“Hindalco Industries Limited Q3 FY21 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, good day, and welcome to Hindalco Industries' Quarter 3 of FY21 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to 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 safe and in good health. On behalf of Hindalco Industries, I welcome you all to this earnings call for the Third Quarter FY21. On this call, we will refer to the Q3 investor presentation available on our company's website. Some of the information on this call may be forward-looking in nature and be covered by the safe harbor language on Slide #2 of the Q3 earnings presentation.

In this presentation, we have covered the key highlights of all our businesses for the third quarter and 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. Steve Fisher - President and Chief Executive Officer; Mr. Dev Ahuja – Chief Financial Officer of Novelis. 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. Very good afternoon and morning to all of you. So let us start from slide 5. Here are some key highlights of the businesses for the third quarter FY21 versus the corresponding quarter of last year. Hindalco delivered an excellent performance in Q3 across all businesses backed by strong macros and a sharp recovery in all the relevant markets.

The results were driven by strong performance by Novelis and the Indian Aluminum business supported by higher volumes, better product mix, lower input cost, stability in operations and cost saving actions. Novelis recorded an all time high quarterly shipment of 933 KT up 17% year-on-year driven by strong demand across products and end-markets.

Novelis also achieved an all time high EBITDA of $501 million up 46% on the back of higher volumes and improved margins. EBITDA per ton was also at a record high of $537 per ton in Q3 of FY21 up 25% year-on-year. Net income from continuing operations was at $195 million up 82% year-on-year while net income excluding special items stood at a record high of $209 million up 58% year-on-year in Q3 FY21.

The Aleris integration work continues with $54 million annualized run rate combination cost synergies already achieved till Q3 FY21 with a potential of $120 million in combinational synergies to come.

Coming on to Hindalco's India aluminum business performance in Q3, business EBITDA for Hindalco India aluminum was up 27% year-on-year at Rs. 1,323 crores compared to the same quarter of the previous year on account of favorable macros and lower input costs.

The EBITDA margin was at a healthy 25% up 593 basis points year-on-year which continues to be one of the best in the industry. Metal sales were lower at 315 KT in Q3 FY21 compared to Q3 FY20 but were higher by 4% sequentially. Value added product sales were at 80 KT in Q3 FY21 up 7% on an year-on-year basis. But grew sharply by 28% on a sequential basis with the continued revival of the domestic market. Our thrust on operational efficiency supported by lower input costs continued to help in keeping the costs of production low.

The Utkal expansion project of 500 KT is expected to be commissioned at the end of Q1 of FY22. Turning to the quarterly performance of the copper business on slide number 6.Cathode production was low at 51 KT in Q3 FY21 due to plant maintenance shutdown in one of the smelters. The CC rod sales were up at 65 KT up 12% year-on-year although metal sales were lower at 73 KT in Q3 FY21. The copper business recorded its highest ever fertilizers sales volumes at 156 KT up 135% year-on-year on the back of robust demand.

Copper EBITDA in Q3 FY21 was at Rs. 202 crores. Coming to the quarterly consolidated performance, Hindalco reported a stand out performance across businesses by leveraging market demand, strong operational efficiencies and improved macros. Hindalco's consolidated business EBITDA was up 40% year-on-year at Rs. 5,242 crores compared to Rs. 3,733 crores in Q3 FY20. PBT for continuing operations before exceptional and special items was up 77% year-on-year at Rs. 3,153 crores in Q3 FY21.

The consolidated PAT for continuing the operations before tax affected exceptional and special items was up 74% year-on-year at Rs. 2,166 crores in Q3 FY21 versus Rs. 1,247 crores in the corresponding quarter of the last year. Hindalco continues to maintain its strong liquidity and cash position with a total liquidity of $2.4 billion and a cash of $1.16 billion in Novelis and Rs. 9,560 crores in India at the end of December 2020.

The consolidated net debt is down by Rs. 8,500 crores from 30th June 2020 resulting in a significant improvement in the consolidated net debt to EBITDA to 3.09x at the end of December 2020 from a peak of 3.83x at the end of June 30, 2020.

I am happy to announce that Hindalco has been recognized world's most sustainable aluminium company in the Dow Jones Sustainability Index (DJSI) and its S&P Global CSA score. Furthermore the company's rating in the MSCI index has improved to BBB from the earlier BB rating, an affirmation of our sustainability approach and initiatives.

Turning to the broader economic environment in slide 8.

The IMF expects the global growth to rebound to 5.5% in calendar year 2021 and 4.2% in calendar year 2022, amidst hopes of a vaccine powered strengthening of the economic activity specially in the second half of calendar year 2021. Except for China where the calendar year 2020 growth was a positive 2.3%, the GDP in most advanced and emerging economies is expected to contract in calendar year 2020.

A strong fiscal stimulus under the new administration is expected to drive the US economic growth in calendar year 2021 at 5.1% year-on-year faster than other advanced economies. Strength and speed of global economic recovery is expected to vary across countries and sectors depending on the extent of policy support, health sector interventions and structural reforms undertaken by the policy makers. Vaccine deployment and controlling the spread of the pandemic remains immediate policy priorities. However, facilitating the investments cycle will be the key policy focus in the second half of calendar year 2021 to ensure sustainable growth.

