"Hindalco Industries Limited Q2 FY16 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hindalco Industries Limited Q2 FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Mr. Sagar Dhamorikar**.** Thank you and over to you, sir.

Sagar Dhamorikar: Thank you Vivian. Good evening, Ladies and Gentlemen, thank you for joining us today to discuss our results for the quarter ending September 30th, 2015. On this call we will be referring to the presentation that is available on our website. Some of the information on the call maybe forward-looking in nature and will be covered by the Safe Harbor language on the page 24 of the presentation.

From our management team we have with us our Managing Director Mr. D. Bhattacharya, our Deputy Managing Director Mr. Satish Pai, Chief Financial Officer Mr. Praveen Maheshwari, and Mr. J.C. Laddha – Head of our Copper Business along with Mr. Alphonso Richard Das – President Finance and Treasurer.

Now I will hand it over to Mr. Bhattacharya.

D. Bhattacharya: Thank you Sagar. Good evening Ladies and Gentlemen and Happy Diwali to all of you. I am pleased to welcome you to Hindalco Industries Limited Second Quarter Fiscal Year 2016 call.

I will cover this presentation in three sections. I will first give you the highlights of the business environment and our performance both in physical terms and in financial terms. I will then cover the aluminum business in more detail along with some highlights of Novelis, our 100% subsidiary. This will be followed by the review of copper business.

Slide three. Let me start with a broader macroeconomic backdrop in slide three. We have a mixed picture on the global recovery, the recent concerns over slowdown in China have raised the perception of macroeconomic risk especially over the outlook for commodity markets. Most of the indicators show that the Chinese economy seems to be cooling off. Its imports are declining, Chinese authorities appear to be trying to prevent this slowdown from snowballing into a bigger crises through rate cuts and RMB devaluation. Some of the other emerging market economies like Brazil and Russia are in a bad shape too. On the other hand, the US and the Europe area are gradually continuing with their recovery. Overall, our sense is that the global economy is somehow trudging along.

Moving on to the slide four. While the liquidity created by central banks has largely been holding up, the financial markets, we have seen a substantial decline across several commodities over the last one year. Both aluminum and copper prices are down significantly on a year-on-year basis but so are many other commodities. Iron ore and oil prices have declined even more sharply. This essentially shows that the large decline seen in metal prices over the last year has been very much a part of the overall meltdown in commodity markets.

Slide five shows, that as far as aluminum is concerned, both components of its price LME and the regional premium have fallen sharply. The current levels are nearly $750 to $800 off the level seen in the last quarter of 2014. On the aluminum consumption front, the news is not so bad. Market is still growing at around 4% to 5% which is a slowdown no doubt, but there is certainly no de-growth. The reason why market fundamentals appear weak has more to do with the supply side. With strong supply growth in China global aluminum market is likely to be in a large surplus of over a million ton in 2015. The overhang of stock remains high at nearly similar levels that we have seen through most parts of the last four years.

One factor that clearly calls for correction in aluminum prices is the dynamics of the global cost cuts. About one-fourth of the global capacity I believe is incurring cash losses at current realizations. There are some factors that have delayed the supply side response to such a situation, including the power subsidies being handed out in China to prevent smelter closures. In certain cases, such subsidies have reduced the cost of the vulnerable smelters by $50 to $75 per ton, but fundamentally I believe that we cannot have such a situation continuing for very long and we will see more smelters closing down both in China and in the western world. With that metal realization should lift up from the current highly depressed levels.

Moving on to slide six, with this broad industry backdrop let me now turn to our operational performance during quarter two. In aluminum business, I am happy to report that our ramp up has progressed very well and our volumes have grown significantly. We had record metal sales in this quarter with volumes rising over 50%.

Novelis is also delivering well on its rolling expansions, these ramp ups have helped the shipments grow to a new quarterly record of 788 KT. Auto segment, that has been the focus on Novelis' strategy in the recent past grew extremely well, vindicating our bet on the trend of light weighting of vehicles. Copper business had another good quarter with sales volumes growing at 8%, copper segment maintained its performance at a healthy level. All in all, we had an all-round improvement in operational performance during the quarter.

