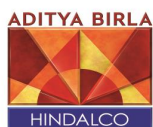


“Hindalco Industries Limited Q3 FY17 Earnings Conference Call”

February 13, 2017



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Moderator: Ladies and gentlemen, good day and welcome to the Hindalco Industries Limited Q3 FY17 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 telephone. Please note that this conference is being recorded. I will now like to hand the conference over to Mr. Sagar Dhamorikar. Thank you and over to you, sir.

Sagar Dhamorikar: Thank you and good afternoon, everyone. Welcome to Hindalco third quarter fiscal year 2017 earnings call. On this call, we will be referring to the presentation that is available on our website. Some of the information on the call may be forward-looking and will be covered by the safe harbor language on page 2 of the presentation.

On this call from our management team, we have our Managing Director - Mr. Satish Pai, Director and Chief Financial Officer - Mr. Praveen Maheshwari, Mr. J. C. Laddha - Head of our Copper business along with President (Finance) – Mr. A. R. Das. With this, now let me turn over the call to Mr. Pai.

Satish Pai: Thank you, Sagar. Good evening, ladies and gentlemen, I welcome you to the third quarter financial year 2017 call of Hindalco Industries Limited. Let us move on to slide #3. I will start by giving you the highlights of the business and economic environment. This will be followed by highlights of the operating performance. Later between Praveen and me, we will cover the aluminium and copper businesses in some more detail, along with highlights of Novelis, our 100% subsidiary.

Slide #4, let me start with business highlights of all segments starting with slide #4. The aluminium business delivered yet another solid performance as all three greenfield projects have now stabilized. The aluminum business registered a record EBITDA on the back of higher LME and supportive input prices. The alumina cost will lower for standalone Hindalco at the transfer prices links to LME index prices, which declined as compared to last year. The cost of most inputs continue to remain benign. We have also commenced operations at Kathautia mines in February of 2017 and this is a significant step in further improving our coal security, particularly for our Mahan smelter. Continuing with our actions to deleverage our balance sheet we made further pre-payment of 342 crores in January 2017 against the outstanding project term loans. Total year to date pre-payment of term loans, ahead of their scheduled dates stands at 1031 crores.

Novelis, continues to delivers solid operational performance with record Q3 adjusted EBITDA of US \$255 million. Trailing 12 months' automotive shipments is at 17% and an increase of 2% over 15% in FY16. After two successful transactions of bond refinancing during the second quarter we now have refinanced our 1.8 billion term loan with Asian Bank in January. With this all the long-term borrowings of Novelis stands refinanced at attractive interest rates. These refinancing transactions will result in an extended maturity profile of the bonds and an annual cash interest savings of approximately \$80 million. I will talk about Novelis performance in more detail later .

Copper business has been an important constituent of our portfolio. During the quarter, however, the performance was a bit impacted due to lower demand in domestic market and lower by product realization. Overall the business delivered robust operational performance with stable operations in quarter 3 FY17.

Slide #5 --- lets understands the broader economic environment and its impact on industry in slide #6.

Moving to slide #6, in the calendar year 2017 the IMF projects the world economy to grow at 3.4% versus 3.1% in calendar year 2016, lifted by expected continuation of Chinese stimulus and strong US growth. However, there is a wide dispersion of possible outcomes around the projection. Given the uncertainty in relation to US policy stand, fed interest rate hikes, Brexit negotiations and the continuation of Chinese stimulus measures, which all will impact the growth momentum. During the past quarter there has been a strong pickup in growth in advance economies. The growth rate in China was a bit stronger than expected supported by continued policy stimulus.

Economic activity in Russia was slightly better than expected partially due to firmer oil prices. During the same period, there was an unexpected slowdown in some emerging market economies, mostly due to the internal factors. Latin American countries are currently in recession, such as Argentina and Brazil. Though overall, global economy is currently gaining momentum, future growth continues to be uncertain due to various policy issues that have been mentioned before. In India, post the short-term impact of the demonetization the growth continues to be encouraging. Government's enhanced focus on housing, electrification and infrastructure in the union budget of 2017 will drive future demand in the country.

Turning to slide #7, moving to the aluminium industry update on slide #7. Aluminium demand continues to be fairly robust and is expected to grow at around 4% to close to 60 million tons. In November-December 2016 LME prices moved significantly upwards from its lows in early 2016. Additionally, in the last couple of months the prices further increase based on the news that environmental concerns will lead to production cuts in China, which will result in lower aluminium supply. If aluminium capacities are also part of the shutdown drive in China then it will increase the production cost of aluminium for Chinese smelters. Globally there is an increase in crude and the coal prices and currency is appreciating for most aluminium products producing countries due to which the base price for the industry may reset at a higher level. Overall, the buoyant demand outlook and the lower inventory base continues to support the price outlook for aluminium.

