



“Hindalco Industries Limited Q4 FY 2021 Earnings Conference Call”

May 21, 2021



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Moderator: Ladies and gentlemen, good day, and welcome to Hindalco Industries Q4 FY2021 Earnings Conference Call. As a remainder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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 call 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 and morning to 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 and financial year 2021. 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 is covered by the Safe Harbor language on Slide #2 of the said presentation.

In this presentation we have covered the key highlights of all of our business segments for the fourth quarter and the financial year 2021, and a segment-wise comparative financial analysis of India business and our overseas subsidiary, Novelis. All the prior period financial numbers have been regrouped or reclassified as per the IndAS.

We have with us from Hindalco's management Mr. Satish Pai – Managing Director and Mr. Praveen Maheshwari – Chief Financial Officer. From Novelis' management we have Mr. Steve Fisher – President and CEO and Dev Ahuja – Chief Financial Officer.

Following this presentation, the call will be open to any questions you may have. An audio replay of this call will also be available on our website. Now, let me turn this call to Satish.

Satish Pai: Thank you, Subir. Good afternoon and morning, everyone. Thank you for joining today's conference call on Hindalco's Q4 Earnings. So, I hope you and your families are keeping safe as we continue to manage through the challenges of the second wave of the COVID pandemic. So, to start with, I want to give you an update on the actions we are taking to combat COVID-19 on Slide #5 and #6. With the second COVID wave surging through India, Hindalco's management is fully engaged in efforts to take care of our employees and their families. We have also extended strong support to the communities around our plants and to various government bodies.

So, starting on Slide #5, vaccination is the key to protect our employees, and Hindalco has facilitated over 20,000 vaccines with 80% of the eligible employees, that is about 45 years plus and families vaccinated, including contract workers. Hindalco has also enhanced the medical coverage to cover special reimbursement for home care and to meet all hospitalization expenses beyond insurance. This is applicable not only to our employees and families, but also to contract workers, third-party employees, and their families.

Other steps, including a dedicated hotline for tele-consultation with Apollo Hospitals, a 24x7 helpline for medical and mental health support, and a team of 300 dedicated volunteers to help



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those in need. We have also announced ex-gratia benefits to support families of deceased employees, again, including contractual worker, for housing, medical, schooling, and other expenses over the next few years. All essential and safety steps have been implemented at our facilities to ensure minimal impact on our operations.

Coming to Slide #6. On our actions for helping the community, Novelis has donated 1,000 oxygen concentrators, which by the way, have since yesterday already been distributed in various cities and villages to government hospitals. And Hindalco has procured another 1,500 oxygen cylinders that are being distributed to various hospitals and COVID care centers around our plant location. We have supplied 1,600 tonnes of liquid oxygen so far from our copper plant at Dahej to hospitals in Gujarat.

We have revised the defunct Karahiya oxygen plant in UP and are now supplying 300 refilled oxygen cylinders daily to hospitals in UP. PSA oxygen plant is also being setup in Utkal and Renukoot. We have a dedicated medical team of 77 doctors and 275 paramedics working day-in and day-out. Over 450 hospital beds equipped with ICUs, ventilators, BiPAPs and oxygen concentrators, have been made available for the community across our various locations. We are also setting up RT-PCR testing labs and CT scan facilities in Utkal to support the larger community there.

So, with that, I am going to switch over on Slide #7 to some key highlights of our business for Q4 FY 2021 versus the corresponding quarter last year. Hindalco delivered a record financial performance in Q4 across all businesses, backed by improved macros, thrust on operational efficiencies, cost optimization, better product mix, higher volumes, and strong market recovery.

Novelis recorded an all-time high quarterly shipment of 983 Kt and an EBITDA of \$505 million in Q4 FY 2021. EBITDA per tonne stood at \$514 a tonnes up 9%, while net income from continued operations grew 186% year-on-year at \$180 million. Novelis also successfully placed at 3.375%, a EURO 500 million Senior Unsecured Green bonds in Europe for eight years, due in 2029. Novelis also received credit ratings upgrades from Moody's and S&P in March of 2021.

Moving on to Hindalco's India Aluminium business performance in Q4 FY 2021:

Business EBITDA for Hindalco India Aluminium was at a record high of Rs. 1,610 crores, up 54% year-on-year. The EBITDA margin was at a healthy 27%, up 729 basis points year-on-year. This margin was the highest in the last 12 quarters. Metal sales were up 5% at 329 Kt, with record value added product sale at 92 Kt, up 21% on a year-on-year basis, supported by the continued revival of the domestic market. Our 500 Kt Utkal expansion project is on track with mechanical completion by this current quarter end and commercial production to begin in Q2 of the current financial year.

Turning to the quarterly performance of the copper business on Slide #8:



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Cathode production was at 97 Kt, up 28% year-on-year on account of stable operations. Metal sales was at 107 Kt, up 24%. While copper rod sales were in-line with the corresponding quarter of the previous year. Copper EBITDA was recorded at Rs. 269 crores in Q4 of FY 2021.

Coming to the quarterly consolidated performance:

The business EBITDA was up 33% year-on-year at Rs. 5,597 crores. PBT from continuing operations before exceptional and special items was up 41% year-on-year at Rs. 3,134 crores. And consolidated PAT for continuing operations before tax affected exceptional and special items was up 42% year-on-year at Rs. 1,866 crores.

Hindalco continues to maintain its strong treasury balance of around \$1 billion in Novelis and Rs. 11,200 crores in India at the March 2021. The consolidated gross debt was down by around Rs. 18,200 crores, while net debt was lower by around Rs. 14,900 crores from the peak on 30 June 2020, resulting in a significant improvement in Net Debt to EBITDA to 2.59x at the end of March 2021.