A second waive new variants of the viruses and rising government debts remain a concern. On the domestic front the worst is behind us with a sharp slump in economic activity in H1 financial year 2021. Growth in H2 FY21 has been supported by the government's fiscal stimulus measures as well as an expansionary monetary policy. The Government of India's economic survey of FY21 projects a V-shaped recovery with 11% real GDP growth in FY22, 6.5% in FY23 and 7% in FY24 on a contracted base of a 7.7% negative in FY21. This translates into a 2.4% growth over the absolute levels of FY20 in line with the latest IMF projections. Growth is expected to be uneven across sectors at industries like travel, tourism and hospitality are recovering only gradually. Consumption driven growth and rural economy resilience will continue to drive GDP growth initially with investments only recovering later. An expansionary budget unveiled by the finance ministry is likely to boost growth through a multiplier effect.

The infrastructure boost and financial sector reforms are expected to provide much needed impetus to growth. However the execution of major infra projects meeting disinvestment and monetization targets will be a key. The fiscal deficit as a percentage of GDP is expected at 9.5% for FY21 and pegged at 6.8% for FY22 as per the finance minister's budget speech with a glide path to fiscal consolidation by FY26 with fiscal deficit expected at 4.5%.

Let me now take you through the aluminium industry overview on slides 9 and 10.

In terms of global production world grew by 2% to 65 million tons leading by a 4% increase in Chinese production, while the rest of the world was flattish. Consequently while China is in a deficit of a little over 0.9 million tons the rest of the world has a surplus of about 3.5 million tons. In calendar year 20 the global consumption declined by around 4% to 62 million tons because of the contraction of demand of nearly 13% in the world ex-China partially offset by the Chinese growth of 4%.

Hence there was an overall surplus of 2.6 million tons. It must be noted that though the overall surplus is 2.6 million tons nearly 80% of this surplus came in Q1 of calendar year 20. In the background of strong fiscal measures to the tune of 12% of world GDP the economic sentiments were lifted and the global surplus narrowed over the year.

In Q4 of calendar year 20 the world's overall saw a growth of 5% each in production and consumption and hence led to a very small surplus of 0.1 million tons. The world excluding China consumption saw a strong recovery in demand and has reached pre-Covid levels. For instance in US growing housing starts on new residential constructions grew by nearly 13% in November '20 boosting the demand for building and construction sector. The production was flattish leading to a marginal surplus of 0.3 million tons.

In China strong automotive and real estate markets supported aluminium consumption that grew by around 9% year-on-year at 9.8 million tons. The production also grew sharply by 9% year-on-year to 9.6 million tons leading to a deficit of approximately 0.2 million tons in the Q4 of calendar year '20. Aluminum prices recovered sharply by 27% to $1,910 a ton from an average of $1,497 a ton in Q2 calendar year '20. In January 2020 the global aluminum prices continue to hold at over $2,000 per ton.

Coming to slide 10, the domestic industry in Q3 FY21 is estimated to reach pre-Covid levels of Q1 and Q2 of FY20 on the back of strong recovery in transport and consumer durables. The import of scrap particularly witnessed sharp growth of 31% while imports excluding scrap de-grew marginally. We estimate the domestic producer's sales grew by 6% year-on-year.

The government's stimulus package of Rs. 27 lakhs crores which is 13% of the GDP is a strong thrust on infrastructure housing and manufacturing sectors thereby supporting the economic sentiments. Automotive sales is likely to grow with the recent announcement of the vehicles scrappage policy by the government in the union budget of FY2021-22. Packaging demand has continued to remain robust in line with growth in the pharma and flexible packaging segments.

We are also absorbing some signs of recovery in demand in the electrical and power, building and construction sectors. Overall we believe that domestic aluminium demand should continue to surpass pre-Covid levels in Q4 of FY21.

Moving to slide 11, the global FRP demand is expected to grow about 7% in calendar year '21 versus a contraction of around 6% in calendar year '20 on account of recovery in demand and the base effect. Industry is like beverage and food packaging, pharma will lead this demand for flat rolled products in the coming years.

We believe that the positive global demand trajectory for aluminium products will not be significantly impacted by Covid in the long term. Similarly with the exception of aerospace our short term one year outlook across end markets remains positive. You must have gone through the details of the segment wise and market outlooks in the Novelis' investor presentation. I will quickly refresh some specific and market outlooks for calendar year '21.

Beverage can continues to show its resiliency in economic cycles and we see the benefits from higher at home consumptions that favors the package mix shift towards increased demand for sustainable aluminium cans.The overall market demand for beverage can sheet is estimated to grow by approximately 6% in calendar year '21. Novelis is already operating near to its full capacity in can sheet to cater to this growing market demand. In the automotive market with OEMs focusing on sustainability and consumers adopting electric vehicles there is an increased demand for aluminium in these segment across regions.

