir. On the copper EBITDA, we have consistently been doing more than 600 odd crores on a quarterly basis. So, is there any structural tailwind and one should expect this kind of a run rate going forward? Or is it something cyclical here?

Satish Pai: I think that the copper business is going through some very good demand. The electrification sector is quite strong. So, I think that structurally, the copper is going to be good going forward. I do expect when the competition of some other people come in, we may see some pressures on the copper prices. But I think that, you know, that's why we have diversified our strategy and going into the copper inner grooved tubes. We are going into copper recycling. So, I think that we will continue to take go more downstream in copper to make sure that we can maintain our leadership.

Moderator: Thank you. Next question is from Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: Sir, I have two questions pertaining to Novelis. Now, like Steve highlighted that large part of the cost increase was driven by commodity like steel, electrical, tiling, those kind of stuff. So, is it like more volume at a better structure is what we have shifted to? Or is it that the quality of these commodities we have reassessed given the nature of the structure? That's because, you know, these commodities driving such a steep increase in CAPEX cost, honestly, as an outsider, it's difficult to completely triangulate. And secondly, you know, one of your peers, I know this question was asked to Steve yesterday also. But their CAPEX with a similar capacity is nearly half of us. So, any comment on that will be very helpful to understand how we are different versus our peer?

Steve Fisher: So, on inflation versus quantities, it is much more on the quantity side than it is on the inflationary side. I would say on the inflationary side, we had some views on cost savings that maybe were a bit ambitious, and that's coming back in now into the baseline here. But much more of it was the quantities as we started with a very low level of engineering and have built that engineering up on the same design, but on a very lack of understanding of, I think, the civil part, the soil conditions based on where we were at that has driven significant increases in quantities, as I said before, in civil work, pilings, concrete, and then ultimately steel. And so you should think about this much more on the quantity side. It's not that we have increased scope of the plant. It's unfortunate, we had a low level of engineering design done on the original estimate, and now we are at a high level of engineered design. On the second question, as it relates to the competition, again, as I said, yesterday, I won't really say much more. We can't speak to their estimates. We don't know their projects specifically. All we can do is reconfirm the diligence we put into our project and what we need for a large-scale project of this type. We have been in the aluminum industry for a long time and we are just very comfortable at the levels we are at now, and I can't really speak to theirs.

Ashish Jain: Steve, out of this $4.1 billion, can you just highlight how much is civil and construction now? I think you gave earlier that you gave the breakup of the escalation in terms of 80% and 20%. But of the total number of $4.1 billion, how much will be civil and construction? Any ballpark number you can share?

Steve Fisher: Yes. Give me a minute. We will come back.

Satish Pai: Yes, we will come back and answer that one.

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

Ritesh Shah: A couple of questions. Sir, first, I just wanted to understand what do we make of Inflation Reduction Act. I think there are multiple schemes over here, 48C, 45X. So, I think, Steve yesterday on the call did indicate that we could potentially qualify, and we will answer this in March. I am just trying to get our thoughts basically, where do we stand over here? What sort of delta it can have? And if at all, there was this CAPEX bump, which is there, which is a bit unfortunate, but will this IRA be beyond, say, 4.1 and not 2.5 billion, and hence, there will be some positive reports on basically the remuneration profile?

Steve Fisher: So, on the first one, we have applied the 48C under the IRA Act. We think we have a very strong candidature for getting funds under this, but the decision will not be made ultimately on our application till we believe near the end of March. As we said yesterday, we have included nothing in this $4.1 billion associated with any 48C that would be granted to Novelis. Again, we are positive, but don't, really can't tell you any directionally then what that could look like. Again, I will just repeat. We have done a lot of diligence around the $4.1 billion.

Steve Fisher: The application is already associated with what we have applied to and it's always the subset of the overall number anyway. So, that's much more on the equipment piece and some other things. So, it will not necessarily change the calculation of what we can get.

Ritesh Shah: Fair enough. So, basically, if I understood it right, the IRA benefit is on the equipment part. It is not on the civil and construction part. So, whatever benefit, if at all, we get, that doesn't change because of this $2.5 to $4.1 billion capex. Is that right?