Turning to the financials in slide number seven, our sales revenue in rupees was up 4% year-on-year. Very strong growth in volumes was diluted quite substantially by the sharp slide in commodity prices. Aluminum segment revenue increased 26% over the corresponding quarter last year whereas copper segment revenue declined 10%. You would notice that the decline in copper segment revenue was much narrower than the decline in LME, reflecting the higher volume of sales. In a difficult quarter in terms of adverse macroeconomic conditions, we were able to maintain PBIDTA at a four digit level, which reflects the robust, operational performance. It may also be noted that this was also supported by higher other income. Compared to the quarter two of FY15, our interest and finance charges as well as depreciation increased very sharply, this was on account of the ramp up Greenfield capacities and was along the expected lines. Due to such huge depreciation and financing charges, net profit was restricted to Rs 103 crores.

Now coming to the numbers in slide number eight, our revenue at Rs. 8,925 crores in Q2 of FY16 was 4% higher than last year as well as the previous quarter. You would notice that there was a jump in other income this quarter, this includes the effect of other income of Rs.119 crores,that is of a non-recurring nature. Other income also includes dividend from subsidiaries. Depreciation and interest together knocked off a little over Rs.900 crores from our earnings, this was significantly higher than the corresponding quarter last year. These charges have nearly stabilized now. Profit before tax was lower than the previous quarter at Rs.109 crores, net profit was ahead of the year ago quarter and was largely in line with the previous quarter.

Let me now explain the profit bridge from the year ago quarter in slide nine. We had pre-tax profit of 107 crores in Q2 of FY15, it was attributed to very large exceptional charges amounting to a net figure of 431 crores. If you remember, this was mainly on account of Talabira 1 coal levy and diminution in the carrying value of our Australian mining subsidiary adjusted for some positives. Compared to the last year we have a higher other income of Rs.194 crores this quarter.

On the other side, we have this year, an adverse swing of Rs.294 crores in earnings before depreciation and interest. This was primarily on account of adverse macroeconomic factors that could be only partially offset by the cost improvements. Another large negative was depreciation and interest, these charges were higher than the last year by Rs.330 crores in quarter two FY16, thus we ended up with a profit before tax of Rs.109 crores this quarter.

In the current business environment we have launched a slew of initiatives to tide over the tough times. The internal project debt has been refinanced and the tenor has been extended significantly. Over next three years only 1% of the repayment is due annually. We have also undertaken several cost savings and cash conversation initiatives that should enhance our long-term cost competitiveness. Our focus on coal logistics, marketing initiatives to cater to strong Indian demand should start yielding favorable results.

Let me now cover the aluminum segment in more detail.

Slide 12, aluminum business External Drivers: As you know the external macroeconomic drivers were extremely negative for aluminum industry. During Q2 FY16 the London Metal Exchange price for aluminum was lower by 20% as compared with that of the corresponding quarter of the last financial year. The premium that have been very supportve all throughout financial year 2015 has collapsed and is around $100 as is ruling right now which is lower by over 75% in Q2 FY16. The MJP was then hovering around $415 to $425 per ton. As a result realization during Q2 FY16 was sharply lower than the corresponding quarter last year. The depreciation of rupee though did offer some support, did not provide much succor as the depreciation in the other currencies was much sharper as compared to that in the rupee. Sequentially too, the business faced headwinds on account of external drivers. Though of late, the coal cost in India is on a declining trend, on year-on-year basis we witnessed a surge in coal cost on account of loss of Talabira 1 coal block that got de-allocated. The overall impact of these headwinds was around Rs. 1,000 crores on a year-on-year basis and over 400 crores sequentially.

Slide 13 covers the production performance of aluminum business. During this challenging times we continue to ramp up the production from the new state of the art Greenfield facilities. As the projects ramp up the cost of production continues to decline. The chart on the left depicts alumina production, Utkal is now operating at close to full capacity and is already one of the best alumina refineries in the world. Quality bauxite and tight supply chain integration makes Utkal one of the most efficient refineries in the world and amongst the lowest cost refineries in the world.

