



“Hindalco Industries Limited Quarter-1 FY ’21 Earnings Conference Call”

August 14, 2020



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hindalco Industries Limited Quarter-1 FY '21 Earnings Conference Call. As a reminder, all participants' lines will be in 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 '*#' and then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Subir Sen from Investor Relations of Hindalco. Thank you and over to you, Sir.

Subir Sen: Thank you and a very Good Evening or Morning everyone. I hope you all are in good health. On behalf of Hindalco Industries, I Welcome you all to this Earnings Call for the first quarter of FY '21. On this call, we will refer to the Q1 investor presentation available on our company's website. Some of the information on this call may be forward-looking in nature and is covered by the safe-harbor language on Slide #2 of the Q1 Earnings Presentation. In this presentation, we have covered the key highlights of all the businesses for the first quarter or the Financial Year '21 and a segment wise comparative financial analysis of India and our overseas subsidiary, Novelis. All the prior period numbers have been regrouped and reclassified as per the Ind-AS. On today's call, we have with us from Hindalco, Mr. Satish Pai – Managing Director; Mr. Praveen Maheshwari – Chief Financial Officer and CEO of Copper Business. From Novelis' Management, we have Mr. Steven Fisher – President and CEO, and Mr. Devinder Ahuja – Chief Financial Officer. I will now hand over the call to Mr. Pai for his opening remarks. Thank you and over to you, Sir.

Satish Pai: Thank you, Subir, Good Afternoon and Good Morning everyone, hope you all are staying safe and in good health and thanks for joining today's conference call of Hindalco's first-quarter FY '21 Earnings.

Let me provide you with a quick update on COVID-19 and then some key highlights of our businesses in this quarter. As the Government is taking steps to normalcy by declaring the unlock phase, Hindalco is committed to ramping up its operations in sync with the prevalent guidelines and the current market demand. Our first and foremost priority is to protect the health and safety of our workforce across all our facilities. We have been taking and will continue to take several precautionary measures which will remain in place until the pandemic crisis comes to a resolution. All our plants including mines are currently operational in adherence with the guidelines of the Government to stipulated staff limits, commuting norms, and social distancing measures. All our aluminum upstream plants continue to operate near to full capacity with all logistics infrastructure coming back on track. The export demand remains stable and continues to offset the current subdued domestic market conditions. All aluminum downstream plants have resumed operations at partial capacity on the basis of prevailing market conditions. The copper facilities are also ramping up to the optimal levels at the smelters, refineries, and the value-added products.



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At Novelis, all plants are operational, and many are now running at their full capacity. All the automotive customers in North America, in China, are now pulling at nearly pre-COVID levels. We continue to keep a close watch on all CAPEX in India as well as Novelis. We are also focused on fixed cost reduction and maintaining adequate liquidity across the businesses in the current environment.

Coming to Slide #5, here are some of the key highlights of our businesses for Q1 FY '21 versus the corresponding quarter of the last year:

Despite the unprecedented macro environment, Hindalco delivered a steady and resilient Q1 performance in India as well as in Novelis. This was driven by good financial performance by the India aluminum business supported by lower input costs and stable operations. Resilient beverage can sheet business and prudent cost control provided near and long-term stability to Novelis in Quarter one. Novelis completed the acquisition of Aleris on April 14th and the Q1 FY '21 results include the results of Aleris. The integration process has commenced and we continue to work with relevant parties for the divestment of Lewisport and Duffel plants of Aleris. Novelis' China automotive plant achieved record shipments in Q1 on account of strong demand for all high-end vehicles particularly the EVs. Net income from continuing operations without special items was at \$22 million. Novelis registered an EBITDA of \$253 million and an EBITDA per ton of \$327 in Quarter One of FY '21.

Moving on to Hindalco's India aluminum business performance in Q1 FY '21:

EBITDA for the business was maintained at ₹856 crores compared to the same quarter of the previous year despite the unprecedented macro-environment challenges. All aluminum smelters and major refineries have continued to operate despite the lockdown during the quarter. Aluminium metal production was at 291 KT with the utilization rate of 90% for smelters despite COVID-related challenges. Metal sales were at 303 KT in Q1 FY '21 regardless of the subdued domestic market as it was offset by higher exports. The cost of production was lower supported by our thrust on fixed cost reduction, improved operational efficiencies, and lower input cost. The EBITDA margin was a healthy 19.3% up 380 basis points, which continues to be one of the best in the industry. Value-added product sales was at 35 KT which was low due to the impact of lockdown. The Utkal expansion project of 500 KT is on track and expected to start at the end of Q4 of FY '21.

Turning to the copper business quarterly performance on Slide #6:

Copper operations were under a temporary shutdown due to COVID leading to a significant drop of copper production in Q1 FY '21 by 46% year-on-year. Metal sales was down 29% at 58 KT and CC rod sales were down by 51% at 31 KT due to lower domestic demand offset by higher



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cathode exports in Q1 FY '21. On the positive side, the fertilizer DAP sales volume was considerably higher in Q1 on the back of robust demand. This high volume was met through imports as our DAP facility is under planned maintenance shutdown. The benchmark TC/RC for Calendar Year '20 has settled at 15.9 cents per Pound which is 23% lower than the last calendar year. Also Sulfuric Acid realizations dropped significantly due to lower demand. All these factors led to a lower EBITDA of ₹37 crores in Q1 FY '21.