CRISIL upgraded Hindalco's credit rating outlook to positive, while reaffirming its 'AA' ratings. On global recognition, Hindalco has been included in the S&P Global Gold Class category as a sustainability leader in the Dow Jones Sustainability Yearbook in 2021, reflecting our strong commitment to ESG.

Turning now to the broader economic environment in Slide #10:

While global economic activity is gradually removing from the pandemic induced slowdown, it remains uneven across countries and sectors. The GDP growth is projected to contract by 3.3% in calendar year 2020 and is expected to rebound to 6% in calendar year 2021, and 4.4% in calendar year 2022 as per IMF's latest forecast.

The global output is projected to reach its pre-pandemic level by mid-2021. The rebound in 2021 will be supported by ongoing vaccination drives, sustained accommodative monetary policies and sizeable fiscal stimulus. A huge U.S. fiscal stimulus of \$1.9 trillion is expected to have a positive spillover effect on global growth as well. However, 2021 will be a year of divergent recovery. This recovery will be largely contingent on the phase of vaccine administration and its efficacy against emergent variants of the virus.

As per IMF, China with 8.4% growth, and India with 12.5% growth will lead this recovery within emerging economies, while the U.S. will lead the recovery with a 6.4% growth rate amongst the advanced economies, thanks to the massive fiscal stimulus. Multi-speed recoveries are linked to start differences in the face of vaccine rollout, the extent of economic policy support and the resurgence of virus and containment measures as well as structural factors. China has already returned to its pre-pandemic GDP levels of 2020. While the U.S. and India are expected



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to return to pre-pandemic levels by H2 of 2021, containing the resurgence of COVID cases, especially the new variant remains the key focus for governments globally.

On the domestic front, the second COVID resurgence continues. Thus the key focus now is on containing the spread of the second COVID wave, to mitigate its impact on the economic recovery. The GDP growth contracted 16% year-on-year in H1 FY21, with only a marginal recovery of 0.4% was seen in Q3 of FY 21. Economic risks have been mounting amongst state level restrictions and partial lockdowns, due to which services, particularly those which have high contact risks, mainly hospitality, travel and tourism have been impacted.

This has had a ripple effect on manufacturing as well. Early high frequency indicators like PMI data has eased in the month of April compared to March 2021. Contraction in fuel demand GST, E-way Bills and certain employment indicators in April suggests that the economy has started to feel the pain. The second COVID wave adds uncertainty to the Q1 FY22 outlook, but recent data suggests that the worst may be over. The RBI has stepped up and announced liquidity support measures for healthcare sectors and support for small enterprise and borrows to counter the prices. Stepping up the vaccination drive remains the biggest stimulus for economic recovery in the country.

Let me now take you through the aluminum industry overview on Slides #11 and #12:

The global production in calendar year 2020, the world grew by 2% to around 65 million tonnes, led by a 4% increase in the Chinese production, while the rest of the world growth was flattish. Global consumption declined by around 3% to around 63 million tonnes, because of contraction in demand of nearly 12% in the world, ex-China, partially offset by the Chinese consumption growth of 4%. Consequently, while China was in a deficit of a little over 1 million tonne, the rest of the world was in a surplus of 3 million tonnes. Hence, the globe had an overall surplus of 2 million tonnes in calendar year of 2020.

It must be noted that in Q1 CY 2020 accounted for the majority of the surplus, coinciding with the onset of COVID-19 last year. Hence, with a strong stimulus measures of around 20% of the world's GDP, the economic sentiments were lifted, and the global surplus has become narrower over the years. In Q1 of CY 2021 the overall world consumption saw a growth of 16%, largely due to the base effect reaching 6.2 million tonnes, while the production expanded by 6% at 16.8 million tonnes. Hence there was a very small surplus of 0.6 million tonnes.

The world, excluding China, the consumption grew 5%, supported by growth in auto electrical and consumer durables demand. The production grew by 1% leading to a marginal surplus of only 0.1 million tonnes. In China, strong automotive, real-estate and solar demand, led to sharp growth of aluminum consumption by around 27% year-on-year to 9.1 million tonnes, while the production grew by 9% year-on-year to 9.7 million tonnes, leading to a surplus of about 0.5 million tonnes in Q1 of calendar year 2021.



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With the improvement in global consumption, aluminum prices have recovered sharply by 9% to \$2,096 per tonne in Q1 of calendar year 2021, from an average of \$1,916 per tonne in Q4 of calendar year 2020. On a quarter-to-date basis, the Q2 CY 2021 global aluminum prices continued to grow and have reached about \$2,370 per tonnes.

Coming to Slide #21:

The domestic aluminum industry in Q4 of FY 2021 is estimated to reach the highest ever sales in any quarter on the back of a strong recovery in transport and consumer durables. The import of scrap, particularly, is likely to witness a sharp drop of 20% to 415 Kt, given the healthy growth in the transport and auto sector, while imports excluding scrap is likely to grow by 44% to 240 Kt. It is estimated that the domestic producer sales growth will be around 12% year-on-year at 422 Kt.

The government stimulus package with a strong thrust on infrastructure, housing and manufacturing sectors is helping the revival of economic sentiment. Auto and packaging demand have continued to remain robust in line with the growth in pharma and flexible packaging segments. We are observing some signs of recovery in the demand in the electrical power, building and construction sectors. However, the economy may face headwinds as the second wave of COVID-19 related lockdown continued to restrict economic activities.

Moving to Slide #13:

The global FRP demand is expected to grow by about 8% in calendar year 2021 versus a contraction of around 5% in calendar year 2020 on account of recovery in demand in the base effect.