The pandemic has triggered a desire for safer personal mobility and there is a shift towards vehicle types which use a higher share of aluminium such as SUVs, trucks and electric vehicles. This segment is estimated to grow between 25% to 30% in calendar year '21 due to the base effect and continued revival of demand. The demand for premium aerospace sheet from OEMs is expected to remain muted through the first of this calendar year due to lower consumer air travel. As travel picks up it should drive the demand for FRP in the aerospace segment. Demand in aerospace is expected to grow in the range of 5% to 6% in calendar year '21 depending on the revivals in the industry in the later part of the year as air travel normalizes.

In India the FRP demand in Q3 FY21 is estimated to reach pre-Covid levels of Q1 or Q2 FY20 as the demand revives in major segments like consumer durables that are supported by increasing penetration of ecommerce sales and B&C demand that is expected to reach pre-Covid levels by Q4 FY21.

Stable demand from the pharma and food packaging industry coupled with the auto sector is helping towards the quick recovery in this sector. Turning to the copper industry globally on slide 12, global refined copper consumption declined by 3.3% in CY20 compared to CY19. China has fully recovered from the Covid-19 impact and grew by 2% whereas the world ex-China still recovering from Covid contracted by 9% compared to CY19 levels.

In Q4 CY20 global refined copper consumption recovered to pre-Covid levels and grew by 1% to 6 million tons. This recovery was driven by China which saw an upturn of 6% whereas consumption in the rest of the world contracted by 5% year-on-year in Q4 calendar year 20. Mines output remained impacted resulting a short supply of copper concentrate. The benchmark TC/RC for CY20 settle at 59.5/5.95 lower by 4% compared to the CY19 benchmark.

Spot TC/RCs too remained stretched during the quarter. Coming to slide 13 on the domestic side of the copper industry the refined copper market in Q3 FY21 was at 166 KT reaching 85% of the Q3 FY20 levels of 192 KT as major copper consuming sectors recovered post lifting of the lockdowns leading to the resumption of the industrial activities. Post CVD imposition of imports from ASEAN countries market share of imports have continued to decrease to 35% in Q3 FY21 compared to 51% during the same quarter last year.

Praveen will take you through the performance highlights of each of the businesses during the quarter 3.

Praveen Maheshwari: Thanks, Satish. In this part of the presentation I shall take you through the operational and financial performance of each of our businesses. Starting with Novelis, on slide 16 and 17, Novelis clocked a stellar performance on all fronts for both their existing business as well as acquired business of Aleris driven by excellent operational performance, favorable macro environment and focus on achieving synergies, Novelis achieved record operational financial results on almost all parameters.

They are doing equally well on the various ongoing projects to sustain the growth. In Guthrie, US the new automotive finishing line has shipped its first customer coils in December. At Changzhou, China the automotive finishing line is under qualification and the first commercial shipments are to begin in the current quarter. At Pinda, Brazil the rolling expansion is on track and expected to be commissioned in mid of the next financial year. Novelis recently entered into the Alumobility partnership to make mobility more sustainable going forward.

On slide 17 you can see the comparative financial performance trends of Novelis reflecting its best ever quarterly performance in terms of revenue, EBITDA and EBITDA per ton on the back of high volumes, cost control, product mix and addition of the acquired Aleris business. Slide 19 shows the details of the performance of Indian aluminum business segment. The aluminum metal production was higher by 3% sequentially at 315 KT. In line with sharp recovery in the market the production of downstream products was higher by 37% sequentially at 84 KT in this quarter.

However, alumina production was sequentially lower at 675 KT due to a maintenance shutdown at Utkal Refinery. On sales front the share of domestic sales has reached 41% in this quarter compared to 36% in the previous quarter. Similarly,VAP sales as a percentage to total metal sales has improved to 25% in the quarter versus 21% in the previous quarter reflecting a sharp recovery of the VAP market sequentially.

Moving on to the financial performance of the Indian aluminium business on slide 20, the segment posted revenue of Rs. 5,294 crores in this quarter reflecting a growth of 11% sequentially, on account of higher global aluminum prices. EBITDA was up 24% sequentially at Rs. 1,323 crores on account of favorable macros and sustained low input cost. The EBITDA margin in this quarter continues to be one of the best in the industry at a healthy 25% of revenues up 276 basis points sequentially.

Moving to slide 22, the overall copper metal production was at 51,000 tons in this quarter lower sequentially due to planned maintenance shutdown during this quarter. However, production and sales of CC rods were higher by 2% at 67 KT and 65 KT respectively in this quarter. The financial performance of copper segment is on slide 23. Revenues were up 8% sequentially at Rs. 6,133 crores because of higher LME. EBITDA was nearly maintained sequentially at Rs. 202 crores in this quarter.

Let us turn to our consolidated financial numbers for quarter 3 on FY21, on slide 25. Hindalco reported an outstanding consolidated financial performance with revenues of Rs. 34,958 crores and business EBITDA of Rs. 5,242 crores both up 12% sequentially. Before exceptional and special items PBT and PAT for continuing operations were up 26% and 21% sequentially at Rs. 3,153 crores and Rs. 2,166 crores respectively.

The detailed quarterly comparative financial numbers are attached as an annexure to this presentation on slide 33. Similarly the Indian business of Hindalco also reported a remarkable performance in this quarter with revenues of Rs. 11,425 crores and business EBITDA of Rs. 1,528 crores both up around 20% and Profit after Tax of Rs. 495 crores up 51% sequentially in Q3 FY21.These details are provided as an annexure to this presentation on slide 35.