Now, let us look at our quarterly consolidated performance for the quarter:

Hindalco's consolidated business EBITDA was ₹2813 crores compared to ₹3730 crores in Q1 FY '20. PBT for the continuing operations before exceptional and special items was at ₹274 crores versus ₹1718 crores in Q1 FY '20. The consolidated PAT for continuing operations before tax affected exceptional and special items was at ₹139 crores versus ₹1189 crores in the corresponding quarter of last year. Hindalco continues to maintain its strong liquidity and cash position with a total liquidity of \$2.1 billion and a cash of \$1.7 billion in Novelis and cash and cash equivalents of ₹8717 crores in India at the end of June 2020. As on June 2020, the consolidated net debt to EBITDA stands at 3.83x versus 2.61x at the end of March 2020.

Now turning to the broader economic environment in Slide #8:

The global economy is expected to contract by 4.9% as per IMF's June WEO forecast. This will be the most severe recession since the great depression and even worse than the global financial crisis when world GDP contracted by 0.1%, however, IMF expects Calendar Year 2021 global growth to rebound to 5.4% year-on-year, as economic activity revise due to relaxation and stringent lockdown measures, fiscal and monetary measures taken across the globe with a strong recovery in the US, European Union, UK, China, India, and the ASEAN countries. The extent and the shape of the recovery, U, L, V, however will vary in different countries. For example, China seems to be recovering much faster than the rest of the world. Moreover, the fiscal stimulus response and its implementation across countries will also be a big differentiator towards the road to recovery for individual economies. Many countries are still struggling to control infection rates and hence the impact on the economy going forward still remains uncertain.

India's FY '20 GDP growth fell to an 11-year low of 4.2% primarily led by manufacturing and construction sector weakness. IMF expects India's growth to contract by 4.5% in FY '21 owing to the stalling of economic activity as a result of the stringent lockdown measures imposed to counter COVID-19. However, the IMF expects this growth to rebound to 6% in FY '22. The manufacturing and construction sector has been severely hit and will recover gradually in a phased manner. The most severe impact of the lockdown is visible in the full Q1 of FY '21 as most monthly indicators are in the red in April and May like the IIP, PMI, Core Index, car sales



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data. However, on the positive side, the Government's commitment to towards structural reform *Atmanirbhar Bharat* package and the easing of further restrictions in its unlock phases will help revive economic growth in a calibrated manner. Visible signs of economic activity are returning as high-frequency data shows improvement in June-July. Citing this high-frequency data, the Finance Ministry has highlighted that the worst has already over, but has cautioned that economic recovery depends on how COVID infection curve evolves across the country going forward.

Now, let me take you through the aluminum industry overview on Slides #9 and #10:

In the backdrop of COVID-19, global consumption in H1 2020 declined by 10%, the lowest since H1 Calendar Year '09, which was during the global economic crisis. The pandemic quickly intensified across the globe compelling Government to initiate stringent lockdowns resulting in large-scale disruptions to industrial activity. However, the Governments worldwide have announced fiscal measures to the tune of \$11 trillion or 12% of world GDP to limit economic damage and lift the financial sentiment. Despite a sharp drop in demand, production grew in H1 2020 marginally by 2% and aluminum being a continuous process makes it extremely expensive and time-consuming to stop and to restart. Subsequently, the market was in surplus of 2.8 million tons in H1 CY '20. Coming to world, China consumption dropped by 30% year-on-year in Q2 CY '20 as lockdown restricted industrial activity severely resulting in the demand contracting sharply by 20% year-on-year in H1 CY '20. The overall markets were in surplus of 2.3 million tons of which nearly 1.7 million ton surpluses were recorded in Q2 CY '20 alone. In China, the fall in consumption were sharper in Q1 CY '20 with 11% de-growth, but in Q2 of CY '20 in the backdrop of recovery in auto, building, and construction sectors, the consumption grew by 5%, However, the overall H1 CY '20 consumption de-grew by 2% year-on-year. Thus the Chinese markets were at a surplus of 1.8 million tons in Q1 CY '20 and in deficit of 1.2 million tons in Q2 CY '20 resulting in a relatively lower surplus of 0.5 million tons for H1 of CY '20. In an environment of weakening global demand and surplus inventory, the aluminum prices witnessed a sequential decline of 12% in Q2 CY '20 to \$ 1,497 a ton versus \$ 1690 per ton in Q1 CY '20. In addition to the improvement in industrial activities in China, other global economies are gradually recovering. The impact of this recovery is seen in the recent improvement of aluminum prices in July 2020 by 10% to \$ 1639 per ton from an average of \$ 1497 per ton in Q2 CY '20.

Coming to Slide #10 on the domestic industry:

Q1 FY '21 has declined sharply due to the effect of lockdown across the auto transport, building and construction, and electrical sector. However, the fall in demand was moderate in the packaging especially pharmaceutical packaging, and industrial machinery, medical equipment such as ventilators. This import data is not announced yet, the estimated imports including scrap degrew by 58% year-on-year to 246 KT in Q1 FY '21 while domestic sales was expected to



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decline by 55% year-on-year to 186 KT in Q1 FY '21. The Government's recent announcement of a stimulus package of ₹21 lakh crores and its trust on infrastructure, housing, and electrical sectors has lifted the economic sentiments and helped in the recovery of consumption. It has been observed that sequentially there has been an improvement in domestic demand from June continuing into July and August. Looking at this trend, we expect Q2 FY '21 domestic sales to be better than Q1 as the economic activities pickup.