I am also happy to inform you that the long distance conveyer, the first of it's kind is now ready and going forward should not only bring down the cost further but also insulate the transportation cost from possible inflationary trends going forward. Overall, alumina production increased by 18% year-on-year basis.

During Q2 FY16, aluminum production increased by 44% over Q2 of FY15 despite some cut backs in production at Hirakud, 85 kiloamps potline. Mahan smelter has now achieved 100% ramp up with all 360 pots in production. Aditya smelter was running at around 67% capacity in September 2015. At present, we have commissioned nearly 250 pots out of the maximum of 360.

Coming to slide 14, we continued to focus on operational efficiencies. Both smelters run on proven Aluminum Pechiney 36 technology designed for superior efficiency. Both Mahan and Aditya are running at design efficiencies, as a result, the cost of production is declining. The softening of import prices is also contributing to our cost reduction measures. Utkal is a great asset. In times when China is looking for bauxite in Africa or Australia, making it travel several thousand miles, here the bauxite transportation cost is next to nothing.

On the coal front we expect Chhattisgarh coal mines Gare Palma IV and Gare Palma V to start production over the next month or so.

In line with our thrust on value maximization, we have started production of aluminum rods and billets at Mahan facility. This would help us in improving product and geographic mix going forward. Our Value Added Product portfolio distinguishes us from the competition in India. We have a very strong VAP portfolio, with a strong presence in both FRP and extrusion space. After a lull VAP demand in India is on the mend and that augurs well for us.

Coming to financials, aluminum business top-line grew at 26% over Q2 FY15, registering a turnover of 4,173 crores, this was a remarkable growth against the backdrop of severe macroeconomic headwinds. The EBIT declined sharply to Rs.29 crores, despite strong operational performance due to sharp fall in realizations. The EBIT drop was accentuated by higher depreciation as the project ramped up. Please remember these financials are without Utkal. Utkal had an EBITDA of Rs.240 crores during the quarter, hence overall aluminum business in India at an integrated level has indeed performed very creditably.

Let me now cover Novelis briefly. Though I am sure you must have listened to yesterday's earning call. The recent expansions at Novelis are ramping up well.This resulted in record shipments of 788,000 tons for the quarter. The end user demand remains strong, particularly auto, which increased at 59% year-on-year. Ford F150 supply continued to grow.

Like the previous quarter, Q2 was also impacted by decline in regional premium, the impact of metal price lag for the quarter was negative 54 million. Operationally this was a good quarter and Novelis registered EBITDA before MPL at US $236 million which is the highest in last 10 quarters. Our focus on inventory rationalization helped reduce working capital significantly. Free cash flow for the quarter was US$140 million.

Now let me give you some insight on copper performance.

Going to slide 19, the copper business, an important constituent of our business portfolio continued to do well highlighting the importance of our de-risked portfolio concept. The macroeconomic factor for this business, unlike in the case of aluminum were broadly supportive. Even as the copper LME was sharply lower, the business which is a converter business and does not get significantly impacted by the volatility in the copper prices as the business runs an offset hedging process mitigating the volatility and also making the business largely pass through. TCRC which is a major driver of the profitability was good, so were the prices of by or co products such as sulfuric acid and di-ammonium phosphate fertilizer. With the improvement in India economy, the by product prices should continue to remain supportive.

Slide 20 - a robust production performance for copper.

Our smelter at Dahej continued to deliver robust operational performance. Copper cathode production at 100 KT was 4% higher in Q2 FY16 as compared with that in Q2 FY15. Similarly, DAP production was significantly higher at 18% over Q2 FY15.

Now moving on to slide 21. The copper business revenues declined 9% even as copper LME declined by over 23% during the quarter. Higher volumes and sale of by products offset the sharp decline in LME. Having said that, LME being a pass-through has not got any great bearing on the profitability. The EBIT for the quarter was Rs.350 crores, a decline of 15% over

Q2 FY15 and in line with Q1 FY16. The decline is owing to removal of all export incentives which roughly account for about 60 crores for the quarter. Overall, a very robust performance.

