



“Hindalco Industries Limited Q4 & Full Year FY20 Earnings Conference Call”

June 12, 2020



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Moderator: Ladies and Gentlemen, good day, and welcome to the Hindalco Industries Limited Q4 & Full Year FY '20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '**' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to 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 Fourth Quarter FY '20. On this call, we will refer to the Q4 investor presentation available on the 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 Q4 earnings presentation.

In this presentation, we have covered briefly our actions towards maintaining safety, operational stability and liquidity in the COVID-19 environment. Later on we have presented key highlights for the fourth quarter and full year 2020 in a comparative financial analysis of our business segments in India and our overseas subsidiary Novelis.

All the prior period numbers have been regrouped and reclassified as per the Ind-As and presented in a similar manner for comparison purpose. On today's call, we have with us from Hindalco's management, Mr. Satish Pai - Managing Director; Mr. Praveen Maheshwari - Chief Financial Officer and CEO of Copper Business. From Novelis' management, we are joined by Mr. Steve Fisher - President and CEO. I would now like to hand over the call to Mr. Satish Pai for his opening remarks. Thank you, and over to you, sir.

Satish Pai: Thanks Subir and greetings to everyone. Thanks for joining the conference call of Hindalco for fourth quarter FY20 earnings. Before we discuss our performance for the quarter, let me start with a quick update of our actions related to the COVID-19 pandemic on Slide #4. Our first and most important objective has been to protect the health and safety of our workforce across all our facilities. We have taken several precautionary measures, which will remain in place until the pandemic crisis is resolved.

Employees at our offices in metropolitan areas have been asked to work from home as much as possible; nonessential business travel has been suspended; stringent safety measures are in place, including social distancing at workplace, sanitization of all premises, getting people back to office in stages and stress testing our preparedness through mock drills. We are also active in the surrounding communities with drives for distribution of masks, sanitizers, PPEs and food.

Now turning to our operations. Hindalco's 4 aluminum smelters and the Utkal Refinery in India operated at near full capacity during the lockdown. Our coal and bauxite mines also operated at



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regular scale. We are exporting more than 80% of our total output to countries like Korea, U.S.A., Malaysia, Brazil, Japan, while minimizing our inventory buildup and absorbing the plant fixed costs. Our aluminum downstream plants in India had shut down initially, except at two plants, while other downstream facilities continued to operate and serve essential sector customers.

We have since restarted downstream operations at reduced capacity to meet the existing market demands. After initial temporary shutdowns, our copper operations have restarted and are now stabilizing to reach optimal levels. Temporary or partial shutdowns were taken in Novelis automotive plants across the regions due to customer shutdowns, reduced demand or by government decree.

The plant schedules are being adjusted to be in line with latest customer demand. All CAPEX, excluding maintenance and essential CAPEX for the next year, is being curtailed in India and Novelis. All businesses are focusing on fixed cost reductions and maintaining adequate liquidity to sustain plant operations in the current environment.

Coming to Slide #6, let me now present the key highlights of our quarterly performance for Q4 FY '20 versus Q4 FY '19. Hindalco delivered yet another steady and strong quarterly performance, reflecting its resilience to withstand market cycle. This performance was driven by record financial performance by Novelis, coupled with lower input costs and stable operations in the Indian business. To begin with, Novelis' net income without exceptional items was \$153 million, up 18% year-on-year. Novelis reported its highest ever quarterly adjusted EBITDA of \$383 million, up 7% year-on-year.

It also recorded its highest ever quarterly EBITDA per ton of \$472, which is the best among global peers. Novelis continues to maintain its strong liquidity position of \$2.6 billion as on March 31, 2020. In April, Novelis completed the Aleris acquisition and the integration process has started to drive synergies and long-term value.

Moving on to Hindalco India Aluminum business performance in Q4 FY '20. EBITDA for Hindalco India Aluminum, including Utkal, was Rs. 1,039 crores, up 3% year-on-year, despite a challenging business environment in Q4 FY '20. The EBITDA margin was at a healthy 20% and probably the best in the industry currently. The business recorded quarterly aluminum metal production of 327 Kt, up 2% year-on-year despite COVID-related challenges. Aluminum metal sales were at 314 Kt in Q4 FY '20 even though domestic market conditions were tough. Sales of aluminum value-added products, excluding wire rods, was at 76 Kt, down 8% year-on-year due to the lockdown impact.

Utkal Alumina delivered its best-ever production of 441 Kt in Q4 FY '20. Muri Alumina Refinery has restarted operations in December '19 and was ramping up to strengthen our



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integrated value chain. The Utkal expansion project of 500 Kt is on track and expected to start in Q4 of FY '21.

Turning to the Copper business quarterly performance on Slide ##7. Copper EBITDA in Q4 FY '20 was Rs. 406 crores, up 9% year-on-year and a margin of 9%. Value-added CC Rods touched a record quarterly production of 71 Kt and grew by 15% year-on-year. VAP sales were at 73 Kt, up 4% year-on-year, with the share of VAP to total sales reaching a record high of 86% in Q4 FY '20. Overall, copper metal sales in Q4 FY '20 was at 86 Kt, down 14% due to lower dispatches in the month of March due to the lockdown. The benchmark TC/RC for calendar year '20 has settled at 15.9 cents per pound, which is 23% lower than the last calendar year.