Moving to Slide #11, global FRP demand in the near-term will remain soft in the cyclical and markets due to COVID pandemic. This demand is expected to decline around 9% in CY '20 versus the previous year. It is expected to bounce back with a growth of about 8% in CY '21 from the current year on demand recovery and the base effect. Industries like beverage, food packaging, Pharma will lead this demand for flat rolled products in the coming year. Continued resilience is seen in North America, Europe, with improving trends in South America in the beverage can sheet demand which held up during the quarter and is currently growing stronger. Higher-at-home consumption favors package mix shift towards increased demand for aluminum cans. The FRP demand for the automotive sector is showing month-on-month improvement in the consumption of automotive sheets by the OEMs in the last two months towards pre-pandemic levels. The demand for automotive body sheets in the US is currently quite strong as the major automotive OEMs have resumed operations in May and have started to rebuild their inventory.

European demand is slightly behind the US, however, this demand is picking up slowly as the restart of major automotive OEMs in this region has already begun. In China demand for automotive sheets for EV and high-end vehicles continues to remain strong driven by light weight trend in the transportation segment. In the aerospace segment, the current demand is expected to remain low into the next year due to the reduced production and consumer travel. As travel picks up, it should drive the demand for FRP in the aerospace segment. This demand is supported by the high order backlog from all global aircraft manufacturers. The domestic demand for FRP contracted by around 46% in Q1 FY '21. This deep fall was due to a sharp decline in consumption in the sectors of transportation, building and construction, and electrical sectors. Industries like pharma packaging, food packaging, consumer durables etc. are likely to support the growth of FRP demand in India as the pickup in demand is clearly visible in June into July and August.

Turning to the copper industry in Slide #21, in Q2 CY '20, copper consumption contracted by 5% year-on-year. In China, the consumption saw an upturn of 6% year-on-year while the consumption in the rest of the world contracted by 16% year-on-year. Though the recovery in China has begun, copper consumption in the world excluding China is still suffering due to the COVID-19 pandemic. Comparing Q2 CY '20 sequentially with Q1 CY '20, the consumption grew by 14%. All of this growth has come from China that has increased by a massive 51% and



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bounced back to normal consumption levels of more than 3 million tons in Q2 of CY '20. Copper consumption in the world excluding China has declined by 15% in Q1 FY '21 year-on-year.

In H1 CY '20, the global refined copper consumption declined by 6%, consumption in China declined by around 3% whereas in the world China, it dropped by 9%. Going forward, the uncertainties related to COVID-19 and other macro-economic environments across the globe may impact the copper consumption in the second half of CY '20.

On the copper concentrate side, COVID-related changes and work practices, supply chain disruptions along with reductions in CAPEX will be a threat for future mine supplies across the globe. Spot TC/RCs are expected to remain under stress throughout the year making the prevailing conditions tough of custom smelters in both the short to medium term. In the domestic market post the complete washout of April 20, the overall refined copper consumption declined by 53% to 91 KT in Q1 FY '21 versus 195 KT in Q1 FY '20. However, we have seen a pickup in the domestic demands in the month of June, July, and August. March share of the imports has decreased to 44% in Q1 FY '21 versus 46% in Q1 FY '20.

Praveen will take you through the performance highlights of each of the business segments during Quarter One of FY '21.

Praveen Maheshwari:

Thank you, Satish.

Let us review our operational performance on Slide #15. As Satish mentioned in his opening remarks, Novelis completed its acquisition of Aleris and has already begun the work on integration of the two businesses. It is expected that the financial benefit of around \$ 150 million would emerge from cost and strategic synergies. As a condition of the approvals given by the concerned regulatory authorities, Novelis is required to divest automotive assets at Lewisport in the US and Duffel in Europe, which is currently under process. As the acquisition was completed on April 14, 2020, the financial results of Novelis and consolidated financial results of Hindalco for the quarter ending June 30, 2020, includes the results of the acquired business of Aleris. The financials of the two automotive plants of Aleris are shown separately as discontinued operations and the net assets related to those businesses are classified as held for sale. Although the financial performance of the combined business was impacted due to COVID, their strong customer relationships and unmatched footprint puts them in a good position to navigate the near-term uncertainty.

Overall shipments were 774 KT including Aleris in Q1 FY '21. Beverage Can sheet shipments remained resilient and was down in only single digits percentage points. Automotive shipments on the other hand were down 50% in Q1 FY '21 but is now displaying a strong pickup particularly in China and the US and gradually in Europe. Specialty shipment figures were higher



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as a result of the recent acquisition of Aleris compared to last year. All organic expansion projects in the US, China, and Brazil for Novelis are progressing well. Novelis continues to focus on reduction in its fixed cost and CAPEX while maintaining strong liquidity and balance sheet.

Moving to Slide #16 related to the financial performance of Novelis:

Novelis had a revenue of \$2.4 billion, adjusted EBITDA of \$253 million and an EBITDA per ton of \$327 in Q1 FY '21. EBITDA was adversely impacted by lower shipments and unfavorable product mix, but this was partially offset by cost control initiatives and the contribution coming from the acquired Aleris business.

Slide #18 shows the details of the performance of the Indian aluminum business segment. Alumina production in Q1 FY '21 was 623 KT versus 686 KT in Q1 FY '20. Utkal refinery produced 418 KT alumina in Q1 FY '21. The aluminum metal production was 291 KT in Q1 FY '21 lower by 11% YOY with the smelter utilization of 90% despite disruptions due to COVID. Value-added products excluding wire rods, production was down at 34 KT in Q1 FY '21 lower by 57% due to subdued market conditions.