In slide number #8, we will discuss about the domestic industry drivers and factors which affect the industry in the last quarter that is Q3 FY17. Aluminium realizations were higher due to increase the LME prices and weaker routine, marginally offset by sharp decline in ingot premium. LME in Q3 was 14% higher than the previous year and the Rupee depreciated by 2%. Ingot premiums were however, lower by 7%. With the recovery of regional premium to US \$95 per ton in January, it seems to have bottomed out. On the cost front on year-on-year basis cost was lower primarily on

account of lower energy prices. However, sequentially some of the input costs have started hardening. Globally it was driven by increase in prices of coal, crude derivatives and alumina.

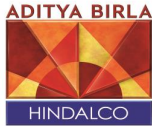
Slide #9, captures the state of the copper industry and the major external value drivers of the copper business. Copper LME prices increased due to stronger demand in China and expectations around higher infrastructures spending in the US. However, due to supply uncertainties and improved demand for concentrate there has been a decline in the bench mark treatment charges and refining charges that is TCRC, which is the most important driver of the customs smelting model. Year-on-year, sulfuric acid prices declined sharply while DAP prices were also lower. So, overall the macros were not supportive for the copper business.

Let me now take you through the key operational performance. Coming to the quarterly financial highlights of Hindalco standalone business in Slide #11, as compared to the quarter 3 of FY16, the company's topline grew by 14% driven by increase in average realization for both aluminium and copper along with weaker rupee and higher aluminium volumes. Aluminium revenue grew by 9% on the back of strong volume growth and realization. Copper revenues increase by 19% on account of higher copper realization, partially negated by lower byproduct prices of Sulfuric acid and di ammonium phosphate. Year-on-year EBITDA for the quarter was higher by 64% at 1405 crores leading to increase in the net profits. I would like to emphasis here that broadly in addition to higher aluminium realization and supportive input cost, steady operations played a key role in the strong performance.

Let me now turn to the performance of the aluminum business in India on slide #13. Turning to the operational performance covered in slide #13, alumina production including Utkal, increase 5% year-on-year and metal production increased by 9% to 320 KT. In line with our focus on value added products, our production of wire rods and flat roll products registered growth in Q3 FY17 over the previous year. Overall it was the stable operational performance across all plants.

Slide #14, talks about Utkal's performance. The production at Utkal Alumina International, which is our 100% subsidiary increased by 8% year-on-year to 393 KT. It is now running at its designed capacity and has cemented its position as one of the lowest cost refineries in the world. During the quarter, Utkal delivered an EBITDA of Rs 140 crores.

I will now cover the performance of our copper business in slide #16. During Q3 FY17, production of copper cathodes, DAP was flat as compared to last year. The copper rod production was 20% lower as compared to the previous year which was due to lower demand in the domestic market. Sequentially, copper cathode production was low due to our planned shutdown of one of the smelters and has mentioned earlier CC rod and DAP, Diammonium Phosphate Production was impacted due to lower demand in the domestic market. In line with our long-term strategy, we continue to invest in value added products. Our current planned investment in copper rod facility would increase the total annual capacity to 360 KT, which is 90% of the total cathode production. Production from the new capacity is expected to commence from Q4 of FY18.



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I will now cover the operational performance of Novelis in brief. Many of you have already heard the Novelis earnings call last week.

Coming to slide #18, during the quarter total FRP shipments declined by 4% over previous year to 750 KT due to lower can volumes. However, the overall EBITDA per ton has improved due to the change in sales mix with higher share of auto products. During the quarter, we delivered record automotive sheet shipment. Year-on-year auto shipment for the year, for the quarter grew by 13% and 5% sequentially. The demand for aluminium auto sheet will continue to be robust. Our focus is to increase the proportion of automotive sheets in the overall portfolio. For this we have undertaken projects with Jaguar Land Rover's REAL car, Recycle Aluminium Car project, which will enhance the sustainability objectives of the customer. Further we will provide global solutions through various plant locations. We also continue to focus on significant cost reduction through improvement in productivity, asset utilization and better metal mix.

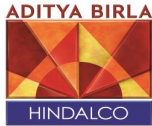
With that, I would like to turn the call over to Praveen for a more detailed review of our financials.

Praveen Maheshwari:

Thank you, Satish. Good afternoon ladies and gentlemen. Coming to slide #20, revenue from operations for the quarter at 9915 crores was higher by 14% over the previous year, driven by the increase in average realizations for both aluminium and copper along with weaker rupee and higher aluminum volumes. Aluminium revenue grew by 9% owing to strong volume growth and realization. Copper revenue increase by 19% on account of higher copper realization, which was partly negated by lower byproduct prices that is sulfuric acid and DAP. Year-on-year quarterly EBITDA at 1405 crores was higher by 64%. This reflects a robust performance with stable operations. Depreciation has increased over previous years due to progressive capitalization of new projects. Finance charges were flat at the same levels as last year. These charges have almost reached their peak and going forward softening of interest rate in the country augers well for the company.