Slide 26 shows the reduction of over Rs. 12,000 crores in our consolidated gross debt and of Rs. 8,500 crores in our consolidated net debt from June 20 levels. This along with increasing EBITDA has led to a substantial improvement in the Net Debt to EBITDA ratio from a peak of 3.83x in June 2020 to 3.09x at the end of December ‘20.

Let me now hand over this call back to Satish to give you a perspective on our sustainability updates and the summary.

Satish Pai: So coming to our sustainability updates on slide 28. As I had covered in my opening remarks we are proud to announce that Hindalco has been recognized as the world’s most sustainable aluminium company in the Dow Jones sustainability index based on its S&P global CSA score of 2020. We are scored in the 100% tile in most of the aspects in all three dimensions of sustainability metrics. Hindalco has achieved 75 points against an industry average of 51 points in 2020 which includes 61 industries in the DJSI indices.

To add to this also an improvement on our ESG ratings in the MSCI index where Hindalco has moved one notch higher this year to the BBB rating from BB. This reflects our commitment to ESG.

Coming to slide 29, I would also like to share Hindalco's progress across the various sustainability metrics and trends over the last four years.

In year-to-date FY21 the LTIFR was at 0.44, water consumption was at 53.6 million meters cube while recycled water was at 12.2 million meter cube reflecting continuous improvements in all these metrics over the years. The bauxite residue recycle was at 62% and specific energy consumption in aluminium was at 85% from the base year of FY19. We have also been continuously upgrading our safety programs to meet international standards and provide the safest atmosphere for all our employees.

Coming to the environment, Hindalco has achieved zero liquid discharge (ZLD) at 11 out of its 15 plant locations with a target of increasing the ZLD to 1 site per year to reach 100% zero liquid discharge at all its locations in India. On water consumption we are targeting a 5% reduction year-on-year with FY18 as a base. On waste recycle in terms of all wastes including bulk wastes such as fly ash and bauxite residue. We are committed to 100% recycling and reducing the land fill by 5% year-on-year.

On the renewable energy front, we are in line to reach our target of 100 megawatt capacity by FY22. As a step towards reducing carbon footprint we are also converting our oil fired furnaces with natural gas at all our locations. Novelis has already covered its sustainability metrics and trends in their Q3 earnings presentation last week.

On slide 31 let me conclude today's presentation and try to summarize our performance in the third quarter and our broad key focus areas. We delivered yet another record performance across all our segments as we are catching up with the sharp recovery of markets supported by improved macros and better efficiencies.

The cost competitiveness of Hindalco smelters continues to position it in the first quartile of the global cost curve. 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. We continue to strengthen our balance sheet with robust cash generation while accelerating the pace of deleveraging. The Aleris integration is also providing accelerated synergistic benefits and we shall unlock and capture the entire value of this acquisition and reach our target of $185 million worth synergies and $370 million EBITDA in the next three years.

We are fine tuning our capital allocation framework in light of the improved business outlook across all our business segments and intent to present this in an Investors' Meet which we shall be holding in a couple of weeks. This framework will provide direction on intended use of free cash flow on growth CAPEX, management of net leverage within targeted range and distribution to shareholders.

Another important area where Hindalco has done remarkably well over the last few years is on ESG. The most recent example is the recent improvement in DJSI ranking where we reached the number one and are recognition as an industry leader globally. We shall continue to strive on our 3R model of sustainability in Hindalco with the focus of shaping a sustainable world together. Our vision and strategy is to continue being a global leader in the downstream value added products driven by our India downstream capacity expansions, product innovations, complete digitalization and organic expansions in Novelis and a diversified product mix.

Thank you very much for your attention and this 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. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: I have two questions. The first one is on aluminum production. So if you will see year-on-year the production is down. In fact every month in Q3 we saw production declining year-on-year. So any specific reason for that? Is it due to some plant maintenance or something?

Satish Pai: No, actually what happened Amit was that during the Covid times you know the pots have a lifecycle and as the pots in our terminology dies we re-align them and bring them back. We could not do the relining during the Covid quarters because normally it is done with a lot of contract labor. So that pace has picked up now. So we are at about 315KT levels versus 320KT which is so we will be getting back there by the next three, four months as we start to bring back pots on line.

Amit Dixit: The second question is again on copper. So copper while we saw that production was down but your sales were much higher than production. Some of it might be due to tolling that you might have done for both cc rods as well as the metal. So since we have seen that imports have come down so when your copper production improves if tolling going to be the way forward if it is there?

Praveen Maheshwari: See in copper business there are many variables which play along and we use a very agile strategy in terms of how to keep our market customer satisfied. Since we are the market leaders in the country today we also see this as a major responsibility on our part. So even if our smelters for example go through a plant shutdown we make sure that we have either by way of anodes which we can use in our refineries or we have cathodes procured locally or imported such that we are able to supply the rods to our customers. So that is how we try to maintain our sales even when smelter production is down.

Amit Dixit: Sir, one follow up question on this. So what would be your overall guidance for production in copper in this quarter?