Coming to Slide #19, aluminum metal sales volumes were at 303 KT lower by only 5% due to subdued domestic market but largely offset by higher exports in Q1 FY '21. DAP sales excluding wire rods were down 55% at 35,000 tons in Q1 FY '21 on account of the lockdown due to the pandemic.

Moving onto the financial performance of the Indian aluminum business on Slide #20, this segment recorded a revenue of ₹4436 crores versus ₹5290 crores a year ago lower by about 19% on account of lower global aluminum prices. EBITDA in Q1 FY '21 stood at ₹856 crores versus ₹853 crores in Q1 of last year. This was maintained despite unprecedented macro-environment due to COVID. The EBITDA margin in Q1 FY '21 continues to be one of the best at a healthy 19.3% of revenue despite macro challenges.

Moving to Slide #22, the overall copper metal production was lower by 46% YOY at 41 KT in Q1 FY '21 compared to 76 KT in Q1 FY '20, due to disruptions on account of COVID leading to temporary shutdown of operations in Q1 FY '21. Quarterly production of CC rods lower by 60% YOY at 26 KT in Q1 FY '21 due to lower domestic demand. Coming to Slide #23 on sales volume of copper, VAP and DAP, copper metal sales were lower by 29% year-on-year at 58 KT in Q1 due to lower production. CC rod sales were also lower by 51% compared to the corresponding period of the previous year due to weaker domestic demand. DAP sales were up nearly three times in Q1 FY '21 at 102 KT on the back of robust demand. These high volumes were met through imports as our own DAP plant was under planned maintenance shutdown.



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The financial performance of copper segment is on Slide #24. Revenue stood at ₹3031 crores versus ₹4593 crores a year ago down 34% YOY due to lower volumes and realization, both of copper and byproducts. EBITDA stood at ₹37 crores in Q1 FY '21 versus ₹307 crores in Q1 FY '20 lower by 88% due to lower volumes byproduct realization in TC/RC.

Let us turn to our consolidated financial numbers for this quarter on Slide #26:

Hindalco reported a consolidated revenue of ₹25,283 crores, business EBITDA of ₹2813 crores, PBT for continuing operations before exceptional and special items at ₹274 crores and PAT for continuing operations before tax affected exceptional and special items at ₹139 crores in this quarter. The detailed quarterly comparative financial numbers are attached as an annexure to this presentation on Slide #30. Hindalco India business reported a revenue of ₹7464 crores, business EBITDA of ₹894 crores and profit after tax of ₹84 crores in Q1 FY '21. These details are provided as an annexure to this presentation on Slide #31. Let me now hand over the call back to Satish to give you a perspective on our key focus areas.

Satish Pai:

Thanks Praveen, so let me conclude with some key focus areas which is accelerating our value accretive long-term growth and lowering the impact of LME volatility:

Our foremost and top priority today is protecting our employees as well as the community from this infection with required health and safety measures. Our early preparedness and appropriate actions have helped us to manage this tough and uncertain situation well. These precautionary measures along with our strong focus on business continuity by maintaining stable operations, running all the plants at optimal utilization and stable export market helped to mitigate the current challenges. Secondly, our relentless focus on stringent cash control as well as cutting down CAPEX and targeting fixed cost reduction is helping us to maintain positive cash flows for operations. The cost competitiveness of Hindalco smelters continued to position it in the first quartile of the global cost curve. The expected commissioning of the capacity expansion at Utkal Alumina Refinery by the end of this year will further reduce the overall integrated cost of production and will ensure future competitive readiness. The company is focused on cash conservation and maintaining adequate liquidity to sustain plant operations in the current environment. The strong balance sheet position in both India and Novelis with control leverage will help us sale through the current business environment to be the last man standing and the best man forward.

Lastly, our resilient and sustainable business model of being more than 80% LME delinked in terms of EBITDA, with the acquisition of Aleris has additional product diversification and has further de-risked our business from metal price volatility.



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In the long-term, our strategic investments in Novelis and Indian downstream expansions will also add to the de-risking of the business and moving forward creating a company with more predictable and sustainable cash flows.

Thank you very much for your attention and the forum is now open for any questions you may have.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Amit Dixit from Edelweiss Financial Services. Please go ahead.

Amit Dixit: Thanks for the opportunity, I have two questions, the first one is on consolidated financial in the presentation Slide #30, we have unallocable income of expense of ₹454 crores, so is it possible to share some light on what is this and because it is quite high compared to prior yields?

Praveen Maheshwari: Yeah, I think I need to explain this part, typically for the Indian business, the income it is actually the net income which comes here which relates to largely our treasury income, net of the unallocable expenses which sometimes a little bit of corporate overheads and all that, so that is a little more than 200 crores, you can see it on the next slide that is Slide 31, ₹244 crores is related to the Indian business that is a positive number, and in case of Novelis and Aleris that is all the subsidiaries put together, the items which are not under in the EBITDA and the changes from the US GAAP to Ind-AS, they are coming here as a part of the unallocable expense here, that is close to about ₹700 crores and there are many special items which are actually you would have noticed in Novelis' results because their EBITDA as we display here is the EBITDA under US GAAP as declared by Novelis, so that investors and analysts do not get confused, so we maintain that, and therefore, when you translate that into EBITDA as per Ind-AS and after accounting for those special items, that difference is adjusted here that is about ₹700 crores here and this includes many items, so for example there is a metal price lag which is not a part of the Novelis EBITDA comes here, similarly there are some acquisition-related costs, those are also coming here. These kind of things which are a part of the unallocable expense, they are coming here as a part of the Novelis side, so the combination of these two about ₹700 negative and ₹244 crores positive that is showing up here as the unallocable expenses, but many of these items you will notice are more like one-timers and we do not expect this to continue and sometimes it could also be positive in Novelis side, for example, the Metal price lag which is a function of how the premiums work, could be positive in some cases so this is something which is not in the EBITDA, but sitting here.