You must have gone through the details of the segment-wide end-market outlook in the Novelis presentation earlier. I will, however, quickly refresh some specific end market outlooks for calendar year 2021.

Beverage Cans continue to show its resiliency with a higher at-home consumption that favors a package mix shift towards increased demand for sustainable aluminum cans across all regions. The overall market demand for beverage can sheet is estimated to grow by 3% to 6% in calendar year 2021.

In the automotive market with OEMs focusing on sustainability and consumers adopting electric vehicles, there is an increased demand for aluminum in this segment across regions. This segment is estimated to grow between 25% to 30% in calendar year 2021 due to the base effect and continued revival of demand. The semiconductor shortage is expected to have a limited short-term impact on OEM production and sheet demand.



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The demand for premium aerospace sheet from OEMs is expected to remain at similar levels at fiscal 2021, with an uneven recovery to follow, as vaccination rollouts are a positive steps toward increasing consumer air travel. The overall demand in the aerospace sheet is expected to grow in the range of 5% to 6% in calendar year 2021 as air travel normalizes.

India FRP demand is estimated to surpass the pre-COVID levels of Q1 or Q2 FY 2020 in Q4, as the domestic demand continues to revive. Stable demand is expected from pharma and food packaging industries, while the automotive and building and construction sectors may see some headwinds due to the surging second wave of COVID.

Turning to the copper industry globally on Slide #14:

In calendar year 2020, on a yearly basis, global copper consumption declined by 1% to 23.2 million tonnes. China consumption grew by 7%, whereas the world ex-China consumption declined by 8%. On a quarterly basis, global copper consumption grew by 14% to 5.5 million tonnes in Q1 CY 2021 compared to 4.9 million tonnes in Q1 CY 2020.

Chinese refined copper consumption grew by 37% as China was severely impacted by COVID in Q1 of calendar year 2020, compared to the rest of the world. The world ex-China is still struggling with the second wave of COVID, as a result of which consumption has declined by 2% year-on-year compared to the corresponding quarter of the last year.

On a global level, slow recovery was observed in Q1 calendar year 2021, and the average global quarterly consumption has still not reached the pre-COVID levels of 6 million tonnes. Throughout the end of 2020 and the opening of 2021, copper prices rose to an eight year high of around \$8,000 per tonne. Slow but continued recovery in copper demand, coupled with COVID related mine disruptions compared to smelters is driving the copper prices higher. On the copper concentrate side, mines output remains impacted due to COVID, resulting in downward pressures on spot TC/RC, while affecting the entire value chain of custom smelters in the current scenario.

Coming to Slide #15:

Owing to COVID spread, the refined copper market dipped by 24% to 566 Kt in FY 2021 from 750 Kt in the last year. Because of the CVD implementation on wire imports by the government. The share of imports declined to 31% in FY 2021 from 45% in FY 2020. On a quarterly basis, in Q4, the overall domestic market reached 161 Kt, which is still lower by 15% compared to 190 Kt during the pre-COVID quarters. In this quarter, sales of domestic producers increased by 2%, whereas imports declined by 24% on a year-on-year basis, compared to the corresponding quarter of the last year. The market share of imports has decreased to 26% in this quarter versus 32% in the corresponding quarter of the last year.



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Praveen will now take you through the performance highlights of each of the business segments during quarter four.

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 #18, Novelis clocked a record financial performance in both their existing business, as well as the acquired business of Aleris. Novelis achieved record operational and financial results on almost all parameters. It recorded an all-time high shipment of 983 Kt, up by 21% year-on-year, with a significant progress across all the product segments. Novelis are also progressing equally well with respect to the various ongoing expansion projects. The automotive finishing lines in both Guthrie U.S. and Changzhou, China were commissioned during FY 2021 and have started their commercial shipments. The recycling, casting, and rolling expansion project at Pinda, Brazil, is on track and is expected to be commissioned by the end of the next financial year. The groundbreaking for the new cold mill project in Zhenjiang, China, is expected in the middle of FY22.

On Slide #19, you can see the comparative financial performance trends of Novelis reflecting its record quarterly performance on the back of higher volumes, cost control and product mix improvement. This also includes an EBITDA contribution of \$60 million in Q4 and \$200 million in FY 2021 by the acquired Aleris business.

Slide #21 shows the details of the performance of the Indian aluminum business segment. The aluminum metal production was at 316 Kt. In line with the sharp recovery in the market, the production of downstream products was higher by 13% year-on-year at 89 Kt in this quarter. However, alumina production was at 697 Kt in Q4, 3% lower Y-O-Y due to a maintenance shutdown at our Utkal Refinery. On the same front, the share of domestic sales have reached 50% in this quarter. VAP sales were at a record high of 92 Kt, reaching 28% of the total metal sales, reflecting a sharp recovery of the domestic VAP market in this quarter.

Moving on to the financial performance of the Indian aluminum business on Slide #22:

This segment posted revenue of Rs. 5,969 crores in this quarter, reflecting a growth of 13% year-on-year, on account of higher global aluminum prices. Aluminium EBITDA was at the record high of Rs. 1,610 crores, up 54% Y-o-Y on account of favorable macros, lower input costs, better efficiency, and strong market recovery. The EBITDA margin in this quarter were highest in the last 12 quarters at 27%, up 729 basis points year-on-year.



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Moving to Slide# 24:

The overall copper and metal production was at 97 Kt in this quarter, up 29% on account of stable operations. The metal sales were also higher by 24% year-on-year of account of higher demand. The production of CC rods was higher by 7% at 76 Kt, while sales stood at 73 Kt, which was in line with the corresponding period of the last year.