Touching upon ABML in slide 22,

Given the recent development at Aditya Birla Minerals Limited, our Australian subsidiary, I should provide a brief update on it. I am happy to tell you that the sales transaction of Mt Gordon mine has been concluded. The mine was under care and maintenance for a long time that means we were not mining copper there, we were just maintaining the mine safely. This transaction has released 41.7 million encumbered cash for ABML, thus increasing overall unencumbered cash by about A$ 42 million. We are also having strategic review of the company and are evaluating various strategic options. In the meanwhile, Nifty, our operating mine in Western Australia continues to produce concentrate as per the current mining scheme which is transported to our Dahej copper plant.

Slide 23 - Therefore in a nutshell, during the quarter our operational performance was robust. However, the financial performance suffered on account of severe macroeconomic headwinds. The new facilities are ramping up as per plan and with better operating efficiencies the cost of production is on a downward trend.

The net profit though declined on account of higher financial charges and depreciation which was on the expected lines, the interest outgo could somewhat ease out going forward with softening of interest rates. With the refinancing of project debt there is no pressure on the balance sheet even in the current LME environment. The convertor businesses that is Novelis and copper are expected to deliver steady performance irrespective of the commodity headwinds. Our focus in the current environment will be firmly on operational excellence and cash conservation across the company.

That’s all I had to present to you. I now invite any questions that you may have and we will follow the process.

Moderator: Thank you sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh: I have two questions. My first question is on the captive coal blocks, now some would argue that at the prices at which Hindalco bids versus current global prices actually puts Hindalco’s aluminum operations at a slight negative position given that coal prices have fallen very sharply. In management’s view sir, once the captive coal blocks come into production how should the cost structure for the aluminum business change, what is the kind of the annuity payment that the company would need to make going forward every year and when will it start?

Satish Pai: So let me answer, one thing you have to look at is that we have a total requirement of around 15 million to 16 million tons of coal and our captive coal mines just provide about 25% of that. So when you look at our coal requirement, you have to take into account the security of the coal supply along with the availability. Now regardless of the current prices going up and down in the auction, the way we see it is that we will need to have a certain amount of captive coal, certain amount of e-auction coal and depending upon the economics we may continue to import a certain amount of coal. Our captive coal mines are highly competitive compared to that imported component and the advantage of the captive coal mines is that they assure supply that we will get rather than having to depend on logistics and rakes to move it from the ports. So I think on an overall basis we are quite happy that we have these captive coal mines in the overall mix.

D. Bhattacharya: Thank you Satish. I would add a couple of points. First, if you look at the location of our factories, they are far away from the coast line, whereas our captive mines that are chosen are close by. Second, the international coal prices in dollar terms have come down but the volatility remains, our objective has been to reduce the volatility in terms of our cost of production to the extent we can. With volatility in dollar rupee exchange rate, we are exposed to another uncertainty. So Satish has very correctly said that from the four mines that we have taken, we will get an annual coal production of about 4 million tons out of 16 million tons which is 25% cover.This also gives us the possibility of increasing it significantly by expanding the capacity subject to regulatory approvals. So this gives us the flexibility, this gives us certainty of availability of coal and very-very dependable cost structure.

Pinakin Parekh: Sure sir. Just to clarify, the cost of production for aluminum should reduce when these captive coal blocks operational versus the current imported coal prices, is that correct?

D. Bhattacharya: Yes, it will. That’s because of two factors, we may get one or two consignments of low cost of coal through e-auction but there may be a number of occasions where the prices would be higher. So it is the weighted average cost that is more important than one or two flash costs that you perhaps see. So overall, I am confident that the cost structure will improve.

Pinakin Parekh: Sure. Sir my second question relates to the balance sheet, now if you look at the operational EBITDA of roughly 600 crores, it was lower than the interest cost in this quarter of roughly 618. Now if global aluminum prices were to remain low given for whatever reason, the Chinese keep on subsidizing their production, how does management view the current cash flow situation versus the current debt situation at the standalone entity and what are the options that management would consider to address either of them if aluminum prices were to remain at these levels?

