



“Hindalco Industries Limited Q1FY 2017 Earnings
Conference Call”

August 12, 2016



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hindalco Industries Limited Q1 FY 2017 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. If you need assistance during the conference call, please signal an operator by pressing “*” then ‘0’ on your touchtone phone. Please note, that this conference is being recorded. I would now like to hand the conference over to Mr. Sagar Dhamorikar. Thank you and over to you, sir!

Sagar Dhamorikar: Thank you. Good evening, everyone. Welcome to Hindalco’s First Quarter 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 in nature and will be covered by the Safe Harbor language on the page two of the Presentation.

From our management team we have with us our Managing Director -- Mr. Satish Pai; Chief Financial Officer and Whole Time Director -- Mr. Praveen Maheshwari; and Head of our Copper Business Mr. J. C. Laddha along with President (Finance) -- Mr. A. R. Das.

Now, let me turn the call over to Mr. Pai.

Satish Pai: Thank you, Sagar. Good Evening, Ladies and Gentlemen. I welcome you to the First Quarter Fiscal Year 2017 Call of Hindalco Industries Limited.

Let me start by giving you the highlights of the business environment this will be followed by highlights of our business performance. Later, between Praveen and me, we will cover the Aluminum and Copper business in more detail along with some highlights of Novelis, our 100% subsidiary.

Let me start with the broader macroeconomic picture in slide #four. The global economy looks stable at least for now. Recent U.S. data has been encouraging. However, due to Brexit and other perceived global risk the fears of FED hiking interest rates appear to be subsiding. The markets have moved past, the much talked about Brexit and has recouped most losses.

Looser monetary policies by Central Banks of most developed countries and consequently high liquidity has been supporting many global economies. The emerging economies accounting for around 70% of global growth are stabilizing after facing some challenges.

China, the torchbearer of the global growth is shifting from an investment led economy to a consumer driven economy. Strong stimulus actions have led to some buoyancy in Chinese markets. Although the concerns on real economy still loom large. The macro indicators are showing nascent improvement.



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In India, the outlook is encouraging. Good monsoon, GST and other reforms are expected to result in a strong demand growth in the coming years if not quarter.

Turning to the Aluminum industry update on slide #five. The Aluminum demand continues to be fairly robust and is expected to grow at around 5% to 59 million tonnes in the calendar year 2016. This growth is driven by both conventional and new age applications particularly in auto space.

In recent times, the Chinese demand has witnessed some recovery, primarily on the back of restocking. The buoyancy in property markets following stimulus has also help the demand pick-up. Indian demand has been strong and I expect a double-digit growth following the steps taken by the government to boost the industrial production, its investment in infrastructure and its thrust on power sectors reforms.

The main issue grappling the global Aluminum industry has been over capacity and hence surplus. In the past, unbridled growth in capacity in China has resulted in an oversupply and rising inventories.

Many high cost facilities became unviable in 2015 following the sharp decline in Aluminum realization & this resulted in capacity curtailments to the tune of over 4 million tonnes. Some of these capacities in China have restarted after the recent recovery and Aluminum prices. The softening of the global cost curve has also aided these restarts and continues to pose supply risk.

As of now though the global Aluminum market is largely balanced with China in surplus and the rest of the world in deficit, I expect this situation to stay over the medium-term.

Talking specifically about India, increasing supply following capacity ramp-ups and the high level of imports is impacting the industry dynamics. Overall, the LME outlook is stable, the prices appear to have bottomed out and have been holding on for a while. I expect them to be range-bound following around the current level.

The seeming end of deflationary trend in energy prices globally, should support the cost curve and hence LME prices.

In slide #six, I will talk about the Aluminum industry drivers that are specific to India, those impacted the industry during the last quarter Q1 FY 2017. Aluminum realizations were severely impacted due to both lower LME and lower ingot premium. LME in Q1 was 11% lower than the previous year. Ingot premium was also substantially lower as the premiums have return to their historical levels. While the depreciation of the rupee provided some support it was far smaller in impact in comparison to the decline in LME and premium.



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In addition, Indian market continues to witness strong growth in imports impacting domestic sales. On the positive side, we have seen a softening of input cost. At the global level it was driven by lower prices of Alumina and of crude derivatives. In the Indian context it also benefited from a significant improvement in Coal prices as coal availability improved.

In the Union Budget this year, Customs Duty on Aluminum has been increased from 5% to 7.5%. However, doubling of Coal Cess has more than offset the benefit of increase in Customs Duty.

Overall, while the industry struggled on the realization front, cost was supportive. Sequentially rupee LME was marginally better as the impact of 4% higher LME was negated by stronger rupee to some extent.

Cost continued to be supportive however, Coal prices in Q1 increased sequentially owing to the impact of Green Energy Cess on Coal.

Slide #seven, captures the state of Copper industry and major external value drivers of the Copper business. Good supply from the Copper mines and weak demand continue to depress the Copper prices. However, treatment and refining charges, TCRC which is the most important driver of the custom smelting model that we follow have been good.