The financial performance of the copper segment is on Slide #25:

Revenues were up 80% year-on-year at Rs. 8,508 crores because of higher global prices of copper and higher volumes. EBITDA was higher by 33% sequentially at Rs. 269 crores in this quarter on account of higher volumes.

Let us turn to our consolidated financial numbers for quarter four on Slide #27:

Hindalco reported an outstanding consolidated financial performance with Q4 revenues of Rs. 40,507 crores, up 38% year-on-year. Business EBITDA of Rs. 5,597 crores, up 33% year-on-year. Before exceptional and special items, profit before tax and profit after tax for continuing operations were up 41% and 42% year-on-year at Rs. 3,134 crores and Rs. 1,866 crores, respectively.

The detailed quarterly comparative financial numbers are attached as an annexure to this presentation on Slide #37.

The Indian Business of Hindalco also reported a remarkable performance in this quarter with revenues of Rs. 1,471 crores and business EBITDA of Rs. 1,886 crores, both up around 45% and 30% respectively. Profit after tax was at Rs. 653 crores, up 72% year-on-year in Q4 FY 2021. These details are provided as an annexure to this presentation on Slide #38.

Slide #28 shows the reduction of our Rs. 18,200 crores in our consolidated gross debt and Rs. 14,900 crores in our consolidated net debt from the peak in June 2020 levels. This, along with increasing EBITDA has led to a substantial improvement in the net debt-to-EBITDA ratio from a peak of 3.83 times in June 2020 to 2.59 times at the end of March 2021.

Let me now hand over this call back to Satish, to give you a perspective on our sustainability updates and our key focus areas.

Satish Pai:

Thank you, Praveen. So, coming to Slide #30, I would like to share Hindalco's progress across various sustainability metrics and trends over the last four years.

On the environment, there is a strong focus on waste, air emission, biodiversity and water. Fresh water consumption reduced by 8.5% in FY 2021 year-on-year to 71.7 million meters cube, with



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the continuous reduction in the consumption of water at all locations over the years. Hindalco has added one more site in our zero liquid discharge league, with a target to reach all sites zero liquid discharge by the year 2025.

On waste recycling, in terms of waste that is hazardous, non-hazardous, and bulk waste such as fly ash and bauxite residue, we are committed to 100% recycling. Last year we have enhanced recycling of waste and usage in other industries to 79%, which is a 15% increase over previous year and reducing the landfills. The commitment is to reduce landfill by another 5% year-over-year, moving towards a target of zero landfill by 2030.

On the green cover and biodiversity, the company did very well to increase the green cover by another 5% year-on-year in FY 2021, with the scientific Biodiversity Management Plans evolving with IUCN, International Union for Conservation of Nature, at four sites, with three additional sites getting added every year. Green cover at all sites is being enhanced with three tier plantation across locations.

On Slide #31, on the renewable energy and safety update:

We remain committed to our target of 100 megawatts of renewable capacity in FY 2022. We are also exploring and evaluating emerging technologies in the face of energy storage, carbon capture and utilization and hydrogen to be used as fuel. The specific energy consumption in aluminum was recorded at 83% in FY 21 from the base year of FY 15. The LTIFR was 0.46 in FY 2021. We stay committed to zero harm and have been continuously upgrading our safety programs to meet international standards and provide the safest atmosphere for all our employees and contract workmen.

Coming to Slide #33, let me conclude today's presentation with our key focus areas:

We delivered yet another strong and resilient performance across all our segments, while maintaining safe and stable operations, as we are catching up with a sharp recovery of market, supported by improved macros. The cost competitiveness of Hindalco smelters continues to position it in the first quartile of the global cost curve.

We continue to strengthen our balance sheet with robust cash generation both in India and overseas, while accelerating the pace of deleveraging to reach the optimum leverage of 2x to 2.5x in this sector. The Aleris integration is providing accelerated synergistic benefits, along with positive EBITDA contribution as we continue to unlock and capture the entire value of this acquisition. This year, Aleris contributed around 200 million to EBITDA, including synergies.

We recently announced our capital allocation framework with a clear roadmap to deleveraging profitable growth via organic expansions and distribution of shareholder return. Another critical area where Hindalco has done remarkably well over the last few years is on ESG. We shall



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continue to strive on our 3R model of sustainability, with a strong focus on our ESG commitments while creating a greener, smarter, stronger, and sustainable world together.

We continue to thrive on our downstream strategy supported by product innovation, complete digitalization, organic expansions with a diversified product mix and continue to be the global leader in aluminum downstream value-added segment.

With that, I want to thank you for your attention. The forum is now open for any questions you may have.

Moderator: Thank you very much. We will now begin the questions-and-answer session. The first question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: So, my first question is with regards to hedging in the aluminum business. Aluminium prices, this is \$2,400, \$2,500 we are seeing after a three-year lag, and these are very attractive price levels. So, how do you look at the hedging policy for the next year? Would you rather over hedge at that these prices given that these are multi-year high levels, or would you still stick with your 20%, 25% kind of hedging on an ongoing basis?

Satish Pai: So, that is a very good and difficult question, Anuj. So, I mean, I think to answer it, first I have to tell you that our view on the macro continues to be very bullish for aluminum. So, we really believe after having looked at all the reports and the strong demand in China and the U.S., and the fact that in China they are very convinced that the production is going to be capped at a max of 45 million tonnes. So, we believe that the supply-demand tightness is going to continue, and hence aluminum prices will remain firm. So, that is why we are not going to over hedge at this current level yet. So, what have we done so far? So, the last quarter when we had told you that our hedge position for FY22 was around 28%, I think at \$1,840, so we have added another 5% to this at \$2,344 a tonnes. So, that is all we have done so far, and we think that we will be very cautious before we commit anymore. And I think that even in FY23 we added another 5% at \$2,500 a tonnes from the levels at Q3FY21. So, even if we do now, we are able to do in extremely thin slices, because we still think that this aluminum price rally has got more length Anuj.