D. Bhattacharya: Let me answer and if necessary I will pass it on to Praveen. See what did I tell you, that our focus is on operational excellence, which means to continuously reduce cost of production and we have been able to do so on a continuous basis. I also told you, Aditya which has a location advantage is only running with 250 pots against 360 pots and therefore these 250 pots which is about 67% of the total capacity is carrying the total fixed cost, so the cost of production is expected to come down as we go along. Two, we will be ramping up our Blue Fox or FRP plant at Hirakud which will increase the overall value added product as a percentage of the total virgin metal sale, again, that will improve our EBITDA. Three, on Utkal I mentioned that we have a long distance conveyer which when commissioned, actually it is under commissioning as I speak to you, the cost of alumina production will come down and on an integrated basis the overall cost of Hindalco aluminum will declinewhich if I am not wrong Satish, is in the second quartile. However, by the way Utkal delivered an EBITDA of Rs 240 crores in the second quarter, if I am not mistaken Praveen, so that has to be added on because that is also operational EBITDA. So seen in a totality, aluminum business in Hindalco, in overall context, is doing well with significant possibility of improving it further. So there is room for further improvement, and that will be our way forward.

Moderator: Thank you. Our next question is from the line of Sanjay Jain from Motilal Oswal. Please go ahead.

Sanjay Jain: Pleasure talking to you, and hope that we continue this quarterly call every quarter from here on, that’s a request. My question is basically continuation of what Pinakin had asked about the balance sheet, I mean we have completed our major CAPEX program and all these are bearing fruit but because of the unfavorable market conditions it is not translating into the desired cash flows. So there is definitely a need for deleveraging balance sheet and some of this strategic initiatives you have already taken. I want to bring your attention to our investments in the group companies which can bring significant amount of cash and some of the other metal companies are already doing it, like Tata Steel. So what I want to understand is how does the Board of Hindalco think about these investments and is there a possibility that we can bring in certain amount of cash from these investments?

D. Bhattacharya: Sanjay, we continuously evaluate all opportunities and I promise you that we will take an appropriate decision at an appropriate time.

Sanjay Jain: You would not want to share at this point?

D. Bhattacharya: At this point in time this is not the right time. You know these things can be talked about only when our thought process is finalized, but we are not averse to it, that’s the point I am saying.

Sanjay Jain: Can you also talk a little bit more on what initiatives you are taking to push the cost of production down, apart from the operating leverage that we are going to get with the full ramp up of production at Mahan, Aditya and Utkal?

D. Bhattacharya: You really want the laundry list, I will give you.

Sanjay Jain: Somewhat color.

D. Bhattacharya: Okay, I will give you the broad directions. Let's start with the cost drivers, first is power and power is our own captive power and cost is dependent on how efficiently you produce power. And there is a very important parameter called PHR that means Plant Heat Rate, how many kilocalories you need for generating 1 kilowatt hour. Remember, you burn close to 15,000 kilowatt hour per ton, if I save Rs.1 in that I will be saving Rs. 15,000 per ton. Now that is where Mr. Pai and his team is focusing on like it has never been done so far. On top, our focus is on the coal quality not on the basis of rupees per ton of coal, because we really burn kilocalories, and not coal, hence, we are focusing on optimizing procurement of coal at the best rupee per million kilocalorie. And this is very important because if we diagnose it wrong we will get the wrong numbers. Third, how efficiently we can use that energy for converting into metal that means how many kilowatt hour we need per ton. Both the new factories are now coming to the designated nameplate capacity and efficiency. Indeed, a good quality alumina from Utkal is making sure that we are producing today 100% metal with a quality which is special grade that is P1020 and P0610 which we have never produced in Hindalco at such high percentages. They are producing at 100%, so they do not produce a normal quality of metal. So at every area it is being challenged and there is no sacred cow, and I believe therefore I am seeing a continuous improvement in cost of production going forward.

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

Ritesh Shah: Sir my first question is pertaining to the hedges, I was just screening through the Annual Report, when I screened that I see that basically we have a $540 million of basically aluminum contracts which we had sold, so just wanted to understand do the quarterly numbers reflect any of this gain either on the commodity or ForEx hedges that we had?