Steve Fisher: That is correct.

Ritesh Shah: And the second question over here is, what is the extent of benefit? Hypothetically, we can actually derive out of IRA. If I go through the fine print on the regulation, it says 30% ITC available on A, B, C, there are several variables over here. So, should one assume 30% of, say, 2.5 billion or say, if 2 billion is the equipment cost, then should one assume 30% on, say, $2 billion?

Steve Fisher: You are reading the IRA correctly, but the last time this was done in the U.S., there was Caps put in. So, it's not easy to say that it will be 30%. It could easily be capped down. It can be any number of between 0% and 30% and that's why we just can't give you a number right now. We should know here in the next month and a half.

Ritesh Shah: Between 0% to 30%, that's useful. And I just want to crosscheck a data point. I think from the Alabama government, what we have got is around $135 million. Is that number correct or what we pick up from the print media or is it something different?

Steve Fisher: We will come back and confirm that number with you. I don't have it right at my hands right now.

Ritesh Shah: This helps. Sir, my second question was specifically on the coal part when it comes to India. Can you highlight, sir, what is the status on Chakla as well as Meenakshi, I think Chakla earlier timeline, what we had indicated was December '23, if my notes are correct. I just wanted to get an update on both the blocks and how do we see…

Satish Pai: December '24, not December '23.

Ritesh Shah: I will correct myself. And sir, on Meenakshi, and I think there were two Meenakshi, right? So, any update over there?

Satish Pai: The Meenakshi West has been allocated to us, and it's sort of an exploration cum mining block. So, we have already started the regulatory clearances et cetera on Meenakshi West. On the other Meenakshi mine, we are still waiting for the allotment. So, that has not yet come through yet.

Ritesh Shah: And sir, what is the EC for Meenakshi West? And if possible, in timelines?

Satish Pai: So, Meenakshi West will take about 2.5 to 3 years. And it's about 5 million tons of capacity.

Ritesh Shah: 5 million tons. Perfect. And sir, lastly, just with respect to ESG, when it comes to Novelis, the carbon intensity has increased because of change in accounting over there. Any comments specifically over here? And given you also alluded that we have the opportunity to go from 600 Kt to 1.2 million on Bay Mannette project . How do we look at the UBC demand-supply equation specifically in North America or in U.S.? And are we looking at any specific change in regulations which will ensure that there is an adequate supply for UBC in the markets?

Steve Fisher: So, our carbon intensity is decreasing. So, I just want to be clear with all the efforts we have put in and will continue to decrease as we commission Guthrie recycling facility and other overall million tons of carbon out of the system with that. We will continue to increase the overall recycled content of our products, including pushes in beverage packaging, auto, and other specialty products as well. So, we continue on that journey. We are in line with meeting our more near-term targets of 30% reduction off the baseline in 2026. As it relates to legislation, we are working actively with associations with consortiums, with governments directly to find ways to increase the amount of used beverage cans coming back in. The U.S. has a low recycling rates at less than 48% over the last several years. And it's very clear when you look, where there is some deposit schemes in place, the return schemes in place in those states, those recycling rates are north of 70%, and it's the remaining states that are dragging it down. So, we will continue that. That will take time, but certainly, we are very active on that.

Ritesh Shah: Sir, sorry, just I will push one more. If I go through the last annual report, the carbon intensity for Novelis has increased actually from 4.44 to 5.34 to 6.19. And to my basic understanding, what I got to understand, the quality of scrap, which we had processed, it was not of the right or optimal quality and that was one of the reasons where the carbon intensity has increased. That's the reason I specifically wanted to check on the scrap probability demand and supply, are we comfortable over there?

Steve Fisher: No, it's probably more of a product mix than it is anything as we went through a shift in mix, but I can tell you that the intensity is coming down, and we can follow-up on the specific questions that you might have with Megan.