Profit before tax for the quarter was at 459 crores and net profit stood at 321 crores. The company has thus posted good financial results for 4 consecutive quarters in a row. Turning to the financial performance of aluminum segment in quarter 3 as you would notice on slide #21. Aluminium segment revenue increase 9% over the same quarter last year primarily on account of higher volumes and higher realizations. EBITDA at 876 crores was significantly higher by 147% over the previous year. This jump was primarily on account of higher volumes better realizations and lower input cost. You may kindly note that the financial performance covered in this slide does not include performance of Utkal.

Coming to the financial performance of the copper segment on slide #22, the segment revenues grew on account of increase in copper realizations. The copper LME was 9% higher as compared to that in the corresponding quarter previous year. EBITDA for the quarter at 330 crores was lower due to sharp fall in realization of byproducts. Sequentially EBITDA was down by 10% due to the



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lower demand in domestic market. Lower cathode production due to the planned plant shutdown and further reduction in sulfuric acid prices.

I will now take you through the financial highlights of Novelis, Q3 FY17 results given on slide #23. Sales at \$2.3 billion were marginally lower on account of decline in shipments, excluding metal price lag, adjusted EBITDA was up 7% over previous year at US \$255 million, driven by higher automotive sheet shipment productivity gains, lower metal cost and favorable foreign exchange gains. Sequentially EBITDA decline by 6% due to relatively lower shipments but historically Q3 for fiscal year has been weak in terms of overall demand in FRP. We are confident that with the improvement in EBITDA efficient working capital management and interest cost saving we will be able to achieve \$300 to \$350 million in free cash flow for the full financial year.

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

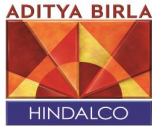
Satish Pai:

So, in summary we are progressing in the right direction. Following the culmination of our large and ambitious investments programs, we believe that our operational performance will further improve next year. As the capitalization of new factories is largely completed, interest and depreciation have almost reached its peak. Hence much of the future operational improvement should also flow to the bottom-line. Also, softer interest rates should support us going forward. As you would have seen, we have a credible performance in 9 months this came on back of aluminium volume gains, higher realizations and lower input cost. The commencement of mining at Kathautia mines and the procurement of coal through linkage are positive towards coal security. However, we are not sure as to how long the input cost would continue to have a favorable effect.

Utkal today is a world class asset and our captive alumina bagged by captive bauxite is proving to be a great strength. We believe that operational improvements ensure that better performance will be sustained in the coming quarters. The copper business has some issues related to the demand and realization. However, we are confident that will continue to provide steady contribution to our results. The cheaper imports of aluminium and copper and the cess on coal continue to have a negative impact on us and further firming up of oil prices may impact input cost linked to crude derivatives.

At Novelis, we expect to continue the momentum as our focus on premium portfolio is delivering well. On the whole, our focus will be on maintaining operational excellence, enhanced value addition and conservation of cash. With that, we are reasonably confident of weathering the effect of any macroeconomic headwinds. At the same time, as the volatile macroeconomic conditions continue, we will have our focus on our 3Cs, which is the customer centricity, cost control and cash conservation.

Thank you very much for your attention and we will now open up the forum for Q&A.



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Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have first question from the line of Anuj Singla from Deutsche Bank. Please go ahead.

Anuj Singla: Sir, just wanted to understand that with the commencement of operations at Kathautia mine as well as starting of the coal supply from the linkage side, should we be expecting any kind of cost decline on the coal sourcing front in the March quarter or may be FY18?

Satish Pai: I think that we will see the full impact of the coal linkages that we have won in due course, but I am a bit concerned about the e-auction prices because if I can just remind you of the 16 million tons of coal that we use the new linkages that we won are about 4.8 million tons. But we are still procuring about 4 to 5 million tons on the e-auctions side which are the monthly e-auction. There, to be honest we have started to see prices hardening a little bit. So, I think, on one hand the linkage of coal will be bringing our cost down but this spot auctions prices may be slightly stronger. So, I think that if you ask me I think it will probably be more or less at current levels. Now we have not yet taken into account if coal India will do a price increase or not, so we will have to watch that as well.

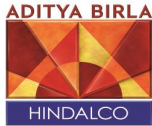
Anuj Singla: And sir, secondly like you mention Utkal has been doing ramping up very well and all the greenfield plants are now fully ramped up. Any thoughts on any kind of debottlenecking projects which we plan to undertake in FY18, may be like Utkal, we have been talking about 1.5 to 2 million as well. So, any progress on that front, sir?