D. Bhattacharya: I did not understand your question, would you repeat it please. I mean actual terms of hedges you said?

Ritesh Shah: Yes.

D. Bhattacharya: I do not know what you are referring to, what is your fundamental question?

Ritesh Shah: I just wanted to understand the reported numbers, does it include any gains from either FOREX or commodity hedges that you undertake?

D. Bhattacharya: Yes. First of all let me give you some information about our hedge strategy. In Convertor businesses means you buy metal and convert into something value added like Novelis and Copper, we do offset hedge. So we sell and buy at the same price with a QP thrown in, so we are a pass through, we do not make or lose any money due to hedging. In primary Aluminum, we do not buy anything to offset it, so we got to do view based hedging. We do view based hedging very judiciously and have strong monitoring and control systems. . If there is a hedge gain that will be flowing through the P&L at the time of maturity of the hedges.

Ritesh Shah: So would it possible to quantify that number for the quarter?

D. Bhattacharya: I am sorry, I do not have it right now.

Ritesh Shah: Sir second question is, we have done an excellent job on the debt maturity profile, sir if you could provide some more color on basically the coupon rate and the covenants that we have on the existing debt?

D. Bhattacharya: I have got Alphonso with me, the architect of this, he will explain to you. Alphonso.

Alphonso Richard Das: We have come out with the detail in the Press Release and we have said that the average residual maturity was about three to five years which has been extended to over 10 years and the terminal year is going to be 2030-31..The refinancing has been done with no major increase in the spread.

Ritesh Shah: And sir any color on the covenants, the debt that we have?

Alphonso Richard Das: The covenants are broadly the same that we had in the earlier financing and post this financing it is not that we have settled for any stricter covenants.

Ritesh Shah: Sir can you please repeat them for my benefit, I do not recall.

Alphonso Richard Das: It is typical and customary of the market which is basically issues like debt to equity and DSCR

Ritesh Shah: And sir last question, any plans to unlock value at Novelis operations given we are doing pretty well, auto shipments are moving up, so like other competitors globally which are tending towards monetizing their downstream assets, so any such plans?

D. Bhattacharya: No such plans at this point in time, but we keep evaluating every single opportunity that is there today or that may come going forward. Right now there is no such plan.

Ritesh Shah: And sir one last question. Any particular event expected say something like, I think the industry has already approached the Government of India to increase import duty by 5%, anything that we are expecting on trade remedial side or anything on the import duty side?

D. Bhattacharya: Look, aluminum is a very big industry in India, 7 lac people work in this and if their viability is in question then government has to do something. The consumption of aluminum in this country is around 2.7 million tons of which 50% comes from outside, this is a serious issue and therefore the association has presented the current status and what they believe should be done to ensure that the industry remains viable and there is absolutely no great injury so that the industry suffers badly. So I am sure government understands and there is an appreciation and I believe they will take an appropriate decision at an appropriate time.

Moderator: Thank you. Our next question is from the line of Saumil Mehta from IDFC Securities. Please go ahead.

Saumil Mehta: Sir first question is on, issues regarding bauxite availability sometime back, so if those have been resolved and what would be the captive bauxite as percentage of total requirement now?

D. Bhattacharya: You are referring to some of the Jharkhand mines, right?

Saumil Mehta: Yes, absolutely.

D. Bhattacharya: Let me explain the whole thing and give you a background. Utkal producesaround 1.35 million tons which is more than 50% of the total production of alumina. Now that Utkal sources bauxite from Baphlimali which is 20 kilometers away and this is used solely by Utkal, so there is no issue. Jharkhand has number of mines, and we are sourcing bauxite from those mines which are absolutely unencumbered and free, there is no issue in that. However, those mines that are currently not allowed to produce are at various stages of getting unencumbered. I believe that in near future we should be able to mine from there also but our operations are not suffering on account of that.

Saumil Mehta: So is it fair to assume that as of now the entire requirement is met from captive bauxite?

D. Bhattacharya: No, we strategically buy bauxite if we get it at a cost which is better so that we can extend the life of mine sufficiently. So it is a strategic economic consideration.