Amit Dixit: Okay, thanks for the elaborative explanation, the second question is on copper, given that the first quarter copper sales have been quite low, so what kind of guidance can you give for the whole year FY '21 and were there any hedging gains or losses in copper in this quarter?



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Praveen Maheshwari: Yeah, so as we explained in Q4 as well, Q4 actually saw some derivative accounting, I would not say hedging gains, hedging gains are little different which the term we use for U-based hedges in aluminum business, these are not really gains or losses in real terms, but these are accounting noises that come between different quarters and this happens because, I mean we basically are offset hedge completely in copper, so we should not make any gains or losses because of the movement of commodity and currency, but the point here is that the inflow or outflow or gains or losses on account of derivative side, sometimes does not match timing wise with the physical side, and therefore in some cases you see profits and some cases you see losses coming from this, so in case of Q4 if you recollect we had said that more than ₹100 crores actually came in as accounting gains coming out of this derivative accounting and part of that about ₹70 odd crores has actually come back as the loss here, which we had already kind of predicted and at that point of time it is going to come back, so it has hit us so underlying EBITDA you could say and half of our operations was about ₹100 crores or so in copper.

Going forward, our operations are going to be obviously full which was at about 50% operation now, I do not want to give you a specific number on EBITDA, but yes our performance is going to be significantly better than Q1 going forward in copper business.

Amit Dixit: I was not asking about EBITDA, I was asking about production?

Praveen Maheshwari: Production we are at about, our normal number is about 85 KT per quarter which is what we try to achieve except in quarters where we have shutdowns which are planned, so Q2 there is no shutdown planned.

Amit Dixit: In Q3 and Q4 as well, there are no shutdowns?

Praveen Maheshwari: We have two smelters, one is the smaller one and the other one is bigger one, Q3 we have a 20-day shutdown planned for the smaller smelters as we call it Smelter-One and Q4 we have part of Q4, 15 days of Q4 is planned for the bigger smelter which will go into the Q1 of next year as well.

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

Indrajit Agarwal: Sir, thank you for the opportunity, couple of questions, first I want to understand the aluminum, the integrated aluminum COP, how it has moved quarter over quarter in this quarter and what is the trajectory like going forward because in our calculation it looks like a very sharp downtick?

Satish Pai: As I said in my remarks, I mean the input cost basically, coal has been a very strong tailwind for us, so our input cost compared to Q4 is down by 6%. Now, if you do your calculation, you will



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probably see it more than 6%, but that is also because we had certain one-timers that also benefited the aluminum business, but I am stripping them out and saying that the integrated cost of production that will sustain was down by 6% versus Q4. Now, I also think that we have really hit the bottom here because coal prices and all input costs have been at the bottom, so I think Q2 to Q1 will be flattish is my guidance now, so we have been going down between 3% and 5% every quarter since Q3 of last year, but I think now Q2 to Q1 will be flattish.

Indrajit Agarwal: On my calculation it is a double-digit decline, is that correct or there is something more to it in terms of how the value-added, sales mix have changed. etc.?

Satish Pai: I will have to take this offline, but I will tell you that the integrated cost of production compared to Q4 is down by 6%.

Indrajit Agarwal: Okay thanks, that is helpful, second is if you can help with the gross and net debt number at the consol level?

Satish Pai: At the consol level, the gross debt I am going to convert the Novelis debt to Rupees is ₹84,000 crores and the net debt is ₹62,000 crores at the consol level, largely now because we have about \$ 2.8 billion come in with the Aleris acquisition, India debt levels have not changed.

Moderator: Thank you, Sir. We have next question from the line of Pinakin Parekh from JPMorgan. Please go ahead.

Pinakin Parekh: Thank you very much Sir, Sir just there has been lot of noise and news about various import tariffs and we keep on hearing on aluminum, at this point of time Sir, has there been any progress on increasing import tariffs on scrap imports or any other aluminum products as part of the Government's support to the local manufacturing?

Satish Pai: No Pinakin, there has been no real movement on import tariffs, let me give you a little what has actually happened, so what they have done is they have started CVD against wire rods from Malaysia, they have started ADD initiation, anti-dumping versus China and some ASEAN countries and they have also like steel, started an import monitoring cell, so all imports of aluminum in India now will be registered by the importer along with end-use, but on a pure import duty increase, nothing has happened yet. The other one that the Government is working on is RoDTEP, the remission of duties when you export, so they are trying to replace the MEIS scheme by giving a rebate on electricity duty, transportation charges, so that the Commerce Ministry is working on. I am not saying there are actually happening, none of them have really come out yet, I think for us the ones that have crystallized actually have been on the input cost side, so Coal India and the Coal Ministry has taken some very dramatic steps in the month of April, May, and June, that have really bought the cost of coal down.