Now let us look at our quarterly consolidated performance for the year. Hindalco's quarterly consolidated EBITDA was at Rs. 4,173 crores in Q4 FY '20, up 6% year-on-year compared to Rs. 3,938 crores in Q4 FY '19. Consolidated EBITDA margin stood at 14% in Q4 FY '20 versus a margin of 12% in corresponding quarter last year. The consolidated profit before tax and before exceptional items was Rs. 1,395 crores in Q4 FY '20 as compared to Rs. 1,725 crores in Q4 FY '19.

This PBT has an impact of Rs. 568 crores of the onetime financing cost in Novelis. Consolidated profit after tax in Q4 FY '20 was Rs. 668 crore compared to Rs. 1,178 crores in the corresponding quarter of the last year, also impacted by the onetime financing cost in Novelis.

In January, Novelis successfully issued \$1.6 billion bond at 4.75% due in 2030 to replace one of the existing \$1.15 billion bond at 6.25% that was due in 2024. This offering extends the debt maturity profile at an attractive rate, with a net interest savings of around \$17 million per annum.

Hindalco reflects a strong cash position at the end of March 31, 2020; in Novelis at \$2.4 billion; and in India at around Rs. 9,900 crores. The consolidated net debt-to-EBITDA stands at 2.61 times at the end of March 2020 as against 2.48 times at the end of March 2019.

Now turning to the broader economic environment in Slide #9. Global lockdown measures to prevent the spread of COVID-19 are severely impacting economic activity. IMF's April forecast of minus 3% contraction in global GDP growth versus 2.9% growth in CY '19 is much worse than the 2008/'09 crisis. Both the emerging and developed economies are expected to de-grow in CY '20 with the contraction expected to be more severe in the developed economies.

These forecasts are subject to downward revision in case the pandemic rolls over to the second half of calendar year '20. The impact of this pandemic was visible in Q1 calendar year '20 GDP growth numbers with the U.S., China and the Euro area GDP contracting by 5%, 6.8% and 3.3%, respectively.



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Easing of lockdown measures in most countries and the announcement of fiscal packages by various governments are expected to provide some boost to economic activity gradually as the world learns to live with the virus. The shape of the recovery, U, V, L will, however, depend varying on how effectively these fiscal measures are implemented across the various countries. The key risk to watch out in 2020 will be the escalation of U.S.-China tension and its corresponding impact on global growth in calendar year '20 and '21.

Turning to the Indian economy. GDP growth in Q4 FY '20 slowed to 3.1%. As a result, the full year FY '20 GDP growth fell to a 11-year low of 4.2%. This slowdown was primarily due to degrowth in manufacturing and construction sectors. The full impact of lockdown will be visible at the end of Q1 FY '21, as most monthly indicators are in the red in April '20. On the positive side, however, as a part of the Unlock 1.0, India has started easing some restrictions from 8th June and is restarting economic activities. This, along with the government's economic stimulus package of 10% of GDP, is expected to revise growth in a calibrated manner. On the monetary policy front, RBI's benchmark policy rates now stand at a record low of 4%, with cumulative rate cuts of 115 bps in 2020.

Let me now take you through the aluminum industry overview on Slides 10 and 11. Global consumption growth in 2019 declined by 1.6%, the lowest level since the global financial crisis of 2008 and '09. The prolonged U.S.-China trade war and sluggish industrial activities across regions dampened consumption growth during the year. In 2019, demand in the world, excluding China, contracted by 3.5% versus a growth of 2% in 2018 due to subdued demand in regions, notably U.S., Italy, Japan and South Korea.

Chinese demand was flat in 2019 as compared to a 4.1% growth in 2018. Across regions, slow growth in end-user industries such as automotive, construction, electrical power and machinery and equipment were the primary reasons for the significant drop in demand in 2019. In Q1 of calendar year '20, in the backdrop of COVID-19, global demand has declined by 9.3%. On the supply side, global production declined by 800 Kt to around 63 million tons in the calendar year 2019 as Chinese production declined by 3% on account of disruptions at 2 major smelters, whereas in the rest of the world, production grew by 1% in 2019. The overall market deficit in 2019 was around 1.1 million tons as against 1.3 million tons in 2018.

Global demand in 2020 is projected to fall sharply by 8% in the backdrop of the COVID-19 outbreak. The world, excluding China, consumption is likely to contract 13% due to severe slowdown in manufacturing, particularly in the automotive sector and due to weak customer sentiments. In China, demand is likely to decline by 4% with some green shoots due to recovery in demand led by auto and construction. Global aluminum prices witnessed a significant decline of 15% in 2019 to \$1,791 per ton versus \$2,110 in 2018. In Q1 of calendar year '20, the average global aluminum prices have declined further to \$1,690 per ton.



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Coming to Slide #11, in FY '20, domestic demand for aluminum declined by 6% to 3.7 million tons. Imports, including scrap, degrew also by 6% on sluggish demand in the domestic market. Despite degrowth, imports maintained a market share of around 58% in FY '20. Domestic sales declined by 6% to 1.55 million tons in FY '20. Domestic demand registered a consecutive decline of 11% year-on-year to 905 Kt in Q4 FY '20. Imports, including scrap, also recorded a degrowth of around 4%. Domestic sales also sharply declined by 19% year-on-year to 376 Kt in Q4 FY '20. The continued slowdown across all user industries, such as electrical, automotive, building and construction were the primary reasons for the sluggish growth in consumption during the quarter. Domestic demand for aluminum in FY '21 is likely to continue to be subdued. The government's recent announcement of a stimulus package of Rs. 20 lakh crores and its thrust on infrastructure, housing and electrical sectors will help offset the negative economic sentiments post COVID to some extent.