Saumil Mehta: Sir my second question is with respect to the cost of production. At present how different would be our cost of production for our Greenfield vis-à-vis some of the existing smelters?

D. Bhattacharya: No two smelters can actually be strictly compared because the input costs vary, the technology varies. If the factory is 40 year old, their manning will vary, the cost per employee varies, but one thing which is definite is that the new technology plants like Aditya and Mahan are miles ahead.

Saumil Mehta: So would it be fair to assume that the cost of production at Mahan on a comparable basis would be lower than maybe Renukoot, I mean any broad sense?

D. Bhattacharya: You will not be wrong if you say that.

Saumil Mehta: Sure. And sir my last question on CAPEX guidance, what would be the total CAPEX for FY16 and 17 for standalone entity?

D. Bhattacharya: As far as Standalone entity is concerned we are now in the phase of consolidation, so do not expect any big bang investments, it will be only the absolute minimum required CAPEX that will be spent. . One of our main fulcrum is going to be the cash conservation. So it will be absolutely minimum and this will be very strictly scrutinized before any CAPEX is approved. So I do not think that routine CAPEX of the company will go over 750 crores a year.

Saumil Mehta: So that would be the maintenance CAPEX I assume, right?

D. Bhattacharya: No, including everything. such as, the strategic CAPEX, including some mandatory requirement but excluding the residual Greenfield cash outflow which will be another 500 crores which has been appropriately kept aside.

Saumil Mehta: So it is 750 plus 500 for next year?

D. Bhattacharya: This is inclusive of copper that is standalone Hindalco.

Moderator: Thank you. Our next question is from the line of Anshuman Atri from Espirito Santo. Please go ahead.

Anshuman Atri: My question is regarding Utkal, given the strong performance and the option of another Brownfield, what would be the timelines for Utkal expansion?

D. Bhattacharya: We are evaluating this, so we will take it forward as it comes, but normally this kind of expansions will take some time and I would not hazard a guess because so far we have not done our evaluation work fully.

Anshuman Atri: And the second question is regarding the cost of aluminum operation, so on a YoY basis how much would we have saved on the back of various operational efficiencies and what can we expect over the next six months in terms of coal block coming back into operation and the reduction in various input prices as well as overhead reductions?

D. Bhattacharya: It is unfair to discuss during the ramp up what saving we are doing. It is relatively easier because you are continuously improving and once we reach the fully ramped up stage then it is a different set of activities we got to do to save cost. But this is a continuous process and I believe that all the new factories, Utkal, Aditya and Mahan will continue to endeavor to reduce cost on a continuous basis. Exactly how much can be achieved is difficult to say but we have the aspirational number.

Moderator: Thank you. Our next question is from the line of Naveen Gupta from Goldman Sachs. Please go ahead.

Naveen Gupta: Both of my questions have been answered, just a clarification. You mentioned Utkal EBITDA is 240 crores, was that for the quarter?

D. Bhattacharya: yes.

Naveen Gupta: Sir can you also share the PAT for Utkal in this quarter and what was the average cost of production and the average ASP at which you transferred alumina to Hindalco, average for the quarter?

D. Bhattacharya: Utkal produced 338 KT in this quarter, of this 52 KT was exported and the rest was transferred at market price to the Aditya and Mahan. So the total profitability will vary depending on whether they are putting up in a BTAP or in the rake to our factories or it is being taken by bags into Vizag or Gangavaram port and then sending it out for export. The net bag realization varies. Therefore to that extent EBITDA will somewhat vary. The cost of production you wanted to know…… we are in the lowest decile.

Naveen Gupta: Can you share the PAT and if you can share the exact cost of production average?

D. Bhattacharya: I do not have the numbers with me.

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

Ravi Shankar: Firstly, I wanted to know for Utkal EBITDA it was 240 crores this quarter? it was just 261 crores for the full year FY15. What has led to the change in this?

D. Bhattacharya: I mentioned to one of your colleagues who asked a similar question. In the ramp up stage it is difficult to compare one time period with another. From now on, now that it is running full blast, you will have good comparison.

Ravi Shankar: Understood. Just one last question, why has the other expenditure gone up so sharply during the quarter?