Sulphuric Acid prices were also supportive these were partially negated by lower DAP prices and to a small extent by lower LME.

After the industry backdrop I will now present the operational highlight of all the major business segments starting with slide #nine.

The Aluminum business delivered an outstanding performance during the quarter. As all three Greenfield projects stabilized the volumes increased substantially. Our strong focus on operations led to strong efficiency gains not only from the new world class factories but also from older plants which have been our focus area and have seen operational optimization. It was not only about Mahan, Aditya and Utkal but the plants at Renukoot, Hirkud and Muri, also contributed to our efforts to improve cost competitiveness.

Another factor that played a major role in delivering this robust performance were significantly lower input prices. Coal prices during the quarter continued to remain benign due to adequate availability of quality Coal. Thanks to Coal India's thrust on Coal production. The lower crude derivative prices such as furnace oil and other carbon cost were also helpful. All of this aided the operational performance during the quarter.



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A major highlight for the quarter was enhanced coal security and improved power cost visibility which I shall discuss in the slides that follow. Going forward better control over power cost along with low cost Alumina certainly enhances our cost competitiveness. Novelis, as you know has delivered a solid operational performance, the automotive shipments have grown by 15%. I will talk about the performance in a little more detail later on. The Copper business has been an important constituent of our portfolio. A planned maintenance shutdown of 53 days was taken at our Dahej plant. As a result, Copper production was lower during the quarter. The good news is that the restart has been smooth and I expect efficiency gain in coming times. Overall, all the businesses delivered robust operational performance in Q1 FY 2017.

Coming to the quarterly financial highlights of Hindalco standalone business in slide #ten, as compared with Q1 of FY 2016, the Company's top-line declined by 11% due a sharp fall in Aluminum and Copper realizations. Aluminum LME was lower by 11%, MJP was lower by 50% while average CopperLME was lower by 22%. It is worth highlighting here that the Aluminum revenues during the quarter actually increased and were up 7.5% despite sharp fall in realization. This was primarily on account of higher volumes produced during the quarter aided by higher volumes of value added products as well. The Copper volumes however, were lower due to the planned maintenance shutdown.

Year-on-year PBITDA for the quarter at Rs. 1,351 crores was higher by 34% leading to a surge in net profit. I would like emphasis here that as mentioned earlier, supportive input cost along with improved efficiencies played a key role in the strong performance.

Let me now turn to the performance of the Aluminum business in India on slide #12. Turning to the operational performance covered in slide #12. Alumina production increased 10% Y-o-Y and metal production increased 17% to 308 KT. Alumina production shown here includes production at Utkal. In line with our focus on value added product, our production of wire rods, flat roll product and extrusion registered a healthy growth in Q1 FY 2017 over the previous year.

Overall it was a solid production performance. The company secured around 25% of its coal requirement in the recently concluded coal linkage options. This was secured at attractive prices compared to spot e-auction prices. This along with existing linkage for Renuagar Power Plant and the captive Coal Mines will provide adequate Coal security and good visibility to power cost for Aluminum operation. This is a significant development considering the Company's cost competitive Alumina value chain including Utkal Alumina which will help improve our cost competitiveness.

Slide #13, talks about Utkal's production performance. The production increased by 12% year-on-year to 372 KT. It is now running close to its design capacity and as further cemented its



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position as one of the lowest cost refineries in the world, the long distance conveyer is now fully operational.

Slide #14, summarizes our unrelenting cost focus. We have now achieved the economies of scale with the full ramp up of all our projects, improved specific consumption norms, increase plant uptimes due to regular maintenance and better labor productivity have helped results. We have also focused on the competitiveness of old plants and optimized the production thus, reducing our overall cost. These efforts have been aided by supportive input cost especially coal cost following the tremendous efforts by Coal India to enhance Coal production in the country. Improving cost competitiveness is a continues endeavor for us and we shall continue to focus on all cost improvement opportunities.

I will now cover the performance of our Copper business in slide #16. During Q1 FY 2017 production of Cathodes was lower than in the corresponding year ago period. This was on account of annual plant maintenance shutdown in one of the smelters. The smelter is now ramping up smoothly and will help the volumes bounce back subsequently. I also expect efficiency gains as we move forward.

DAP production during the quarter was higher by 21% compared to the corresponding quarter in the previous year, this was owing to the ramp up of expanded DAP facility.

I will now cover the operational performance of Novelis in brief. Many of you have already heard the Novelis Earnings Call earlier this month. Novelis delivered yet another solid quarter with 26% growth in adjusted EBITDA excluding the metal price lag. The EBITDA for the quarter excluding the metal price lag was \$268 million. This means a second consecutive quarter of U.S. \$350 per ton adjusted EBITDA this was primarily on the back of higher auto shipment volume, lower start up related cost, productivity gains, and lower metal cost due to the favorable metal mix.