Satish Pai: Yes, we are already working on, let say the engineering designs for that debottlenecking. I will just leave at that because, I think in FY17-FY18 we would have got the complete engineering and the debottlenecking sorted out.

Anuj Singla: And lastly sir, on the copper side this was the subdued quarter but only, we are around 1.5 months into the next quarter. So, have we seen some kind of recovery in the byproducts prices over the last quarter and on the demand for copper front as well. If any update can be share that we will be wonderful.

Satish Pai: I think the copper rod demand as just like on the aluminium side has recovered. The last month i.e December, we had some impact with the demonetization which is why we ended up exporting more and selling less domestically that we certainly have seem some sign of come back. Sulfuric acid prices also I am told are looking much firmer than Q3. So, that is what I could say. I think on the DAP side it is a little bit of the off season right now, so no real change their but sulfuric acid prices are looking a bit stronger and the overall copper and aluminium market is also stronger in Q4 compared to what we saw in November-December of Q3.

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



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Pinakin Parekh:

My first question is sir, if we look at the aluminium price increase during the quarter it was broadly \$90 per ton, which if I convert in the 0.32 million tons of production. It should have theoretically resulted in 193 crores of incremental EBITDA Q-o-Q, but the quarter-on-quarter increase was I think around 75-80 crores. So sir, why has been there a delay in lag through, is it that the sales volumes are lower or has there been a cost push or is it there old hedges on aluminum which has still working its way therefore the impact realizations are lower than what the LME would suggest?

Satish Pai:

No, Pinakin actually it is quite simple. We produce 320 but we sold 310 and why we sold 310 is because larger percentage was being sold on the export rather than the domestic, which I was just alluding in my previous comment. So, one thing is that the export mix was larger, second, we got in December a rake got stuck due to fog and all coming out of Mahan and Renukoot. So, we had about 6 to 7 KT of metals stuck at the ports which got sold in the first few days of January. So, really that was the major impact of why we had the lower sales in the volume and also if I look at coal prices Q2 to Q3 on an average Q3 was slightly higher because we are now of course using slightly larger percentage of our Gare Palma coal as well. So, these were the 2 main reasons Pinakin.

Pinakin Parekh:

And sir, moving to Utkal a steady state, what is the capacity of that site in terms of what kind of alumina capacity can that site sustain dip given the land and the bauxite reserves and everything that is their current rates 1.5 million ton. Theoretically it can go up to what?

Satish Pai:

No, look theoretically, the question really is like the previous gentlemen asked with the current facilities bottleneck or with new investments. With the current facility bottleneck, which I think we can take it to about 2 to 2.25 then you still have bauxite towards over 25 years' worth. So, you can easily bottleneck with not that much CAPEX to 2 to 2.5. Now of course if you want to add an extra train and make a bigger investment then you can take at north of 3 can go to 3.5 in which case the amount of bauxite that is there in Baphimali will probably take you to 20 years. So, really it is a question of whether you put in a completely new train or just bottlenecking and to be clear, our preference right now is to bottleneck and that is why we have applied for clearances to go up to about 2.25 as a first range.

Pinakin Parekh:

And sir, lastly just taking a step back on, obviously, it took a long time but now Hindalco as to greenfield smelters, one refinery and there is an impacted optionality of doing brownfield expansions over there. Now in terms of what would be the markers which we need to focus on for Hindalco to take a decision on undertaking a brownfield. Would it be a certain balance sheet profitability metric been hit, would it be outlook on the commodity prices, would it be the regulatory environment, what we trying to understand is sir, when should we expect Hindalco to start undertaking growth CAPEX?

Satish Pai:

So, let me first again, I think like my last call even though we have had another strong quarter, I want to repeat again. Our first focus is to continue with our deleveraging, now the marker

therefore for me is that we need to get that EBITDA down to a number starting with 3. I think this quarter that ended on December 16, we hit sort of standalone debt EBITDA 4, with Utkal it is around 4.5. On March of 17 we will be slightly south of that 4.5 number. So, we would really first like to focus on doing that deleveraging down to a number starting with 3. The second part of our growth story, I repeat again is going to be on the downstream side. Currently we are at about 350 KT of downstream capacity and we would like to double that and that has got the business logic because as India grows, the downstream product demand is growing and we can get an additional EBITDA per ton on top of the metal. So, we would like to do that downstream expansion. The attractiveness of the downstream expansion is that it is less capital intensive. So, we would do that in the next few years and then if the macros continue to be good, we are deleveraged, the demand continues to be strong worldwide, it is only then we will look at any further brownfield upstream. So, there are couple of more important things that need to happen before we will consider any brownfield expansion there Pinakin.

