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Sub: Transcript of Earnings Conference call of Hindalco Industries Limited *('the Company')* for the financial results of quarter and half year ended September 30, 2024

Ref:
a. Regulation 30 of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 *('Listing Regulations')*;
b. ISIN: INE038A01020 and
c. Our Intimation dated October 31, 2024

Pursuant to the above referred, the transcript of the Earnings Conference Call held on November 12, 2024, for the financial results of quarter and half year ended September 30, 2024 is enclosed herewith.

The above details along with the audio recordings of the Earnings Call are also available on the website of the Company i.e. www.hindalco.com.

Sincerely,

for **Hindalco Industries Limited**

GEETIKA RAGHUNANDAN ANAND
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Hindalco Industries Limited

"Q2 FY'25 Earnings Conference Call"

November 12, 2024

MANAGEMENT: **MR. SATISH PAI – MANAGING DIRECTOR – HINDALCO INDUSTRIES LIMITED**
MR. PRAVEEN MAHESHWARI – CHIEF FINANCIAL OFFICER – HINDALCO INDUSTRIES LIMITED
MR. STEVE FISHER – PRESIDENT AND CHIEF EXECUTIVE OFFICER – NOVELIS
MR. DEV AHUJA – CHIEF FINANCIAL OFFICER – NOVELIS
MR. SUBIR SEN – HEAD OF INVESTOR RELATIONS – HINDALCO INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Hindalco Industries Financial Year 2025 Second Quarter 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 this conference, please signal an operator by pressing star and then zero on your touch-down phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Subir Sen, Head of Investor Relations at Hindalco. Over to you, sir.

Subir Sen: Thank you, and a very good afternoon, morning, everyone. On behalf of Hindalco Industries, I welcome you all to this earnings call for the second quarter of the financial year 2025. In this call, we will refer to the Q2 financial year 2025 investor presentation available on our company's website.

Some of the information on this call may be forward-looking in nature and is covered by the safe harbor language on slide number two of the said presentation. In this presentation, we have covered the key highlights of our consolidated performance for the second quarter of financial year 2025 versus the corresponding period of the previous year. A segment-wise comparative financial analysis of Novelis, India Aluminum and Copper business is also provided.

The corresponding segment information of prior periods have also been restated accordingly for a comparative analysis. Today, we have with us on this call from Hindalco 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 Mr. Dev Ahuja, Chief Financial Officer.

Following this presentation, this forum will be open for question and answers. Post this call, an audio replay of this conference call will also be available on our company's website. Now, let me turn this call to Mr. Pai to take you through the company's performance in the second quarter of fiscal 2025.

Satish Pai: Thank you, Subir, and hello, everyone. Thank you for joining Hindalco's earnings call today. I'm happy to share an incredible milestone for Hindalco. We retained our leadership position in the S&P Corporate Sustainability Assessment ranking 2024 for the fifth consecutive year.

Our score of 87 out of 100 was an improvement over last year's score of 78 and our highest score till date. Our commitment to sustainability, responsible practices and innovation continues to drive us forward, and this recognition reflects the hard work and dedication of our teams across locations. On slide 5 to 9 of this presentation, you can see our achievements and progress across metrics of ESG for this year versus the prior period. I will now take you through some of the key highlights in this quarter.

In Q2 FY '25, 79% of the total waste generated was recycled and reused. We achieved recycling of 111% of bauxite residue excluding Utkal and 99% of the ash in the year. I'm pleased to share updates on our sustainable water management initiatives key to our environmental goals.

In partnership with CII, Triveni and following NITI Aayog's water positivity framework, we are undergoing certification assessments at 5 sites: Aditya, Utkal, Hirakud, Alupuram and Belagavi. This is a vital step towards ensuring that these facilities actively contribute to regional water replenishment.

On zero-liquid discharge, 15 of our 19 sites now meet ZLD standards, eliminating wastewater discharge. Our projects at Kuppam and Renukoot are on track with target completion in FY '25, enhancing our environmental performance. Additionally, we achieved a notable progress in water recycling in H1 FY '25.

We recycled and reused 9.34 million cubic meters of water, which is 25% of our total water usage of 37.7 million cubic meters, showcasing our commitment towards conservation of water. These initiatives highlight our dedication to our efficient resource management and our commitment to supporting sustainability in the communities where we operate.

On the biodiversity front, we have completed a pilot project at Renukoot to remove the invasive species of plants, replacing them with 2,000 native saplings. Additionally, biodiversity management plans are under assessment for 3 plants and 11 mines. We have already BMPs at 21 locations covering 9 plants and 12 mines. These initiatives demonstrate our commitment to preserve and enhance local ecosystems across our operations.

Our total renewable capacity now stands at 183 megawatts primarily from solar and wind. Recently, we commissioned 10-megawatt solar project at Taloja. We are set to add another 6 megawatts and 9 megawatts of solar projects and a 100-megawatt hybrid project with storage in the first half of calendar year '25. This aligns with our target to achieve 300 megawatts of renewable capacity by H1 of calendar year '25.

Our aluminum specific GHG emissions was recorded at 19.62 tons of carbon dioxide for producing a ton of aluminum in this quarter, which was flattish compared to the same period last year. On safety, LTIFR was recorded at 0.29 in H1, which was higher compared to H1 of the last financial year. We continue to focus on reducing the LTIFR by continuously upgrading our safety enhancements and monitoring systems. We are very sad that we had one fatality of a contract workman that was recorded at our Indian operations this quarter. Let me now give you a glimpse of our quarterly consolidated performance this quarter versus the same quarter of last year on Slide 11.

This quarter's performance on a consolidated basis was driven by record beverage packaging shipments at Novelis and better cost control in the aluminum India business, backed by a continuous record performance by the copper business. Our consolidated business segment EBITDA was up 24% year-on-year at INR8,564 crores, whereas our overall reported EBITDA was up 49% year-on-year at INR9,100 crores this quarter.