Anuj Singla: Understood sir, very clear. So, the second question here with regards to are you seeing the costing on the aluminum side shaping up. We have seen the aluminum prices obviously rebounding, but I think there is some kind of cost escalation as we have seen across the various sites, maybe aluminum and energy side as well. So, how do you see the interest rate working out in terms of profitability for us?

Satish Pai: So, I think in Q4, honestly, we were pleasantly surprised, because even though I had guided 1.5% to 2%, the cost increase Q3 to Q4 sequentially was only 1%, and that was largely because we could all the coal that we had bought, the coal prices in Q4 compared to Q3 were flat. Now April and May, we have already seen the impact of the newer coal prices which we bought on



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auction during February, March. CP coke, pitch going up. So, we are factoring that Q1FY22 versus Q4FY21, the cost of production will be up 4%. And this is largely as a result of coal, CP coke and pitch.

Anuj Singla: And sir lastly, one data question. Any FX guidance for the Indian operations for FY22?

Satish Pai: So, we are able to spend about Rs. 2,700 crores. I mean, last year if you remember, once COVID hit, we cut back the CAPEX to about Rs. 1,500 crores. We actually spent about Rs. 1,600 crores and this current year we planned to spend about Rs. 2,700 crores, largely doing many of the downstream projects, including Silvassa expansion, all that will largely come in this year.

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

Pinakin Parekh: Sir, my first question is that on aluminum upstream smelting, you sounded very positive on the aluminum outlook, and it looks like China's decarbonization could really move the industry out of what has been a very long ten-year plus pricing slump. In that context sir, if the company is positive on LME aluminum prices, when can we see smelter upstream expansions in India? Or is this something which is not on the table?

Satish Pai: Pinakin, to be fair, it is still not on the table, because there are two issues that we need to resolve. One is our own ESG commitments. I mean, China's commitment is they are not expanding because they also have the same commitments to carbon reduction that we have. So, to announce a coal based smelter expansion, I would be very hesitant. But the more important point is that still the coal prices outlook over the next 5 to 10 years does not give us a good rate of return for a smelter expansion. So, as a combination of the two, we will continue to evaluate, but it is not on the cards right now. We have enough projects on the downstream that we want to do first.

Pinakin Parekh: Just to clarify further, thank you for that. While we see a positive LME aluminum pricing environment over the next few years, overall on a top-down basis, our business portfolio is more downstream oriented, upstream aluminum was less than 30% percent of EBITDA. So, going forward, if aluminum prices remain elevated in a \$2,500 to \$3,000 range, does the company see the business model as being too excessively downstream oriented?

Satish Pai: I think that Pinakin, let us see if it remains high for many years. This is not the first-time aluminum has gone up, and then it has come down within a year, a year, and a half as well. So, I think that trying to make a long-term strategy based on current LME, let us put it this way, we announced a strategy in our investor meet, we will stick onto that strategy. It is not that we are inflexible, if aluminum prices continue to stay high and we think structurally something has changed and I have to repeat again, get clarity on energy source and price, then as you all know, for Aditya and Mahan, it is very easy for us to do an expansion. So, we do not rule it out, but



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one quarter or two quarters of high LME will not mean that we completely change our company's strategy.,

Pinakin Parekh:

Understood sir. And just this last question, I mean, when the company had given out an investor strategy and there was a net debt to EBITDA target of less than 2.5x. The last two quarters run rate EBITDA has you know worth Rs. 5,000 crores, Rs. 5,500 crores and the net debt it at Rs. 47,000 crores. So, on a spot annualized basis we are approaching 2x net debt to EBITDA. So, if we hit the target earlier than expected sir, how should we look at the incremental cash generation to be ebbed up between what were the three buckets identified at that point of time?

Satish Pai:

So, the buckets that we had identified were you know organic expansion, deleveraging and shareholder returns. So, if we do get more cash, first priority will always be organic expansion. If we find good projects that will return good IRR, that is still our first choice. I think then, second, we will look at deleveraging. And if you take shareholder returns, you can see that we have already made a step change in the dividend that our board has recommend today ; in line with what we have committed to the investors in our Investor Day meet early this year. So, we are going to continue at that levels of dividend for a while now.

Pinakin Parekh:

Understood sir. So, just to triangulate, over the next two to three quarters, if EBITDA stays at these levels, we should get more clarity on the next round of organic growth projects, right sir?

Satish Pai:

Yes. And I think we have quite a few, to be honest, especially in Novelis there are some very attractive projects. So, if we have more cash, we will be putting it into organic CAPEX first.

Praveen Maheshwari:

Just one addition Pinakin here. You should be also considering that given the aluminum has gone up, both in copper and aluminum, the working capital requirement going forward is going to be higher. So, some amount of money will probably get blocked there as well.

Satish Pai:

So, that is a good point. I mean, it is fair to say that our Q1FY22 net debt to EBITDA, especially in India may slightly go up, because the working capital block, especially in copper is going to be quite high at \$10,000 per tonne of Global Copper Prices.

Moderator:

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

Amit Dixit:

Congratulations for a good set of numbers. I have a couple of questions; the first one is on copper. Essentially the way we see copper prices going up and the kind of bullish scenario that is in copper because of EVs and everything else and given that TC/RC are quite low and going further lower because of concentrate deficiencies. So, is there any plan on the table to acquire some copper mining asset if there is an attractive mining there or maybe overseas?