Moving to Slide #12, the global FRP demand in the near-term will remain soft in the cyclical end markets resulting from the COVID pandemic. In the current situation and post COVID, industries like beverage, food packaging, pharma will tend to benefit, leading to a higher demand for FRP in these segments. Beverage can sheet market has historically been a recession-resistant product and is expected to remain resilient in the current environment, particularly in North America and Europe. With the rising preference for sustainable beverage packaging, aluminum will continue to drive demand for beverage can sheets going forward.

Currently, the global automotive industry has seen adverse effects due to COVID-19 as some automakers had temporarily ceased production. Aluminum FRP demand for automotive body sheets, driven by light-weighting trends in the transportation sector, premium vehicles and EVs continues to see traction and some positive signs of revival with growing demand for automotive, majorly in the U.S., Europe and China, while the major U.S. and German automaker restarts are some positive signs for the automotive market. But broadly speaking, it is still unclear as to how much the COVID-19 will impact overall near-term auto demand.

In the Aerospace segment, reduction in production is seen as consumer travel is expected to drive lower demand in the next year. FRP growth in the Aerospace segment, though, remains intact with high order backlog from all aircraft manufacturers across the globe.

Domestic FRP demand in India is contracted by 9% in Q4 FY '20 and by 3% in FY '20 year-on-year due to subdued demand in transportation, building and construction and electrical sectors. Currently in India, industries like food packaging, pharma, beverages etc. are pushing domestic demand for FRP, and this is expected to grow further post COVID.

Turning to the Copper industry on Slide #13. Global refined copper consumption contracted by 0.7% in 2019 versus a growth of 2.9% in the previous year. In China, consumption growth



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moderated to 1% in 2019 versus 5% in 2018, whereas consumption in the rest of the world contracted by 2.3% in 2019 versus a growth of 1% in 2018. This drop in copper consumption of the world ex China was driven by weak manufacturing activities in Europe, majorly Germany. In Q1 of calendar year '20, owing to COVID-19, the global copper consumption saw a dip of 10% versus the same quarter last year. All of this degrowth has come from China, which dipped by 22%, while the world ex China growth remained flat for the quarter.

On the copper concentrate side, mine disruptions in 2019 were comparatively high. Copper concentrate consumption grew by 1.6% to 16.8 million tons in 2019 compared to a growth of 3.1% a year ago. Concentrate market recorded deficit of 168 Kt in 2019 versus a surplus of 141 Kt in the previous year. Owing to the lesser demand by smelters in China as an impact of COVID-19, copper concentrate consumption saw a dip of 2.7% in Q1 calendar year '20. This has led to a temporary rise in the spot TC/RC from 11.5 cents per pound in Q4 calendar year '19 to 15 cents per pound in Q1 calendar year '20.

Going forward, uncertainties related to COVID-19 and other macroeconomic environments across the globe are going to impact copper consumption in calendar year '20. At the same time, various stimulus packages declared by different countries may provide some support to overall copper demand. We expect the global demand for refined copper to be around 22 million tons in calendar year '20, down 5.5% compared to the last year.

On the supply side, COVID-19 pandemic has impacted the Southern Hemisphere in a big way. And many large mines, especially in countries like Peru, Panama, etc., have already declared force majeure. We expect the copper market to be in a deficit of around 400 Kt in 2020 and will put further pressures on the spot TC/RC. In the domestic market, the consumption of copper recorded a marginal growth of 2.5% year-on-year in financial year '20 to 750 Kt.

Sluggish demand in FY '20 can be attributed to weak demand from transportation and the power sector. Post imposition of CVD on import of wires from Malaysia, Indonesia, Thailand and Vietnam, shares of imports have reduced to 32% in Q4 of FY '20, and this was 52% in Q3 of FY '20 and 37% in Q4 of FY '19. This will certainly help domestic producers to increase their market share going forward.

Praveen will now take you through the business performance highlights of each of the business segments in Q4 and the full year.

Praveen Maheshwari:

Thanks, Satish. Let us review our operational performance on Slide #16 now. Novelis delivered yet another strong and steady quarterly and full year performance in 2020. Novelis registered its best-ever adjusted EBITDA and EBITDA per ton for the quarter as well as for the full year 2020. Can sheet shipments were 66% of the total product mix in FY '20 versus 63% last year.



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This remarkable performance was on the back of strong operating and financial performance, supported by favorable market conditions. Overall shipments for the full year were 3,273 Kt in FY '20. Beverage can sheet shipments grew 4% year-on-year in FY '20, driven by rising consumer preference for sustainable packaging. All the organic expansion projects in the U.S., China and Brazil are progressing well.

On April 14, 2020, Novelis completed its acquisition of Aleris and has begun integration of their operations to drive the synergies. The divestment procedures for automotive assets at Lewisport in the U.S. and Duffel in Europe are underway. This acquisition will provide further product diversification with the addition of high-end aerospace and expanded specialty capabilities.