The consol net profit after tax was 78% up year-on-year at INR3,909 crores this quarter. At the Hindalco India business level, our overall reported EBITDA was up 100% year-on-year at INR5,139 crores this quarter. The net profit after tax was up 135% on a year-on-year basis at INR2,850 crores.

In our Indian aluminum business for the second half of FY '25, we are currently hedged at around 30% commodity at a price of $2,579 per ton, and around 15% of the commodity is at a zero collar with the bottom of $2,262 and a ceiling of $2,547 per ton, and we have hedged around 15% of the currency at INR88.

On the balance sheet side, our consolidated net debt stands at INR36,033 crores. In the India operations, we have a net cash of INR2,269 crores, while Novelis' net debt stands at INR39,261 crores at the end of September 2024.

Hindalco, the consolidated level continues to maintain a strong balance sheet with a net debt-to-EBITDA well below 1.5 at 1.19x at the end of September 2024, which is lower than the corresponding period of last year. All our strategic capex in India is mapped with cash flow generations in the business and is in line with our capital allocation policy.

Coming to our business-wise performance this quarter. Novelis shipment was at 945 Kt versus 933 Kt in the prior period, up 1% year-on-year backed by record beverage packaging shipments. Novelis delivered a quarterly EBITDA of $462 million, down 5% year-on-year due to reduced metal benefits from rising aluminum scrap prices and unfavorable product mix and a $25 million impact from the flooding at our Sierre plant. The results in EBITDA per ton stood at $489 versus $519 in the previous quarter, down 6% year-on-year.

All our expansion projects, including the Bay Minette Project in Novelis, are on track with a new 240 Kt automotive recycling and casting center at Guthrie being in the initial production and ramping up phase this quarter.

On Hindalco's India upstream aluminum performance this quarter, shipments were down 2% year-on-year and revenues were up 16% year-on-year. EBITDA was at 79% up year-on-year at INR3,709 crores, primarily supported by lower input costs and favorable macros. The resulting EBITDA per ton stood at $1,349 per ton, higher by 80% year-on-year.

EBITDA margins were also higher at 41% this quarter and continued to be the best in the global industry. This quarter, the India downstream aluminum quarterly shipments were up 10% year-on-year at 103 kt on account market recovery.

EBITDA was down 1% year-on-year at INR154 crores this quarter versus INR156 crores in the prior period. The resulting EBITDA per ton was at $179 per ton, lower by 11% year-on-year this quarter, impacted by unfavorable product mix. Our copper business continues to deliver its best-ever performance this quarter as well.

The overall metal shipments were at 117 kt, down 13% year-on-year, of which the CCR volumes were at 90 kt, down 10% year-on-year. The quarterly copper EBITDA was at an all-time high of INR829 crores, up 27% year-on-year on account of good operational efficiencies coming out of the shutdown in Q1, higher realizations in byproducts like sulfuric acid and higher sales of precious metals. This higher EBITDA includes a onetime favorable impact of derivative accounting as well.

Now, let me give you a glimpse of the current broader economic environment on Slides 13 and 14. Global economic growth remains resilient despite some moderation in pace in H2 of calendar year '24. Pace of global economic expansion remains uneven with the service sector growth holding up while manufacturing momentum is moderating. While the U.S. is well positioned for soft landing, economic activity in China and the euro area continues to remain sluggish.

Going forward, IMF projects GDP growth to remain steady in 2024 and 2025 at 3.2%, moderating slightly from the 3.3% we saw in 2023. Growth in the U.S. is expected to moderate to 2.2% in 2025 from 2.8% in 2024, and in China to 4.5% in 2025 from 4.8% in 2024.

Downside risks from increasing geopolitical tensions, negative spillovers from the China slowdown and financial market volatility continues. This inflation is expected to continue with global headline inflation expected to moderate from 6.7% in 2023 to 5.8% in 2024 and further to 4.3% in 2025.

Geopolitical conflicts remain a key risk to this disinflation trajectory. On the domestic front, economic activity moderated to 6.7% in Q1 FY '25 from 8.2% in FY '24. Recent high-frequency indicators present a mixed picture. There has been some flattening of momentum with softening manufacturing growth and moderating urban consumer demand.

RBI, however, has retained its full year FY '25 growth of 7.2%, owing to encouraging investment activity, steady services growth and consumption spending shaping up for a festival season revival.

Central Bank expects growth to pick up to 7.4% in H2 of FY '25 compared to an estimate of 7% in Q2 FY '25. Risks to this outlook are geopolitical tensions, geoeconomic fragmentation and volatility in international commodity prices that continue to remain. RBI projects inflation to moderate from 5.4% in FY '24 to 4.5% in FY '25 with significant upside risk from adverse weather conditions geopolitical conflicts volatile commodity prices.

RBI just continues to remain cautious and is committed to maintaining the 4% inflation target. Moving to aluminum industry outlooks on Slide 15 and 16. Starting with Slide 15. In China, production rose to 11 million tons, while consumption held steady at 11.4 million tons, resulting in a deficit of 0.4 million tons in Q3 calendar year '24.

This steady demand was supported by strong drivers, including a 20% surge in solar installation, a 32% increase in new energy vehicle production and a 21%

boost in electric grid investment and an 18% rise in semi-fabricated product export. Despite this, the construction sector continued to face significant challenges.

Looking at the rest of the world, Q3 calendar year '24 production reached 7.5 million tons, while consumption was 7.1 million tons, resulting in a surplus of 0.4 million tons. Consumption remained soft in Europe and North America with continued challenges in the Middle East, particularly Turkey. However, growth in regions like India, Thailand, Vietnam, Brazil, South Korea and Taiwan remained positive. As a result, the overall global production and consumption were balanced in Q3 calendar year '24, maintaining equilibrium in the global market this quarter.

Moving to Slide 16. The domestic demand for aluminum in India during Q2 FY '25 is projected to reach 1433 Kt, reflecting a robust 7% year-on-year growth. This growth was largely driven by strong electrical demand spurred by increased cable and conductor requirements as well as rising solar energy demand.