Novelis continues to deploy its strategic portfolio shift, all high automotive finishing plant. All five automotive finishing plants of Novelis build since FY 2013 have been commissioned and have started shipping products. When our new assets are fully utilized, auto will comprise nearly one-fourth of the overall portfolio. There are many positive developments that will drive auto shipments growth in the coming time. These include the new 2017 Ford Super Duty Series of Trucks in North America and increasing demand from Jaguar Land Rover following the rapid growth in sales of its new Aluminum intensive vehicle including the new F Pace Sports Utility Vehicle. And in China, increasing local demand from customers like Cherry, JLR, and FAW Volkswagen.

Through our intensified focus on delivering manufacturing excellence we are building momentum in the business and that is translating into strong results.



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

Praveen Maheshwari:

Thanks Satish, and good afternoon ladies and gentlemen. I will take you through the financial analysis of the results which reflect a good performance as explained by Satish to you.

Starting with slide #20. The net sales for the quarter at Rs. 7,597 crores were 11% lower than those in Q1 FY 2016, this decline was primarily on account of sharp fall in Aluminum and Copper realizations and also due to the lower copper volumes due to a planned maintenance shutdown that we talked about earlier.

Notwithstanding the sharp decline in realizations, the Aluminum business revenues during the quarter were higher than corresponding quarter last year due to a sharp increase in volumes. I shall cover this in greater depth in segmental performance. However, a 28% drop in Copper revenues resulted in a decline in total revenues for the company.

Year-on-year, quarterly profit before interest, tax, depreciation, amortization as we know PBITDA at Rs. 1,351 crores were higher by almost 35%. This reflects a robust operational performance notwithstanding the macroeconomic headwinds that we faced. Depreciation at Rs. 338 crores against Rs. 331 crores during Q1 FY 2016 increased very marginally while interest cost were broadly stable at Rs. 600 crores. These costs have almost peaked out and going forward softening of interest rates augers well for the company.

Profit before-tax at Rs. 413 crores was significantly higher than Rs. 70 crores in Q1 FY 2016. Net profit for the quarter was Rs. 294 crores as compared to just Rs. 61 crores in Q1 FY 2016.

Turning to the financial performance of Aluminum segment in Q1 as you would notice on slide #21. Aluminum segment revenue increased 7.5% over the same quarter last year on account of higher volumes even as the realizations were lower. Earnings before interest, tax, depreciation and amortization at Rs. 901 crores were significantly higher about 64% on year-on-year basis. This jump was primarily on account of higher volumes and improvement in cost of production. You may kindly note that the financial performance covered in this slide does not include performance of Utkal Alumina.

Looking at the financial performance of Copper segment on slide #22. The segment recorded a dip in revenues on account of lower volumes owing to a scheduled plant shut down for maintenance and a sharp decline in Copper realizations. You will recall that Copper LME was 22% lower as compared to that in the corresponding quarter of previous year. The EBITDA for the quarter consequently at Rs. 284 crores were lower by 29%.



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I will now take you through the financial highlights of Novelis Q1 FY 2017 results. Sales at \$2.3 billion were lower on account three factors: lower LME; significantly lower local market premium; and marginally lower shipments. Adjusted EBITDA at \$255 million was about 100% higher than that in Q1 FY 2016. However, you will recall that adjusted EBITDA for Q1 of FY 2016 was much more impacted by metal price lag than the current quarter.

For the quarter, we reported \$13 million of negative metal price lag as compared to negative \$85 million metal price lag in the prior years. Even after excluding MPL, the metal price lag adjusted EBITDA was up 26% at \$268 million resonating a solid operational performance. Net income for Novelis for this quarter was \$24 million against a loss of \$60 million in Q1 of FY 2016. Excluding a few special factor such as metal price lag, restructuring expense and loss on extinguishment of debt, etc., net income was \$33 million up 38% compared to \$24 million in the prior year. Having completed all major strategic CAPEX plans, we expect to contain the annual capital expenditure to approximately \$250 million most of it being maintenance spends only.

Given the strong first quarter results, we are very confident that we will be able to achieve \$250 million of free cash flows for the full financial year in Novelis.

Let me now give you an update on Aditya Birla Mineral or ABML as we call it, a subsidiary of Hindalco where we held 51 shares and it was listed on Australian Stock Exchange. We had been contemplating divestment of ABML for some time. This contained a couple of Copper mines which was considered strategic for the purpose of our copper smelter. However, with the life of mine coming to an end we contemplated divestment. This process has now been completed in July 2016. We accepted the open market offer of Metals X Limited another listed company in Australia with major interest in gold mining. The offer basically consisted of one Metals X share for every four and half Aditya Birla Minerals Limited shares plus a cash component of 8 Australian cents for every ABML shares and represented roughly at 32% premium to the market value at the point of accepting this offer.

Subsequently the shares of Metals X that we received have also been sold off. Put together the total net realization from the above transactions has been around 73 million Australian dollars for Hindalco. The process was completed in Q2 between July and August.

