"Acquisition of Aleris Corp"

Analyst Meet and Conference Call

July 26, 2018

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hindalco Industries Analyst meet and 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. For audio participants, if you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the management. Thank you and over to you.

Satish Pai: Good Evening everyone. Before we get into the slides, I would just like to introduce the management team that we have today on this call, I am Satish Pai – MD of Hindalco, supported by Mr. Devinder Ahuja, CFO Novelis; Mr. Steven Fisher who is the CEO of Novelis, and Mr. Praveen Maheshwari who is the CFO of Hindalco. With that, we will get into the presentation now and we go to Slide #4. Today, we announced that Hindalco through its wholly owned subsidiary Novelis signed an agreement to acquire Aleris for US 2.58 billion. Aleris is one of the leading privately held aluminum rolled products Company globally. Before going into the details of the proposed acquisition, I would like to start by recapping the current Hindalco and Novelis position. Hindalco is a leading global player in the non-ferrous metal segment. Hindalco along with Novelis is the Number One player in the aluminum downstream business and a major player in the aluminum upstream and the copper segment. Hindalco and Novelis have completed a major CAPEX cycle in the last seven years and I guess we have demonstrated a good track record in project implementation. FY '18 was a remarkable year for us on every front, with record aluminum and copper production, highest shipments at Novelis, highest combined revenue of US $ 18 billion and the highest EBITDA at US 2.2 billion. All our operational performance in both Hindalco and Novelis has been consistent and efficient. For instance, the Aditya and Mahan smelters are in the first quartile cost producers of aluminum and our Utkal refinery is amongst the lowest cost alumina producers globally. Novelis is a market leader, generating an EBITDA per ton of nearly $ 400. Birla copper is one of the largest integrated copper smelters and is a steady performer.

Let us go to Slide #6 now, so let me take you through the key terms of the definitive agreement. Novelis has today entered into a definitive agreement to acquire Aleris for an enterprise value of 2.58 billion. This entails US$ 775 million for the equity component along with assumption of the debt of US$ 1.8 billion. Additionally, there could be an earn out payment of a maximum of US$50 million. This is linked to performance over and above the Aleris North America business plan for the Calendar Year 2018 to 2020. There will be no equity issuance, therefore, the deal would be fully debt financed in Novelis' book. This is is expected to close in next 9 to 15 months. We believe we have the right opportunity at the right time., So to get into the details, I am going to turn it over to Steve to give you more details on Aleris and this acquisition.

Steven Fisher: Thank you, Satish, and Good Evening. Turning to Slide #8, let me briefly describe Aleris to everyone. Aleris is a leading global aluminum rolled product company with a diverse range of products. It is the leading supplier of aerospace and expanding into automotive sheet. It is a market leader in building and construction and trucking trailer segment in North America. Aleris has multiyear agreement with blue-chip customers. Its shipment in Calendar Year 2017 was about 800 KT with revenue of 3 billion US, it employs around 5400 employees, and has 13 highly capable manufacturing facilities. Its operations straddle across North America, Europe, and Asia, and is very complementary to Novelis. Its investments of around US$ 900 million in the last five years will drive earnings and cash flow momentum for the next few financial years.

Let me provide a little bit more detail on the recently completed strategic investment phase on Slide #9. These investments include a US$ 425 million auto body sheet investments at Lewisport, Kentucky, in the US. The capital expenditure is for readiness and upgrade at the hot mill, addition of a new cold, mill and two new auto finishing line is complete. There is significant customer commitment for this business under multi-year agreements and commercial shipments are already underway. In Europe, Aleris recently completed an US$ 85 million auto body sheet investment in Duffel, Belgium. This is one of the widest auto body sheet capable mills in Europe and is now serving customer needs. In Asia, Aleris has completed a US$ 350 million state of the art investment in Zhenjiang, China, that can produce high value-added alloys for aerospace and has significant volume captured under multiyear customer agreements. It will take some time to ramp up these new assets, the benefits of which are not fully reflected in Aleris' earnings results. But we have the distinct opportunity to leverage our expertise and experience in rolling and finishing to optimize Aleris' newest and existing assets. As you may remember, Novelis invested nearly 2 billion in growth CAPEX in the recent past. We have successfully built out and ramped up those new rolling, recycling, and auto finishing assets with our focus now to continually optimize our capacity and drive efficiency while delivering high-quality products to satisfy our customers.

As you can see, on the graph presented on slide 10, capital expenditures are ramping down and key financial metrics have held relatively steady. With a significant investment in new assets complete, Aleris is poised to drive significant earnings momentum and this transaction has been substantially de-risked.

Let me spend a minute on the US auto body investment at Lewisport in more detail on Slide 11. As I just mentioned, the growth CAPEX to build out and refurbish Lewisport is complete. This included upgrades to the existing hot mill and implementation of a new cold mill. It also included the build out and commissioning of two new automotive finishing lines. The customer qualifications on commissioning on both lines are on track and ramping up in line with customer commitments. Notably, more than 60% of the capacity on these lines is already contracted with customers and Aleris expects to see higher profitability beginning in 2018 with continued ramp up over the next two years. In short, the capital has been spent and the capacity has been largely contracted, de-risking this acquisition.

Let us move onto Slide 13, with this acquisition we solidify our position as the World's Number One aluminum rolled products player. Post-acquisition, the combined value added product capacity will be around 4.7 million tons per annum including Hindalco's rolling assets in India.

Let me now take you through the key highlights of this acquisition on Slide 14. Aleris is on the cusp of transformational growth. It has recently invested almost US $ 900 million in new assets to support its aerospace and automotive businesses. We see great opportunities to use Novelis' knowhow as a lever to optimize Aleris' production assets.

There is a solid strategic rationale behind this move. As it further diversifies our product portfolio in the premium market segment such as the high-end aerospace domain. It will help integrate our collective assets in Asia namely recycling, casting, rolling, and finishing capabilities bringing in enhanced operational efficiencies in Asia. This deal will also help to meet the growing demand in the fast-growing and higher marginal aluminum automotive market, which is growing at 14% compounding annual growth rate through fiscal 2025. This will also help in diversifying our customer base.

Moving onto the funding, as I said earlier it will be a 100% debt funded deal on Novelis' books. As we have always communicated, our focus on keeping a disciplined balance sheet will continue. The pro forma net debt to adjusted EBITDA after a combined entity at Novelis is forecasted to peak below 4x at close and return to 3x within two years. Hindalco's consolidated Net Debt to EBITDA is projected to stay below 3.5x at close of this transaction and is expected to return to below 3x within two years.

Turning to Slide 16, first simply stated the acquisition of Aleris further diversified and enriches our product portfolio. Novelis' product makes it historically been heavily weighted towards the beverage can segment and we remain very committed to this segment. Our strategy in the last several years has been to diversify our product portfolio and move up the value chain by capturing rapid growth in the automotive aluminum sheet market as more and more OEMs turn to lightweight aluminum solution.