Packaging demand also provided a boost, while building and construction sector remains stable. However, the automotive sector experienced some softness due to weaker demand in passenger and commercial vehicles. Additionally, imports excluding scrap, showed significant uptick driven by increased solar frame imports and an inventory buildup in anticipation of BIS certification requirements.

The global aluminum FRP demand excluding China is expected to grow by 4% in calendar year '24 and 6% in calendar year '25, with demand recovery across all major segments of beverage packaging, automotive, specialty and aerospace. Beverage packaging sector showed strong growth, driven by favorable consumption and sustainability trends.

Automotive growth reflects steady to positive outlook for aluminum in North America. Electric vehicles continue to gain share globally, but are growing at a more tempered pace. Specialty products aligned with global GDP, aided by a construction boost from lower interest rates, though automotive specialty demand is softer. Aerospace remains strong with high orders despite OEM supply chain constraints and labor issues.

The Indian FRP demand in financial year 2025 is expected to grow by 7% to 8% on a year-on-year basis, led by strong demand from the Packaging segment. Turning to the copper industry on Slide 18 and 19. In Q3 calendar year '24, the Chinese production reflects a growth of around 4.5% year-on-year, reaching 3.1 million tons, while consumption increased by 7.6% year-on-year at 4.1 million tons, resulting in a deficit of nearly 1 million tons.

In the rest of the world, production increased 1% year-on-year to 3.6 million tons, while consumption increased by 0.8% year-on-year at 2.7 million tons, leading to a surplus of 0.9 million tons in Q3 calendar year '24. As a result, the overall global production of copper increased by 2.6% at 6.7 million tons and consumption increased by 4.7% at 6.8 million tons, leading to a deficit of 0.1 million tons this quarter.

On the domestic front, in Q2 FY '25, market demand increased by 9% year-on-year at 218 Kt versus 201 Kt in Q2 FY '24. Domestic producer share decreased to 63% in Q2 FY '25 versus 73% in the same period last year. In the first half of FY '25, the concentrate availability was limited and spot TC/RCs remained at a historically low level.

However, recent global smelter disruptions have led to slight improvements in spot TCRCs. The annual TCRC benchmark negotiations calendar year '25 are scheduled to commence during the World Copper Conference and the CESCO Asia Week in Shanghai. Details of operational and financial performance in each of our business segments this quarter compared to the corresponding period of last year as well as the previous quarters are covered in further slides and annexures to this presentation.

Let me now conclude today's presentation with the way forward as India business and the Novelis growth story. We are making significant progress to increase our downstream capabilities to meet the growing demand for high-value products in India. Our Aditya FRP project is set to commission in FY '26, taking our total downstream capacity to 600 Kt. We are also creating facilities to develop high value-added products in aluminum like AC coated fins, battery foil and, battery enclosures that are targeted towards enhancing our India downstream margins.

On the upstream side, we have announced a smelter expansion of 180 kt powered by renewable energy sources, resulting in a total upstream capacity of 1.52 million tons, allowing us to boost our sales of low carbon aluminum in the coming days. With definitive agreements now signed with OMC, we are moving forward with our greenfield alumina refinery of 850 Kt that will supply low-cost alumina to our existing smelters and will also lead to substantial cost savings and improved margins. In addition, we are also in discussion for long-term partnership to export our surplus alumina that will result in strengthening our international presence in alumina sales.

In copper, our plan to expand the smelting capacity by 280 Kt to 300 Kt will lead to an upstream capacity of around 800 Kt, ensuring the full benefit -- full integration benefits of our CCR mills while capitalizing on India's growing corporate demand. In January of 2025, we are set to launch India's first 25 Kt greenfield Inner Grooved Tubes plant that will help in reducing the country's reliance on imports of IGT for manufacturing air conditioners.

In addition to this, we are also creating India's first e-waste and copper scrap recycling facility with a capacity of 50 kt that will drive a formal recycling ecosystem in the country. We are also building new capacity for high-performance alloy rods and battery foils that will help us -- help position us to capture the opportunities in these additional market segments in copper.

In Novelis, our 600 Kt greenfield Bay Minette project is on track with steel installation and equipment foundation work rapidly progressing. This is expected to be completed in the second half of calendar year '26 with 420 capacity targeted to beverage packaging, which is fully contracted. The near and long-term demand for beverage packaging across regions remains very strong, going at an approximate 4% compound annual growth rate through 2031.

Novelis' 240 Kt Guthrie recycling center is ramping up to enhance the overall recycling input that will help mitigate near-term pressures on cash supplies in North America. Thank you very much for your attention. The forum is now open for any questions you may have.

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

Sumangal Nevatia: Congratulations on great set of numbers. My first question, sir, is on the capex. So on the slide, there's an announcement for the alumina smelter and even the copper. So just want to know all the 3 individually, what is the capex you're looking at? And over the next 2, 3 years, how is the scheduling of the spends lined up?

Satish Pai: Yes. So Sumangal, the 2 smelters, which I have to say are both brownfield because the aluminum smelter expansion is in Aditya and the copper smelter is in Dahej. So both these will be roughly 1 billion each. So on top of what we have already declared, if you put 2 billion, so we are roughly going to be between 4 billion and 5 billion of declared projects.

And majority now are going to be on the upstream side because we finished most of our downstream projects and we are going to let them ramp up. Now these projects are going to happen over the next 3, 3.5 years. So we believe that over these 3 years, we will probably use the cash we are generating, but also probably in India, we'll probably have to add debt of about INR1 billion to INR1.5 billion over these 3 years. This taking into account our sort of zero net debt-to-EBITDA place where we are now, should be fairly comfortable for us to manage.

But we believe that the way we are and the demand we see for aluminum and copper and the fact that we'll be largely doing brownfield expansions for smelting, I think we should take advantage of our strength of the balance sheet and our market positions.

Sumangal Nevatia: Sir, just to get some more details. So FY '29 is the year when you expect these projects to kind of come on stream, so 3 years of gestation, '26, '27, '28?

Satish Pai: Yes, I think that we are saying that the aluminum smelter should come on stream in October of '27, and the copper smelter will be in '29.