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

Satish Pai:

So let me summarize our performance and the outlook in slide #25. Following the culmination of our large and ambitious investment program we believe that our operational performance will improve further this year. As the capitalization of new factories is largely completed, interest and depreciation have almost peaked out now hence much of the future operational improvement should flow through the bottom-line. Also softer interest rate should support us



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going forward. As you would have seen we had a creditable performance in Q1 this came on the back of Aluminum volume gains as well as lower input cost.

One is not sure as to how long the input cost would continue to have a favorable effect. The coal linkage tie-up was a significant step to have visibility on security and the cost of Coal. We believe that the operational improvements that have under pinned the better performance will be sustained in the coming quarters. Copper business post maintenance shutdown is ramping up nicely and I expect it to contribute substantially to our bottom-line.

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 macroeconomic headwind.

Turning to slide #26, our focus going forward will be on running tight operation. We will continue to focus on deriving the design efficiency on a consistent basis with smooth and stable operation. Also we will continue the process of optimization of supply chain logistics and strengthening our value added products portfolio to leverage the demand improvement and to command more premium in the market.

At the same time as the challenging macro-economic conditions continue we will have a relentless focus on cost and cash and on proactive management the working capital.

Thank you very much for your attention, the forum is now open for question-and-answers.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of SumangalNevatia from Macquarie. Please go ahead.

SumangalNevatia:

Couple of questions firstly, if I look at Aluminum cost per tonne even if I compare quarter-on-quarter cost what I am getting is close to \$50 per tonne reduction now whereas, I presume Coal cost would have been higher due to increase in Green Energy Cess and we have already reached rated capacity in 4Q. So, if you can please elaborate which factor has contributed to this reduction? And second, if there are any I mean if these cost levels are sustainable changes in commodity prices is going future.

Satish Pai:

Yeah, I think that you know on the cost production improvement Q4 to Q1 you have to remember that in Q4 of last year Aditya smelter had not fully ramped so, in Q1 Aditya is also fully ramped up so, we had that advantage of the full ramp up of Aditya and also the second thing is our operating efficiency is also in Q1 were slightly better than Q4 so, I think that this improvement on COP Q4 to Q1 as you rightfully pointed was not because of Coal cost but was really on the back of stabilized operations and Aditya being ramped up.



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- SumangalNevatia:** But sir, the production level was similar I mean higher in Q4 ?
- Satish Pai:** Yeah, the production levels in Q4 was slightly higher because that was the end of the quarter but in Q1 Aditya was fully ramped up. In Q1 of this year production levels at some of our other smelters were slightly lower so the production will not give you the answer. The cost of production is really explained by Aditya being fully ramped up. The other thing I wanted to highlight which I think I touched upon in the presentation was we also had much better efficiencies in our older smelter. So, if you look at Hirakud, I think Hirakud also in Q1 of this year had a very smooth operation with very much better efficiencies. So, even the older smelters of Renukoot and Hirakud helped us to bring the cost of production down. Now, going forward, I think that you know locked in nearly 4.5 million tonnes of Coal in the leakage auction. So with our existing linkage of Krishnashilla for Renusagar and captive mines, out of the 16 million tonnes of Coal nearly 11 million is locked in at known prices. So this gives us a tremendous security on the coal cost. Now the only unknown remains the price of oil. So carbon and furnace oil these are the only two things which we are still exposed to the market but everything else operational efficiencies, coal and volumes are sustainable going forward.
- SumangalNevatia:** Understood. Sir, you said, we have secured close to 25% linkage. Is it possible to share the premium which we paid over the notified price?
- Satish Pai:** Well, I think, all we can say is that we paid a reasonable premium over notified price but this was lower than the current e-auction prices that we are paying on the market so far so, that should give you an idea.
- SumangalNevatia:** Understood. Sir, second question, for the Copper division fiscal loss in volumes which we had in 1Q can we recover that in coming quarters the full year volume now will be closer to 350 this year because of the loss in first quarter.
- SatishPai:** I think we will not be able to fully recover the nearly 35 KT we lost in Q1 but since the throughput in Copper is much better I think some parts of it we will recover but not all of it. But where we will gain is on the efficiency front because now this smelter is running at a much better specific consumption norm. So, I think I am hopeful on the EBITDA front, I am not going to see too much effect of this Q1 shutdown.
- SumangalNevatia:** Understood. If I may just ask one more question. In the commentary you mentioned that our focus is on monetizing and non-core assets. Can we expect near-to medium-term any monetization of small holding in the group companies we have?
- Satish Pai:** Praveen, do you want to take that one?



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Praveen Maheshwari: Yeah. See, monetization of non-core asset is a continuing process. Now, we will keep looking for such opportunities they arise and we will make efforts to do the same. But you cannot get a fixed time table for effecting that at this point of time.

Moderator: Thank you. The next question is from the line of Jigar Mistry from HSBC. Please go ahead.

Jigar Mistry: Mr. Pai, just on the 11 million tonnes of linkage that you mentioned, can you update us on where we are on Kathautia and Gare Palma IV/4 and Gare Palma V have they started producing on full stream?

Satish Pai: So, let me correct your first line it is not 11 million of linkage it is 4.5 million that we got on the linkage.