Recycled content utilization in Novelis continues to be high at 60% in FY '20. And Novelis has a very strong liquidity position of \$2.6 billion of cash and cash equivalents of \$2.4 billion at the end of March 31, 2020.

Moving to Slide #17 related to financial performance of Novelis. Novelis achieved a revenue of \$11.2 Billion, an all-time high-adjusted EBITDA of \$1,472 Billion, up 8% Y-o-Y, and a record EBITDA per ton of \$450, up 7% Y-o-Y in FY '20. This growth was on account of portfolio optimization, favorable metal prices, better cost efficiencies and favorable foreign exchange, but partially offset by less favorable recycling benefits due to lower aluminum prices.

Slide #19 shows the details of the performance of Indian aluminum business segment. Alumina production in Q4 FY '20 was 720 Kt and 2,735 Kt for the full year 2020. Utkal Refinery achieved a record production, both in Q4 and the full year FY '20. Muri Refinery has also started operations in December 2019. The aluminum metal production was at a record high of 1,314 Kt in FY '20 despite some disruptions in the month of March due to COVID 19. Value-added products, excluding wire rods, recorded a production of 79 Kt and 319 Kt in Q4 and full year 2020, respectively.

Coming to Slide #20, aluminum metal sales volumes were at a record high at 1,290 Kt in FY '20, up 1% Y-o-Y. This was achieved despite challenging market conditions. In Q4 FY '20, metal sales were 314 Kt versus 325 Kt in the previous year, down 3% Y-o-Y, only due to the COVID impact. Value-added product sales, excluding wire rods, were lower by 8% at 76 Kt in Q4 on account of low off take in the month of March '20 again due to the pandemic. VAP sales in FY '20 was higher by 2% Y-o-Y at 306 Kt in FY '20, with share of VAP in total sales maintained at 24%.

Moving on to the financial performance of the Aluminum business on Slide #21. This segment recorded a revenue of Rs. 21,749 crores in FY '20 versus Rs. 23,775 crores a year ago, lower by 9% on account of lower global aluminum prices. EBITDA in Q4 FY '20 stood at Rs. 1,039 crores versus Rs. 1,010 crores in Q4 FY '19, higher by 3% year-on-year. The EBITDA margin in Q4



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'20 was at a very healthy 20% of revenue despite the current challenging macroeconomic business environment. EBITDA in FY '20 was Rs. 3,729 crores for the full year versus Rs. 5,096 crores in FY '19, lower by 27% due to lower realizations partially offset by lower input costs and better efficiencies. EBITDA margin for FY '20 was at 17.1%, one of the best in the industry.

Moving to Slide #23. The overall copper metal production was lower by 16% Y-o-Y at 75 Kt in Q4 '20 compared to 89 Kt in Q4 '19 while quarterly production of CC rods was higher by 15% Y-o-Y at 71 Kt in Q4 '20. CC rods achieved an all-time high production of 263 Kt in FY '20, up 7% Y-o-Y. DAP production was lower by 8% and 24% Y-o-Y Q4 and full year, respectively, compared to last year.

Coming to Slide #24 on sales volume of copper and its VAP. Copper metal sales were lower by 14% year-on-year at 86 Kt in Q4 '20 due to lockdown impact and 7% lower year-on-year at 335 Kt in full year '20. Although the copper value-added, which is CC rod, its sales were higher by 4% in Q4 and 6% in full year '20.

The financial performance of the Copper segment is on Slide #25. Revenue stood at Rs. 18,533 crores in FY '20 versus Rs. 21,198 crores a year ago, down 17%, primarily due to lower LME and volumes. EBITDA stood at Rs. 406 crores in Q4 FY '20 versus Rs. 373 crores in Q4 '19, higher by 9% year-on-year despite challenging market conditions. The full year 2020 EBITDA stands at Rs. 1,276 crores versus Rs. 1,683 crores in FY '19. This was lower by 24%, primarily due to lower volumes and by product realization.

Turning to consolidated financial numbers for the full year 2020 on Slide #26. Hindalco reported a consolidated revenue of Rs. 118,144 crores and an EBITDA of Rs. 15,536 crores, profit before tax and exceptional items of Rs. 6,208 crores and profit after tax of Rs. 3,767 crores in full year FY '20. The detailed quarterly comparative financial numbers are attached as an annexure to this presentation on Slide #31. Hindalco India business reported a revenue of Rs. 40,324 crore, EBITDA of Rs. 5,483 crores and profit after tax of Rs. 958 crores in FY '20. These details are provided as an annexure to this presentation on Slide #32.

Let me now hand over the call to Satish to give you some key take away of this presentation.



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Satish Pai:

So let me conclude with some key takeaways of today's presentation, which is really about navigating through the current crisis while retaining our focus on the value-accretive long-term growth plans that we have. Our top priority is protecting the health and safety of our employees and communities, taking all the precautionary measures and creating essential infrastructure in all the plant locations for contingencies.

Our early preparedness and appropriate actions are helping us manage this tough and uncertain situation well. Second is our relentless focus on efficiencies and cost competitiveness as Hindalco smelters continue to be in the first quartile of the global cost curve.

Capacity expansion at Utkal Alumina Refinery will further help in reducing our overall integrated cost of production going forward. The company is focused on cash conservation and maintaining adequate liquidity to sustain plant operations in the current environment. We will tightly control CAPEX for the next year while prioritizing only essential CAPEX to maintain the balance and ensure future competitive readiness.