Sumangal Nevatia: Understood. And sir, the refinery?

Satish Pai: The refinery will be also more or less coming on stream in '27 calendar year.

Sumangal Nevatia: Okay, FY '28. Got it. Got it. And sir, given this smelter will be powered by renewable energy, what is the cost difference at the hot metal level we are looking at? And generally, for these 3 projects, what sort of IRR are we baking in?

Satish Pai: Yes. I mean, as you know, Sumangal, the IRR will depend on what sort of LME you're assuming. But even with our conservative estimates, we will be in double-digit IRR. And I think the power cost, because 3 years out, when we look at the blended power cost in that whole Aditya complex, it's not going to be much higher than the inflated rate of coal cost that we had seen so far.

So if you take our current power cost and you use the normal coal inflation of 5%, 6% that we see every year, this power cost is more or less in that same line. The only difference being the renewable power then gets fixed at the same rate for the next 20 years.

Sumangal Nevatia: Understood. Understood. If I may just ask one more question. That is on Novelis. So there's been a lot of investor concerns now after this caution on scrap spreads, which we spelt out at the time of Novelis results. Is it possible just to quantify in the near term what sort of pressure are we looking at in terms of impact on margins, EBITDA per ton at least in the near term, I mean, some quantification would be very useful, sir.

Satish Pai: Dev, do you want to take that?

Dev Ahuja: Yes. So, Sumangal, this is exactly where we don't want to go right now because we are the size of the situation. We want to be responsible, if we say anything. And if we force ourselves to quantify anything at this stage, we'll be making an error of being either the too aggressive side or too conservative side.

So we are trying to ensure, trying to size up the situation and see where spreads go. We need to see one of those cycles. So you'll have to hold off that. And as soon as we have some clear visibility, we will come back. I mean, once again, I only say this, that there are a number of mitigation action on at this time in pipeline, and we are going to accelerate action. But in terms of -- to give any quantification, we would rather wait.

Sumangal Nevatia: Understood. Understood. Just to stretch this point in a different direction. Scrap prices, which used to be around 60%, 65% of Midwest and U.S., is around 70%, 75% now, and this used to be the case 5 years back. So are we -- I mean, of course, the litigation efforts apart, are we looking at structurally over the next few years, scrap prices now being in the range of 75-odd percent like the previous review or we expect this also to go back to 60%, 65% of what we see during COVID years?

Dev Ahuja: Well, so what we have is short-term visibility on everything that we see on the macro with the range in the China policy. So in principle, if the China policy stays the way they are talking about it and reason to believe that they will pass away from that, then spread and scraps are going to stay elevated.

There is also more competition coming for scrap which will also mean that there will be some pressure on scrap prices. So these are things that at least from all the visibility that we have will be there. Our job at this point is to just accelerate all the mitigation actions open our new sources of supply and thereby mitigate the insight. So without getting into specific quantification, which would not be very responsible on this stage, this is a direction I can give to you.

Sumangal Nevatia: Yes. And just one last thing. As a thumb rule, is it possible to explain the 5% or 10% higher scrap prices, how does it impact EBITDA per ton?

Dev Ahuja: No, due to specifics of that guidance, Sumangal. No. I mean, we don't want to get into that quantification.

Moderator: We have the next question from the line of Amit Murarka from Axis Capital.

Amit Murarka: Just going back to the Novelis question. A lot of our contracts are contract based on contracts, right? And if my understanding is not wrong, a lot of them are on a cost plus basis as well. So in that context, just wanted to understand like is it also a case or possibility that sometime down the line, the higher scrap pricing in a way is passed on to the refreshed contracts that happen with the customer, like how we saw for energy inflation?

Dev Ahuja: So are you asking if scrap prices are also going to have some pass-through impact? Is that your question?

Amit Murarka: Yes, yes, yes.

Dev Ahuja: Well, so I think that we need to be clear about the operating model. When it comes to inflation though, they are related to operations, as far as metal is concerned, we pass on the price metal cost and market premiums anyway to the customers. So, therefore, there is no case for passing on anything more than that. I mean the business model is really to pass on aluminum prices.

Amit Murarka: Okay. Okay. So it's only the energy inflation at all, which is part of the contract and the scrap prices and the differential of the scrap prices basically all flows into your P&L then?

Dev Ahuja: Yes, it's not just energy inflation, by the way. I mean we have PPI clauses. So it is more overall inflation. We have specific energy inflation pass-through clauses, that's a fact. But the general way the contract is structured is that they have PPI clauses, which cover broader inflation rather than the energy inflation to the extent.

Amit Murarka: Understood. Understood. Okay. That's very clear. And also the guidance that was there for the longer term where you have said that you have visibility to $600, does that also hold or you would also be willing to kind of reevaluate that and come back later on that?

Dev Ahuja: Yes. So as we have been saying that in the term, we did have a very clear understanding scrap prices will go up with more competition and all the other factors. So that was something that we have factored in, in our long-term projections. Our hedges are more because of the accelerate the scrap price increases that we have been seeing.

So to your point, in the longer term, we had factored in strengthening of scrap prices. So once again, as we see the markets evolving, we will come back if we want to talk about new, more particularly on the short-term guidance. On the long term, we have a lot more confidence because there are no new factors which we did not already take into account entering that guidance.

Amit Murarka: Sure, sure. That's very assuring. And just on asking question on the India business. Mr. Pai, this may be to you. So what was the COP in this quarter for aluminum? Looks like it's fallen Q-o-Q. So could you just spell that out and also give a guidance for Q3?

Satish Pai: Yes. So as I normally give, I'll tell you that the COGS for this Q2 was down by 1.6% versus Q1. The guidance for Q3 is that it could be up by about 1% to 1.5%. Largely, we are seeing the coal spot premiums go up a little bit. So I think that Q3 could be up by 1% to 1.5%.

Amit Murarka: Okay. And in terms of the captive coal mines, what will be the status of Chakla, the startup of that?