Satish Pai: Just to clarify, as the auto percentage goes up, the recycling rates are going down, and I think that's what you're talking about, because the auto percentage has now gone to 22% when it was much lower than that. So, the can is very highly recycled, but the autos, we still are on the various initiatives to increase the recycling rates there.

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

Indrajit Agarwal: I have a couple of questions. First, in terms of projects that we do in the greenfield, is it given out on a turnkey basis? Or do we operate it ourselves?

Steve Fisher: So, in the U.S., with all the active construction, there is no turnkey at this point in time. We, as owners, will take on the risk associated with that, and we evaluated that at the beginning. We do have an EPCM firm in place, have been from the beginning, and are still with us aligned with other experts as well, but it is the owner's risk. By the way, today's industry, there is no big constructing firm that will take a turnkey EPC contract.

Indrajit Agarwal: That's helpful. Thank you. A couple of questions on the India business, housekeeping effectively. What were the external alumina sales this quarter?

Steve Fisher: The external alumina sales this last quarter was 167 Kt. And in Q4, we are expecting more like 180, 190 Kt of alumina external sales.

Indrajit Agarwal: And that should be the run rate going ahead, right, given that we have…?

Steve Fisher: Yes, we have got more capacity. If you remember, we did the brownfield expansion. So, yes, that should be more or less 180kt should be the average per quarter going forward.

Indrajit Agarwal: That helps. And in Chakla, any guidance as to how much we can end up mining in FY '26?

Satish Pai: Good question. I think we will do the box cut this year. So, next year, we will have to see how we can ramp it up. But I think at least in the first year, we should get past at least 1 million, 1.5 million in the first year.

Indrajit Agarwal: And lastly, with the elevated CAPEX in Novelis, does the $100 million upstream of cash that we had earlier guided for still holds or that can be pushed back?

Satish Pai: No, I think that we have kept the capital allocation framework as it is. I think $100 million doesn't move anything one way or the other.

Moderator: Thank you. The next question is from Satyadeep Jain from Ambit Capital. Please go ahead.

Satyadeep Jain: Just a clarification first. The engineering design was, as I understood, was done by some other firm and you got it done by some new firm recently. Can you maybe name the engineering design firm that you hired initially for the planning, and which is a new firm you have got it done with? And what is the EPCM firm that you employ for this?

Steve Fisher: No, we have had Fluor from the beginning all the way through, and they are still with us. My reference was that as we saw cost escalation, we wanted to have that audited by another firm.

And so, we brought another firm in to ensure that, that we are in the right ballpark here. So, Fluor is still with as our EPCM.

Satyadeep Jain: Basically, saying the engineering design, the planning initially design done by Fluor. They underestimated all the civil and construction cost massively. Was it Fluor’s initial planning that way?

Steve Fisher: No, no, it was a combination of us as owners and Fluor. We announced the project because of what Satish had highlighted, customer pull for new contracts. We moved quickly as a first mover into the marketplace, and we collectively as owners with Fluor went with a very low engineered design at that point in time.

Satish Pai: In hindsight, we could have waited and done a much more detail and then given a CAPEX number, you can say.

Satyadeep Jain: Just the question on the return profile you mentioned for this capacity. I just wanted to maybe see if you can possibly quantify one of your peers, obviously, the one we talking about is talking about $650 million, $700 million EBITDA without recycling for a similar capacity range. Can we assume that or given you have recycling also in built into this, would $700 million for, is it possible to quantify that EBITDA you are building in for the return expectation? And secondly, the bridge between the EBITDA for the new capacity in the existing capacity, you did talk about higher can pricing. Now, when we look at that $600 million per ton EBITDA, what is the trajectory of pricing reset in the next two years so that we get closer to that $600/ton and the gap between the new capacity in the existing one closes?