Our business model of being 80% LME delinked in terms of EBITDA and our long-term strategic investments in Novelis and the Indian downstream expansion will enhance our capabilities. In addition to this, the acquisition of Aleris will provide further product diversification in Novelis to strengthen our long-term sustainable business model. We continue to manage the current situation with agility, and we believe that with all the support from government and our employees, we will come out of these challenging times together stronger than ever.

Thank you very much for your attention, and we now open the forum for questions that you may have.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal:

A few questions from my side. First the government announced the composite auction of coal and bauxite mines. Do you think you will be interested in that, given that we are almost 100% integrated on bauxite? And do you think it will lead to higher smelter capacity addition in India per se by newer players?

Satish Pai:

So the whole point of the government doing this is to ensure that more capacity comes in. Now the timing of that capacity is going to be important because India today produces about 4 million tons and consumes nearly 3.7 million tons to 4 million tons. But if there is a growth rate, if you can even assume 6% to 7%, the government is fully aware that in 5 years' time we are going to



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be importing a lot of aluminum. And hence, they are trying to make it attractive. So as you say, I think Hindalco at this stage is not looking to expand.

But I think that they have announced it. It is going to take them a while to come with a package of a bauxite and a coal mine together. And I think that probably this will only happen, in my opinion, probably a year or 2 years down the road. I think that initially, you are going to see some commercial coal blocks coming up for auctions, and we will be certainly looking at that first. I think the combined thing will take them some time to actually get the specifics to make it happen.

Indrajit Agarwal:

On copper, we have seen a significant jump in margins. So how much of it is due to the spot that we see is increasing? And how much of it do you think will actually taper down through the course of the rest of this fiscal year?

Praveen Maheshwari:

Yes. So I think I need to explain this point a little bit. In copper, there is a concept of derivative accounting that we do. As you are aware, copper is a business which is fully offset hedged, and we have 2 kinds of exposures; one is the commodity exposure and the other is the currency exposure. When we buy copper concentrate, it is more like a 3- to 4-month cycle before which we actually get the concentrate, we process it and then sell it. So to avoid any undue gains or losses due to commodity price fluctuations, we sell on the exchange when we buy copper concentrate.

And similarly, when we sell physically, we unwind the hedge and thereby compensate either gain or loss on the exchange. So the amount of gain that we make on the commodity on physical side is offset by the loss on the derivative side and vice versa. And the same thing applies on the currency side as well. We use buyers' credit as a hedge against our dollar liabilities and that is how we are able to safeguard ourselves. The issue that is there is, while it is true economically that there is no gain or loss coming from these derivatives that we take and, therefore, we are completely safeguarded. In accounting, it does not exactly follow the same method because the derivatives and the physical side do not go hand-in-hand in each month or in each quarter. So in a particular month or a quarter, you might see some fluctuations in profits and losses coming in because of this fact, whereas on the longer horizon you will not see any major difference, which means the gains and losses will actually cancel out each other. Now this gets accentuated in times when the commodity prices are moving wildly. So if you notice in the last 6 months, commodity price, copper price has gone up and down from the high of \$6,000, \$6,100 to a low of below \$5,000 as well. Similarly, rupee-dollar exchange rate has wildly fluctuated in the last few months. These create noises in the accounting, which reflect in the form of a higher gain or loss in any particular month or quarter. Now in this particular month and quarter actually, the last quarter, we saw some significant gains coming from purely derivative accounting. In our opinion, this gain is roughly about Rs. 100 crores, which has flown into the books. It is not as if



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this gain is not there, it is there, but there would be some countervailing loss sitting somewhere else, either in the previous quarters or in the future quarters. So I would say the real performance of copper should be taken as about Rs. 300 crores, whereas in accounting it would reflect at about Rs. 400 crores.

Indrajit Agarwal: Last question from my side. When you mentioned that it is the only maintenance CAPEX this year, can you quantify how much of it will be? And will there be any CAPEX on the Utkal expansion?

Satish Pai: Yes. So on the Hindalco India side, we have cut the CAPEX down to Rs. 1,500 crores. Our original plan was around Rs. 2,200 crores, Rs. 2,300 crores. And the Rs. 1,500 crores has got about Rs. 350 crores of the Utkal expansion. So if you really look at it, our normal maintenance CAPEX, along with some other smaller projects, should be around Rs. 1,000 crores, Rs. 1,200 crores. So we have dramatically cut our CAPEX back down to that maintenance plus very important projects, which are either environmental or maintenance related and the Utkal expansion. And the rest, we are postponing a little bit.

Moderator: Thank you. The next question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: So Mr. Pai, firstly, if you can talk about how the Aluminum division has done on the COP side in this quarter? And what is the outlook going into maybe FY '21 or the first quarter of FY '21, given that there is a lot of tailwind from the coal side, given improved availability from Coal India? So any color will be useful, sir.

Satish Pai: Yes. So I am trying to remember the last time I had said that probably Q4 COP will drop another 2%, actually dropped by nearly 5%. In addition, we now know because we are already in the middle of June, in Q1, it is expected to drop by another 5% from Q4 levels. So we are seeing a lot of tailwinds on the cost of production side. Coal is certainly a biggest one, but also CP coke, pitch, caustic, all of them are furnace oil, everything is quite favorable right now.