Satish Pai: So, Chakla, we are right now in the sort of forest clearance stage 1. That's where we are. Meenakshi, we will be starting the exploration -- Meenakshi West, we'll be starting the exploration program in the coming months. And on Meenakshi itself, we are still waiting for the allotment to happen to us.

Amit Murarka: And any time lines for the start of the production from these lines?

Satish Pai: Yes. I think the Chakla, we are still hoping to do a box cut sometime in the latter half of next year.

Amit Murarka: Calendar year you mean?

Satish Pai: Yes.

Amit Murarka: And Meenakshi, maybe from the Meenakshi West, maybe '27, is it?

Satish Pai: Because that's an exploration block, yes.

Moderator: The next question is from the line of Amit Dixit from ICICI Securities.

Amit Dixit: Congratulations for a good performance. I have 2 questions. The first one is again on copper division. We have seen that the copper EBITDA as from INR400-odd crores per quarter, now it is upwards of INR800 crores for 2 quarters in a row. In your prepared remarks, you highlighted that there is 1 one-off gain. If you could reiterate that. And also, what kind of a sustainable performance should we consider for this division? TTRC is down, but still EBITDA just keeps going higher.

Satish Pai: Yes. I think that the copper chain, because it is so wide, I mean, this quarter, when the government reduced the duty on gold, we had quite a lot of extra gold sales. I mean, we cleaned out our inventory and selling the gold. Sulfuric acid prices were stronger than what we expected. So some of these tailwinds were there. So I think that still, we talked about this question. Q3, Q4, we stick to a guidance of around 650.

Amit Dixit: And what -- is it possible to quantify that one-off thing in this quarter?

Satish Pai: We don't really want to just give you an exact number for that. But if you sort of take that into account, our guidance going forward is around 650.

Amit Dixit: Okay, very well. The second question is on downstream EBITDA return. Now while sales have gone up, you mentioned that market was favorable, but adverse product mix cost EBITDA per ton downstream aluminum to go down further. So just want to understand what could be the trough level? Are we really seeing the trough levels here? And what are the product mix pressure exactly in which all sectors we are seeing it?

Satish Pai: By the way, the EBITDA per ton, if you see sequentially and all, has been smartly going up. It's not been going down. I think that we are talking year-on-year, it looked a little bit lower. But I think that what you're going to see, what happened this quarter is a lot of imports came in because people were -- are expecting the QCO to have an impact on imports coming in. So there was a lot more imports. But I think you will start to see Q3 and Q4 this EBITDA per ton starting to pick up quite nicely because the local demand is quite strong.

Amit Dixit: Okay. Sir, is it possible to let us know the coal mix for this quarter mix.

Satish Pai: Yes. The coal sourcing linkage was 50%, e-auction was 47%, and our own mines was about 2%.

Moderator: The next question is from the line of Indrajit Agarwal from CLSA.

Indrajit: Congratulations on a good set of numbers. My question is on the alumina demand supply balance globally, while you gave a great picture of what is happening in aluminum and to an extent in copper as well. So where is exactly the bottleneck in alumina globally? What is keeping prices elevated? And by when can we expect things to normalize at alumina level?

Satish Pai: Well, I think you must be following, Indrajit. So you had this disruption of bauxite supply from Guinea, then Alcoa declared a force majeure on their alumina project in Brazil. So all these have sort of caused that tightness to happen in the market. So unclear to know when it will get sorted out. But that is what has caused the alumina prices to jump to $700 per ton right now.

Indrajit: And what is the kind of contracts that you have? Like is it how much is the long term? And if it is long term or contracted, what is the duration of that contract? In the sense that what is the kind of realizations we are seeing on alumina sales currently? And what can we see in the following 2 quarters?

Satish Pai: Yes. I think that most of our alumina is on an N -1 pricing, which means benchmark minus 1 month and about 20% is on spot. So 80% is on that N -1. So I think that in this third quarter, you will start to see the full benefit of the higher prices.

Moderator: We have the next question from the line of Tarang from Old Bridge.

Tarang: Congrats on a very strong set of numbers. Couple of questions, one on Novelis and the second on the capex plans at Hindalco India. So on Novelis, while it's too soon to call out when the scrap dynamics might work against us. But structurally, there are negative changes in scrap dynamics. Then from a supplier's vantage, how amenable are customers in absorbing cost push going forward?

Satish Pai: Dev?

Dev Ahuja: So here's the thing, the fundamentals of the end markets are great. To your point about customers absorbing, well, I mean, we are having contracts ahead of us, which are at much higher prices. And that was all something we had already conveyed to all of you saying that we will see higher prices are coming. Probably, just give us the positive demand supply dynamics. There could be some more price upside as we look forward, particularly on the beverage packaging side. That is as far as the price side is concerned. The rest is what I said earlier. But we don't have so much worries around inflation and cost path. They're all built in into the contract as far as metal is concerned. Actually, as per the contract, the customers always pay us the cost of prime and local market premiums, that is about all that we can expect.

So that's really how the business structure works. For us, it is about really spurring the problem, but investing in new scrap sources, that's solution to the problem including investing in technologies and really first investment in supply chain. So that's really the solution to the problem, and that's exactly what it's working on. I hope that helps.

Tarang: Okay. I'll probably connect off-line because I was losing you in the middle, but I get a gist of the answer. But for more clarity, I'll connect offline.

My second question for Mr. Pai. Sir, India capex, there are 2 sets of capacities that are getting created. Your allocation towards, say, backward integration in coal or the alumina refinery are actually fairly lucrative capacities from the point of your IRRs. But the same math probably doesn't hold to with all the downstream investments that are coming through.

And even for a copper smelter because at 300, 350 Kt, $1 billion investment translates to about $3,000 per ton, given that it's a reasonably working capital-intensive business at the current margins, the matches doesn't add up. So I understand that the blended IRR for all these projects is positive. But the question really is then would it not be more lucrative for the business to probably focus on the upstream capacities like alumina and copper -- sorry, alumina and say, coal right now and hopefully wait before allocations to the other capacities. I mean how do you look at it strategically on the financial side? How are you looking at this?