Dev Ahuja: So, Indrajit, let me just try and elaborate on all the questions that you asked. The return profile of the project remains attractive. Just as a reminder, we have said that this is a mid-teens IRR project. We are saying that it has dropped a couple of points, but it is in double-digits and our confidence level of delivering double-digits against a single-digit cost of capital is very high. Number one. Number two, that when it comes to sort of talking versus what a competitor has declared, we will not get into that. What we can tell you is that we have got significantly higher pricing on this, on top of a much lower operating cost as compared to conventional plan. This is a super-efficient plant compared to any cost benchmark of existing technology and existing plants. I am telling you, therefore, two things. One is a superior pricing. The other is a lower cost. And these two together make the returns profile justifiable and attractive. On top of that, as Satish and Steve both said, that if you think about it in the longer term, and our track record even today shows that every ton that we don't create these projects for like 10 years or 15 years, we create them with a view that we should be able to expand capacity, and we know that we will need expanded capacity in not-too-distant future.

This is not going to be the end. It will be, again, a super-efficient expansion at a very low-cost profile per ton. So, when you bring all these things together, our confidence and sort of the emphasis on continuing and wanting to do this project remains very high. That is what we can tell you.

Satyadeep Jain: On the pricing reset trajectory, given this is now going to commission in latter half of CY '26 and you will have a lot of contract and we said before that, what CAPEX is that?

Management: And we will be able to meet all that. We will be able to meet all that because we have inter-regional flexibility. I mean, even today, North American capacities are out. We are using inter-regional flexibility from Asia to be able to meet the demand of North American customers. And if you have to do that a bit longer, we can do it. We can flex capacity out of specialties contracts because these are annual contracts. We will create the capacity because the returns profile of these projects, where contracts were committed and signed and we want to keep the, we want to honor all the obligations to the customers. We are not going to compromise on that.

Satish Pai: We have excess capacity in both Brazil and in Korea.

Dev Ahuja: And we are really even today using Asia as a supply base for North America. So, we are confident that we will not let down the customers on the timelines. This is very manageable.

Satyadeep Jain: My question would basically the pricing reset you see on the existing capacity. You can see tightness and which is giving a higher pricing. When you look at the trajectory of resets in the next couple of years, and that cadence of that $600 per ton EBITDA, what I am trying to get is, can it be achieved before the new capacity comes online?

Steve Fisher: Yes. So, we laid out as we got to the $525 sustainable EBITDA per ton in the 4th Quarter as we have guided, we also wanted to make sure everyone understood there is still margin accretion from the $525. We laid out that we still have drivers of price that you are highlighting here, new capacities coming on, increased recycling content in our products, continued operational efficiencies, leadership in the growing automotive market. These are the drivers that drive us upwards of north of $600/ton that we talked about yesterday. As it relates to specifically the pricing, as Dev said, the pricing of those contracts is already in place. And so, as we serve those customers and those contracts kick in over the next couple of years, we will already see that before Bay Minette comes in.

Dev Ahuja: We are telling Bay Minette commissioning. The prices just keep coming.

Steve Fisher: Right. The efficiencies of Bay Minette that Dev talked about come with the ramp-up of Bay Minette.

Satyadeep Jain: Just one quick question on the India alumina expansion. Given the experience with Dahej and Mahan, obviously, those were remote locations and coal challenges, and now the initial engineering design here, when we look at alumina expansion, it is right next to Utkal. Can there be confidence that the number you have given about $1 billion for that expansion will be fairly reasonable? And given the cost inflation in the balance sheet you are looking at, could there be a delay in that expansion?

Satish Pai: So, I will tell you one thing that right now, the way we are learning from our lessons from the past is we are actually doing the full detailed engineering before we even start the project in a big way. So, currently, what's going on in Kansariguda is that we are doing the forest clearance, getting Stage 1, Stage 2, doing the R&R, and doing the engineering. And I think that as soon as the engineering thing has come because when I give you my annual India CAPEX outlook, then I will clarify exactly how much we are spending.

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

Pallav Agarwal: Just on the level of domestic aluminum hedging, so how much are we hedged and at what rates?

Satish Pai: As I said, in Q4, we have 22% hedged at $2,636 per ton, and we have 15% of the currency at 85.19.