Jigar Mistry: And 4 million is Krishnashilla.

Satish Pai: 4 million tonnes is Krishnashilla and 2 million I have already got from the producing mines of Gare Palma IV/4, and Gare Palma IV/5 which are now close to running capacity so roughly 11 million secured. Kathautia, I am now fairly hopeful because many of the land forest issues, the government of Jharkhand has resolved so, I would expect that somewhere towards Q4 of this year Kathautia would start. Dumri you have to remember the Schedule II mine and is only schedule to start in FY 2018 so, that is the status of those two mines.

Jigar Mistry: And the total requirement is on full stream is about 16 million tonnes you said?

Satish Pai: That is correct.

Jigar Mistry: All right. And secondly, if I can ask Mr. Maheshwari as to whether there are any significant reporting requirement changes that were affected we saw EBIT being reported as EBITDA but any other thing that we should notice in the quarters result?

Praveen Maheshwari: So, really speaking the big change is the change in the standard as you all know that instead of IGAAP as we use to follow in the previous years from 1st of April we have shifted to Indian Accounting Standards which is IndAS which is the Indian version of IFRS. The biggest change that we notice there is in the other income segment where now you are required to value on a MTM basis, the investments that you have in treasury. So earlier, under IGAAP it used to be based on actual realization, the booking of income was made, now it is MTM so whether you realized or not you have to account for it. And therefore you may see some volatility in that area going forward as well. This quarter was positive for that area because the interest rates have softened in this quarter which increases the bond yields and therefore the investments have been valued accordingly, but this is one area which will probably have an impact going forward.



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- Jigar Mistry:** But nothing above the line?
- Praveen Maheshwari:** Nothing much above the line. There are minor changes like you know leasing is one area, the property plant equipment there are certain changes I do not think there is anything which is so material as to attract real attention on that.
- Jigar Mistry:** Great. And lastly, when we will we start reporting Utkal's EBITDA on a quarterly basis if you can highlight that? Thank you.
- Praveen Maheshwari:** So Utkal's EBITDA we are not reporting on a quarterly basis but we do report on annual basis plus we supported by saying you know the volumes and the ramp ups in general description is given so I guess you get a fairly good idea of how Utkal is running. So, I think there is nothing really much to report there, except that it is a stable operational now, we are one of the lowest cost producers in the world in terms of Alumina at Utkal. It is largely consumed by our own smelters if there any surplus it is exported.
- Moderator:** Thank you. We will take the next question from the line of Dhawal Doshi from PhillipCapital. Please go ahead.
- Dhawal Doshi:** Sir, just one question on the financial instruments the gain that we have reported of Rs. 99 crores so, that when we look at the segmental accounting is it included in the Aluminum business EBITDA?
- Praveen Maheshwari:** No, it is not a part of the Aluminum business, we treat treasury as a separate, it is not segment it is a part unallocated corporate expense minus incomes.
- Dhawal Doshi:** Okay. So the Aluminum business EBITDA does not have any financial hedges gains or losses?
- Praveen Maheshwari:** No, it is not a financial hedge, these are the instruments that we hold as a part of our treasury, they are not hedges.
- Dhawal Doshi:** Okay. And secondly sir, can you help us with the debt numbers?
- Praveen Maheshwari:** Yeah, gross debt number at Hindalco standalone long-term debt is about Rs. 24,000 crores, we have about Rs. 4,000 crores of short-term debt so, roughly it is about Rs. 28,000 crores. We have about Rs. 5,000 crores of debt in Utkal and in Hindalco standalone we have roughly about Rs. 7,000 crores to Rs. 8,000 of treasury at any point of time. So these are the broad numbers on debt and treasury.
- Dhawal Doshi:** So the proceeds that we get from the sale of Metal X will be effected from the next quarter?