Anuj Singla: Okay. That is very useful, sir. And sir, in terms of hedging for the aluminum side, would you have an update for FY '21 again, sir, what kind of hedging is already in place?

Satish Pai: Yes. So for FY '21, we have actually been quite active. We have 38% total commodity hedged at \$1,732 per ton, out of which 2% is rupee LME at Rs. 170,640 per ton and 36% is only commodity at \$1,711. And the currency overall is 37% hedged at Rs.76 a dollar.

Anuj Singla: Okay. Wonderful. And sir, lastly, on the Utkal side, like you said, the 500 Kt expansion is going to be commissioned this year. So is there a scope of portfolio optimization in the alumina among the alumina locations, including maybe the high cost locations like Muri, where at the present



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alumina prices, I do not know if these locations are still profitable. So can you share some thoughts on how the alumina ramp-up is going to impact your overall alumina sales and maybe cost savings in that division?

Satish Pai: Yes. I think we have said this before. We will probably ramp down first the Renukoot refinery because that is more than the cost, I think cost of Renukoot and Muri are not too different, but the red mud space available in Renukoot is very tight. So as soon as we get more alumina from Utkal, we will probably ramp down the Renukoot refinery more. So, between Muri and Renukoot, we will reduce the production and we will still want to keep a little bit of an insurance policy. I do not want to be exposed to having all alumina from one place.

Anuj Singla: Understood. Reduce the concentration basically?

Satish Pai: Yes.

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

Pinakin M. Parekh: Sir, my first question is on Novelis. Over the last 2, 3 weeks, there has been a lot of news flow in the U.S. while some auto companies have restarted operations and shut down again. When the May auto sales numbers came out in June, they are sharply ahead of expectations, and it seems that the shutdown affected production more than sales did. Therefore, the inventory chains in U.S. auto is sharply lower. So at this point of time, sir, can you give us more color on how in Novelis the key segments in specialties in autos and also Aleris key segments looking in terms of demand vis-à-vis what was in April and May months?

Steve Fisher: Yes, sure. So I think as you have highlighted, Pinakin, in North America and Europe, we have seen all the auto customers or our customers start to resume operations and demand is consistent with that expectations of refilling the pipeline and getting all those up. There has been starts and stops as it relates to COVID and so forth, but overall it is starting to ramp smoothly. In Asia, auto is running very strong from a production standpoint. There is strong demand in Asia for domestic premium EV and SUV segments as well as we are picking up a little bit of extra demand because of some of supply chain issues from European OEMs from supply chain disruptions coming from Europe. When we start to talk about the other segments, can, as Satish highlighted in his prepared remarks, is a recessionary resistant segment overall and it is holding up very well in North America and Europe and strong in the other regions as well, although a little bit more affected due to COVID-related lockdowns.

Specialties is a mixed bag. We see some strength in North America, as North America starts to unlock from COVID. Some strength in Europe, both from opening up of the economy, but also some new segments that we have been able to move into. And again, in Asia and South America,



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still a little bit weaker in trailing the 2 larger regions for us. Then finally, with aerospace, I think aerospace itself, the order backlog, as we entered into COVID-19, was very strong. I think we still have to monitor the overall medium to longer-term outlook as it relates to aerospace and ability for the airlines to actually procure planes requiring the build of the planes themselves. And so that is something that we continue to monitor throughout the next several months, several quarters.

Pinakin M. Parekh: Just to go back to the Aleris acquisition. There was a certain synergy number that was expected. Now, does the COVID-19 disruption mean that the synergies will get pushed out to next year or year after? Or the management expects to get as much of the synergy number as was expected in FY '21 itself?

Steve Fisher: The synergy numbers actually will not change. Maybe they will be a little bit slower only from the aspect of ability to capture them with the remote working environment that we are in right now. But the synergies are more of your traditional type synergies around procurement, supply chain optimization, SG&A, some operational efficiencies. These are not top line revenue synergies that we were looking for. So there would be no change in the outlook for the synergies as it relates to our ability to capture them.

Moderator: Thank you. The next question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit A. Dixit: I have a couple of questions. The first one is on your coal sourcing mix in this quarter, and how it is likely to pan out considering that Coal India's availability has improved? So will you be using less coal from your own mines? And if you can also throw some light on coal cost per GCV.

Satish Pai: Okay. So Q4, already we were taking a lot of coal from Coal India and not from our own mines. So the mix was 60% linkage, 35% e-auctions, 2% from own mines and 2% import. That was our Q4 mix. I think in Q1, I doubt whether we will import any. So it is going to be largely Coal India linkage and e-auction. Moreover, we are on the sort of rupees per million kilocal was at the low Rs. 900s MKCal.

Amit A. Dixit: Okay. The second question is essentially on stand-alone balance sheet. So if I look at the stand-alone balance sheet, your short-term borrowings have gone up compared to last year while payables have fallen. So is it specifically a quarter phenomenon or is it going to be this way as we go ahead?

Praveen Maheshwari: No, there is no quarter phenomenon here. Basically, in March end, because of the sudden lockdown, we drew on our working capital lines and that is why you will see while short-term loans have gone up, the treasury balance has also gone up. Actually speaking of the net debt



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side, there is no deviation, frankly. So this purely March last week, actually, we drew on the working capital lines. That is the reason why the liabilities are, the short-term loans are higher.