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- Pinakin Parekh:** Understood, Sir my second question is the value-added production was obviously VAP was down sharply given the shutdowns and it should normalize, as VAP increases should we see premiums for the company of the domestic sales increase and thereby aiding EBITDA to some extent, because generally this is higher margin than pure ingot sales?
- Satish Pai:** That is true and I said in my prepared remarks, June, July, and now August is coming back to nearly 80% levels of what we were in January and February Average and you are right that when they come in then the domestic net realization meaning domestic premiums etc. is better than exports, so it will be additive to the EBITDA.
- Moderator:** Thank you, Sir. We have next question from the line of Hardik Shah from SBI Mutual Fund. Please go ahead.
- Hardik Shah:** Sir, just couple of questions on the debt side, what would be the repayment obligation standalone and consolidated?
- Satish Pai:** On the India side, we have no repayment for the next two years. The first thing that comes due is the ₹6000 crores Bonds in FY '23.
- Hardik Shah:** On the international side?
- Devinder Ahuja:** Yes, Hardik, our next maturity comes for the term loan which is now outstanding at about \$1.7 billion that is the secured term loan and that comes due in 'FY22, so that is the first maturity and after that it is really the term loan that we have taken for the Aleris acquisition, which will come up in FY25 the \$775 million and after that is the CY2026 bonds the \$1.5 million and then it is really CY2030, these are really and within that I should have said that we have the \$1.1 million bridge which we will be refinancing in not due longer time or we will be sort of taking care of them so that the short-term nature of that sort of those, so this is really the maturity profile of the debt.
- Hardik Shah:** Secondly, Sir recently rating agencies had put a net debt to EBITDA cap of I think 3.5xpost acquisition and currently we are at around 3.7-3.8x, so when do you expect this to come down below 3-3.5x.
- Praveen Maheshwari:** You are talking about the Indian rating agencies?
- Hardik Shah:** Correct, at the time of the acquisition we had I guess company threshold?



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Praveen Maheshwari: No, there is no threshold of any specific nature, but yes they do expect the debts to come down or EBITDA to go up and that is what we will strive for, but today there is no such threat on us for any downgrade.

Satish Pai: Let me just remind you what we had committed when we did this Aleris acquisition is that on closing, the net debt to EBITDA will get to 3.8 to 4x, actually it has reached 3.8x and we said that within two years we will bring it down to the low 3s and we stand by that.

Hardik Shah: Sir, just final question, consolidated employee cost has gone up by 15%, is it due to the Aleris impact?

Satish Pai: Yes.

Moderator: Thank you. We have next question from the line of Vishal Chandak from Emkay Global Financial Services. Please go ahead.

Vishal Chandak: Thanks for taking my question Sir, Sir just wanted to understand what is holding back the approval from the regulatory authorities in China as well as in EU, we have been hearing for the last two quarters that probably it will come in next quarter or so, but really we do not have a color on what was the reason why it is still not happening, so if you could just share some thoughts on that?

Steven Fisher: No problem at all, we obviously submitted the approval of Liberty House the buyer of Aleris' Duffel in the middle of COVID-19 and there has been a number of issues that have arisen and have come up with discussion at the EC and at Chinese regulators, EC, we do have approval, and we are actively working with the Chinese regulators and do believe that we will be able to close this transaction at Liberty House within this quarter and are very confident that the Chinese regulators will come back over the next several weeks.

Vishal Chandak: Regulatory approval will come in this quarter itself and by when can we expect the European approvals?

Steven Fisher: European is already approved, so we are just waiting on the Chinese.

Vishal Chandak: Okay, so they have already approved the Liberty House and what would be the timeline for any extension from the Department of Justice for the divestiture of the Lewisport plant as well, Sir?

Steven Fisher: Yeah, on the Lewisport plant, we obviously started at their process after closing the larger transactions of Aleris right in the middle of COVID-19, this requires carve-out financial statements to stand up Management teams, we are in the middle of that process, have good



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interest in the facility and we continue to work with the Department of Justice to ensure that we are aligned to ensure that we find a suitable buyer for that, but we cannot give any more specifics around timelines now.

Vishal Chandak: Lastly, just if I may squeeze in a small bookkeeping question, in terms of what was the top line of Aleris included in the Novelis number in this quarter, I understand you did share the EBITDA as well as the tonnages pertaining to Aleris as part of a one time understanding of the situation?

Steven Fisher: What we have shared so far and Dev can if he has in his finger tips could talk about the top line revenue, in this quarter from April 14th to the end of the quarter, Aleris contributed 75 KT in shipments and \$ 34 million in EBITDA, I do not have the top line in front of me, I do not know if you do.

Moderator: Thank you, Sir. We have next question from the line of Bhavin Chheda from ENAM Holdings. Please go ahead.

Bhavin Chheda: Good Afternoon Gentlemen, good set of numbers, regarding domestic aluminum business, what would be the hedging proportion of volumes now and at what price it is hedged?

Satish Pai: So for the remainder of this year, which is the next three quarters, we are 58% hedged at \$ 1720 per ton, and the currency is hedged at ₹75.7 of around 45%.

Bhavin Chheda: Okay, any update on what would be the CAPEX for '21 and '22 on the domestic side, I think the Novelis you already announced 455?

Satish Pai: Yeah, so no change in the domestic, it is still 1500 crores for this year, too early to give for next year. I think we will look at how the second half of this year goes, how the LME looks and what we can afford, so this year we have taken a dramatic cut to the original CAPEX and we are 1500 no change.

Moderator: Thank you, Sir. We have next question from the line of Satya Jain from Ambit Capital. Please go ahead.

Satya Jain: Thank you, just a follow up on the hedging question with the LME in deep contango, would you be more actively looking at layering in hedges for FY '22, just wanted to see your strategy for hedging by FY '22 and what is the current hedge book for FY '22?