Satish Pai: Yes, I think that's exactly the point. I mean we -- these projects are going to come on stream 3 years down the line. And if you look at the growth rates for both aluminum and copper, copper is actually more stuck because India has got a big deficit. So we have a copper rod capacity of 500 Kt, and our copper smelting capacity of 350, and we are putting a new rod mill. Because India needs more and more copper rod. You cannot make rod if you don't have cathodes. And just today, cathodes are coming into India from Japan and elsewhere.

So if we look at the projected demand for copper in India, we are going to get some amount of copper from the recycling facility and some amount from the smelting because the downstream end of it, as you said, when you put together, it makes a lot of sense because of the rate at which the copper usage in India is going up.

Now, the 180 Kt of aluminum is the same story and the sense that we are going to make it with renewable energy, low carbon, high purity. And for that, again, there is quite a lot of demand and we're getting good premiums on that. So we think that these -- both these investments, when they come on stream 3 years plus. With the rate of growth for both aluminum and copper that we are seeing, we think we're going to be in a good position.

Tarang: So you're essentially looking at probably a reasonable amount of margin expansion by the time these capacities come through, and therefore, it's probably not prudent to look at it from a rearview lens. Would that be the right way to look at it?

Satish Pai: Especially for copper. If you take today's TC/RCs and say, are you putting up a smelter, it makes no sense. But if you look at it of taking that cathode-making copper rods and copper fuse and all the downstream, where the conversion premiums are high, then 3 years down the road when TC/RCs also pick up a bit to normal levels, you will see that it makes a lot of sense. In fact, I usually believe that the downturn is the best time to invest if you have the balance sheet strength. And that is what Hindalco has in India right now.

Tarang: Got it, sir. And sir, last question. I mean, if I look at China's demand supply balance for aluminum now, looking at the data for the last 18 quarters and for last 18 quarters, almost 17 of 18 quarters, they have been at a net deficit with demand far out shipping supply. Where you are -- whereas in the world ex China, you have a contrary positioning, where supply is far exceeding demand. Is there -- I mean, is there something that can be made out of this trend, what's happening there and what's not happening in the world, if you could give us a sense?

Satish Pai: So it's a very interesting question. So 2 important points there. One, you're absolutely right, China is running at a deficit. And that deficit today is being met by Rusal's 1 million tons of aluminum coming in from Russia.

The second point is that they are -- they seem to be quite serious about the 45 million cap, and they don't want to do more coal-fired smelting expansion. So what they have done, which has impacted Novelis is that they are now putting in lot more scrap melting capacity. So nearly 20 million tons of scrap melting capacity is being put up in China, and hence, a lot of scrap is being bought in there. So this is the 2 things that we have to make out.

Now, over time, China has been using more than 50 million, 60 million tons of aluminum. They will have enough scrap of their own. But in the short term, it is creating a tightness in the scrap market because they're bringing this capacity on stream. So these are the sort of broad things that are happening.

Moderator: The next question is from the line of Parthiv Jhonsa from Anand Rathi.

Parthiv Jhonsa: Just to take the Indian capex point forward. I believe somewhere a couple of quarters back, you are indicated in 1 of your analyst meet that the capex is around $760 million, which has now been revised today to about, say, $1 billion. So is that reading correct? Or am I missing something out here? Can you please explain this in detail?

Satish Pai: Yes. I think that, again, you're absolutely right. I think on the smelter side, we had put it at around $800-or-so-million. And yes, as we get in the current pricing. I mean even this $1 billion to, be fair, I'm just taking a round number.

We are working on the capex. We have to get the quotes and then as we get clarity, we'll give you the exact number. But there is a certain amount of inflation on the equipment as well. So I think that as soon as we get the capex sorted out. And as we are using renewable energy, we do have to do some additional steps to use that renewable energy in Aditya. So all those are adding into the cost.

Parthiv Jhonsa: All right. Sir, I just wanted to get some clarity because I think I missed earlier in the remarks, the current hedge is around 30% at about 2,570. And then you have additional 3% at a bottom of 2,262 and a ceiling of -- what was the ceiling, sir?

Satish Pai: Yes. The ceiling is 2,547. It's a zero cost collar that we had put in quite early on, I think, last few quarters mentioning it. And on the hedging point, we have also now hedged about 14% for next financial year at 2,700.

Moderator: The next question is from the line of Ritesh Shah from Investec.

Ritesh Shah: A couple of questions. Sir, first is you explained nicely on the copper rods and hence, the need for the smelter. But then also there's a linkage to TC/RC. And TC/RCs, you did indicate that it has been actually dipping a bit. What gives us comfort on TC/RCs 3 years out specifically given and copper demand, it's just like a blue sky scenario? However, when it comes to concentrate supplies, is there comfort that we have, which gives us confidence and putting on the smelter looking at the value-add demand?

Satish Pai: In fact, very interestingly, some of the big miners are already in discussion with us to sign up long-term contracts for the smelter expansion because they need to -- they also want to diversify earlier from China.

So there are new mining capacity coming in. So this is very cyclical. If you go back and look at TC/RCs, generally, they will go down for a period of time in this case, copper prices go up and a lot of new mining capacity comes in, and then TC/RCs picked back up to reasonable levels.

So from the outlook we have and talking to the miners, they are quite interested that in India, we set up this smelting capacity, and they are actually ready to give us long-term contracts with even a flow of the TC/RC in the initial years. Now, the other thing you will see is that some of these marginal custom smelters in Philippines and all will probably shut down due to this low TC/RC. Certain amount of that cleaning up will also happen.

Ritesh Shah: Sure. And sir, my second question was on scrap. You did indicate that China is looking to process some 20 million tons of scrap, I don't know, I think the year is 2025, 2026. So the question is, does China has this sort of scrap processing capacity? That is one.

Secondly, I think Dev did indicate that one of the mitigating variables as we focus on technology. I remember we have a recycling center in Germany, wherein we have like 18, 20 different types of scraps that we process. Is it something very different to everybody else in the world, which gives us an advantage of certain type of scrap wherein we will still enjoy a higher discount to LME? And is that number significant to help us tied through this particular crisis. And I have a related question, sir, first, if you please answer this one?