Satish Pai: So we went to a net cash position, if you remember my talk, around Rs. 9,900 crores by drawing down working capital lines. So we just got ready for in case there is any prolonged crisis.

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

Sumangal Nevatia: Sir, first question is, now with respect to the whole year aluminum EBITDA, which is roughly around Rs. 3,700 crores, do we have a rough number as to what part has come from our risk management activity with respect to forward bookings, etc And given that the gap between spot and the future hedges, which you shared, is now much lower than what our position was at the start of FY '20, I mean, what is the loss in terms of profitability, we are looking at on an annual run rate basis in FY '21?

Sumangal Nevatia: Mr. Pai, is it possible to share what we would have gained in FY '20 with respect to our hedges? Any rough number in terms of crores absolute number?

Satish Pai: Around Rs. 1,000 crores. But this is not just commodity. We hedge just so that you know, aluminum, the rupee, furnace oil by taking crude as a link, we do coal. So we do quite a lot of hedging for various input commodities

Sumangal Nevatia: Sir, next question, I mean, assuming that we are not hit with the phase 2 of COVID, is there any rough assessment on the volume loss we would have in FY '21 across businesses, India, Copper, Aluminum and then Novelis.

Satish Pai: So I will let Steve answer Novelis, but let me tell you, in India business, I think the total loss in volume I just estimated will be hardly 15 Kt. And that is because we just turned down the production a little bit on the current for April and May. So we are not going to see much volume loss in aluminum. And in copper, actually, it will be flat. It will be flat because last year's production was not that great at 321 Kt. We had hoped to do more this year, but the 2 smelters were shut for April, May. So we have lost 2 months of production. But the volume for copper will be flat year-on-year. And aluminum will probably be, we did 1,290 Kt sales. We could be at the most 15 Kt down from that.

Steve Fisher: Sure. It is a little early because ours also depends on end market demand after we recover from COVID across the world and how demand returns based on economies across the world. Obviously, as I said before, in the early part, first quarter, almost all the North American and European automakers were shut down, which will have an impact on us. They have started to recover in the second part of this first quarter, and we continue to see that ramp up. And ultimately, we need to see what the demand looks like. When we look to Asia, Asia recovered



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very quickly from an auto standpoint in China and continues to see some strength going forward. But still some areas for us to look at in the outer second half of this fiscal year for auto. Can Sheets, as I said, is recessionary resistant and is holding up quite well. So we do not see a material impact in the Can sheets business. And in specialties it is a little bit more of a mixed bag across the world, again probably more dependent on end market demand. But so far, we see overall fairly solid return of demand for specialties in the North America and European market.

Sumangal Nevatia: Understood. And one just last clarification, if I may. I just want to know any fresh assessment of the time line of divestments of Duffel and Lewisport?

Steve Fisher: There is no update from when we updated last. We continue to work with the Chinese regulators as to getting the Liberty House Group approved for as a buyer of the Duffel facility. Again, as we said before, expect closing of that in the late first quarter, early second quarter time frame. That was a purchase price of €310 million. And Lewisport is still early. Lewisport was part of the integrated operations in the North American Aleris entity. And we are still working to carve out the financial statements and prepare to take that out for marketing.

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

Ritesh Shah: Sir, sorry for the repetition part, but can you please repeat the hedge quantum that we have for FY '21? And a related question, what was it for FY '20? And is it possible if you could help us understand with the cash flow from operating activities. There are 2 line items. One is realized gain/loss from cash flow hedges and second is loss of gain and loss of investments measured from FVTPL? That is the first question, sir.

Satish Pai: Okay. FY '21, again, we are 38% commodity hedged at \$1,732. That is the FY '21, okay, out of which 36% is commodity only at \$1,711. Currency overall is 37% hedged at Rs. 76. Last year's hedge position, I thought I give it every quarter,

Ritesh Shah: Right. And sir, the way in which you explained for copper accounting, is it the same way it works for aluminum because, honestly, to get the actual normalized EBITDA per ton, it becomes a bit difficult, given we do not have hang on where the premiums are physical market premiums. So it becomes a bit difficult to derive the actual cost. So if you could help us how to navigate this, it will be quite useful.

Satish Pai: Yes. The first thing is copper and aluminum hedging is completely different because the aluminum is, in many ways, a view based because we are sellers of aluminum, whereas the copper is an offset model because all we get is the TC/RC. We are not strictly selling copper at market prices because we are not a mining company. So they are 2 completely different things. That is why the offset hedging is a bit more complicated. That is why Praveen was trying to



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explain that, maybe best, if you want further, he can do it offline. I think that for your question of sustained going forward at the current TC/RC rate, if copper performs, it should be around the Rs. 250 crores per quarter is the EBITDA you should expect, at the lower TC/RC, because remember the TC/RC this calendar year now is 15.9 cents per pound compared to the 21 cents per pound that we had last calendar year.

Praveen Maheshwari: So your question was about how much of this is related to it. If you see the statement, which is attached to the stand-alone accounts, for the quarter, you see Rs. 1,713 crores was the large amount, which is change in fair value of equity instruments. So these are typically our investment in shares. And I would guess, large part would be Vodafone Idea, and some would be Grasim. And all the price share prices, if you remember, in March, was a complete meltdown, across the globe actually. And that reflects the drop in the prices of those shares. At the current level of pricing, this would come back partially. And then the other big item is Rs. 376 crores of the cash flow hedges. So that is the part of the cash flow hedge that goes into OCI. So that also moves up and down. It is the rupee actually depreciated towards the end of the month, and that may be reflecting because of that. So there is a detailed calculation behind these, which are based on separately LME and then rupee, both copper, aluminum, et cetera, that goes in.