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- Management:** Yeah, this has happened in the second quarter so, we have divestment as I mentioned has happened in July and August that will come in the July - August results.
- Moderator:** Thank you. We will take the next question from the line of Pinakin Parekh from JP Morgan. Please go ahead.
- Pinakin Parekh:** Just three quick questions, regarding the Coal linkages/Coal block win that we had, now obviously there is a degree of variance across blocks but the initial blocks that were won by Hindalco in the Coal block auction at the certain prices and now the recent linkage auctions have certain price difference. The coal blocks were won at a much higher price. Sir, can you give us a sense of what is the broad percentage difference on GCV basis into their extent the cost hit from the captive coal block versus the captive coal linkages that the company has won.
- Satish Pai:** See, Pinakin, let me to sort of give you how we look at this. For us, the overall Coal cost and the Coal security is the important point, that is the first thing. The second point is that any Coal cost is ultimately reflected in our cost of production of Aluminium per tonne. So in Q1 you have already seen that weighted basket impact along Gare Palma IV/4 and Gare Palma IV/5 already in our results. The third thing to tell you is Gare Palma IV/4 and Gare Palma IV/5 have got very high GCV of Coal so, if you remember even in the last quarter's call I had answered this question that these mines are actually on an import parity basis for me from a Coal GCV point of view. So I think the way we look at it is that today we have got linkage auctions as I said at a reasonable premium above notified price, I have got high GCV Coal that I use to import which is now available from Gare Palma IV/4 and Gare Palma IV/5 so, what we have achieved is that overall Rs/ kilocalorie we have a very nice mix as well as the security so, that is what I would like to say.
- Pinakin Parekh:** Sure, fair enough. My second question is there has been a very material improvement in the India upstream Aluminum business there has been a cost deflation, coal, and ramp up of the operations. Now if I look back two quarters - three quarters, we get Aluminum EBIT margins of less than 1% in second quarter of fiscal 2016 and which is has now moved to 20% -21% and the LME Aluminum has not really moved in that environment. If everything remains as it is today for let us say the remainder of the year is the reported number of the first quarter a good benchmark of proxy for profitability we can expect over the next few quarters or are there things which can reverse from this quarter even if the broad commodity pricing environment remains constant?
- Satish Pai:** So, you know as they say we are trying to predict the future here. So, the part I think I answered in an earlier question, the Coal prices for the remainder of the year we now have a fairly good handle on. The Alumina prices we are fully-integrated, our plants are running stably and the efficiencies are there. So, the really only open unknown for me is the price of oil which drives furnace oil, coke pitch carbon that is required which is roughly 20% of the cost.



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So to really answer your question, 20% of my COP is on an unknown basis compared to what the price of oil will do going forward. So that is how the way we look at it. Fundamentally our approach has been is that we have to keep our COP at this level and because macroeconomic still remains in our view a little bit volatile as you can see that the LME can swing \$40-\$50 sometimes in a day.

Pinakin Parekh:

Sure, sir. And the last question I mean just stepping away from the quarterly numbers. Now Hindalco has ramped up, the Alumina refinery is sitting on a great option over there in terms of expanding that refinery because the mine is already there, the land is there and I would assume that there would be similar options of Brownfield growth at the smelter level both as Mahan and Aditya. Now again those optionalities which would require spending there is also the focus on deleveraging. So does the company see this as a trade off or is investing in cheap Brownfield growth not an option being considered at all as a focus right now paramount is just the balance sheet because while the near-term obviously it helps but then the company loses out on the medium-term to long-term growth opportunities.

Satish Pai:

So, you know the we see as you said it is a no brainer we see quite a few opportunities for Brownfield growth ahead of us. But I think that as you said in the short-term we are relentlessly focused on deleveraging the Hindalco balance sheet. I think that if we can see a little bit of uptick in the LME prices and getting debt-EBITDA levels down to where we feel comfortable then these Brownfield opportunities are always there they are not going to go away. We have the mines, we have the clearances, I think our short-term focus is as you say on deleveraging.

Moderator:

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

Bhavin Chheda:

Sir, few questions on the Coal what we said, out of 16 million you are covered almost 11 million via linkage and various other things. How much of this coal is actually now started or on a run rate basis you were already there in quarter one because I believe Kathautia mine has not started Gare Palma IV/5 may not be operating at full capacity and linkage is you have just won, so, actually that run rate would have been much lower in Q1.

Satish Pai:

So you are right, the linkages we just won in the month of July so those are good to start from 1st October so, that impact actually you will see from Q3, Q4 onwards. So, what we have right now is - most of our Coal we are buying on e-auctions and I need to repeat that the great performance of Coal India in the last few quarters meant there is huge amount of Coal available in the e-auction at a very reasonable prices. So that is why in Q1 we are benefited. So if you do the math once the linkages start from Q3 we should be even in a better shape.



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Bhavin Chheda: So can we roughly summarize that there is still a space for further reduction in Coal cost every quarter till you achieve this for 11 million tonnes that would be a fair assumption since the prices of that portion is more or less freeze?

Satish Pai: I think the linkage price is frozen 4.5 million, Krishnashilla 4 million is frozen, Gare Palma IV/4, Gare Palma IV/5 is frozen. So the only open part for us is 4.5 million tonnes which I continue to buy on the market on the e-auction basis. So, I think the answer to your question is probably with you itself.

Bhavin Chheda: Okay. So, second one does this quarter is not having any hedging related gains in the Aluminum division, right?

Praveen Maheshwari: So, hedging is a part of our strategy and by doing the hedging we are able to secure a certain level of realization despite a huge drop in realization if it ever happens. So, it is more like making your realizations stable, a defensive strategy. So, I would not put hedging gain as an activity outside of the business, it is a part of our business and it helps us stabilize the operations in terms of realizations and this is what we have been doing in for several quarters and several years in fact it is an ongoing activity for us.

Bhavin Chheda: Okay. And my last question how much would be the debt repayment in the standalone and the consolidated entity this fiscal and next year if any targets you have set?

Praveen Maheshwari: No, so debt repayment is as per the schedule of repayment in standalone and Utkal. As I have said we have three project between Mahan, Aditya and Utkal with a long repayment schedule that goes up to 2030-2031. In the next three years, repayment is sub-Rs. 1,000 crores so, there is not much of a repayment that is happening here.