Moderator: Thank you. Next question is from the line of Sumangal Nevatia from Macquarie. Please go ahead.

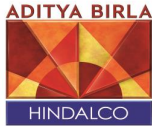
Sumangal Nevatia: First on copper rod capacity expansion, you mention it would start from 4th quarter FY18, I can just remind what was the CAPEX involved and how long will it take to ramp up to full capacity and also what are the spreads versus cathode sales?

J. C. Laddha: See, this rod mill will start from a last quarter of FY8 and this will take the capacity of rod from the existing level to 360,000 we should be about 90% of our cathode production and the delta difference and contribution is about Rs. 12,000 to Rs. 15,000 a ton.

Satish Pai: And the CAPEX we said was roughly 250 crores.

Sumangal Nevatia: Sir, secondly continuing on the previous question, now this quarter also LME is around \$100 higher run rate. So, given most of the cost is under control can we assume the similar price will flow in the margins or there will be some partial offsetting impact of some open hedges.

Satish Pai: I am not so much worried about the open hedges as the part that we have to look at is that the domestic market now is quite competitive. So, Vedanta has increased capacity so there is us, Vedanta, Nalco and because the domestic market is more attractive than export we are all fighting for that domestic market. The part that I wanted you guys realize is that year to date aluminium growth in India has been about 1.6%. So, normally if you remember even last year aluminum growth year-on-year was more like 9% or 10%. So, Q1 started strong, Q2 we said seasonally low, Q3 got impacted a little bit by demonetization, so really Q4 is what we are looking at to see the demand pick up. Otherwise our problem is that to sell domestically we will be having to give a little bit of discount versus our import parity. So, that dynamic is also playing out a little bit on the domestic market, I would not worry about the hedging part.



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- Sumangal Nevatia:** So, if I may just ask one more question, I wanted to understand little bit about caustic soda. We hear that there has been some cost increase, so what is the demand supply and procurement dynamics of caustic soda and how is it impacting alumina COP?
- Satish Pai:** That is a good point actually caustic prices worldwide have gone up. So, currently they are running at around Rs. 36,000 a ton, it used to be about 28-29K not so long ago. So, the good news for us in some ways is that our own Birla Company is produce quite a lot of caustic. So that is the good news, I guess the bad news is we pay market price for it. So, it is for sure that the caustic prices have gone up which reflex the little bit on the alumina prices. The advantage we have is that the Baphlimali bauxite is a very low silica bauxite. So, largely percentage of silica and the usage of caustic are directly proportional. So, for us yes, it has had an impact but it is not a lot of impact because we have the Baphlimali bauxite , which has a low silica bauxite. But it is true that caustic prices have gone up. Caustic, furnace oil and carbon these 3 prices have gone up in the last 6 months.
- Moderator:** Thank you. Next question is from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.
- Sanjay Jain:** Two questions, one is on the increase in the inventory, when we see the 9 month results we have seen about 1268 crores of increase in inventory. What I wanted to know is, is it copper or aluminum like in volume terms can you quantify how much of this can be destocked over the couple of quarters?
- Satish Pai:** Yes, so look there is one part of the inventory is copper concentrate, can every quarter go a little bit up and down ,but we had both aluminum and copper because as I mention before we were trying to export more, so there was a certain amount stuck at the ports which have got cleared up by the first week of January. So, that is really the answer there, I mean we have anything you want to add Praveen?
- Praveen Maheshwari:** Yes, I just want to add that during this quarter LME for copper went up very significantly and for the same amount of copper, we have a larger amount blocked up the in the inventory.
- Satish Pai:** Yes that is an important point. Generally, as the LME goes up the inventory valuation goes up. But we certainly did have some quantity of metal at the ports which we have cleared up in the first week of January.
- Sanjay Jain:** Second question is regarding this news about the QIP, I was just the basic question that everyone of us is struggling is that now since both businesses in India as well as overseas Novelis is generating free cash flows, why are we looking to dilute at this stage?
- Satish Pai:** So, look as you said that is fairly a standard question as you can imagine. So, at this stage we have been an Omnibus resolution for raising up to 5000 crores and we did that in EGM of December 9. Now our logic would be that we would like to speed up the deleveraging. So, that we can embark

on an expansion of our downstream capacity which is less capital intensive because we want to take the advantage of the expected growth in the Indian demand. The Indian demand is really growing in the electrical sector, automobile packaging, construction and it is really at an inflation point and you have to remember that we are in the downstream we have 40% to 45% to that market share. So, we are a dominant player there. So, I guess that any speeding up of the deleveraging will only help us accelerate our downstream expansion. I put my emphasis again on the downstream expansion.