Satish Pai: Steve, do you want to take that on the different types for scrap and the impact?

Steve Fisher: Yes, sure. So on the first question, China has been setting up the recycling capacity over the years and continues to. And so the quantity increase continues to come online as they open up the border to take in more different types of scrap. So they will have the capacity, as Satish said, their cap on primary aluminum production at 45 million metric tons and start to produce downstream aluminum through recycled material.

As far as technology, yes, we do have new technology at our new automotive recycling center at Guthrie, working with Sortera. We have put new -- we worked with another company with robots that we put in at Berea. And so when you talk about different technologies, a lot of these technologies are sorting technologies in order to take on dirtier types of scrap or to be able to sort pre-and post-consumer automotive scrap to get the right alloys that today, if we could not take that sortation in. We would not have the ability to consume that scrap.

So it is increasing the different types of scraps that we can process at our facilities, which will make a big difference. It's just going to take some time for us to continue to scale these technologies and put them through -- put them into not only the new plant, but into other plants that we already have made existence.

So lots of work going on with our R&D and ops groups, partnerships across the world to find ways to continue to get more different types of scrap that we had not been consuming at Novelis, which does give us a competitive advantage.

Dev Ahuja: Sorry, keep in mind one more thing that there is like 750 to 800 kilo tons of scrap in the U.S. that goes into landfill, as demand for scrap goes up, economics of really preventing the scrap to go into landfill becomes very, very attractive. And there is more investments coming in to prevent scrap to go into landfill.

And so we also expect that given the opportunity, there will be more opening up of this scrap that's now going into landfill, so that will start become available in any case. I mean, it's just attractiveness of doing that. So there are a number of mitigating factors besides all the things that we are doing, which will help.

Ritesh Shah: Right. Sir, just to scratch on this a little it. You have always indicated that we did expect this coming. Now given we have the technology to process different types of scrap, can you give some broad numbers on total market sizing for scrap? And out of that 1 million tons, what part of that 1 million tons is something that is unique to us that we can also process, which is more dirtier or the competition can't process? Just trying to have some comfort on the sourcing and the underlying economics.

Steve Fisher: Yes, it's a significant amount of scrap, but -- go ahead, Dev.

Dev Ahuja: No. On the quantification, I'll just answer that question. So you can think about this that -- and we are talking about U.S. because a lot of the focus is on the U.S. markets like there would be about 1.5 million tons, half of it are going to landfill. And so the other half that typically comes into the market, which are grabbed by all the current convenience of scrap, the quantification of the scrap volume that we are talking about.

And then it's about the way you can further get out of the 750, that is not coming to us today. So that's really what it is. But let me hand it over to Steve to add anything more.

Steve Fisher: No, just besides what's going into landfill, there's other types of scraps that are getting down cycled post-trade vehicles that that's the sorting technologies that we're putting in to be able to take back some of the aluminum content that's in those vehicles back into our process. And so both pre and post-consumer automotive scrap types that are coming.

So there's a very sizeable amount of scrap out there that with the right technologies, we can bring into Novelis. But again, this will take time to scale into our operations. So it will take us some time.

Ritesh Shah: Sir, recently, I think there has been an amendment in Europe pertaining to regulation of paced shipments. I think that's also something, which is likely to alter the scrap trade patterns. How is it that we are looking at it? Are we looking at European spreads to be far higher as compared to North America going forward? How are we thinking about this?

Steve Fisher: Are you referring to scrap flows? Or are you referring to primarily aluminum flows?

Dev Ahuja: No, no, we're talking of the scrap flows from Europe that probably restriction that don't allow European scrap to come out.

Steve Fisher: Yes. I mean, we do expect a number of different protectionist activities that is going to alter trade flows as it relates to scrap. And this is the other factors have gone into our thinking of we need to see stabilization of some of these trade flows as well to understand what some of those impacts are so that we can more articulate with our ability to tell you how and when the margins that we've achieved in our business will come back, ultimately bring this up to that $600 per ton on a longer-term basis. But we anticipate there will be disruption in trade flows due to protectionist activities.

Moderator: The next question is from the line of Ashish Kejriwal from Nuvama Institutional Equities.

Ashish Kejriwal: Two questions, one is in light of our recent announcement of putting our smelters, aluminum and copper, what could be your capex guidance for FY '25, '26 for India?

Satish Pai: You're talking about the guidance for next year. I think, see, next year, it's going to be probably around -- we have not finalized the plans yet, but it's going to be more like INR7,000 crores, INR8,000 crores is what next years will be. This year, if you remember, we have guided about INR6,000 crores, and I think we're going to be around that number.

Ashish Kejriwal: Okay. And sir, in this quarter, is it possible to quantify how much alumina we have sold and at what rate?

Satish Pai: Yes. We sold 170 Kt. Let me we just confirm. 197 Kt of third-party alumina we sold in Q2.

Ashish Kejriwal: And at what rate, sir? Blended rate, if possible?

Satish Pai: We don't give out blended rate.

Ashish Kejriwal: Okay. No issues. And lastly, sir, in this quarter, how much hedged volume was there? Because earlier, we used to have 22% at 2,550. So, is that the same in the second quarter, which we realized?

Satish Pai: Second quarter was the same, the percentage hedge was in Q2. Yes, 27%, yes.

Ashish Kejriwal: So 27% was hedged at 2,550 in this quarter?

Satish Pai: Yes, 2,539.

Moderator: The next question is from the line of Prateek Singh from DAM Capital.

Prateek Singh: The question is for Steve and Dev. So basically, first, I want to understand what is the kind of lag that we see between scrap procurement and that flowing into our numbers? So the reason I ask is, given that the scrap prices have gone up sharply of late only and you had earlier mentioned that this will flow through to 3Q and 4Q as well.

So from my understanding, in 2Q, we saw an impact of ballpark $40 per ton due scrap tightening. Do we see it worsening further so they are perhaps maybe even $50, $60? Or do you think it would be even higher? I understand you're not doing any guidance, but the lag would kind of help us get a sense as to how much more impact would be on the coming quarters.