Today, Novelis' standalone product mix still depends heavily on the beverage can market representing at about 60% of our shipment portfolio with automotive and specialties splitting the balance. The proforma shipment portfolio post-acquisition is further enhanced with the addition of premium aerospace as well as building and construction in truck and trailer businesses and further automotive penetration. The share of automotive segment on a pro forma basis will become 22% and will further grow to approximately 30% as our organic investments for the new capacity in Guthrie and Changzhou ramp up. Beverage can business remain at a core part of our portfolio, but by growing the share of value-added auto, Aero, and high-end, cost effective specialty products to complement our existing portfolio, we de-risk the business by broadening our presence to new end markets and geographies.

An exciting addition to our product portfolio is our entry into the high-end aerospace segment described on Slide #17.

With well-established manufacturing capabilities in Europe and Asia and Research and Development in Aleris' Koblenz, Germany facility, we are able to capture growth in aerospace market and the shift in demand to Asia through its Zhenjiang, China operations. This is a business with significant volume captured under new long-term agreements with blue-chip customers in a strong long-term demand profile. According to Airbus's global market forecast, over 34,000 new commercial aircraft are expected to be built between 2017 and 2036 with half of that growth expected to be driven by Asia-Pacific.

Turning to Slide #18, the acquisition also provides the opportunity to backward integrate our existing Novelis' automotive footprint in China, and provide optionality for further growth in the aero and automotive markets.

With a very positive view of market demand in China, we recently announced a 100 KT expansion of automotive finishing in Changzhou to be complete in 2020, bringing our Asia automotive capacity 200 KTPA. Post-closing, we intend to invest in upgrades at the hot mill to leverage underutilized capacity in Zhenjiang and add cold mill capacity to fully integrate and supply our balance to Novelis automotive finishing lines. This will drive significant strategic cost synergies and efficiencies from this integration. This includes access to lower cost SHFE metal driving immediate near-term benefits and eliminating the future risk of metal cost disadvantages when competing in Asia. With a foot on the ground, we would also develop closed-loop recycling systems through enhanced recycling capabilities to better manage metal cost, And due to the close proximity between Zhenjiang and Changzhou, we would reduce the logistics cost.

On Slide #19, we discuss that by growing our automotive footprint in offering, we are better able to meet the growing needs of our automotive customers. First, aluminum is a growing metal of choice for lightweighting vehicles and provides equal or better quality, strength, and durability compared to other materials. The acquisition enhances our ability to innovate alongside our customers for lightweight solutions to better compete against steel. Second, with a larger automotive portfolio, the acquisition diversifies our automotive customer and vehicle platform base given limited overlap between Aleris and our customers. Third, an expanded global footprint also mitigates production risk and allows us increasing capacity to better serve and grow alongside our automotive customers. The acquisition also adds leading positions in North American building and construction market and the truck and trailer market, outlined on Slide 20.

Aleris has the largest most flexible Continuous Cast network serving North America. In continuous cast, you cast much near to the final thickness and eliminate multiple rolling passes. Aleris' continuous cast segment is very cost-effectively with a streamlined product mix and extensive use of scrap. This business is built on long-standing customer relationship and is forecast to benefit from continued end-use demand with positive trend in US healthy market fundamentals.

Turning to Slide #22, as we think about the acquisition multiple, one must adjust the EBITDA to consider the US$ 900 million of growth CAPEX Aleris has just completed. This is not fully realized in trailing 12 months of reported EBITDA. We bridge the trailing twelve months March 31, 2018, reported EBITDA of US$ 202 million to US$ 360 million adjusted trailing twelve months and auto forward-adjusted EBITDA by adding back qualification related outages of US $ 38 million and accounting for contracted automotive volume that begins coming online immediately and throughout 2019 and considering the incremental automotive opportunity, as the remaining finishing capacity built is already filled.

With this attractive ramp up of the EBITDA, we calculate an acquisition multiple of 7.2 times based on an Enterprise Value of US $ 2.58 billion. This Enterprise Value consists of US $775 million of equity plus net debt of US$ 1.8 billion. This debt is the March 31, 2018, that is reported net debt plus US$ 103 million in fees associated with the June re-financing of these loans. Further, this does not include incremental EBITDA growth in aerospace and specialties or identified synergies and efficiencies that will drive additional EBITDA benefits.

We have identified approximately US$ 150 million of run rate cost synergies falling in the two categories, transformational synergies and traditional synergies as described on Slide 23.

First, we anticipate roughly 45% to 50% of the total synergies will be transformational and primarily as a result of integrating our existing automotive business in Asia as we drive significant benefits from access to SHFE metal and enhance closed-loop recycling system. We anticipate a capital investment of US $ 250 to 300 million to provide significant cost synergies and dramatically increase our competitiveness within China in a three to five years' timeframe.

The other 50% to 55% of cost synergies are a result of combination of the two companies. Synergies in this bucket have been identified in metal and non-metal procurement, supply chain optimization, and other operational efficiencies and SG&A in infrastructure savings. These are synergies expected to be realized in the first three years at an estimated cost to achieve of approximately 35 million mainly in year one.

Now, I would like to turn it back over to Satish to take you through the next slide.

Satish Pai: Thanks, Steve. Let us get to Slide #24 now.

Let me now spell out how this deal impacts Hindalco's India aluminum value-added products business. The Indian aluminum market is at an inflection point. Today, aluminum consumption is largely skewed towards the electrical segment in wire rods followed by casting in the automotive segment. Going forward, we see an overwhelming increase in the use of aluminum in building and construction, transport and auto, Railways, aerospace, defense, and solar panel segments.

The next phase of aluminum growth in India is thus expected to be in flat rolled products and extrusions. To maintain this leadership, Hindalco plans to double this value-added product capacity in the next five years. A CAPEX of around US $ 1 billion is being planned for this over the next four to five years.

Access to Aleris' cost-effective continuous cast capability should significantly boost Hindalco's growth in building and construction and transport segment. I believe this will help bringing the expertise and making high-end product range in India, and will add to our efforts in the Make in India program.

Turning to Slide #25, let me remind you that when Hindalco bought Novelis back in 2007, the adjusted EBITDA was approximately US$ 350 million, but we then realized the potential of the business and today together with Novelis, we can now proudly show you the performance of Novelis, which is there on the right-hand side of the chart in Slide #25.

We have accomplished these results through operational excellence, commitment to safety, quality, customer satisfaction, a deliberate product mix shift, and by driving cost efficiencies and taking a prudent approach to investments. With this track record, we are very confident in this current transaction and the outlook of the combined businesses.

So if I now sum up in Slide #26, Aleris is a value accretive acquisition for Hindalco Novelis. As you know, Novelis today is the world's largest rolled products company. With this acquisition, Novelis will have diversified its portfolio comprising of beverage cans, automotive and now the newly added high-end aerospace. It will give access to Aleris' technology for Hindalco's existing aluminum value-added product operations in India in the building and construction and transport segment.

The new combined entity will have a strong financial profile and significant cash flow generation supported by the recently made strategic investments at Aleris which now have a stronger earning potential.