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Satish Pai: Amit, this is the worst time to buy a copper asset with the prices so high. If you try to go and get a copper mine when copper is at \$10,000, you are buying at the peak. So, really, no, we are not looking at buying into a copper mine at this stage.

Praveen Maheshwari: And also, see, we are not so much into mining. The main business is manufacturing. Mining is required only to support our manufacturing. In case of copper, we find that with long-term contracts in place, we have not had any difficulty in terms of sourcing copper concentrate so far. So, we do not even see the need for it. It is a wrong time anyway.

Amit Dixit: Okay, fair enough. The second question is on essentially your ESG milestone. So, Novelis laid out some intermittent milestone of CY 2026, such as reducing the carbon emission in density in all. So, have you also thought in the similar lines of playing out of our CY26 or maybe CY 2025 intermittent? While long-term targets we need in cap handle to go to you know ZLD and all, but are there any intermittent targets that we can bounce off? Yeah.

Satish Pai: Yeah. I had given those. I said ZLD in all the sites by 2025, zero landfill by 2030 and a 5% reduction year-over-year. So, on each one of our water, waste specific energy, consumption, we put ever year a target reaching to a deadline in 2030, 2040 going forward.

Amit Dixit: What about the carbon emission intensity that we have 83% compared to 2020?

Satish Pai: That's the most difficult one for us, so we are planning to reduce it by another 5% this year, and at the best we will get to about, let us say, from the base FY15 about 70%, 75%. But then largely what we are going to do is the offset, that is why we are trying to increase the renewable. We are actually going and trying to get new energy sources like gas. So, all that we have built a fairly detailed model of how we are going to reduce the carbon per tonne down to about 12 tonnes of CO2 per tonne by 2035.

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

Indrajit Agarwal: A few questions from my side. First on the entire green aluminum thing. Sorry for harping on it a little more. Some of these competitors in their recent calls have mentioned that they are getting more inquiries on low carbon aluminum. Do we see any bottlenecks or any hindrances for our aluminum sales in the near-term because of that?

Satish Pai: No. We are having no problem in getting any sales. I think you have to remember that people are doing a little bit of marketing. In fact, as we get to 100 megawatts of solar, I think I will claim that 5% of my revenue is green as well, so those tend to be. But we are much more serious about ESG than just playing on the smelting target of carbon right now. And the way we have positioned ourselves is that we are looking across the whole chain. With Novelis, we are leaders in recycling, and I think that what we are trying to say is that just besides the carbon emitted in the smelting process, overall a circular economy of aluminum will bring the carbon footprint down



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a lot more, and we are appealing from that point of view. So, just selling our primary metals from India right now, no problem.

Indrajit Agarwal: That's good. Second, if you can give some guidance on how was the coal mix in the fourth quarter and what could be in the first half of this year, in the aluminum market?

Satish Pai: So, Q4, as I was telling you, we were pleasantly surprised because linkage coal was 93%. The full year average was about 74%, but in Q4 linkage coal was 93%, that is why the cost of production in Q4 was only 1% above the last quarter. I think that we will go back in Q1 to linkage coal being 74%, 75%, e-option being about 15% and then our own mines being the rest in Q1. That is why we are guiding that our overall COP will be up by about 4% in Q1FY22 vs Q4FY21.

Indrajit Agarwal: Sure, that is helpful. And next, lastly on the tax, is there any tax incidence on the dividend that you are obtained from Novelis to the parent entity?

Praveen Maheshwari: So, see, you should look at the consolidated cash flows. And what we have promised is that we are going to utilize to the extent of 8% to 10% of the consolidated cash flow in terms of shareholder returns. The fungibility of money between Novelis and Hindalco has already been established even in the past. So, I can confirm to you, there are no major tax implications when we move the money around between Novelis and India.

Indrajit Agarwal: And just on the guidance of standalone and consolidated, the tax rate will be similar to FY 2021 levels for the full year next year or there could be a sharp variance?

Praveen Maheshwari: No, I do not think there should be any sharp changes from here to next year. Novelis tax rate is a little under 30% normally. Q4 is an aberration because of certain one-timers and because Q4 typically is more sensitive, because it has to adjust for the full year. And Indian tax rate it roughly around 36% or so, which is normal. We are not expecting any major changes. Sometimes in case of Novelis, because of the geographical mix of the profit before tax, there may be some changes, but we are not seeing any major significant changes going forward.

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

Ritesh Shah: Congratulations on good set of numbers. A couple of questions, sir my first question is, one of the slides we have given the import number for the aluminum ex-scrap basis which has increased from 166 Kt to 240 Kt for India. Are we speaking with the government on any potential measures to restrict aluminum imports? That is one. And what implication would this have on the downstream CAPEX that we have announced on the aluminum side? I do not know the HSN code for the imports or the breakup over there. So, if you could put it in context with the expansion plans that we have, that would be very useful sir.



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Satish Pai:

So, we just spent some time analyzing the 240 Kt to 160 Kt. So, the first thing you have to realize that in the 240 Kt, any metal solid in a SEZ comes in that. So, there is about 26 Kt of metal sold by one our competitor from an SEZ, which you have to subtract from the 240 Kt. The rest of the 240 Kt when you look at it, it is largely coming from ASEAN countries and China and the government is actually working a lot with us. There is a CVD going on against wire rod against Malaysia, there is an FRP anti-dumping hearing that is just starting. So, there is quite a lot of efforts being made by the government to reduce the import of value added goods coming into India. So, we are working with the government. And I think that our part of the bargain which we have told the government, is we are going to ramp-up our downstream capacity, so that we can meet the domestic demand in terms of quantity as well as quality. So, which is a key part of why we are doing our downstream strategy, because in India the demand for downstream things is growing. And if we do not put in that capacity, it is going to come via imports .

