MANAGEMENT DISCUSSION & ANALYSIS

Hindalco Industries Limited, the metals flagship company of Aditya Birla Group, is among the global leaders in aluminium and copper manufacturing. It is the world's largest aluminium rolling company and one of Asia's principal producers of primary aluminium. In India, the Company's aluminium units envelop the gamut of operations from bauxite mining, alumina refining, coal mining, captive power generation and aluminium smelting to downstream value addition of aluminium rolling, extruding and foil making.

Its state-of-the-art copper facility houses one of the world's largest custom smelter with its downstream facilities, a fertiliser plant and a captive jetty at a single location. It produces copper cathodes and continuous cast copper rods (CCR) along with other byproducts.

Novelis Inc., Hindalco's wholly-owned subsidiary, is the leading producer of flat-rolled aluminium products and the world's largest recycler of aluminium. It provides innovative solutions in beverage cans, automobiles and specialty markets. Novelis operates an integrated network of technically advanced rolling and recycling facilities across North America, South America, Europe and Asia. It leverages its global manufacturing and recycling footprint to deliver consistent, high-quality products around the world.

EBITDA

₹15,025 Crore

11% y-o-y

FY18 was a remarkable year for the Company in operational and financial performance. Hindalco continued its accelerated deleveraging and prepaid long-term loans of around ₹8,000 Crore in FY18, supported by strong business performance. This helped to significantly improve the consolidated Net Debt to EBITDA ratio to 2.82 times at the end of FY18.

Key Highlights of Overall Operational and Financial Performance

- FY18 was a year of operational excellence for the Company in which it achieved:
  - Highest-ever aluminium production at 1,291 Kt
  - Highest-ever alumina production at 2,881 Kt (including Utkal, the wholly-owned subsidiary)
  - Production of India value-added products (VAP) in India (including wire rods) was 479 Kt in FY18.
  - Highest ever copper cathode production at 410 Kt
  - Highest ever overall shipments in Novelis of 3.2 Mt in FY18, 4% higher compared to FY17.
  - Automotive shipments in Novelis increased by 11%, representing 20% of the overall FRP shipments in FY18. Recycled inputs increased from 55% in FY17 to 57% in FY18
- Consolidated Revenue for FY18 stood at ₹1,15,809 Crore
- Achieved highest-ever Consolidated EBITDA of ₹15,025 Crore, up 11% over the previous year:
  - Recorded Adjusted EBITDA (excluding metal price lag) up 12% to $1.215 Billion in Novelis
  - Novelis also achieved highest ever adjusted EBITDA/ Ton of $381 in FY18.

KEY INITIATIVES

The Company commissioned the new Continuous copper cast rod plant (CCR#3) at Dahej, Gujarat, during the year. This will increase the copper rod capacity to cater to the increasing demand in domestic market.

Utkal's brownfield capacity expansion, by 500 Kt, also commenced during FY18 and is expected to be completed in the next 30 months. The project work has total capital outlay of around ₹1,300 Crore. This will strengthen integration and boost availability of best-in-class alumina to the Company's aluminium smelters in India.

During FY18, Novelis completed a joint venture to establish Ulsan Aluminium Ltd. in South Korea by selling approximately 50% of its ownership in Ulsan Plant to Kobe Steel for $314 Million, which has helped unlock value for Novelis.
With its objective to invest in world-class assets and technical capabilities to meet the increasing global demand for aluminium from the automotive market, Novelis announced plans to setup a 200 Kt automotive finishing facility in Guthrie, Kentucky in the US, which is expected to be commissioned in CY20. Novelis has also agreed to acquire the operating facilities and manufacturing assets at its plant in Sierre, Switzerland, that has historically been leased.

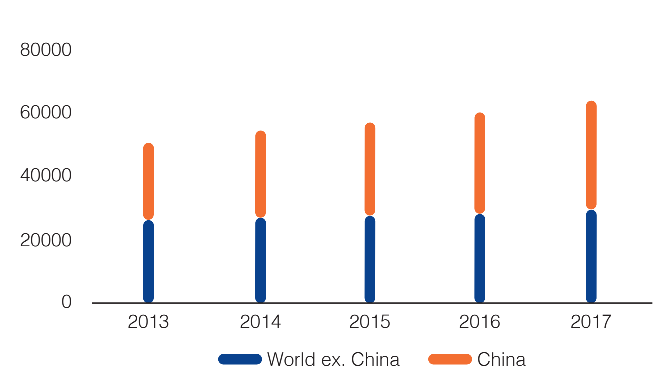
1. INDUSTRY ANALYSIS

1.1 Aluminium Segment and Industry Review

Environment-led winter cuts coupled with permanent closures of illegal capacities in China were the major highlights of CY17 in the aluminium industry. These Chinese reforms had a major impact on the aluminium industry as China controls 50% of global production and consumption.

The second half of FY18 witnessed robust recovery in global economic activity, which in turn generated demand for primary aluminium. In CY17, primary aluminium consumption touched around 64 Mt compared to approximately 60 Mt in CY16. Demand in China registered growth of over 8% for the second year in a row, driven primarily by the transportation, packaging and industrial segments. In the world excluding China, demand grew by around 3.5% in CY17 against growth of around 3.0% in CY16. Surge in demand from North America, Europe, Japan and Brazil supported the growth of primary aluminium. Transportation, and building and construction, were the major user industries that supported the demand in the World ex. China in CY17.