Sanjay Jain: So, would you be in a position to quantify what kind of CAPEX you are looking out which you would need a dilution to support that kind of CAPEX?

Satish Pai: Our step by steps strategy is accelerates the delivering, get the debt EBITDA down to 3 and continue on our downstream expansion. The downstream expansion like the coming year I given guidance and we stick by that 1000 crores of CAPEX. So, what we would like to do is that every year 100 crores-200 crores worth of downstream expansion we will do. If we can speed it up, we will try to do that at and how much we will spend it can be a few 1000 crores over the next 5 years and it really depends on the rate at which we can do that investment to grab the downstream market. So, we are actually being very, I will put it, conservative and restrained as long as our debt EBITDA levels are at this stage. So, we would feel really comfortable and we would be little bit more open to get the downstream expansion going if we can get debt EBITDAs down to the 3X.

Sanjay Jain: Just one clarification this 3x number that you are talking, is it on consolidated basis?

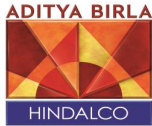
Satish Pai: Consolidated. Debt to EBITDA we only look at it on console basis. So, strictly speaking what you say also applies to the same Novelis. I think the question was asked to them on their call as well. 350, that it will continue to 350 sort of free cash flow generation even there we have to do the deleveraging.

Moderator: Thank you. Next question is from the line of Ravi Shankar from Credit Suisse. Please go ahead.

Ravi Shankar: Questions related on alumina. So one is, what is the reason behind the lower run rate of EBITDA generation this quarter typically it is used to be 170 crores-180 crores this time it is 140 and the second is what would be the alumina external sales in this quarter?

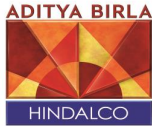
Satish Pai: So look, I think we had explained on an earlier call. The arms' length transfer pricing of Utkal is done on a Q-1 metal bulletin alumina price. So in Q2 of FY17 the alumina price was \$234 and hence in Q3 the transfer price was based on 234. That is why you get that slightly lower EBITDA the Utkal level. Now, next quarter which is Q4 they will get the Q3 alumina prices which was \$305. So, the EBITDA of Utkal will correspondingly go up in Q4. So, that is why, I think you guys and that is why we are giving out he data in the press releases. You need to keep looking at Utkal plus Hindalco standalone aluminum business.

Ravi Shankar: So, to that extend the standalone numbers could be a bit weaker in the next quarter?



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- Satish Pai:** You have to do the Maths in your modeling but yes and I think we sold I think about 50 KT in Q3 and probably in Q4 we will only be able to sell about 30 KT. Our environmental clearances is about 1.5 million which we will hit by March 3rd week. So, we cannot produce beyond 1.5.
- Moderator:** Thank you. The next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.
- Abhisar Jain:** Sir, my question is on the cost of production, so as you mentioned that coal cost there has been some increase in e-auction but the blended level we were largely flattish on a sequential basis but based on some other inputs that you also mentioned that have kind of started to go up. So, on the global cost curve sir how is our positioning now because I think the globally the cost curve would be going up faster than it would be for us, right?
- Satish Pai:** Yes, you are absolutely right. In fact, we are now at around the 11th percentile of the global cost curve. So, you are absolutely right that the global cost curve is also going up because it is largely led by China and in China coal prices, logistic prices, alumina prices all had an impact. So, global cost curve is also slightly gone up. So, we are still quite comfortable on the global cost curve.
- Abhisar Jain:** So sir, if I just recall in the last call you had mentioned that Aditya and Mahan were within 10% while Renukoot was closer to the second half of first quarter. Now, we are on an overall blended level at 11%, right?
- Satish Pai:** That is correct.
- Abhisar Jain:** So, that is quite an improvement I guess, so I think...
- Satish Pai:** I do not know if Renukoot has certainly improved because Renukoot in Q2 did has some operational problems in Q3. They had a very steady run. So, yes there has been an overall in the average and improvement because Renukoot is now in Q3 also at very steady operational performance.
- Abhisar Jain:** And sir, the second question is on the outlook for the aluminum pricing, so just wanted to know your views on China capacities because there has been talked that there has been some closure and the later part of this year might see some closure while the aluminum price has kind of moved up. So, as you mentioned that also global cost curve is moving, so sir what is the expectation and are we seeing quite fast restarts from China as such?
- Satish Pai:** So, this is the sort of million Dollar question because the current LME prices are high because the market is expecting the China will cut 30% of its aluminum capacity due to environmental reasons. I think you read at as much as I read. Now, we really need to see this cuts happen if you look at the CRU run rate of China's production, they are currently running at 35 million tons output and their consumption is more like 32-32.5. So, that is still an excess of 2 million tons in China. So, we will, I think the real proof is going to lie in the actual numbers and not this discussion of