Pallav Agarwal: Also, I mean, we have given the guidance for FY '24 Novelis CAPEX at, I think, $1.4 billion to $1.6 billion. But given that the costs have escalated, so, is there any phasing of the balance outlay out of the $4.1 billion over the next two, three years? What levels of CAPEX can we look at?

Dev Ahuja: So, good question. Let me just give you some guidance for your modeling. So, in the next 2 years, nothing has happened until the end of fiscal year '25 in terms of having to depend on any cash raise. But in the next, let's say, 2 years, we will raise some bridge finance. The CAPEX will be higher, and we will come back with guidance. We typically give guidance on CAPEX as we announce the full year. So, we will come back with guidance, but obviously, the CAPEX will be more elevated. But the guidance that I would like to give you is that, as we end this year, we will be at a net leverage of below 2.5x. Remember, we are at 2.7x now. We will fall below 2.5x. And from there, with the increasing CAPEX need and some bridge finance need, we will elevate it up to around 3x, that will come much later after about 2, 2.5 years. So, that's the best guidance I can give to you now. Assume that we will need to go around 3x on our net leverage as the project spending goes up. That's really the way to think and model.

Pallav Agarwal: And working capital, given that aluminum prices are range bound, so, we don't really expect, apart from any increase in volumes, working capital level should be broadly similar at this level?

Dev Ahuja: I think we can assume that. And remember, if aluminum prices go up, our margins also go up. So, basically, it works both ways. So, we don't have any big concerns on that for the guidance that we have just given you on the net leverage.

Satish Pai: Steve, there was one question that people had asked. Of the total 4.1, what is the percentage of civil and what is the percentage of equipment and the rest?

Steve Fisher: So, approximately 65% of the project costs approximately are civil and structural. Then you have equipment. Obviously, that's going to make up about 25%. A little bit more EPCM costs, owners' costs and other direct costs, warehousing and other things.

Moderator: Thank you. We move to the next question. The next question is from Vikash Singh from PhillipCapital. Please go ahead.

Vikash Singh: Sir, I just wanted to understand, given that now we have an inflated CAPEX on the Novelis side, does our plans on India, for example, the Aditya Mahan brownfield expansion of the aluminum plant would take a backstage?

Satish Pai: No, I would not say backstage. I think that, see, in India, we have actually quite a lot of strong cash generation. And I think that at this stage over the next couple of years, in fact, in my prepared remarks, I said we will stay within our cash generation for our CAPEX.

Vikash Singh: But that is more on the value-added side, right?

Satish Pai: No, no. That's in overall. See, we are sitting with about ₹11,000, crores of treasury. Normal treasury that we should keep is about ₹6,000, ₹7,000 crore. And the cash generation that we have, we have a capacity to easily do a CAPEX of about ₹6,000 crores, ₹7,000 crores a year without having to borrow.

Vikash Singh: Sir, just one more question on the coal side. Given that some of the competitors are a little bit ahead in terms of reaching full self-reliance, as per our plans, by when we think that we would be able to have a full captive coal which we are expecting?

Satish Pai: That's a good question. I think that probably it will take us at least two more years to get there. Now, the only thing I will tell you is that overall, as more and more commercial coal comes in, Coal India prices and linkage prices are also going to stay soft. So, I think, overall, I don't think we will be at a disadvantage when it comes to coal going forward. The biggest challenge for the aluminum industry is to increase the amount of green aluminum and hence, what percentage of renewable can you get in the mix. Because you have to remember, going forward, you are not going to be able to export aluminum if it's not a low carbon metal.

Vikash Singh: Yes, that's correct. Sir, just one more on the follow-upside. Once we have Chakla, Meenakshi all these kicking in, do we have chance to surrender the four coal mines which we have purchased on this first round of auction, and that was very costly to us?

Satish Pai: It's a good question. Thanks for reminding. So, Garepalma 4/5 has been legally returned and accepted by the government already. And Dumri has also been returned and accepted. So, out of the four, two already been returned. So we have Kathautia and Garepalma 4/4 remaining. The next one we will probably return will be Kathautia.