Satish Pai: In FY '22 we are currently 15% hedged at \$1768 per ton and the currency is 18% hedged at ₹78.5, so to be fair, the sudden run-up of the LME, we are taking a little bit of a pause, anymore additional hedges for next year needs to be at \$1850 and above, that is where our approval limit



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start, so let us see how the LME runs up, if it crosses \$1850 current three months then only we will add on and if you remember we normally like to be about 25% hedged by October/November for next year.

Satya Jain: Second question with the Chinese scrap standards from July, one, do you see any changes, anymore competition or extra scrap imports into other Asian leaders or no impact as such?

Satish Pai: Look, China has been restricting imports of scrap for a while now, which is why there is so much scrap available, so much comes to India, the scrap spreads upwards which is good for Novelis, we do not see that situation changing, not because of China.

Moderator: Thank you. We have next question from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Good Evening Sir, first question is sorry to harp on this on the hedges part, just want to understand the thought process in deciding the quantum because our basic understanding was we hedging 25%-30% to reduce our risk on the cash flows, but 58% hedged is a bit of a surprise to us. It appears that we are taking a call on the commodity and it is just not limited to risk management practice, how should we look at it, Sir?

Satish Pai: It is very simple, the year before as I say we will be at about 25%, but as we get into the year if you look at our historical we have always come back to about 50-60 for the quarters that we are close by, so there is no change overall in the position and this year if you look at it, one month ago the 1700 plus looked like a fantastic option, of course it has run-up now, but I think it can always run back down, so we are now this year going to stop at this level and watch what happens to the market, but as a principal we are 20% to 25% hedged by the previous October-November and during the quarters we run it up to 50% if we feel so.

Sumangal Nevatia: Sir, second question is with respect to the donation amount of \$ 50 million which was disclosed during the Novelis result, of course there is no second opinion that it is an extremely generous gesture by the company, but we did hear a few investor questions with regard to the quantum especially given that our previous year it has been very limited, so I guess \$ 5-\$ 6 million at Novelis and 25-30 crores at Hindalco annually, so any thought process, I mean is it like a one-off this year or has there been any calculation math behind it that in terms of our proportion to our profitability?

Satish Pai: First I do not think that this COVID pandemic has got any precedence with any of the previous years, I think it has been an unprecedented situation where I think the impact has been devastating, so I think that this is following the culture and the values of the Aditya Birla Group so we think that this is something taking into account the current environment that we have



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decided to do and I certainly hope that we do not get into a crisis like this going forward in the future, but we felt that in this environment under these very extreme pandemic situation, we felt that we had to do our part and I guess that is it, there is no math involved, it is only heart.

Praveen Maheshwari: It also shows the confidence that we have in terms of our own performance going forward.

Sumangal Nevatia: Sir, it was done through Novelis, is it in international geographies or in India as well?

Satish Pai: It is both, Novelis has put it into a worldwide charity that has invested in all the places that we operate in, so we would not want to go and break it down by country anymore.

Sumangal Nevatia: Thanks a lot Sir for the explanation and all the best.

Satish Pai: Yeah, thank you.

Moderator: Thank you, Sir. We have next question from the line of Rajesh Lachhani from HSBC. Please go ahead.

Rajesh Lachhani: Thanks for the opportunity, my question is with regard to the aluminum segment, so you said there are certain one-offs in the aluminum cost, so could you just throw some light on what were those one-offs and are this recurring or non-recurring?

Satish Pai: The largest part of the one-off was there was a little bit of a write back because of the RPO obligations that we had got, so that was the only one really and I do not, there are more RPO obligations that we have on the books that may come back over the next three quarters, so the whole RPO rule has changed, I think some of our competitors have taken everything at one go, but we go State by State as the States notify, so that is why when I do the cost of production, I am stripping that off, Rajesh.

Rajesh Lachhani: Understood Sir, just to follow up on the Duffel divestment, we still do not know what is the exact reason why this divestment is still not getting the approval of the Chinese regulatory or authority, so can you just tell us is it some formal delays or is that certain sticky point where the divestiture has been done?

Steven Fisher: There is nothing more specific and this is just taking time in COVID, as they assess the suitability of Liberty House overtime; again we feel as though the Chinese regulators are nearing the end of their review and do believe that we will get a closure of this transaction within this quarter.

Rajesh Lachhani: So there is no risk to this divestiture at all with regard to regulatory approvals?



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Steven Fisher: I am being confident, but it is not approved yet and until something is approved, I would never say there is no risk to that, but again in our discussion, in our understating of where they are we feel confident that we will see approval of the transaction.

Moderator: Thank you, Sir. We have next question from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: Thanks for taking my question, this question pertains to Novelis, the balance sheet highlights almost \$ 1.4 billion has been put aside as assets for sale, this includes current as well as non-current asset, what we wanted to understand is that there seems to be fair bit of inventory and the asset estimates that you have put in, the acquisition price that you have paid and if you can share the bid that you have got from, how much higher or to what extent is the difference on the value that you have put in there?

Devinder Ahuja: First of all when we do the accounting of the purchases, there are rules that we have to follow in terms of step up of the values, so therefore to your point about inventories, we have to step up the inventory to their market value, finished goods etc., and so that does inflate the value of the inventory, you will see that one of the things that we have done is taken an one-off effect so that is part of the one-offs in the net income where we have stepped it back down and we have readjusted it, but basically as part of the purchase price acquisition accounting, these are some of the things that come with it and even otherwise, all the assets are basically stepped up to market value, all the customer contracts are valued as part of intangibles acquired and so on, so everything has been done based upon the right accounting rules, our GAAP rules, so that is something that you need to know, I mean at the end, the core point here is that the net goodwill as you will see is a little above \$300 million which represents sort of the purchase consideration versus the asset value, so for an acquisition of this size as you can imagine, the goodwill is not so outsized, so overall the acquisition has been done for a little lower than \$2.8 billion rounded to \$2.8 billion that is really the acquisition cost so that is really how I can explain.