Praveen Maheshwari: We do not give guidance quarter wise but what I can tell you is that in January the smelters have run smoothly and we expect the same to continue in this quarter. We have planned the shut down for our other smelters so in October-November we had smelter one coming under shutdown and from 15th of March till about 15th of May there will be shutdown of smelter three, which is the bigger smelter for us but that we do not expect to impact our sales as I mentioned because we follow this agile strategy of organizing material much in advance. These are planned shutdown so nothing comes as a surprise.

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

Pinakin Parekh: It is very interesting and exciting to see that the company is now ready to come out with a formal capital allocation framework and growth capital expenditure plan. In that context sir, what I would like to understand is that if we take spot EBITDA of roughly Rs. 21,000 crores, Rs. 22,000 crores Hindalco's net debt to EBITDA is just over 2x, 2.5x and hence the company has a lot of flex. What we would like to understand is that when the company frames its capital Allocation policy does it look on a consolidated basis or does it take a view across the standalone and Novelis separately?

And secondly, while the company has spoken about downstream aluminum CAPEX in India we have not really heard much on copper smelting and aluminum smelters and we have seen competitors filing to get approvals for expansion plans in copper smelting and aluminum smelters. We have seen Adani asked for approvals for a 1 million ton copper smelter and Vedanta asked for 0.2 million expansion aluminum. So sir, we would like to understand how does management see growth optionalities across each of its businesses?

Satish Pai: So the first part of your question Pinakin, I think just if you hang on for couple of weeks we will come out with the capital allocation framework. The growth CAPEX for Novelis will be from Novelis' cash flow and the growth CAPEX for Hindalco will be from Hindalco cash flow. There will be no sort of cross movement for growth CAPEX. Once you finish the growth CAPEX, the second part which is the deleveraging also will be Novelis and a large part of the deleveraging will happen on the reducing of the net debt will happen mostly from the Novelis point of view.

I think finally when it comes down to return for the shareholders, well there is only one set of shareholders for Hindalco, Novelis combined. So that is where it will all come together. But I recommend that if you give us two weeks when we articulate our capital allocation strategy you will get a lot more details. Now coming to the second part of your questions I do not think you will hear me talking about aluminum smelter or copper smelter expansions.

Pinakin Parekh: And lastly sir, just a color on how costs are trending in the aluminum business are we behind the cost tailwinds in coal or should we see coal cost remain depressed for the aluminum segment?

Satish Pai: So if you remember when we did the Q2 earnings call I think I have said that our costs could go up in Q3 by 1% or 2%. Actually they are flat. And I think that our procurement team had been procuring quite early and that sort of benefitted us in Q3 because our cost of production is flat. Now I think the input costs are going up. CP Coke, Pitch all are up by nearly 20%. And the coal premiums have also gone up. So Q4 we will see our cost of production rising and I think that we should see roughly about 3% increase in Q4.

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

Indrajit Agarwal: I have a couple of questions. First on the copper business. So are we getting any sense on calendar 2021 TC/RC margins where they are settling at whatever kind of negotiations that are going?

Satish Pai: Yes, calendar 2021 is already announced which is at 15.26 cents/lb . So this is 4% lower than the previous calendar. And yes, copper business from that point of view low TC/RC is an impact but on the other hand sulphuric acid prices have gone up, DAP has been good last year. We do not know what is going to happen next year but some of the other factors have helped us go through it. Plus the higher LME while it is an offset model but at the end there is some positive impact coming from the higher LME as well because our pricing is linked to that in some sense.

Indrajit Agarwal: Second on Utkal Refinery. What is the update on the commissioning?

Satish Pai: So we should finish the commissioning in Q1 of next financial year. So by June'20 we should be up and running.

Indrajit Agarwal: And any indication on what kind of cost savings that can be there because I assume you will not be selling aluminum out of this expense you will be much more Renukoot Refineries right? So what is the kind of cost savings we can see from this?

Satish Pai: So our current thinking is that we will still be running Muri and may be one of the lines of Renukoot. So we would not completely shut down Renukoot in year number one. So we will use some part of the production for Renukoot and probably in Q4 of next financial year do some third party sale as well. So it is going to be a mix of both. The Utkal Alumina costs of alumina are nearly half of what the other refineries are. So you can back calculate the savings.

Indrajit Agarwal: And two housekeeping questions. Can you help with the standalone grows and net debt?

Satish Pai: I think India the gross debt to us Rs. 24,464 crores and the net debt is Rs. 14,874 crores.

Indrajit Agarwal: And the usual hedge position?

Satish Pai: It has not changed. I wish it is still the same 58% at $1,715/ton.

Indrajit Agarwal: On FY22 how much are the hedged?

Satish Pai: So we have hedged 28% at $1,840/ton .

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

Sumangal Nevatia: Sir, first question is with respect to the coal mix. Can you share what is the current run rate and say next year will our dependence on outside purchase e-auction etcetera will end and maybe we might see some further benefits on the coal cost side?