The potential benefits of this acquisition in terms of synergies will be around US$ 150 million attainable mainly through the integrated operations in the Asia, supply chain and in the traditional SG&A metal procurement optimization. Let me reiterate that this acquisition will be done at an enterprise value of US$ 2.58 billion based on an expected EBITDA of US$ 360 million in the year post closing, this EV is an attractive multiple of 7.2x.

The pro forma net debt to adjusted EBITDA for Novelis is forecasted then to peak below 4x at closing and is expected to return to 3x within two years. Hindalco's consolidated net debt to EBITDA is projected to stay below 3.5x at closing and is expected to return below 3x within two years.

Finally, all this will lead to the creation of US$ 21 billion Company by Revenue, with an employee base of around 40,000. We believe that post this acquisition, the combined entity will be the largest aluminum company not just the downstream, but the largest aluminum company, outside of China and the second largest globally in terms of the aluminum by Revenue.

With this, we will take an end to the presentation and we will be open the floor for questions.

Participant: If we can go back to Slide #22 where we have done an adjustment to the overall EBITDA moving from $ 202 million to $ 360 million, so the last part which has $ 360 million is roughly CY '20 EBITDA?

Satish Pai: As I said in the talk, it is the first year post closing which is FY '20.

Participant: CY '20, FY '21 and if you look at the contracted auto EBITDA which is $ 65 million, so this is likely to accrue somewhere in CY 2019?

Satish Pai: The USD 65 million is in the current year that we are in right now.

Participant: In 2018, because I was given to understand that the auto capacity will ramp up in the second half of CY '18, so what capacity utilization, capacity is 220 KTPA, is that correct?

Satish Pai: The capacity is roughly 200 KT at the Lewisport Plant.

Participant: The old auto capacity how much is that?

Satish Pai: They did not have any auto capacity in Lewisport, it used to be a common alloy plant, so actually if you looked at the slide where Steve showed the $ 425 million investments, that is the investment that they put into Lewisport to put two cash lines that made Aleris ready for auto. Those are the two lines that are ramping up now and those two lines are what we are putting into the adjusted EBITDA because the product that is being delivered has already started this year, so this year and the first year after post-closing that is what takes you to the USD 360 million of EBITDA number.

Participant: So, we are working with a higher capacity utilization in CY '19 that takes us to a $ 65 million realizations at the EBITDA level in CY '18 itself?

Satish Pai: Yes, but what we are saying is that we are just ramping up to the full capacity, of Lewisport two auto lines.

Participant: Sir, we also mentioned an auto capacity in China and we talked about integration with Novelis asset, so I thought it was an older capacity already lying with Aleris or?

Steven Fisher: No, they spent $ 350 million over the last five years, they started commissioning that facility about two years ago in the state of the art facility geared in aerospace and plates, but with additional investments it is USD 250 to 300 million which is primarily upgrades in the hot mill and cold mill expansion, we can then see it our downstream lines, which is only 80 Kilometers away from that facility giving us access to SHFE metal, lower logistics cost, and ability to then bring in closed loop recycling systems with our customers and our process scrap which we cannot do currently at our facilities in China.

Neil Gupte: Good Evening, this is Neil Gupte from Kotak Infina. My question is basically with the Novelis' debt which would essentially rise to about $ 6 odd billion and cross about four times EBITDA, does this impact any governance etc., and do you envisage any kind of impact on your rating which I believe was recently upgraded?

Devinder Ahuja: First of all, it will not cross over on a pro forma basis if we add up to get to the 6.2 total debt, it will not cross 4x, it will be below 4x, I would say 3.8x, 3.9x is the maximum it will reach. To your question about, will it affect the credit rating, now it is difficult for me to speak for the rating agencies, what I can tell you is that we will stay below 4, which is being very disciplined, staying very healthy, and in two years' time, we have a very high confidence that we will come back to current levels. Now with that, I expect that the rating agency should take a positive view, but for me sort of to make a very definite answer for the rating agencies. By the way, to your point the Standard & Poor's who have recently upgraded us have recognized that there could be a scenario of an acquisition and in that case, they have acknowledged that the leverage will stay very disciplined, so that is something that they have already acknowledged in their recent rating upgrade.

Neil Gupte: The cost of additional debt that you will take on would broadly be similar to the interest cost that you are currently paying in?

Devinder Ahuja: I think that it will be much, much lower than what Aleris is paying, because if you look at Aleris' interest rate like they did a recent bond refinancing, they did a recent refinancing, now they are paying 10.75% on their USD 400 million bond issue. Now, if you look at what we are paying, we are paying something like 5.875% on one series and 6.25% on another series so for sure what I know is that I will pay.

Participant: It would come down to the level that the Novelis is currently.

Management: Broadly.

Participant: Just extending the same question. When you are saying that it has been two years, it will come down to 3x, is it because of the EBITDA which will go up or is it because the free-cash-flow will bring down the debt?

Devinder Ahuja: It will be both, we will have cash generation. We are in a capital investment phase in Novelis, so it will not be the same as last year. But having said that, I think the EBITDA ramp up will be the key driver, you can see the drivers behind the ramp up of the EBITDA. So, for sure that will be a factor, but then there is also going to be cash generation. So, it is going to be both factors, more the EBITDA on a second level also the cash generation.

Participant: So, what kind of CAPEX you are modeling in Aleris over the next two to three years?

Devinder Ahuja: So, the CAPEX will be synergy CAPEX, they have finished their capital investment and on a steady state they will only need to spend on maintenance CAPEX now.

Participant: How much is that?

Devinder Ahuja: It is around 90 million.

Participant: And you talked about 300…

Devinder Ahuja: And then synergy-based CAPEX we will be spending somewhere around USD 300 million to realize the Asian integration synergy. So, that is what we will spend in order to set up the Cold mill mainly, to have a fully integrated operation.

Participant: So, on an annual basis it will still be around $140 million - $150 million?

Devinder Ahuja: Yes, I mean the maintenance CAPEX will be $90 million to $100 million, over and above that will be any strategic CAPEX that we may decide to incur.

Participant: I am asking this because when you are talking about free-cash-flow generation now Novelis will also see some shrinkage in free-cash-flow generation because we are stepping up CAPEX, last year we generated $400 million, here could be little less than that because we are stepping up CAPEX here. So, I was just thinking how much free-cash-flow… I mean I do not see Aleris generating any free-cash-flow given that it is a leverage and the CAPEX plan that we have. So, the deleverage will only happen perhaps from the Novelis free-cash-flows.

Devinder Ahuja: Well, so first Aleris will get accretive starting from fiscal year 2020, it will not be negative free-cash-flow in Aleris. And in our case, yes we are ramping up CAPEX but we will continue to still generate cash even post the ramp up of the CAPEX. I am not going to give you cash flow guidance but we will be meaningfully positive in Novelis even after all the CAPEX ramp up.

Participant: When you say 3x debt to EBITDA ratio to just down the line, so you are not counting synergies in that?

Devinder Ahuja: Well, in that also, the synergies are going to come over three years, so in a two-year time frame there is not much of synergy sitting in that calculation.