Ritesh Shah:

Right. So, should we expect any trade values over here? You did indicate wire rod against Malaysia, anti-dumping duties. So, my simple question is, basically, when we have looked at these incremental extensions, how should one capture the risk of the threat of imports?

Satish Pai:

No. So, look, one thing I will tell you, right now we consider the current pricing, and we do our IRR calculation based on that. So, it is not that the market in India is growing and majority of our customers, if they can buy it from an Indian company in the same quality, they will buy it from us. And many have in fact started to tie-up because, I will give you an example. A lot of western companies in India are slowly trying to diversify their supply chains from China. So, many have approached us to put in downstream capacity in extrusions and FRP to meet their demand. So, if the government puts in duty, it is an additional benefit to us. But even without that, the business case for expanding downstream in India is still strong. **Ritesh Shah:** Yes, yes, that helps. Sir, my second question is on the ESG side, I was not there on the Novelis call, but I wanted to understand the rationale for green bond, wherein the coupons are at 3.3% something. Had it been different, had we gone for our bond issuance, specifically given Novelis did come out with certain environmental targets post the green bond issuance? That is one.

And secondly, the interest cost at Novelis is still upwards of 5%, is there any room for further green issuances at Novelis level? And something similar at India level, given you indicated that we are working on carbon capture and storage, it is probably too early stage but is that also a possibility? And a linked question, in the prior call you had indicated that at \$5 per MMBTU of that suppliers, things can actually be worked out. Any particular updater over that? Thank you so much.

Satish Pai:

So, I am going to let Dev answer the green bond and the Novelis interest rate. But on the gas, this COVID actually slowed down this gas pipeline that was coming in Jharsuguda and Sambalpur area. So, now I hope that after the second wave it picks up, because we really would like to get gas suppliers coming in. And I think the government is focused on getting increase in



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the gas. But it fair to say that because of all this COVID mess we have lost a year, with all these gas pipeline constrictions that were going on.

Dev Ahuja:

The first point you made was that would the interest rate of the 3.375 green bonds be lower had we been announcing all the targets ahead of that. Well not really, no. I think that we have been fairly articulate about our commitment on ESG and, no, it would not have made any difference at all on the interest rate. It is largely driven by market forces at that time and so the answer is no. Now, when you say that we have an interest rate of over 5%, the only coupon that is sitting at over 5% is the 5.875% 2026 bonds. And our mind will stay open to doing the refinancing of that Bond at the time, at the right opportunity. I mean, the call window for that opens in September, but we keep our mind open to doing it at the right time. But outside of that, no, I think that our average long term rate it now sitting somewhere in the mid-3% or thereabouts. So, I think we are in a pretty good place in terms of both the maturity profile of the debt, as well as on the long-term interest cost.

Ritesh Shah:

That's very useful, thank you. And just a last question, any particular update on RoDTEP scheme? I think we had certain MEIS benefits, so any update over there will be useful. Thank you so much.

Satish Pai:

Yes, the RoDTEP, we are expecting an announcement anytime. By the way, we have asked for about 5%. I do not know whether the government will have money to afford the 5%, but we should get something. I mean, the MEIS was 1% to 1.5%,. So, I hope that the RoDTEP will come at least at that level if not more. We have asked for 5% and it should be retroactive from 1st January when they have notified it, so it is expected any time now.

Moderator:

Thank you. The next question is from the line of Samuel Chen from Alliance Bernstein. Please go ahead.

Samuel Chen:

A couple of quick questions, and congrats for the great result. Once the Utkal Alumina site is operational, what is your plan for the current site which is at a much higher cost compared to the new site? So, that is one. Two, just given all the conversations that I hear today, is it fair to say that 5 to 10 years from now we are looking at the India part of Hindalco, as we know, basically becoming just Novelis? In the sense that you would be concentrating on downstream organic operations. Thank you.

Satish Pai:

Yes, I think Samuel, to answer the second part first. We have articulated the next five years strategy. And at least for the next five years we are going to put most of our capital into downstream expansion, both in aluminum and copper in India. And we have reserved the next priority to be maybe another Alumina expansion if it makes sense. Because there is still good money to be made in the Alumina side. And the smelter comes in third in that priority order. So, it is fair to say that in the next five years, if things do not dramatically change, I think as a business we need to remain flexible if things do structurally change. But what I am hesitant to



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do, is to take two or three quarters of high aluminum prices and then change my strategy. By the way Aditya and Mahan were actually launched when aluminum was at \$2,500, and by the time they came it had gone down. So, I think that we would stick with a strategy for the next five years at least.

The second part of your question was on the Utkal Alumina 500 Kt coming in. It will take us a while to ramp-up this, but we will reduce our Renukoot Alumina Refinery more, because Renukoot refinery is quite old, and we have cost as well as safety concerns there. So, our plan is that roughly half of the expansion we will use internally and the other half we will sell on the third-party market. This is a broad plan we have right now.

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

Sumangal Nevatia: The first question is on the copper division. So, we see ore volumes still remain subdued given the macro situation in terms of capacity. So, how do we see that ramping up in coming quarters? And then, given what we have locked in for TC/RC for this year, what sort of annualized EBITDA should one expect in FY22?