Satish Pai: Not really. I think see currently in Q3 we were 76% linkage, 22% e-auction. So I think that this trend will continue because our own mines we will do a little bit more production but not much. And I think on the coal side we do not expect coal prices to do dramatically go up because there is adequate supply but I think the prices we saw in Q2 and Q3 were probably at the bottom. So there will be some coal price inflation.

Sumangal Nevatia: Mr. Pai, the second question is with respect to the future growth plans. Now you touched upon this from the previous question but just to get some more color. See in the past we have grown both organic, inorganic and also opportunity in downstream. Is it fair to assume that in future given the size now the growth will come largely inwards and organic and also it will be only downstream and not upstream? Are these two a fair assumption over the next 3 years to 4 years?

Satish Pai: Yes

Moderator: Thank you. The next question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.

Amit Murarka: So just wanted to check on the downstream announcement which we had made Rs. 734 crore investment at Silvassa. So like what will be the pace of such downstream projects which you will keep announcing given the cash flows are strong and how do you think about the margins in this business?

Satish Pai: So the extrusion business the margins are quite strong. The extrusion margins are higher than that average on the FRP. So the Silvassa extrusion project which is Rs. 730 crores we announced I think within the next of months we will announce the expansion of the FRP in Hirakud as well. And we also have a smaller expansion of the specialty chemicals business that we will be announcing. So these are the three things in our pipeline it will come out in a staged manner now. But as I keep repeating all these will be within the cash flows generated in India.

Amit Murarka: And sir, like in this budget we saw the government actually reduced the import duty of copper wires. You guys have been advocating for a raise in duties so on the scrap side I mean. So like how do you see this situation now?

Praveen Maheshwari: So copper scrap is reduced from 5% to 2.5%. And this does encourage the import of copper scrap. However, there are counter measures as well which is like import monitoring system will be in place. It is under implementation at this point of time. There are also standards which are coming up with respect to the usage of scrap for copper scrap for specific applications. So we presume that while this initiative by the government is to promote the MSMEs who can live on copper scraps.

There might be some impact in terms of pricing. We are yet to understand and estimate what impact it will have. There is no immediate or short term impact but yes, in the longer run we will have to assess and see how we can either participate in this side of the industry or how do we counter it.

Amit Murarka: And on aluminum would you expect any such measures in the future then?

Satish Pai: So the import monitoring cell that Praveen was talking about it has been put across aluminum and copper. The coal ministry by the way has already implemented it and steel was the ones who did it nearly 6 months to 9 months ago. So the way the system works is all importers have to register with the ministry and have to give an end-use certificate.

So I think that along with the standards this will make sure that the market segments that are correct do not get impacted by scrap. I mean like in copper the industry is very worried if transformers, cables etcetera the scrap gets used to where it should not be. And in Hindalco for aluminum we are worried about cookware and all that where the scrap should not go. So these are couple of the things that the import monitoring cell will focus on.

Moderator: Thank you.. We take the next question from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: So sir, I just had a couple of questions. One is on the outlook for aluminum. So after the Chinese New Year holidays do you expect the momentum that has been there in aluminum try to sustain given that you are still looking at a global surplus situation and inventory is also have probably stable or gradually rising?

Satish Pai: So look the period before the Chinese New Year right now is a time where aluminum prices should be the weakest. Actually now LME is running at $2,075/ton. So I think that the supply and demand is tight and as I explained to you in my prepared remarks majority of the surplus came in calendar year 20 in Q1 and Q2. Since that point the surplus has been minimal. So the market is now extremely tight. So we do believe that the momentum of economic growth in China is not going to slowdown. With the US stimulus with think that the US economy will also do well. You know the Indian economy is also doing well. So we do not see a demand problem and we think that the commodity prices should hold.

Pallav Agarwal: Also, in the budget there is also reduction in gold and silver customs duty so is that just a passthrough or do we get some benefit from the higher duties in our copper business?

Praveen Maheshwari: Our main business is copper and the sulphuric acid and DAP etcetera. Gold and silver actually come more like an impurity for us in the copper concentrate which we have to deal with. So it is a smaller portion of our business.

Pallav Agarwal: So it should not really impact on a material way of our copper prices?

Praveen Maheshwari: On a console basis there is hardly any impact I would say.

Pallav Agarwal: And sir, finally copper on an annualized basis it used to be at a run rate of close to Rs. 1,000 crores to Rs. 1,500 crores. Now the 9 months performance is coming to about Rs. 450 crores and if I keep Q4 flat we will probably end with Rs. 650 crores, Rs. 700 crores. So with TC/RC is also lower do you expect that structurally there has been a reduction in the profitability base for copper or do you expect that we can revert to Rs. 1,000 crores or higher than that at some point of time?

Praveen Maheshwari: No, we surely expect this to go up. See this year has been a very special year particularly Covid related disruptions have been more prominent in copper business. Unlike aluminum where smelting lines are many so you have thousands of pots running and you can always reduce the current and take a few pots out. In copper you just have two big smelters and it is a continuous process where end-to-end process has to run for us to be able to make copper anodes and then cathodes.

So in Q1 if you recollect the biggest impact was in Q1. Right now it is not such a big impact. In Q2 and Q3 it is not so big. Q1 was a complete washout for us and that is what has impacted us largely in this year. As I mentioned earlier there are two shutdowns which have been planned. One has been done successfully of both the smelters so one is already over. It is behind us and the smelter is running fine and the second one which is planned in between March’20 and May’20.