Anuj Singla: Sir, this is Anuj from Bank of America Merrill Lynch. Sir a couple of questions. Firstly, just a follow-up, you mentioned that Aleris is paying 10% at the moment and Novelis is obviously is paying significantly lower, maybe blended off around 6%. So, how much time will it take to bring Aleris cost of debt to that level? Is there change of control clause as well in some of the bonds which are there, is it possible to do that immediately or it will take some time?

Devinder Ahuja: So, let me just clarify, when I talked about the 10.75% I was referring only to the 400 million of bonds. Now, they have done a secured term loan on which they are paying LIBOR plus 475 bps. Now if you take what we are paying, on a term loan refinancing we did hardly about a year or a little more than that, we are paying a spread of 185 bps over LIBOR. So, what you can see is that we will bring some advantage because of our balance sheet profile. Now, how much time will it take, well what I can tell you for now is that there could be a couple of options on how we do the refinancing, one is we can think about their term loans which they have recently done, use the change of control clause, do a reprising based upon our better balance sheet profile, that is an option. Second option is to repay the entire debt and do a completely new refinancing at lower interest rates, using our balance sheet or the combined balance sheet. Now, I cannot tell you very precisely what options we will choose, all that I know is that we will be able to substantially reduce the cost of finance of Aleris with our combined balance sheet.

Satish Pai: Dev, I think the one point you left to say, when Aleris refinanced their bond if you actually looked it they have kept a call back option in year one, year two. And actually, the call back penalty in year one is lower than year two. So, they have set it up for somebody to take it up.

Anuj Singla: Sir, the second question is regarding the EBITDA bridge from USD 240 to 360 million, I think if I remember correctly Mr. Pai mentioned it does not factor in any upside from the aerospace. So, Aleris guidance they have given a guidance I think of 20 million to 30 million extra on the aerospace side, that is not a part of this 360, is that a fair assumption?

Steven Fisher: That is a fair assumption. The 360 is built of contracted auto and fully ramping that up. And we are very confident in booking that and ramping that up based on our knowledge of Auto market, our decision to move forward, with our expansion in the US market as well. So, we are very comfortable with that, but it only includes that ramp up of auto at that one facility, not any other further upside.

Anuj Singla: And last question again for Steve, there is only one segment where you overlap significantly with Aleris, that is the auto segment. And probably you have been market leaders in auto segment in North America in certain parts. So, is there a potential anti-trust issue which you see in the auto side in North America for this?

Steven Fisher: Yes, you are correct. The real only kind of end market that we overlapped in is auto, they were not in beverage can, we were not in aero, we do not see an issue from an anti-trust standpoint, we are very confident that when we think about material competition in the auto space it is much broader than just aluminum. Think about today where it is at, 1.5 million metric tons of aluminum sheet out of 80 million metric tons. And we compete day in and day out against other materials. And so we are confident that as we go through this process that those understandings of competition will come through and we will get through the anti-trust.

Participant: First of all, with regards to the synergies, the synergies in Asia which is 45% to 50%, is that completely contingent on the investments that we are supposed to make?

Steven Fisher: Yes, we will need to invest USD 250 million to 300 million in the cold mill in some other several other upgrades. And that is why these synergies take a little bit longer to achieve, we would not achieve those synergies until probably in year three post the acquisition.

Participant: And with regards to the balance synergies which are mentioned within three years, are they more back-ended or do we see some benefits coming in?

Steven Fisher: I would say that they are probably more or less hopefully get more run-rate in your two post acquisitions, we will have cost in that first year about 35 million. So, on a net basis we probably would not have a lot in year one and then we will start to see them grow on a net basis year two and ramp up from there.

Participant: My last question is with regards to the $50 million earn out that we are supposed to pay. What is it contingent on, as in is it over and above $360 million of EBITDA or is it a part of that?

Devinder Ahuja: The answer is it is over and above. So, let me explain how this works. So, we have a base model, a base financial model which went into all our valuation consideration. Now the Aleris management believes very firmly that the base model does not capture a lot of the opportunities in the US, a lot of EBITDA and ramp up opportunities in the US. And in that process, we agreed with them that if these opportunities were to realize we will share the gains. So, the answer is yes, this is over and above the $360 million. And for them to earn $50 million we have to make $50 million as well, because it is a 50% sharing. And their confidence level was that it could even be more than $100 million, so we will see what happens. But really if the make $50 million we make $50 million, so we would love for them to make $50 million.

Participant: What is the timeline for that?

Devinder Ahuja: It is CY2018 to CY2020, those are the three years.

Participant: Sir, I had a question on the aluminum scrap spreads. So, how much of scrap does Aleris recycle right now? And if in this scenario of declining aluminum prices not just for Novelis but even for Aleris would you see a contraction in spreads that you are seeing right now?

Steven Fisher: So, Aleris has a high recycled content in the continues cast business in North America, north of 90% recycled metal going into that business. They have limited recycle content in the remaining parts of the business worldwide from there. Novelis, close to 60% of all of our products on a global basis was from recycled inputs.. And certainly, we are very open that as we see higher aluminum prices we do believe that we gain. And if we see lower aluminum price we will lose. Obviously, we think those were strategic investments that we have made over a number year that certainly help us compete and help us alternately keep our costs lower.

Participant: The other question was on the financial part, so what is the net worth of Aleris, was it bankrupted earlier so would we be taking a lot of goodwill on Novelis' books once the acquisition is complete?

Devinder Ahuja: Well, goodwill, that is going to be based on purchase accounting, and I do not have a precise answer to that because our valuation cases are all DCF based. The bankruptcy that you are talking about that is a historical event, and really, I think that what we showed you is that they have been able to successfully fund USD 900 million of expansion and now they are at a place where the EBITDA of all these investments is going to start coming in with no CAPEX above the maintenance CAPEX really, not much above the maintenance CAPEX. So, really from an ash standpoint it is at a point where it is starting to become accurate.

Participant: And finally, just one question on the synergies in China, the facility that Aleris has is for aerospace right, and specialty that we have is on automotive specialty. So, is this $250 million - $300 million investment to turn it into an automotive facility, what exactly are the synergies are going to come from?

Steven Fisher: So, what Novelis has in China currently are will be 200 KT of finishing auto capacity, that is currently set from our upstream mills out of South Korea at Ulsan. The mill in Zhenjiang that Aleris owns is used for aerospace today, it is absolutely capable of producing automotive sheets. But it does take more investment, it takes a cold mill and a little bit more investment, that is $250 million to $300 millions of investment, and then it will be able to supply downstream 200KT auto finishing. And I really should have said this earlier that it might take two to three years to get to that, it might take $250 million to $300 millions of investment, but it is some immediate cost savings. The differential in the SHFE metal and the LME and MJP pricing, ranges from anywhere from 200 to 400 dollars per ton, at that time and you are 200KT in thatswill be instant savings. That does not include any recycling capability that we can put into that area or the logistical savings cost. As well as our ability to serve our specialty customers, can customers out of our Ulsan facility versus auto coil into there. So, lots of benefit in Asia region overall.