Moderator: Thank you. We will take the next question from the line of Ravi Shankar from Credit Suisse. Please go ahead.

Ravi Shankar: Two questions, one is on Copper. Does the segment top-line have been very strong and this is even if we were to adjust for the lower Copper volume. So, what has really driven that? Is it just the better asset prices but then the DAP prices have been weaker, is there gold and Silver contribution also in that?

J. C. Laddha: Yeah, I am J. C. Laddha, what you said it is right. The premiums, gold and silver they have contributed to this.

Ravi Shankar: So, the Copper premiums as well as Gold and Silver?

J. C. Laddha: That is right.



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- Ravi Shankar:** Okay. And you expect this to sustain because the non-Copper revenue so to say is very-very high this quarter.
- J. C. Laddha:** Going forward it may have some impact however everything depends on the market conditions.
- Ravi Shankar:** Understood, okay. And the other question is on other expenses if you see those have risen 10% sequentially and they are up 19% year-on-year so, what exactly is contributing to that cost head?
- Praveen Maheshwari:** So, other expenses is a mix, it includes for example your sales expenses, your freight cost, your packaging, overheads and so many things. So, it is difficult to give a general answer on this but yes, there is certain amount of inflation that takes place in the other expenses.
- Ravi Shankar:** Okay. And lastly, on CAPEX, what was the figure for 1Q and is the guidance of around Rs. 1,000 crores or thereabout remains for the full year because we would then get a sense of whether Hindalco on a standalone basis is sort of nearly FCF neutral or not?
- Praveen Maheshwari:** Yes, so the guidance on sub Rs. 1,000 crores for the year stands.
- Ravi Shankar:** Okay. And was this quarter an FCF positive one at the standalone level?
- Praveen Maheshwari:** It is difficult to do it quarter by quarter because there is also working capital change that happens which is larger impact than just the CAPEX. But I can tell you for the full year we expect to be reasonably comfortable on the cash flows situation.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Sir, my first question is would it be possible for you to quantify what is the cost differential between the new smelters and the older ones? I am just trying to understand the incremental room that we have on the cost side?
- Satish Pai:** So, look it the new smelters are obviously more cost efficient than the older smelters but let me put it this way one of your colleagues back calculated the cost per tonne, the average of Hindalco, I would say that we are now very comfortably in the first quartile of the cost curve as a mix of average. I would not like to break it down further.
- Ritesh Shah:** Okay. Sir, my second question on rupees per kilo cal basis, how do you see e-auction versus linkage versus imported so, our linkage around 750 and say e-auction let us say around 900



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and imported higher than that if you could give a broad number over here it would be quite useful.

Satish Pai: Look, I think that you know the notified price of Coal India and I think of course it depends because they give it on a per tonne basis not a rupees per million kilo cal basis. So it is very difficult because there is no notified price for Coal India on a rupee per million kilo cal so, it really depends on your mix of coal and where do you buy, or how do you import. We have had shipments of Coal from Mozambique recently that we had actually got even cheaper than e-auction Coal here. So this Coal procurement for a company like Hindalco which is so heavily dependent on energy. We have a very active coal procurement group that is constantly looking for these opportunities to get this mix right. So, it is not just what is happening on the e-auction or what is happening on the notified price we are constantly trying to optimize our basket ..

Ritesh Shah: Right. Sir, it will be quite useful if you could help us on a blended per k cal number on a quarterly basis. I think that would help understand COP a lot better from our perspective?

Satish Pai: Okay. I will certainly take your suggestion.

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

Ashish Kejriwal: Sir, is it possible to give us a sales volume for Aluminum and Copper separately?

Satish Pai: So total sales volume for primary metal was 217 KT and value added was 73 KT that is on the Aluminum side and on the Copper side, the Copper Cathode volume was 24.4 KT and Copper rods was 38 KT.

Ashish Kejriwal: Okay, fair enough. And sir, in one of the questions you have said that our efficiencies in the old smelters have also increased significantly and obviously this quarter does not have a material or any reducing effect of Coal cost. But if that is the situation then why we have reduced production from the other smelters?

Satish Pai: This is a question of decline. I think if you look at it quarter-on-quarter our production was roughly flat.

Ashish Kejriwal: I am talking because last quarter Aditya was not ramped up and this quarter I think you are saying it is fully ramped up.

Satish Pai: Yeah, I think last quarter we still had all the lines of Hirakud running if you remember and we shutdown one line of Hirakud last year after the LME really crashed so that is the difference when you look at it quarter-on-quarter when you look at the volume difference.