Dev Ahuja: I was starting to hear the question, at least the first part I mean broadly, what I understood was from the second part after whether we expect Q3 and Q4 impacts to worsen, but can you please clarify the first part of your question again?

Prateek Singh: Yes. The first part was largely on what kind of lag do we see between the spot scrap prices that we see right now between our procurement. So is it 1 or 2 months kind of a lag or a quarter kind of a lag so that would help us in kind of tracking the scrap pricing getting a sense as to what kind of an impact can be in coming quarters?

Satish Pai: So, Dev, he's asking from procurement to usage of scrap. What's the time difference, how many months?

Dev Ahuja: Okay. It was a lag. Okay. So between procurement and the scrap coming back, broadly, there's a 60- to 90-day lag can win in seasons, but let's say, 60 to 90 days is a reasonable time gap between the can leak and then coming back to us as we will see.

Prateek Singh: Sure. So which kind of needs that the scrap prices have gone up very recently over the last 1 month or so? The impact of $20 per ton that we saw in 2Q can be worse in 3Q and 4Q? Not given any guidance, but just a bit of sense if I'm correct in that way.

Dev Ahuja: Yes. So to be clear, in the short term, we do expect some worse scrap prices. This is what we have been saying on our earnings call also, there could be some worsening.

We are watching. We are in uncharted directory right now that there's situation, so we will see where it goes. Keep in mind that what we will see in Q3 is also going to be a seasonality impact. Q3 low by now probably is a seasonally low quarter, given annual shutdowns just given that there is lower pull in this quarter. So keep in mind, Q3 will also have a seasonality factor, but to be very specific to your question, yes, we do think that there could be some working in Q3 and Q4 due to a bit of factors that we have discussed.

Prateek Singh: Sure. And my last question is on my reading about the Europe flood impact. When you say that there's an impact of around $25-odd million on 26 Kt of capacity, that kind of implies an EBITDA per ton of $1000-odd per ton for that facility.

So given that Europe is not in a very great environment, can we assume that once Bay Minette comes in, we will have our price negotiations also, happened by that time, Bay Minette's profitability would be decently higher than what we are seeing at Sierre right now, which appears to be $1,000-odd per ton, but -- or is that calculation not entirely correct on my part?

Dev Ahuja: Well, no, I think that you're kind of going in a bit of a tangent here on assuming the Sierre impact and the EBITDA per ton because that had a contribution element to it. I mean the fixed costs have gone below the line. So the $1,000 per ton EBITDA would not be a right calculation.

Also, there is a blend in that of automotive, some specialties and some impact. So be careful before implying any calculations in that month. But let me go to the other part of your question, which is about Bay Minette. So in Bay Minette, we have been pretty consistent that Bay Minette comes at a much higher price, at a much lower in cost and will be significantly more profitable from a margin accretion perspective. I mean directionally, we have already said earnings call that about $1,000 per ton is a very, very reasonable expectation from Bay Minette alone.

Moderator: The next question is from the line of Pathanjali Srinivasan from Sundaram Mutual Fund.

Pathanjali Srinivasan: I have a couple of questions. One is for the FRP, battery foil and closures that we are coming up with capacities, what would be the margins for this and also in terms of capacity, would they be interoperable between AC coated or battery enclosures? Or how would it be? Could you explain a bit on this?

Satish Pai: So on the battery foil, aluminum battery foil in Aditya, it's about 25 kt. So that makes battery foil and can make other types of foils, which is fungible. And as far as the margins go, we think they are pretty good, but we are not going to give you the number there.

Pathanjali Srinivasan: Sure. So the overall addition is about 200 Kt. Is that correct?

Satish Pai: No, 25 kt of aluminum battery foil plant that is being put up in Aditya. The battery enclosure plan, which is, we set up in Chakla in Pune is to make the enclosures for the batteries that go into SUVs. So that has just come on stream and starting to ramp up for one of our auto customers.

Pathanjali Srinivasan: Okay. Got it, sir. Sir, and one more thing. With respect to our coal prices, could you tell me like what was the increase in premium for us for e-auctions and all in the last couple of quarters. Is there any change? Because general thing, what we were noticing is that the auction prices are tapering down. So what you said was slightly different from what we are noticing.

Satish Pai: No, the Q2, actually, the coal prices were slightly lower in fact, I mean, they were flattish with Q1. So that's why our cost of production was quite good. In Q3, as we get in some of the auction prices, it's only in the NCL region, not in the MCL in the Orissa site. You remember we have Renusagar and we have Mahan. In those places, we are seeing a little bit of the auction premiums being higher than what we saw in Q2. It's not very much yet, to be fair.

Pathanjali Srinivasan: Okay, sir. Yes. Got it. And last question, just on the capex guidance that you've given. So can you just tell us what would be your capex guidance numbers for '26 and '27 for the India business?

Satish Pai: So I just -- I think previously, I said that next year will probably be about INR8,000 crores. '27, you'll have to wait because we have to see how these projects actually start and how the cash out happens. So this year's guidance of INR6,000 , we will be around INR6,000. Next year, right now, we think it's going to be around INR8,000. The year after, you will have to wait.

Moderator: Ladies and gentlemen, due to paucity of time, we will take this as our last question. For further questions, you can connect with the Investor Relations team. I now hand the conference over to Mr. Satish Pai for closing comments. Over to you, sir.

Satish Pai: Yes. Thank you very much. I think that 1 point I probably wanted to highlight, I mean, we have gone through all the businesses. The India business is seeing pretty good numbers. Novelis, just to repeat, had a very good Q2 compared to most of its competitors. The forward-looking scenario on the scrap spread was a little bit not that good.

But my point that I wanted to make is the integrated model of Hindalco between upstream and downstream means that some parts can have headwinds, some parts have tailwinds. And that's why when you look at our consolidated results, we are doing very well compared to most of our competitors in the industry. So just wanted to leave you with that comment, and thank you for your attention.

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