Participant: I have three questions, one is, when you mentioned in your EBITDA bridge that auto opportunity of $55 million extra, so do we have to incur any fresh CAPEX on that or everything has been done?

Steven Fisher: All the CAPEX has been spent and they are just in the middle of ramping it up at this point of time .

Participant: Secondly, is it possible to share that in terms of margins whether we have a better margin in beverage can or Aleris have a better margin in building and construction?

Steven Fisher: We do not get in this a lot of margins, right now the building construction and truck and trailer business in the US is very cost-effective business and it is a very good business right now. The beverage cans business is a good business too and is continuing to see signs of growth in the 3% to 5% range globally. And we feel very good to have a good portion of our portfolio in the beverage can serving those customers and also been balancing the portfolio from a resistant standpoint where if there is a pullback we know from experience both in the US and Brazil and all across the world that the way people consume in recession is bringing Cans home. So, it does balance out the portfolio, so we really do want to continue to have that as a core part of the portfolio going forward.

Participant: And lastly, how much maximum we can produce from Aleris, is it 1 million ton or can be more than that?

Steven Fisher: We think we can get 1 million tons and of course our experience is that each and every day we are trying to get more and more out of our assets and we will ply just as they have been, all the process efficiencies, knowledge sharing, best practices, and we will see what we can get out of it. But we can get at least 1000 Kt out of it.

Participant: Because in one of the earlier calls you mentioned that Novelis has a sustainable EBITDA per ton of more than $360 - $365 per ton. Whereas in guidance also we are giving $360 million for Aleris which means roughly around $360 per ton. So, do you think that this kind of run-rate can be maintained, and it can increase to Novelis level on a sustainable basis?

Steven Fisher: We think with the right market conditions, absolutely. It will take time, but we do think it would be sustainable and we think we can grow from there.

Participant: Because $360 million in a very first year of operation, and post that obviously we are looking at something to grow, then also we are not confident of $360 per ton EBITDA?

Steven Fisher: No, we are confident of $360, we will grow up to $360 from there. I remember to get to 1000 KT we also have to do the investment inside of Zhenjiang in order to supply more coil downstream and free up our Ulsan facility to sell more specialties and beverage can business.

Sumangal Nevati: Sumangal here from Macquarie. A couple of questions first, given our balance sheet strength we have been exploring M&A opportunities since last one year. So, while considering Aleris was there any other asset on the block which was available, or this was the only one?

Satish Pai: So, as I have been also saying in many of the analyst calls that we have been evaluating a number of inorganic options, and we tend to look at and will continue to look at different opportunities. So, yes will look at more than one.

Sumangal Nevati: And also, you mentioned about EBITDA close to 7% which looks attractive, I mean if I consider ROCE even at $360 million EBITDA it looks like 6% - 7% ROCE which I suggest it might be dilutive for shareholders. So, have you looked at it from a ROCE perspective, also how the asset and valuations look like?

Devinder Ahuja: No, I think the way we evaluate the deal is based upon the spread between the cost of capital and the IRR of the deal. And we have a very good spread between the cost of capital and the IRR. That is the way we have evaluated the deal.

Sumangal Nevati: Just on building and construction segment, what sort of market share does Aleris has and what is the competition level there? I mean, we believe there is a lot of Chinese capacities and players in that. So, we still know very little about that segment so if you can just educate us a little bit more on that.

Steven Fisher: They have a market in the North America market place, you are absolutely right in that there is competition that does come in from China and that is a little bit some of the trade cases that have gone on in the US to at least ensure some fare trade at a minimum. There is also some other local competitive competition there as well, but right now based on just very efficient cost effective high recycle content businesses that they have there, they are in a great place to compete.

Vikas Singh: This is Vikas from B&K. Sir, Aleris had last year roughly $200 million losses, so in this $360 million EBITDA are we building any profit position at the bottom-line or it would take little bit more time for us to be profitable?

Devinder Ahuja: So, we will be accretive on the net income within about a year of closing. So, somewhere let's say in broadly CY2020 the business should become accretive.

Vikas: And sir secondly, what kind of absolute cost savings in terms of interest outgo which we are having, we are envisaging after this whatever cost saving we will do or refinancing?

Devinder Ahuja: The number will be a significant meaningful number, that is all I can tell you, I will not make precise predictions about sort of the ultimate cost at which we will look, by the time we do it will be a year or more.

Satish Pai: If you want to put it in your model you should take it somewhere closer to Novelis' rates that they are paying.

Abhishek: Abhishek from Kotak. So, first question was regarding this $55 million that is appearing on the screen. How do you foresee contacting this opportunity? Are there certain customers with whom we are already in touch with?

Steven Fisher: Well, I cannot speak exactly for what Aleris is doing on a commercial standpoint. I know from Novelis viewpoint of the US auto market. First, this is the only open capacity for auto sheet in the US auto market today. We made a decision six months ago I believe to in December to build 200 kt more of auto finishing capacity in Guthrie, Kentucky. We said at that time that we are extremely confident in selling that capacity and ramping it up in a very quick manner. So, what we see in the market and the market conditions, we believe that Aleris over the next year and then once we close the transaction would be able to sell and ramp it up very quickly.

Abhishek: Second question is regarding the Chinese capacity. You have mentioned that the auto finishing line in China that you are building up is 100kt and the hot mill capacity is 200kt. So, could you give us a sense that whether you are going to put another 100kt capacity there or how are you going to use balance 100kt?

Steven Fisher: It is the fastest growing market, for auto as well, and we certainly see the opportunity, right now we would be focused on getting the two facilities integrated, spending that money but continuing to watch the high growth market that is really focused on light weighting vehicle for electric range as well as for fuel efficiency standards inside of China.

Abhishek: Just last question regarding $250 million - $300 million investment that you are talking about, so when you are talking about this $150 million synergy, that excludes the written down investment of $250 million or that is part of it?

Steven Fisher: The $250 million to $300 million is investment, it is a synergy investment that we need to make and then we had instant payback because we sold out our 200 kt downstream lines immediately and you take immediate advantage of the cost between SHFE, LME and MJP

Abhisar: Abhisar here from Centrum Broking. Sir, my question is any reason for not including the aerospace related EBITDA? Because in the Aleris Q4 CY17 PPT there is a clear mention that that 20 million to 30 million EBITDA should be available in CY19. So, in our first year of closing when we are showing 360, why are we not including that?

Steven Fisher: We are trying to be very straight forward and conservative what we really know and that is the ramp up of the auto line. And certainly, we know there is more upside to it, but right now we wanted to get anyone's mind in what truly should be counted in a multiple basis day one which is USD 360 million.

Abhisar: So, a follow-up on that, there is a mention that there are some long-term contracts with marquee players in the aerospace for that business. Still you are saying that certainty to that extent might be missing in those numbers?

Satish Pai: I think what you are talking about is extra aerospace volumes, so that we are not privy to the contract details at this stage. We cannot sit here and put for you a bridge based on them selling more until we take over. So, we are just putting bare minimum just to Lewisport asset and its ramp up to take it to US $ 360 million.