Praveen Maheshwari: So, on the CC rod, in terms of production and operations, we are having absolutely no issues. We are fully equipped to handle it. It is a question of market demand. Just to tell you a little forward in terms of Q1, we are seeing subdued demand in copper, more subdued than in aluminum. And primary reason also is because of the high LME prices. Because at \$10,000 our customers and their customers need a lot of working capital to be able to sustain their level of operations. So, we have seen a drop in demand in the current quarter in copper business. And really speaking, the Indian business is all rod business and whatever is surplus, we can also export it. So, that is as far as rods are concerned.

Capacity wise we have sufficient. In the last quarter also, the level of 73 Kt is not a bad number actually, but we could go up, go a little higher from there. But March was the period when the LME had stated going up. And the other reason for the demand impact is also COVID, because in COVID period we are seeing some of our customers' lines are impacted because of workers falling ill etc. But I think that impact is more transient, it may not last for long, because as the country comes back to normalcy that impact will go away, but LME prices will continue to have an impact.

In terms of TC/RC, you see, about 80%, 85% of our sourcing is based on long-term contracts. In most of those, it is linked to the benchmarked TC/RC, which is announced sometime in November, December for the next calendar year. So, that is more or less fixed for the full calendar year 2021. What is available is in terms of these spot TC/RC for the remaining part of the open business, and that we do opportunistically in terms of where we get the best prices, where we get the best TC/RC for ourselves.



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But going forward, in terms of your guidance, I will say the guidance is divided into two parts. First is quarter one. Now quarter one, there are two things which will weigh heavily upon the results, one is the market side impact as I mentioned to you. And the second is, we are having a smelter three shutdown in this quarter. This shutdown happens once in four years or so, this kind of a big shutdown, and for that reason we will not have a significant amount of production coming from the concentrate route in this quarter, so this quarter will be noted for that. But the rest of the three quarters should actually be reasonably good, because smelters after shutdown perform very well. The rest of the equipment that we have, whether it is refineries, smelter one or rod mills, they are doing pretty well actually.

So, really speaking, for the next three quarters, and hopefully the demand should come back in the coming quarters, because underlying demand is there. The potential for the pent-up demand will remain. And most of the projects, the government is going to spend upon in terms of infrastructure etc., all that will add up to demand coming back. So, our hope is, last three quarters of this year Q2, Q3, Q4 should be good, Q1 is likely to have some impact.

Moderator: Thank you. The next question is from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: Sir, I had two questions. One on, with the AC PLI's being announced, you have probably touched upon it during the CAPEX that you had given, so how are we looking at that going ahead?

Satish Pai: So, this Production Link Incentive Scheme, the immediate thing that we are trying to utilize is on the air-conditioner spend. So, air conditioner guys have got the PLI, and we are benefiting because we provide the AC fins to them, so that is the first one. Because they have got it only on some very specific things that they are putting it on, so we are trying to also get it a little bit on bicycles, some amount on the auto, but the immediate benefit of the PLI will be on the AC fins.

Ashish Jain: Something like a copper tube and all, will we be kind of participating in that?

Satish Pai: Yes, but obviously that is our future project for us. So, the inner grooved copper tube is a downstream project that we plan this year we are going to do the sort of checking out and probably do it next year. So, that is a very critical technology that we have to get in as well. So, it is in our plants to make it, as a part of that same air conditioner PLI benefit by the way. So, the aluminum part is the fin, and the copper inner grooved tubes is the copper tubes, yes. But that is it. To be fair, that will take us two to three years to get that manufacturing facility up.

Ashish Jain: Sure. Secondly, on the upstream expansion, I know this has been touched upon. But what markers will you look at to reassess that even with the next five-year timeframe, given like last time you had alluded to that you assess the demand in India could be 7 million tonnes, incrementally China is talking of picking of production at 45 million, 46 million tonnes. So, is



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there any price marker that you would look at or is this more driven by ESG focus at this point of time?

Satish Pai:

So, it is a balanced boat. See, I think as Pinakin was saying, the LME stays at about \$2,300 for a couple of years, because in the past it has gone up and then it has come down. So, we would like to see where the LME will stay. We would like to see the Indian demand as you said continue to grow. And then we need to see where, at what price will we get the power in India. Because ultimately the cost of production of aluminum, 40% is the cost of power. And if you take the coal price today in India, to get more than a 12% to 13%, IRR you will not get it. And coal price will keep escalating. So, I think the price of power is also very important. You have to remember that most of these hydel power guys, they get power as the equivalent of Rs. 2.6 a kilowatt hour. They all have very cheap power sources, whether it is Canada, whether it is Norway, whether it is in China. So, for us to compete on them on a sustainable basis, what we have been trying to tell the government is that the price of power has to be in that Rs. 2.8 to Rs. 3 per kilowatt hour.

Ashish Jain:

Sir, at \$5 MMBtu gas, that number looks achievable?

Satish Pai:

No, that gets reflected in coal today. So, that is just a form of pure ESG point to reduce the carbon emissions of our existing production. But \$5/MMBTU will not give you Rs. 3 per kilowatt hour.

Moderator:

Thank you. Ladies and gentlemen, due to time constrain that was the last question. I now hand the conference over to Mr. Satish Pai for closing comments.

Satish Pai:

So, thank you very much. I think that we are in a very tough year, I just wanted to conclude that majority of the management bandwidth has actually been spent on employees and their safety. I spend more than 50% of my time on COVID related issues, and I think that it is all kudos to our employees and the plants who have managed to keep the plants running and the sales guys who have managed to do their sales, and hence we have been able to take benefit of a very favorable macro environment. But really, the performance of this quarter or the whole of last year is to all the employees of Hindalco and Novelis. So, with that, I thank you for your attention. Thank you very much and stay safe.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Hindalco Industries, that concludes this conference. We thank you will for joining us. And you may now disconnect your lines.

*****END OF CALL*****