Satish Pai: So last year, FY '20, the commodity hedge was 21.75% at an average LME of \$2,158, and the currency was 36% at an average of Rs. 70.61.

Ritesh Shah: Yes. This is helpful. And sir, secondly, you did touch upon the cost savings. We will have a significant focus. Is it possible that there are any quantifiable numbers? And how will we achieve it?

Satish Pai: So answer of both is, yes. I am not going to give you the exact number, but we are targeting all the discretionary costs, including office space, travel, any discretionary spend, and we are also looking at optimization of manpower. So all of those are on the cards right now. And what we have done to just give you some is that we have done the granular calculation by plant, and we are monitoring on a monthly and quarterly basis the results versus the savings that they have committed to for this current year. So we have put a large part of the personal objectives of the managers on this cost saving because in our business, we do not control the top line, that is controlled by the LME, but we can control our own cost lines. So, that is what we are now focused on.

Ritesh Shah: Sir, any quantification, if it is possible?

Satish Pai: No, I will give you progress as we make it.

Moderator: Thank You, The next question is from the line of Raj Gandhi from SBI Mutual Fund. Please go ahead.



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- Raj Gandhi:** The question pertains to Novelis. Now given that the can demand in North America is doing good, the downstream unit, Ball and all our guiding at 5% CAGR, and auto has taken up some of the hot mill capacity there. So do you envisage, as a country, North America, will need hot mill expansions going forward? And is there brownfield or debottlenecking capacity within the system to take care?
- Steve Fisher:** Yes. So we do see a longer-term sustainability trend where end consumers want sustainable packages, and we absolutely believe aluminum beverage cans are the most sustainable package. And so we do see that as a long-term trend, not just in North America but across the world. And we are actively working with all of our customers, including Ball, to debottleneck our facilities and find ways to ensure that we can serve that, what I would call as more medium-term outlook around beverage can sheet.
- Raj Gandhi:** Okay. And in Europe and Asia, past decade our ROICs have remained in low single digit there. Do you see any revival in those geographies? What is your outlook there? Any specific drivers you see for?
- Steve Fisher:** We do not really speak to ROIC on a regional basis, but we do see some recovery in overall profitability in Asia as we mix shift towards automotive and have added the facility with the Aleris acquisition in China where we will both be able to capture a higher margin aerospace business as well as integrate the 2 facilities. And in Europe, we continue to look for ways to optimize the overall footprint from a cost standpoint as overall market conditions from a margin standpoint probably are a bit more flattish than what we have seen over in Asia.
- Satish Pai:** And Steve, you probably want to add that we shut down Ludenscheid. I think you declared 2 quarters ago, I think, to optimize the plants. So maybe you can just update that as well.
- Steve Fisher:** Yes, that is a great example of optimization of where we would be able to take our asset footprint, reduce it, but be able to continue to shift the capacity that we had at Ludenscheid to elsewhere and continue to optimize on the kind of fixed cost basis.
- Moderator:** Thank you. The next question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.
- Amit Murarka:** So, I missed the opening comments. So just wanted to understand like given that the domestic demand has been weak in the COVID situation. So while I understand that the production has been lower, but not by too much, so how are we like managing the exports like or basically how would have the share of exports been in the recent months of COVID impact?



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Satish Pai: In April, it was 90% exports; in May, it is about 80% exports; and in June, we are starting to see finally some domestic demand pickup. Therefore, Q1 FY21 it would be around 75% of it is going to be export.

Amit Murarka: Okay. And like, could you also delve a bit into like how does and what is, I mean, realization hit in exports, and commensurately like is there any cost increase as well in terms of rate and other aspects?

Satish Pai: Not really. Look, normally, the delta between export and domestic is a little bit your import duty that you get on the domestic metal minus any discounts you give. So normally, it is about Rs. 3,000, Rs. 4,000 a ton. But the very interesting fact is the exports were going and because there is a good contango, a lot of metal is being bought by traders at pretty good premium. So the delta between export and domestic in April and May was not very high, probably Rs. 2,000, Rs. 3,000. And so hence, I think that exports have been quite a useful pressure release wall for us in Q1.

Amit Murarka: Sure. And could you also like give guidance or your view on how export sales could pan out in, let us say, 2Q or subsequent quarters or it is a wait and watch as of now?

Satish Pai: So look, normally, the budget is 50-50. Last year, it was 60% export, 40% domestic. So if you ask me, I think by Q2, we will be getting back to that run rate. Maybe 65% export, but by Q3, we will be back to domestic being more than 40% is my estimation.

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

Satish Pai: Thank you very much. I think that I just wanted to reiterates that while our short-term focus is navigating the crisis, and we are going to do that with a lot of detail to get our costs down and make sure that we have to protect our assets and balance sheet and our people, we will not take our eye off the longer-term projects and the longer-term things that are important for the future of Hindalco. So I think this balancing act is what we are going to be focused on. Short-term crisis dealing with, but keeping sure that some of the more important things we continue to focus on and we do. So with that, I just thank you for your time and attention, and wish you the best and stay safe. Thank you.

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