Abhijit Mitra: Yeah, that is helpful, the way to understand is that for an outsider that is the price, at least the price that you should expect right, I know it is difficult to sort of put words into your mouth, but for an outsider understanding that is the way to look at it, right?

Devinder Ahuja: I think you have to just understand that some of it is going by accounting rules, there is a difference between economics and accounting rules, so we would not speculate and try to sort of link the two, there are many other factors when it comes to divestiture so I would not try to link the accounting values and there are many rules and complexities that get into that, so the best thing is to refrain from trying to sort of compare the economic and the accounting sides?



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- Moderator:** Thank you. We have next question from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.
- Pallav Agarwal:** Good Evening all, I just had a question on, could you share the Utkal EBITDA separately for this quarter?
- Satish Pai:** No, because we do not give out Utkal EBITDA because it is a fully integrated, all Utkal Alumina goes into our metal, so we do not give out EBITDA of Utkal separately, it is fully integrated in to the aluminum business. If we do sell alumina to the third-party, I will call that out for you in the quarter, but alumina that is used internally in our aluminum, we do not give out the EBITDA for that because it is built into the aluminum EBITDA.
- Pallav Agarwal:** Sure, also just wanted your views on alumina as a percentage of spot aluminum, we have seen a pretty sharp run-up in aluminum on the LME, but alumina prices still as a percentage of aluminum probably is still below 16%?
- Satish Pai:** I think that the linkage as a percentage of LME was broken couple of years back because alumina has its own supply demand equation number one. Number two, the third-party alumina market is not very big any more, most of the players are backward integrated, so it is driven a lot by what happens with Alunorte of Norsk Hydro, when their supply goes up and down, so right now the alumina prices are like \$250 I think which is quite low assuming there is sufficient third-party alumina available, we do not look at alumina as a percentage of aluminum anymore, that linkage is broken, it has got its own supply demand equation now.
- Pallav Agarwal:** Sir, also I missed the part about the RPO obligation, could you share what is the quantum of write back this quarter?
- Praveen Maheshwari:** So it is basically revaluation of the obligation that was there because the rates have come down, it is about ₹30 crores in this quarter, we do not expect this to just repeat every time because the obligation has been already reduced to the current level, it depends on the trading prices of REC certificates actually.
- Pallav Agarwal:** Okay, so this may not be a recurring feature?
- Satish Pai:** It is not recurring.
- Praveen Maheshwari:** That is why we called it out separately saying that this is a one-timer.



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Pallav Agarwal: Even apart from that, the power and fuel cost have reduced very substantially, so I am guessing it is also because copper production was lower, so would that also have reduced the power and fuel cost in this particular quarter?

Satish Pai: If you are looking at power and fuel cost on a consol basis, the large part of that reduction is also because Novelis power and fuel costs were down because the automotive plants were shutdown in April and half of May, so overall there has been quite a big reduction in power and fuel costs in Novelis during Q1.

Pallav Agarwal: Okay, but that would be variable so with production coming back?

Satish Pai: It will come back, yes.

Pallav Agarwal: Finally Sir, could you give us some idea of what fixed cost savings can sustain, can we look at something as a reduction going ahead?

Devinder Ahuja: Yeah, so let me give you a view on that. First of all, we have said that in this year we are prepared to say over \$ 250 million and why I am saying we are prepared is that depending upon how the market comes back because if the market comes back, the focus will be on really producing more and selling more and sort of that will be a better thing to do then just focus on pure cost savings, but we will be ready to push cost savings target of \$250 million and we made a very good start, I said in our Novelis call that in one-fourth of the year, in one quarter have already achieved one-third of the savings. Now, I think your question was on sustainability and how things will look going forward, so really I think that the part that we will be able to sustain is really the SG&A part where we are driving some very fundamental actions to really address some of our fixed cost, so that would be a part that will sustain, so I would say that out of the \$250 million, a lot of the costs are relating to power and employed cost which you know sort of will come back because as operations resume, some of these costs will just come back. In short, I would say that in the SG&A side about \$30 to 40 million could sustain, this also has some benefits of integration of the total \$150 in the integration or thereabouts, so it also has some play on this one, but most of the costs will go back as operations resume, that is really the way to think about it.

Satish Pai: In the India business, we are targeting about ₹800-900 crores fixed cost reduction this year.

Pallav Agarwal: Of which you would have already seen something in Q1

Satish Pai: Actually, the Q1 the reduction has been much higher than the run rate because some of it is timing related, we did not do a couple of pot re-linings, so the run rate savings in Q1 is very high, but I think that during the rest of the year as Dev was saying as operations pick back up,



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some of our costs will go up, but throughout the year we are expecting to reduce by ₹800-900 crores.

Pallav Agarwal: Sure Sir, thank you so much for the elaborate answers.

Satish Pai: Alright, thank you.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the Management for closing comments. Over to you, Sir.

Satish Pai: Thank you, I think in many ways this was quite an extraordinary quarter with the full impact of COVID being seen on all our worldwide operations and I think that what is amazing is that our employees have done a stellar job in keeping our operations running and helping us deliver quite a resilient set of results in a very difficult time. I think that now going forward, we will build on this as the economies come back, and hopefully, we will be doing much better in the quarters coming forward, so with that I thank you for participating in this call and for your questions, thank you.

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