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potential cuts or not cuts. So, we will have to see what comes out at the end of January and we will have to see whether actually any cuts are happening. Then only we can see whether it is real or not because we have heard in the past very often and every winter the pollution gets bad and every winter they make a lot of noises about shut down but every year Chinese production has continued to rise. So, I personally believe, I do not buy 30% cut. I am actually more worried whether they will be more restarts because at his level of LME majority of the production is actually profitable but on the other hand as I mention it cannot go down too low because generally the costs curve have moved up. So, I personally believe that we will still be range bound the bottom will not go below 1600-1630. The upside now we are at 1870 today. So, let see, where that can go. So, I think it is going to be in that range 1650 to 1800.

Abhisar Jain:

And sir just last question on that further reduction in COP that you have been talking about could be driven more from savings on the logistic side. So, sir last quarter you mentioned that logistic was still 15% of our COP, has that number already starting to reduce and do you still think that we can drive meaningful savings from this line basically?

Satish Pai:

So look, actually Q3 I had a worst logistics cost than before because of the demonetization impact. So, the month of December all the trucking department got badly hit and it was a big problem trying to move the material that is why both copper, aluminum sales was slightly on the lower side. But I hope that it has been sorted out now and I really believe that with the coming now that the firm I can see the light at the end of the tunnel on GST and the demonetization which will lead I think to bigger logistics companies coming in play, we should start to be able to make some meaningful improvement in the logistics cost but unfortunately in Q3 I cannot claim it was better because demonetization actually hit us. Lot of the trucks got stranded because they could not pay the petrol, diesel bills something like that.

Moderator:

Thank you. Next question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit:

Sir, I have two questions. One is that you have mentioned the sales volume numbers for aluminium, is it possible to give the similar number for copper?

Satish Pai:

I think in copper the sales number was 97 KT.

Amit Dixit:

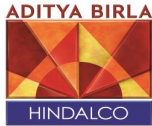
We have also repaid some debt in this quarter as well as last quarter which is quite an encouraging thing. So, I just wanted to understand, how much debt do you intend to prepay in FY18?

Satish Pai:

So, in at FY17 we are prepaying roughly about 1400 crores out of the project loan. In addition, we have plans to repay 1000 crores loan that was taken for 5 years. So, in addition to that it depends on the treasury, etc. but we can surely pay another 1500 crores or so in the next year.

Amit Dixit:

So, this year it is 2400 crores.



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Satish Pai: This year is 1400 crores, 1000 crores is actually on 31st March you can count it next year. So, between this year and next year we are let's say 3000 crores is, we have a clear line of sight in terms of prepayment.

Moderator: Thank you. Next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: My question is regarding the benefits of downstream expansion. So, how much of that can we see in terms of higher realization in FY18 and 2019?

Satish Pai: So, look the impacted FY18 will not be that much because in FY18 you will see the impact of the full ramp up of Hirakud Blue Fox, and you will see some on Mouda. On the copper side FY17-FY18 as we said it will only come on line in the Q4 of FY17-FY18. So, 2018-2019 you should start to see the impact and in 2018-2019 you will start to see the copper rode sales will double more than double as that comes on string. Hirakud Blue Fox stood have reached its full capacity of 135 KT. So, FY18-19 you will start to see the impact of the downstream products coming or the increase.

Anshuman Atri: Second question is regarding the duties, so there has been lot of talks but the MIP has been delayed on the aluminium imports. Any progress on aluminium and you had also hinted that the copper is also seeing some kind of realization pressure because of import. So, is there any such MIP for Copper also?

Satish Pai: So, I think that both copper association, aluminum association continue their efforts because the both in copper and aluminum the amount of imports is still very high and I think that government and everyone is concerned and would like to bring that level of imports down. Now regardless if what the LME of aluminum is or not in I think that what is important is that the MIP was being put in place if the LME goes down not because of the what the current prices. So, I think that the efforts of the both the associations will be to try and cut down the amount of imports coming into the country and hence the efforts to get a MIP was so in place will continue and we are quite hopeful I think the government is, if you have looked at the public statements they have made they have been quite supported.

Moderator: Thank you. Next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: My first question is on aluminum downstream, what will be our total capacity on downstream after the expansion that we are doing at Hirakud and Mouda?

Satish Pai: So, Hirakud 2 years ago we started the ramp up. Today we will do about 80 KT, full ramp up will be 135 KT. I am just talking aluminum now and in Mouda the foil capacity that we are putting in place will be about 15 KT of ultralight Gauge Foil. Both these you should see the impact towards mid to end of FY17-FY18. And at the copper, as we said will come January to March of next year,



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so that ramp up will start, that is about the 235 KT of copper rode. So, that will be fully ramped up in FY18-FY19.