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- Ashish Kejriwal:** No, sir I am talking about fourth quarter to first quarter, fourth quarter other smelters like this Hirakud and Renukoot I think that contributed around 142,000 tonnes whereas this quarter it is around 130,000 tonnes if I assume Aditya and Mahan is at full capacity so why the reduction is there despite the fact that we are increasing or we have increased the operating efficiencies in the old smelters?
- Satish Pai:** No, I think maybe there is a misunderstanding. There was no real reduction if you look at Q4 it was 306 KT and you look at Q1 it was 307 KT but you know depending on each smelter and depending on sometimes the maintenance of the power units, you can have a little swing between the different smelters but there was no real difference, the volumes are more or less stable now, you are going to see them at this level going forward.
- Ashish Kejriwal:** Okay. So can we have Aditya Aluminum and Mahan Aluminum volume separately?
- Satish Pai:** Okay, Sagar will get back to you with that number.
- Ashish Kejriwal:** Okay, sure. And sir, lastly, is it possible to give you a Coal cost on a per kilo cal basis for fourth quarter and first quarter?
- Satish Pai:** So, I think your previous colleague made that request which I have said that we will consider.
- Ashish Kejriwal:** Okay. So but that is for sure Coal cost did not have any positive effect on this quarter's performance as compared to fourth quarter?
- Satish Pai:** No, all I can say is that the Coal cost was slightly higher than Q4 on a rupees per million kilo cal basis and you have to remember listen to my commentary the government increase the Coal cess from Rs. 200 to Rs. 400 which they said during the budget side somewhere in February so, the full impact was seen in the Q1 of this year and in fact wiped out the 2.5% duty increase that we got as well.
- Ashish Kejriwal:** Yeah, that is what we were surprised actually after even increase in coal cost our cost of production is much lower.
- Satish Pai:** Yeah, but the increase in Coal cost have to emphasize those are not some huge increase, I mean when we look at it on a rupees per million kilo cal it is true that Q1 was slightly higher, it was not that it was usually higher.
- Moderator:** Thank you. The next question is from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.



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Sanjay Jain:

Sir, my question is on slide number five, you highlighted that increasing supply and high imports are impacting Aluminum industry. So, I want to understand a little bit more on this, in what way it is impacting basically my concern comes from the fact that we are trying to increase Aluminum production in India quite rapidly like Vedanta and perhaps even NALCO will increase production how this is going to be what is the impact of this growing production and imports also you highlighted on the local premiums. Are we going to see some pressure there or how is that panning out? And secondly on product value addition that you talked about like how all this could impact the average product premium?

Satish Pai:

Okay. See your second part of the question is that every time you value add you get basically more premium on top of the metal cost so, that is why our strategy with the Mouda Foil mills, Hirakud Rolling Mills which we are adding capacity is to have more value added products because you get more EBITDA per tonne on top on the metal. So having more downstream adds to more EBITDA. Go back to your first question, if you listen to what I think I have said on behalf of the Aluminum Association quite a few times to the government, 50% of the India's Aluminum consumption today is being imported and this we are flagging it as a big issue because India is the only real growth story left in the world today and the Indian Aluminum market is growing. Q1 to Q1 it grew at 13% so, what we are trying to say is that you know there are a lot of countries which have got subsidized energy prices are trying to dump metal into India to take advantage of the growing Indian market in this year. So, we have been representing on behalf of the Aluminum Association to the government and we have got various initiatives on Anti-Dumping, Safe Guard duties that are ongoing because we are trying to curb import. India today can be easily self-sufficient in Aluminum between all the three major Aluminum producers, there is no reason why India should be importing 50% of its Aluminum. So, that is the point I was making out there. I think that you know on behalf of the Aluminum Association we have made quite a lot of representations to the government, I think the government is quite receptive. As you may know for Steel, they have taken various measures, MIP, Safe Guard which I think this has put the Steel industry back on its leg and going well. And what we are seeing that you know for a core sector like Aluminum which being the metal of the future, whether it is defense whether it is smart cities multi-stories buildings whether it is electricity. You know India is capable of big self-sufficient in Aluminum and we should not have this high level of imports that is the point I was making there.

Sanjay Jain:

Yeah, I understand. But what is the reaction of the government on this? I mean they have increased the import duty from 5% to 7.5% but on the other measures like Safe Guard, Anti-Dumping or anything like that, is there any work going on?

Satish Pai:

Yeah, as I mentioned already, again, these initiatives are ongoing, there is an ongoing Anti-Dumping Investigation, there is an ongoing Safe Guard. We have an Aluminum Association and the industry applied for MIP which is the minimum import price, so a lot of initiatives are ongoing there.



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Moderator: Thank you. That was the last question. I would now like to hand the conference over to the management for their closing comments.

Satish Pai: Okay, I think that I would like to thank all of you for participating in the call. We had a good quarter but I think this quarter was all about cost focus and operational efficiencies and I think that is going to be our focus going forward. We think that the LME on the Aluminum side it is going to be range bound so, we are hoping for a good performance of Aluminum going forward this year. Copper after the shutdown should deliver. And on the Novelisside again all five auto lines are performing well, the auto demand seems to be strong- for the auto body and white sheet. So all in all I think where the macro environment remains susceptible to risk and can be volatile, we think that the basis of the operations and our focus on cost and cash will allow us to survive and have a good year going forward. With that, I would like to thank you and turn the call back to the operator.

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