I think after that the operational performance also will improve significantly and we hope to see better levels than current levels going forward. You asked about TC/RC. Yes, that is a cyclical factor for us and we again look at many ways of compensating that. As I mentioned to some extent it gets compensated by a higher LME and our dominance in the market. We also look at opportunities where we can enhance even if we are not smelting ourselves in terms of various trading opportunities or tolling opportunities. So there are many value drivers in this business.

Sulphuric acid I mentioned is another one, fertilizer is the other one. So it is not one particular driver so certain things go up, certain things go down. We hope to get back to the same levels again.

Moderator: Thank you. The next question is from the line of Noel Vaz from Ashika Stock Broking. Please go ahead.

Noel Vaz: Just one question. Most of my questions have already been answered but regarding the recent announcement of the auto scrappage policy does Hindalco expect some kind of a positive impact for the aluminum sector and if so how is the company aiming to take advantage of it?

Satish Pai: Large part of our aluminum actually goes in the commercial vehicles, which is trucks, bulkers, trailers. And we think that the scrappage policy will be mostly or initially a lot used in that sector so we are actually quite anticipating bigger demand of aluminum because of this scrappage policy, especially in this commercial vehicle segment because that is where a lot of our aluminum goes today.

Noel Vaz: So approximately I mean how much of aluminum is used by the commercial vehicles right now I mean if you were to get a like a ballpark estimate?

Satish Pai: I cannot give you a sector wise aluminum usage there but all I can tell you is that with this scrappage policy the consumption of aluminum in the auto sector is going to go up.

Moderator: Thank you. The next question is from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.

Kamlesh Jain: Sir, one question on the part of like say you had highlighted that in a two weeks' time you will come out with a proper CAPEX policy, capital allocation policy. So on that front like say though I am taking it out sir, what would be the CAPEX in Indian operations going forward are we going to maintain that Rs. 2,000 crores CAPEX run rate for next couple of years or is it going to extenuate further from the earlier run rate which we had been maintaining?

Satish Pai: So look as I told you that depending on the cash generation in India taking into account as I said that we do not have a plan to reduce the gross debt in India at this stage. Large part of the cash generated in India we will be using for growth CAPEX. So I think that just like the announced Silvassa Extrusions we will be announcing the FRP and I think that you will see that it is difficult for me to just give you an average CAPEX over the next few years but depending on our cash generation the CAPEX levels will go up.

Last year we had Rs. 2,200 crores plan and we went down to Rs. 1,500 crores because of Covid. I think you will be seeing a Rs. 2,000 crores plus but I will give you that guidance once we have finalized our plans.

Kamlesh Jain: And sir, lastly are we looking at any investments related to like the PLI Scheme, would that be in consideration?

Satish Pai: Yes, those are more where you are B2C type of customer so for us there is no sector where we will get it. We are actually waiting for the RoDETP to be announced because if you remember from an export incentive the MEIS was removed and the RODETP Scheme has been notified from 1st January. But the percentage of return that we will get for exporting has not been communicated yet. So we are actually waiting for that. That will have a benefit because 50%, 55% we export primary aluminum from India.

Kamlesh Jain: So the FRP and all those products segments which we are expected to announce or to work on would be majorly focused on exports part?

Satish Pai: No, see let me be clear. The FRP and exclusion that we are working on is largely for the domestic market to do imports substitution. When we export it is largely in that primary aluminum. So most of our downstream that we are working on is for the Indian market where the demand is growing up and we are doing lot of import substitution projects.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP. Please go ahead.

Vivek Ramakrishnan: This is again the question on debt levels. So Mr. Pai, couple of quarters ago in the call you had mentioned that in the domestic aluminum business the absolute level of debt is important and that your target is to bring down the long term debt that is excluding the working capital debt to about Rs. 12,000 crores. Does this still stand because you were talking about a higher gross debt number now?

Satish Pai: No, I said that largely the de-leveraging focus that we are going to announce will be focused on Novelis. We are at about our long term net debt in India is around Rs. 14,000 crores. So reducing another Rs. 2,000 crores is we could do it. It is neither here or there. I think from the capital allocation what we are seeing is that we will deliver on the Novelis side more. We have no intention of adding any debt in India.

Moderator: Thank you. The next question is from the line of Satyajit Jain from Ambit Capital. Please go ahead.

Satyajit Jain: Most of my questions have been answered. Just one question on ESG on the entire green aluminum drive globally. So we have Rio Tinto and other producers have come up with an initiative a label called Start To Track the carbon footprint and other criteria. So with Hindalco there is always a dichotomy that Novelis has extremely good sustainability metrics but the source of power for smelting in India has always been a challenge and some of these labels will track these metrics.

So how as you look at your capital allocation plans the growth strategy evaluate all of that how do you think of addressing some of these challenges that ESG investors may be grappling with when they look at Hindalco?