Ashish Jain: And sir on aluminum, so copper we will be kind of 90% downstream as you said but on aluminum where do we aspire to go as far the downstream is concerned let's say 2 years down the line?

Satish Pai: Not 2 years because it will take sometime in the next 5 years we want to be about 700 KT of the 1.3. So, roughly 55% we should be what I would call value added, I am not counting wire rode and billets. I still consider that as primary aluminum but flat roll products extrusion and foil will be about 50% to 55% of our 1.3 million capacity.

Ashish Jain: And sir, so this expansion plus whatever debottlenecking you planned to do in Utkal after you get the required approvals what is the likely CAPEX for both these products again let's say over the next 3-4 years?

Satish Pai: Which 2 projects?

Ashish Jain: The Utkal debottlenecking from 1.5-2.2, and the aluminum downstream capacity?

Satish Pai: The Utkal the debottlenecking will be probably 500 crores to 700 crores type of a project over 18 months. The aluminum, I think I just answered in the previous question that will be more like a few 1000 crores and that is over the next 5 years and again is we planned to do it in many steps and it is actually directly proportional to the rate at which we can deliver. If we deliver faster, I will probably spend a little bit more and quicker otherwise we will keep the current rate.

Moderator: Thank you. Next question is from the line of Anshuman Dave from ICICI Securities. Please go ahead.

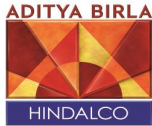
Anshuman Dave: I just wanted to ask the distribution of our roll product segment between Hirakud, Renukoot and other facilities as of now?

Satish Pai: You mean how the volumes are spread-out?

Anshuman Dave: Yes.

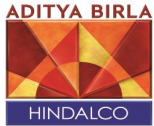
Satish Pai: So, Hirakud is the 80, Renukoot is about 90 Mouda is about 20 and the rest are split between Taloja and Belur.

Anshuman Dave: And one more question regarding this downstream expansion in aluminum, so as any idea regarding the minimum possible units of expansion when we look forward for an expansion in downstream what is the minimum kind of capacity we are looking on a modular basis in the sense when we start our plans as and when deleveraging happens as you said?



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- Satish Pai:** You mean you want to know how much KT will be added each year?
- Anshuman Dave:** Yes, in the sense any kind of unit wise expansions possibly yes in that sense what is the plan, gradual possible volume ramp up?
- Satish Pai:** Yes, exactly. So, I think we want to get to from about 350 to 600 KT, the volumes is one thing and the choice of products is also important. So, whether we do it in auto 50 KT or whether we do it in rolled foil and things like that. So, I should say that next year flat roll we will be seeing about 30-40 KT more and that should be the sort of range about 50 KT to 75 for a year as and how the investment profiles go.
- Anshuman Dave:** And so basically that takes into account like the minimum economic capacity which would be viable in such as case?
- Satish Pai:** Yes, because it is of the minimum, because remember I have the hot rolling capacity. It is really the finishing capacity and the capabilities we need to add. So, hot roll, cold roll and then you finish. We do not need to add any more hot rolling capacity. By the way in the downstream the largest CAPEX normally goes into hot rolling and we do not need to add anymore hot rolling capacity. It is the cold and the finishing, so that is really where we will have to add and the other thing where will add is on the extrusion side. We are doing currently 40 KT of extrusion we would like to double that extrusion capacity.
- Anshuman Dave:** And any kind of payback period expectations rather from this kind of project spend?
- Satish Pai:** Look any downstream investment normally pays off in about 2 to 3 years.
- Moderator:** Thank you. Next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** Most of my questions have been answered. I have just one question. Sir, what is the logic of keeping Utkal as 100% subsidiary means, why not merge it with Hindalco? ...
- Satish Pai:** No, the reason why it was created historically you have to remember this was the JV that had Rio Tinto Alcan, Norsk Hydro lot of players and over a period of time they must sold out and we have acquired and it is not even 100% because, I think the Odisha Government has this small stake not from an equity point of view but as a, they hold some debentures and things like that. So, we ended up owning Utkal as a part of an ongoing acquisition of other peoples share, which is why we are now having that as a separate legal entity. We did not start it 100% Hindalco-owned separate.
- Vipul Shah:** But that matter is under serious consideration, should I assume?
- Satish Pai:** Yes.



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Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you, sir.

Satish Pai: Thank you every one for the questions as I said, we continue with our very strong operational cost focus and I think we have delivered another quarter of very steady and good results and I think that our long-term focus remains on raising cash, deleveraging fast, so that we can continue with the next phase of our growth. So, thank you very much for you questions and your retentions. Thank you.

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