Praveen Maheshwari: Yes, other expenses have gone up because volumes have gone up, so some of the expenses like freight, packaging etc., they are a part of constitute the other expenses.

D. Bhattacharya: It is volume related.

Moderator: Thank you. Our next question is from the line of Naveen Sahadev from Edelweiss. Please go ahead.

Naveen Sahadev: Just two quick questions, sir when do your existing linkages that we have with Coal India, when do they expire, because I believe they are not going to be renewed. That's what the commentary is, so just wanted to know when do they expire?

D. Bhattacharya: We have only one linkage that is with Renukoot, Renusagar. It will be this linkage that comes for renewal in 2018. I am not privy to the knowledge that it will not be renewed, but I have certainly read some news items. So I do not know what exactly is going to be the case.

Naveen Sahadev: And sir second question is, Hirakud as mentioned in the presentation 40% of the old pots have been idled, but given that the prices have declined further can we expect some further cuts therein?, of course Aditya is ramping up but if Hirakud is likely to see further cut backs in process there?

D. Bhattacharya: It will depend on how LME and premium moves, it is a dynamic situation.

Moderator: Thank you. Our next question is from the line of Dhawal Doshi form Phillip Capital. Please go ahead.

Dhawal Doshi: Sir just one question on the standalone alumina business, I am not referring to Utkal. So we have seen decline in production over there since the past couple of quarters, so with Utkal ramping up do we assume this as a new normal or is there a possibility of ramping up the standalone production as well?

D. Bhattacharya: No, first of all in Renukoot there is captive production so it is used in the same factory, it makes enormous sense to do so because you save all the freight cost to bring it down from Raigarh and you have got the fixed assets and therefore fixed costs. In case of Muri we had certain technical problems because of monsoon and poor quality of bauxite that came into the system. Fortunately that is behind us. And to answer your question, no, they are mutually exclusive and we will maximize both old plants as well as Utkal.

Dhawal Doshi: Sir, secondly with regards to the Hirakud smelter production which was just being asked previously, the FRP plant which we are planning to ramp up, at what capacity are we operating and what will be the minimum threshold wherein we would decide to continue on with the operations of that plant as well? That's because the Hirakud smelter is going to be supporting that.

D. Bhattacharya: Hirakud smelter and you said Hirakud FRP?

Dhawal Doshi: Yes.

D. Bhattacharya: You know, Hirakud economics should be seen somewhat differently because if I stop Hirakud, and please this is not a proposition I am making, this Hirakud hot metal is going straight to the FRP, so it is an integrated plant and we must evaluate it accordingly. So it has a different positive to Hindalco. So we must see it somewhat differently than a standalone factory.

Dhawal Doshi: So that is what I was trying to understand sir, so how has been the ramp up of the FRP plant?

D. Bhattacharya: FRP plant ramp up is going on, it is a mixed bag, in some of the products we have done very well, but what we have done is important. We are uniquely positioned to access perhaps the globe's best FRP technology in Novelis. So we have got this part and the people who are very knowledgeable in this area actually embedded into our team and I am very confident with these efforts the speed of ramping up will move up and the value added products stream will deliver better than it has done in the past. And there is no better time than now to contribute.

Dhawal Doshi: And sir what will be the current utilizations out there?

D. Bhattacharya: The point is in FRP we cannot start producing an enormous quantity if the market does not exist as is the case today, so we have got to synchronize the market requirement as well as the production. However, we can export. The moment we export it does not remain as attractive, but to say the truth, our ramp up could have been lot better Indeed that is the only site where we are not satisfied with our ramp up and that is why we have enlisted the support and the help from Novelis to move to the highest level that it can deliver.

Moderator: Thank you. As there are no further questions sir, I would like to hand the floor over to Mr. Sagar Dhamorikar for any closing comments.

Sagar Dhamorikar: Thank you all for your support and time on a Diwali eve. Should you have any more queries, feel free to contact me even during Diwali times. Thanks a lot.

D. Bhattacharya: Thank you very much.

Moderator: Thank you sir. On behalf of Hindalco Industries Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.