Satish Pai: So as you quite rightfully put off on the Novelis side because of the recycling we will be well placed. But the way we position Hindalco as a consolidated which is what I tried to do in today's presentation and which is an approach that the DJSI, MSCI all have taken is that it is not just the carbon. You have to ESG stands for Environment, Safety and Governance. So you are quite that we are on the back foot to in it in India when it comes to the source of power. But there are so many other parts where we intent to be world leaders.

And that is how we are going to position ourselves and the number two thing is that in India itself as I told you we are going to increase the usage of natural gas and solar and we will try to bring it down as much as we can. But can I ever become zero carbon in smelting in India, the answer is no and we know that. So which is why when we talk about green aluminum or even if you look at Rio Tinto what they have announced is lot more sectors.

They talk about Red Mud, they talk about biodiversity, water all of those are taken into account. So I think the challenge is to get the investors to understand a holistic environment sustainability policy. And that is what Hindalco is sort of taking the pressure and the leap in doing.

Moderator: Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: A question is on your consolidated net debt position. So on a sequential basis we can see almost Rs. 4,500 crores of net debt reduction as against a consolidated EBITDA that I can see of around Rs. 5,100 crores. So can you sort of create a broad bridge as to how this was achieved and any working capital impact or benefit that you would have seen and any other benefit that would have helped this number?

Praveen Maheshwari: No, I mean really speaking it is largely internal cash flows. We are seeing in line with the EBITDA generation obviously the cash flows have been pretty strong. There is a very focused attention on the working capital management as well. CAPEX has been under control so all that is resulting into better cash flows. I would simply put it that way.

And of course part of it is helped by the divestiture structure as well. We got a Lewisport diverse structure was done in this quarter. So that has helped. So really speaking it is a mix of all things but operational improvement and cash flows is one major factor which we intent to continue.

Dev Ahuja: Yes, absolutely. So we have reduced debt by about $700 million in Q3 and there was a mix of factors. One was we got divestiture proceeds of Lewisport during the quarter. We had received the Duffel proceeds right on the border line on September 30th so we were holding that cash ready to pay down debt. So essentially if I broadly tell you about $500 million rounded, I am just rounding numbers is coming from older divestiture proceeds and the rest is coming from other internal cash. So that is really the way we have brought down $700 million.

Abhijit Mitra: Two questions more from my side. One what has been the consolidated CAPEX for nine months and for the quarter? And second is in your India operations, Hindalco India operations the depreciation has come down from around Rs. 640 crores to around Rs. 497 crores on a sequential basis. So any reason that you sort of expect to that?

Praveen Maheshwari: So maybe I can take the India part to begin with. The second question basically last quarter we had an impairment of one of our mines. So that had inflated the depreciation and impairment number. Otherwise they are in line with each others. And on the CAPEX in India we are at about Rs. 1,150 crores or so for the first nine months and $333 million in Novelis for YTD

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: I just had two questions. One is how has been the transformation or transition from MEIS to RoDTEP? Have the rates been already notified how are we baking it in TNL at right now?

Satish Pai: I think I said in the earlier question the MEIS got taken out somewhere in 1st September and since then we have not had any MEIS benefit. The RoDTEP has been notified from 1st January but the percentage that they will give MEIS was roughly 2% we were getting. So we are expecting RoDTEP to come up at least at 2 if not more. But that they will do and then it will be retrospectively applied from 1st January of 2021.

Ritesh Shah: My second question is a bit hypothetical, Mr. Pai. Do you see a day in India probably emerge wherein you will be substituting coal with gas with some policy actions, do you see something of this sort being actually viable in the country or government being doing something about it or have you heard about any potential pipelines being laid off and I mean there is something which might come to use and something of this sort being a possibility?

Satish Pai: So it is not hypothetical. In fact in the Jharsuguda area the gas pipeline is being laid. It is Covid delayed it by about a year and our plan is to make all our boilers dual fired, meaning part coal based, part natural gas based so we intent to be the first ones to immediately do that. In fact an interesting statistics we have told MoPNG that if they can get gas landed in India at our plants at about $5 per MMBTU then you can actually start to substitute coal. So that discussion is quite actively ongoing. The problem as you realized is that gas will be imported. Domestically we have not got enough Gas yet.

Ritesh Shah: Sir, you said $5 per MMBTU at the plant?

Satish Pai: Yes. By the way this year we were buying at about $8 to $9/MMBTU.

Ritesh Shah: But sir, is there a willingness from the government to step in and make something of those sorts possible like to bear the cost to de-carbonize the industry something of that sort?

Satish Pai: So I think there is. There are different parts of the government that look at it differently but yes, there is because as you know Prime Minister Modi has made commitments for these reduction of carbon. So that discussion today is largely on adding more solar capacity but as you know solar will not help to de-carbonize the industry in a big way. So this discussion of Natural Gas at least from my side I am actually putting it on the table more.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Satish Pai: I just would like to thank everyone. I think that this Q3 is where we are generally feeling we are back from the Covid-19 related issues that happened in Q1, Q2 and we think that going forward there has been a good recovery in demand, the macros are looking strong and we are operationally a lot of more efficient now. So we think that the next year for Hindalco, Novelis is going to be a good year and we also look forward to articulating our capital allocation framework which we think will be important in the coming weeks. So thank you so much for your attention.

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