Steven Fisher: And we have a lot of experience in the auto side, so that is why we can speak very much to this ramp up at Lewisport and be very confident in the numbers we put front of you.

Abhisar: Ands second question is on the capital allocation part, we kind of have a lot of treasury support at the consolidated balance sheet level, a lot of it is at the Hindalco standalone level. I understand you have spoken about the financing of this deal and the refinancing portion wherein the cost of that asset level comes down. But wouldn't it be prudent enough to use some cash which we have on books already and not have gross debt high and also cash balance high, does it indicate that we still look out for more opportunities in India and abroad?

Praveen Maheshwari: We maintain treasury as per what we think is prudent. We have no loss on the treasury. To your question about how do you allocate capital and how do you allocate resources? As of now we do not see the need to fund anything in Novelis, because as we see that their net debt to EBITDA is pretty comfortable, so why mix the two sides. So, they can manage on their own. In Hindalco we also continue to look for opportunities to invest, like we have decided $1 billion investment in the next five years. So, there is no need for us to shift money from one place to another at this point of time.

Abhisar: But just considering that here right now the cost of debt is high and anyways it is going to be refinanced, and the Indian operations will have so much free-cash-flow, internal accruals also to support any CAPEX in India.

Praveen Maheshwari: Cost of debt will not remain high, because once Aleris is acquired by Novelis it will come down to a level which Novelis has. So, really speaking, it is not high.

Satish Pai: Novelis' cost of debt today is 5%.

Kamlesh: Just one question on the CAPEX part, would there be a possibility of reduction in CAPEX for the Novelis because of this acquisition?

Steven Fisher: We factored in our strategic CAPEX, we are continuing to move forward with Guthrie expansion for auto, Changzhou facility itself. We think they are very strategic; we see the auto market for aluminum sheet growing at a 14% CAGR growth rate. And we see this acquisition only helping us to accelerate that growth. So, obviously we will continue to be prudent with future decisions on capital and staying inside the thresholds of net debt to EBITDA as Dev outlined, but what we put on the table right now we will continue with.

Kamlesh: Based on your graph which we have shown in one of the slide, so your share for aerospace would be roughly around 4% odd. So, it is hardly around 150 kt – 160 kt. And even if we see the metrics which has been provided by Aleris in their SEC filings, the margins in that auto business is very low, though the picture has been made that it is a very significant thing.

Steven Fisher: So, because of how Aleris reports we have to careful since we picked up the Aleris aerospace segment, that is not fully all aerospace and so there is a mix of product in there. If you look solely at the aerospace margins they are very good margins though.

Kamlesh: And this 360 million?

Satish Pai: By the way they do it by plant, so everything which comes out of the plant if it is aerospace they put it on the aerospace, that is why it is a bit misleading.

Kamlesh: And lastly sir, 360 million EBITDA, based on what volumes?

Devinder Ahuja: So, what you see here is that it is based upon a ramp up of the Lewisport lines. Now, today what is happening in Lewisport is they are producing common alloys, they are producing very low margin products. And from there we will shift the entire mix into a premium auto category. Right now, we do not talk about margins by segment but what we are saying is that there will be substitution of the mix from a very low end to the high end.

Management: Moderator, can you take questions from the con-call.

Moderator: Sure. Ladies & gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: I have a couple of questions. The first question is with respect to transformation synergies, just wanted to understand how do they work because it is not a combination synergy, you could have done it on your own in China, I was just wondering how Aleris will help you do that?

Steven Fisher: You are absolutely correct, we could do this on our own, that would add a bit more hot-mill capacity into what is an overcapacity market today already. So, we love to see if we could acquire an asset, I mean obviously with the overall deal that we are talking about today with Aleris we get for the most part a state of the art brand new facility that we can build off of. And so that capital has already been spent and all we are going to do is continue to put the two facilities together and optimize it from its efficiency, from logistics, from our ability to get to the Chinese metal prices and putting closed loop recycling systems with our auto customers. So, it has always been on our top priority to get something to backward integrate into China, you are absolutely right.

Amit Dixit: The second question is with respect to there are some pension deficits both in the US and outside of US as far as Aleris is concerned. And the deficit in CY17 for US is around $45 million and for non-US it is $117 million or so. So, first of all, what is our outlook on this pension deficit and whether they will be funded at some point in time and up to what extent are they funded?

Devinder Ahuja: So, I think here there is a bit of an education needed on pension liabilities. We are required to fund pension liabilities based upon regulations, the regulations specify how much pension should be funded, that is very common in that environment. So, it is not like this 200 million is an amount that people can come in and claim today, it does not work that way, everybody comes today, decides to retire and leave, it is not like they are entitled to 200 million. So, if they were to come into the door today there are pension assets which are enough to fund the liability, that is how the minimum liability is decided. We are SEC filers, we go by regulations, we fund the pension asset as needed every year, Aleris does the same, that is who we will continue to do it. So, you should not think that this 200 million liability can just come about because these are not vested benefits. And an unvested benefit does not just become payable, as it gets vested we will keep funding it.

Amit Dixit: One more question, in case of ABS ramp-up we are expecting of course EBITDA ramp up from there because margins are higher. Can you just throw some light on how much margins are higher with respect to vanilla products and what would be the mix of ABS and plain vanilla product going ahead?

Steven Fisher: So, what I can broadly tell you is that Lewisport was not a plant that was making money. Common alloys are really at the lowest end of margins in rolled products and it is the opposite with auto, they are at a very high end, I mean not exactly like aero but directionally they are in that premium category. That is what I can tell you, so a plant which was really not able to make sustainable money it will become a plant that will be making premium auto products. But we really do not share margins by segments.

Satish Pai: No, but I think his other part of the question is once it is fully ramped up Lewisport will not be making common alloy

Steven Fisher: Absolutely, the maximum capacity of Lewisport will become dedicated towards auto and that is what really you see in that run-rate of 360, that is the answer.

Amit Dixit: One follow-up question on this, if you cannot give numbers can you just give percentage increase in EBITDA per ton that might happen, that would suffice.

Devinder Ahuja: Well, no, we will not get into specific category margins. What I can broadly tell you is you see where we are in Novelis and if you see the journey of Novelis with the coming on of auto you have seen the progress that we have made directionally over the coming years, we think that we can take Aleris to the same level.

Moderator: Thank you. Our next question is from the line of Bhaskar Basu from Jeffries. Please go ahead.

Bhaskar Basu: I had a couple of questions. Firstly, on the contracted auto EBITDA which you mentioned, what are the corresponding auto volumes which you have factored in? And what we have seen in case of Novelis is that typically the ramp up of the auto volumes again is tied up with the OEM and OEM ramp up of the corresponding model. So, do you expect the entire ramp up of the OEM model for which Aleris will supply ramping up in the next two years? And also whether the qualification process for this has already been done?

Steven Fisher: I am not sure I caught all of the question, I think as Dev said they have put in two lines there which is roughly 200kt of capacity, and 60% of that is already contracted. And it is qualified, and it is just currently ramping up in line with what customer requirements are. And then as far as the view on contracting the remainder of the other 40%, based on our knowledge of the market place and our moves that we have made with further expansion, and this being riding on the open capacity market place today or over the next two years we feel very comfortable that this will be fully sold and ramped up in another year or two years' term.