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

Kirtan Mehta: Going back to the Bay Minette, couple of more clarifications. Would you be able to also give a split of $750 million that we are targeting to spend by FY '24? And second question was, we have discussed about sort of increase of the expansion being done at $1,500 to $2,500 per ton capital intensity versus the Phase 1, which is done at $6,800 per ton capital intensity implied basis. So, what are the specific components of infrastructure that has been created in Phase 1? Could you give a bit more color around it? Land, civil infrastructure, what sort of things that we are already doing in the Phase 1, which will support lowering the capital intensity for the next phase?

Steve Fisher: So, I will answer that question, and then I will let Dev come back to the $750 million. So, in the $1,500 to 2,500/ton Capex, we have got many projects. You can see them on our slides over the history that we have been able to debottleneck the facility at much, much more efficient capital cost, what we have been traditional client brownfield cost. The entire infrastructure layout of this is already in place, electrical utilities, land is already there. What need in a hot mill that has more capacity, and that's the most expensive part of all the equipment that we have. And so what we have to do is add either equipment in front of the hot mill or on the back end of the hot mill depending on what product mix we want to get out in order to get more capacity out of the hot mill. The biggest equipment piece when we really want to size itself will be an additional cold mill. But when you start to think about $1,500 to $2,500, as I talked about civil and structural in a percentage, in a brownfield expansion, the equipment will be the majority costs associated with the expansion. That's why you can be so much more efficient in the brownfield debottlenecking. Hope that helps.

Devinder Ahuja: On the $750 million that we expect to close by the end of this fiscal, you can take it that the largest part of this is civil because right now, you know, we are making the foundation pilings. We need steel. We need concrete. So, for all purposes right now, it is basically a construction stage, civil construction stage project, and you can take it that almost the entire spend is towards civil and construction.

Devinder Ahuja: Equipments down payments, but that's relatively small. So, yes, civil and construction is a lot.

Kirtan Mehta: Thank you for this color. One more question on the India side, if I may. In terms of the EBITDA per ton that you have clocked around $880 per ton, do you think that this sort of EBITDA run rate is sustainable over the next couple of years? Or is it sort of higher than the sustainable average that we are seeing?

Satish Pai: Well, I hope it can go higher. I mean, at $880 and I think we can maintain this. See, right now, the costs are sort of, we have got to some lower costs. I think now we need for the EBITDA to go up, the LME to move up. So, really, right now, EBITDA per ton is more dependent on the LME than our cost structure. So, I hope, I think that over the next few years, all the projections and all do say that once the economies and geopolitical things get sorted out, both copper and aluminum prices should head up.

Kirtan Mehta: Or would the cost deflation make the aluminum price also sort of remain at this level? Do you see that as a risk by any chance?

Satish Pai: No, I don't think the cost of aluminum drives the demand for aluminum. I think aluminum is a traded commodity. It's given by LME trading, not from a cost-plus basis. So, I think it's supply and demand of aluminum that will drive the pricing of aluminum. As you see, supply and demand is very tight. The inventories are less than 10 million tons, which is of 50 days of consumption. It used to be 90 before. So, supply and demand is quite tight. I think it's a negative overhang of geopolitical events, slowdown in Europe. These are sort of holding the commodity price.

Moderator: Thank you very much. We will take that as the last question. Participants whose questions have not been answered or pending questions may get in touch with the Hindalco IR

I would now like to hand the conference back to Mr. Pai for any closing comments.

Satish Pai: I thank you for your attention. I do think that, you know, I want to reiterate that the quarterly performance that we just announced shows the trend of quarter-on-quarter operational performance that we have been putting. And I also do want to reiterate that whereas Bay Minette CAPEX has gone up, let's not lose sight of the overall big picture. This is still a very good project. It's giving double-digit IRR, which is better than the cost of capital. And it gives us a platform that will cement Novelis' position as the largest aluminum player in rolled products in North America. So, with that, I thank you for your attention, and wish you the best

Moderator: Thank you very much. On behalf of Hindalco Industries Limited, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.