Baskar Basu: My question was in terms of actual ramp up of the entity, I understand that it is 60% contracted but the actual off take would actually depend on how the OEMs corresponding model ramps up, and that typically has been an issue or that takes time. For example, we saw Ford 150 taking a couple of years to kind of ramp up, driving the expansion Oswego Expansion. And correspondingly I am not sure which model the ABS shipment from this unit will go through, but part of the ramp up would also depend on how the OEM model ramps up, isn't it?

Steven Fisher: Yes, you are correct, it does depend on the OEM ramp up. I can tell you that in our experience with Ford and F150 it did not take a couple of years, we ramped up in line with Ford, they might have been a month or two behind schedule. And that was a massive aluminum intensive vehicle to ramp up with. I think what we understand is they are right in line with what the OEM is and OEM is in line with what the original production kind of schedule is. And that is certainly good news for Aleris and for us.

Bhaskar Basu: And also for the uncontracted capacity, again, wouldn't that go through approval process before the contract is done and off take starts to happen?

Steven Fisher: All auto sheet needs to be qualified once your certain lines to qualify you can usually qualify those in a pretty quick manner with your next OEM.

Bhaskar Basu: And secondly, again, if we look at the volumes and the guidance of 360 million, effectively if we take 0.8 million tons of volume it implies almost $450 per ton versus about $250 per ton which it has been doing now. Effectively, the entire EBITDA boost seems to be coming from 25% of the capacity which is about 200kt. So, do you see margins in this unit being so high that it could drive the entire margin expansion of almost $200 per ton?

Steven Fisher: Yes, based on our knowledge of what Novelis has from a margin standpoint, what we have done in moving towards auto and away from lower margin business, we are very comfortable with kind of this movement.

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

Ritesh Shah: First question is on pension liability, we indicated $200 million, so on a present value basis what is the number that one should look at?

Devinder Ahuja: I think to answer the question differently and maybe you get the answer that you may be looking for. The question probably to really ask is that are we funded for what could be liability today, if everybody were to claim their pension liability today are we funded for that, the answer is yes. Our pension assets are adequate to fund the liability if the payment were to be made on a certain date. So, I hope that that answers the question. When we do our future cash-flows we take into account how much we will have to fund year-on-year and that goes into all the cash flow modeling.

Ritesh Shah: Accounting perspective if I have to look at the EV what we are paying right now, what is the assumption that we have built in specifically to the pension liability?

Satish Pai: In the EV that we have calculated we have taken it to account how much funding we will need to do under the regulations every year. So, on that basis we have already modeled it in the cash flow.

Ritesh Shah: Sir is it possible if you can quantify that?

Devinder Ahuja: Not very precisely, but it can be around 15 to 20 million, but I cannot quantify that very precisely at this point of time. But broadly it is in the line…

Ritesh Shah: Sir my second question is, if one looks at aerospace on the overall mix Novelis plus Aleris together is only 4% of the volumes. Now, this looks pretty low as compared to Novelis which has a far superior product mix. So, first question is, are we looking at an asset which has an inferior product mix as compared to Novelis? And secondly, the acquired capacities are they fungible from auto to aerospace which gives us some room for margin expansion going forward?

Steven Fisher: We do not see these assets inferior with $900 million they have invested, these are very-very good assets they have, it gives us the entry into aero which is a growing market. In the near-term I think you will see significant growth in airplanes built over the next three years, and even on a longer term it is an area that grows at 2% to 3%. And also it allows us to get the technology in aero that we do not have today. So, there is a lot of benefit even though it is not the biggest part of the portfolio to enter into this premium portfolio area.

Ritesh Shah: So, is it fair to conclude that the capacities are not fungible but the premium what we are paying is because we get entry into the aerospace segment, would that be fair to conclude because we are good at ramping up capacities, that is something what our forte is and this acquisition enables us to do that?

Steven Fisher: Novelis assets are not interchangeable into aero assets, if that is what you are asking. But there is still additional capacity in the Aleris system for further aero growth.

Ritesh Shah: Sorry to just follow-up on this, because if one looks at the backward math, aerospace is around 170 kt to 200kt, so if the capacities are not fungible then we will have to incur incremental CAPEX to increase aero mix on the overall product basket for us, is that a fair conclusion?

Satish Pai: Can you please explain last sentence?

Ritesh Shah: Sir, basically if you look at aerospace that is around 170kt to 200kt of the total 4.3 million tons, now you have indicated that the capacities from auto to aerospace is not fungible, hence does it mean that we will have to incur more CAPEX to bring in the aerospace capacity, because that is something which is a high margin product?

Steven Fisher: Because again, as Satish spoke earlier, that number is picking up all volumes off of plants which are considered aerospace plants. Inside those plants there will be product mix which we can move more towards aero overtime at higher margins as well.

Ritesh Shah: Lastly, my question is on metal sourcing, how much is the contribution of recycled metal out of this 1 million ton? And how is the dependence on Rusal when it comes to metal sourcing, specifically to Aleris?

Devinder Ahuja: I think the primary recycling happened in building and construction business, what they call the continuous cast business in the US, which is about 300kt plus. And that has an extremely high recycling content of over 90%. So, you can make an estimate that around 90% or so of that 300 plus kt of continuous cast is recycled. There may be some at other places, but this is primarily where the recycling happens. And by the way for us that is an opportunity because in the auto business we have what we call closed loop recycling, so with our large customers whatever scrap they generate we take it from them and we reprocess that scrap. So, that is an opportunity which we can bring our experience as we ramp up Lewisport and the other auto asset. And that is not built into the numbers that we were showing on top.

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

Karla B: Just a question, when you look at the assets that you are acquiring it is a range of different assets, some of which have played in before you have had aero, but some are saying you have not done as much as like continuous cast for example. Should we consider any of the manufacturing acquiring as non-core to your ongoing operation? In other words, maybe you will sell something and have a smaller total deal size down the road?

Steven Fisher: No, we do not see any of the assets as non-core, as a matter of fact we do not see any overlap in facilities and tend to run all the operating facilities. As you know Novelis is running pretty much at full capacity and market conditions are very strong, growth in auto, growth in beverage cans, growth in aero and growth in building construction and vessel manufacturing in the US right now. And so we will try and get as much out of all these facilities as possible.

Karla B: In terms of the timing of the transaction, I appreciate early days, the six months range seems to be pretty large. How should we think about milestones that would allow us to narrow that range down to think about how the company takes shape over time?

SF: We know it is a large range, it is early days, we will commit to communicate as we learn more and as we go through the regulatory processes. We want to get this done as quickly as possible, so we want to be on that early end of the range, but we will continue to communicate as we can narrow that down.

Karla B: And finally, on the transaction structure, there has been quite a bit of discussion about cost of debt as we take it on, realized you have outlined a couple of different scenarios, reprising term loan, refine the dead stock under your balance sheet. Most of those were centered on the debt being a lot cheaper than or coupons being lower than Aleris, does that mean you are favoring secured debt over unsecured debt or have you not really kind of gone down the root of deciding that. From our calculation it looks like you have enough secure capacity to do this all at the secured level, so any color on that would be helpful.

Devinder Ahuja: So, what I can tell you is that there will be a mix of secure debt and bonds and I think that closer to when we do the refinancing we will have to see the market conditions in the bonds market and really do an evaluation of the right mix between secured and notes or bonds. So, I think at this point to be able to answer that question on the mix precisely, it is not possible but certainly we will have a secure debt, we have good capacity on the secure debt, we will have a significant portion on secure debt. In my view if I see things are they are now, market conditions, we will see whether it makes sense to do unsecured bonds and how much.

Moderator: Let's go back to the analyst meet.

Rahul: I am Rahul from Fidelity. Just a couple of questions. Can you just talk about what will be your market share in auto segment in North America post the acquisition? And does that bring any kind of bargaining power, negotiations with the auto companies?

Steven Fisher: In the North America market place we are competing against steel day in and day out, so it is really hard to define what market share really is with auto. We know that aluminum is growing, as I said before, global base it is 1.5 million metric ton out of 80 million metric tons of sheet material going to OEMs. We want to grow aluminum, but we are competing day in and day out against others. So, it is hard to talk about market share.

Rahul: Second question is, because Aleris has been making losses in last few years, are there any accumulated losses on the balance sheet and because of which are there any tax benefit that we can get?

Devinder Ahuja: So, when it comes to tax benefit in the case of a change of control it becomes a bit tricky. So, I do not want to speculate about whether we will… yes, they have, the answer is yes, they have, they have losses in their books. I think we will have to do some evaluation to see what kind of losses we will be able to use. But in some geographies, which I will not name at this stage, in some geographies there is a tax synergy because we are having some past accumulated deferred tax sort of assets while they are generating profits. And there is direct synergy, nobody can take that away. In our cash flows again, that is not something that we have factored in, that will come as an upside to the cash flow. So, potentially there are synergies, some which are realizable, some which you will have to see.

Rahul: But at least can you quantify the amount of accumulated losses on Aleris' balance sheet?

Devinder Ahuja: I would not.

Rahul: And the last thing is, the Belgium plant, is that fully ramped up already or that will also, I mean is there also some capacity there which can ramp up and is that factored into this $360 million EBITDA?

Steven Fisher: There is some capacity which is not factored into the 360.

Pratik: This is Pratik from Credit Suisse. First question would be on aerospace manufacturing outside of China, so are our customers sort of China too, so that would mean there would be risk of these tariff war if we have any customer outside of China? Or that facility only serves to customers in China?

Steven Fisher: The aerospace market is a very much global market, there are only a few manufacturers of airplanes. So, I think all these facilities are serving global customers around the world.

Pratik: Because of that would we see any risk of these tariffs that we are seeing going ahead?

Steven Fisher: We probably cannot speak specifically to each one of those contracts, and certainly the tariff duties are something that is new. Inside, the China facility is right now supplying inside of China, and that is why that was put there, there is a global network of aerospace assets which we supply on a global basis. That is a very difficult question to answer as it relates to duty sits and where are all the contracts.

Pratik: So, my second question would be, I assume there would not be significant working capital requirements for the Lewisport facility going ahead to ramp it up?

Devinder Ahuja: Well, not significant because I think that we bring a lot of good ways of being able to neutralize the working capital demands. I mean the way we manage today I think that it will not be significant, I mean the ramp up naturally will demand some working capital to be put in if you go up to sort of a higher value-added category with a longer cycle time. But that is not going to be a significant drain on the cash flow.

Pratik: So, in the Aleris annual report there was one item which I have seen, so there is thing called start-up cost which they take below the EBITDA, so it comes to around $75 million and they have said that it would be very low in 2Q 2018. But in 1Q the costs are kind of flat YoY, $16 million, so how do you see that? Is it something which would just go away in 2H or we would be seeing it in 2Q 2018 also?

Devinder Ahuja: It will keep tapering down, as the ramp up happens the start-up cost keeps tapering down. The biggest one comes when you are doing qualification. So, in last year they stopped for like 75 days to qualification. So, really that is when the peaking happens. Now, as we ramp up the second line, as they ramp up the second line there would be start-up costs but they are going to be all sloping sharply down over time.

Pratik: So, if you could share what kind of costs are these that we expanse and not in CAPEX, is it like labor cost or something?

Devinder Ahuja: Well, it is all cost. Because when you are doing qualification you have to produce material which has to be tested, there are all the process audits that happen. So, it is all the cost which mainly goes into qualifying material and after that you do not start getting peak recoveries right upfront, it takes time to get recoveries to the right level. So, start-up costs are basically costs which are in all these categories.

Pratik: And just one last question, so if I just look at this EBITDA bridge so we are assuming around $120 billion over the fully ramped up Lewisport facility, so 4.2MT I was assuming $120 million. So, would it be right to say that we are assuming around $600 per ton EBITDA difference?

Devinder Ahuja: This is where we would not get into those discussions, I mean these are all broad indicators. but we do not get into talking about segment wise EBITDA.

Participant: When you mention $360 million you are assuming 0.8 million ton or 1 million ton?

Steven Fisher: So, the current run rate when you fully ramp up Lewisport will put you back in roughly 900kt category. When we get to 1000kt is when we do the additional expansion with the Cold mill in China, I think serve our downstream lines and that opens up our capacity at our Ulsan facilities and our specialties to end customers.

Participant: So, that means you are assuming 0.9 million tons in this $360 million CAPEX?

Steven Fisher: That is right.

Participant: So, just in addition to that, between $450 per ton which is way above what we are earning at Novelis right now, because in fear also auto will be around 20% - 25%, we are also 20% auto, then additionally it is only aerospace otherwise the first question which I asked that whether we are getting lower margin in beverage can as compared to building and construction?

Steven Fisher: That will be close to 300kt of 800 kt in auto and then they have the rich mix in aero. The math that you are doing is correct, I mean it gets heavy for the transition into higher margin business. It has been their business model and our business model, and what is driving the overall EBITDA.

Satish Pai: So, I guess in the closing remarks I first wanted to thank all of you for coming at a short notice. But I think that I hope that you appreciate that this acquisition at 2.58 actually is a very attractive acquisition that we have got at a very attractive multiple, because it has got a lot of investment that has gone in the last few years, where the EBITDA was not showing in their numbers and is just going to start to come in. So, I guess that was really the clarity that we wanted to give on the multiples. And then the second point was, we are now getting into a new high-end aerospace where besides just the EBITDA per ton I think it is also important that it gets us into the higher end alloys of aluminum with auto we were reaching 6,000, 7,000 and now you get into aerospace alloys which is a much higher end technology. And I think that the third thing that is important for us is it gives us a lot more diversity as far as the auto customers. . We were highly dependent in Novelis on two customers, and now with this we have two more bigger ones, so you get a much more diversified auto customer base. So, with that, thank you very much for attending this analyst met and the conference call. Thank you.

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