GLOBAL CONSUMPTION OF PRIMARY ALUMINIUM (Kt)

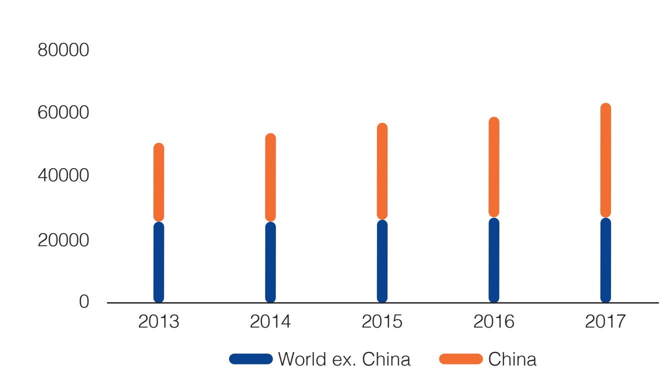


Notwithstanding the supply-side reforms in China that were expected to curtail production, production grew at a significant rate of around 13% in CY17 to 36 Mt, compared to growth of around 4.2% in CY16. On the contrary, production in the World ex. China was flat at 27.2 Mt in CY17 compared to 26.9 Mt in CY16 on account of decline in production in the Middle East and Western Europe. Only India witnessed an increase in the production of aluminium. Australia and North America also continued to witness a decline in production in CY17.

After five years and seven months, LME price of aluminium crossed the $2,100/t mark in October 2017 to $2,130/t. There were multiple factors which supported the LME price of aluminium in 2017. The major being Chinese supply reforms such as winter cuts and permanent closures of illegal capacities on the back of increase in global demand.

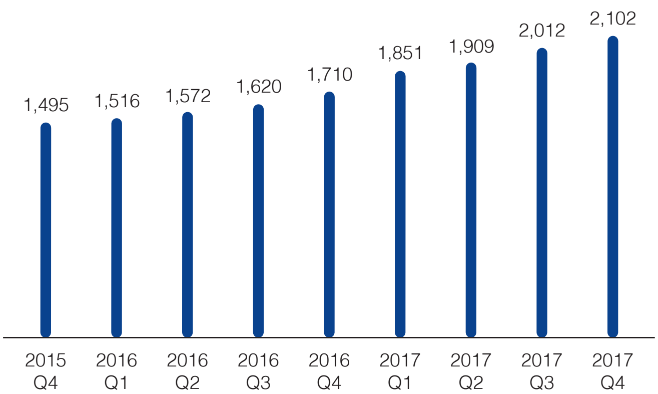
In the later half of 2017, surge in input costs coupled with low inventory levels led to an increase in the price of aluminium in the global market. The average value of LME price of aluminium rose around 23% to $1,969/t in 2017 compared to $1,604/t in 2016. Along with the prices, premiums also witnessed a sharp upturn in 2017 due to supportive demand and low inventory levels. The average value of premiums at Main Japanese Port (MJP), European Rotterdam Premium and US Midwest premium in 2017 was $100/t, $147/t and 9 Cents/lb, respectively as against $88/t, $129/t and 7.6 Cents/lb, respectively in 2016.

GLOBAL PRODUCTION OF PRIMARY ALUMINIUM (Kt)



The average value of LME price of aluminium rose around 23% to $1,969/t in 2017 compared to $1,604/t in 2016.

MULTIPLE FACTORS SUPPORTED LME AT HIGHER LEVEL ($/t)



In the domestic market, production maintained robust growth in FY18 by registering increase of 18% against 17% in FY17. On the other hand, consumption in H1 FY18 was subdued. However, consumption picked up in H2 FY18 and ended the year at a growth of 9% compared to slow growth of around 1.5% in the previous year. The transportation and packaging including foil stock sectors were the major demand drivers in FY18. Imports continued to be the concern area for domestic players as the market share of imports was still above 50% in FY18. The overall imports including scrap touched at 1,957 Kt in FY18 compared to 1,750 Kt in FY17, registering growth of 12%.

1.1.1 Outlook

Since the beginning of CY18, the aluminium industry and the LME price of aluminium are being majorly impacted by the US trade policies and announcement of sanction on UC Rusal created volatility in the global market. The US imposed tariff of 10% on aluminium imports under Section 232. This led to restarting of some aluminium smelters in the US in CY18. However, the actual impact of the restarting of smelters in the US is likely to be felt after CY18. It is expected that China will continue to focus on environmental issues which in turn may adjust the production of primary aluminium going forward.

The global aluminium supply is likely to touch around 65 to 66 Mt in CY18 compared to around 64 Mt in CY17 on the back of US tariffs and likely continuation of Chinese reforms. The production in the World ex. China is expected to be around 27.5 to 28 Mt in CY18 from production of 27 Mt in CY17. The increase in production in CY18 is likely to come largely from India and the Middle East.

The global consumption of primary aluminium is expected to touch around 66 to 67 Mt in CY18. Transport, construction and machinery and equipment are among the few user industries that are expected to drive the demand for primary aluminium in CY18. India, the Middle East and the US are likely to post rapid growth in demand in the world excluding China during the same period.

In China, the government is subduing expansion of credit offtake in the economy and has implemented policies in the real estate sector to cut down speculation. In the electrical sector the Chinese government spending is not increasing significantly for the aluminium demand to rise. Therefore, Chinese demand may moderate from growth of 8% in CY17 to 6% in CY18. The growth in CY18 is expected to come from the increase in the use of aluminium in the transportation sector.

On the LME side, surge in input cost, expected rise in demand and possible implementation of winter cuts in China for the second year in a row, are some of the factors likely to impact LME price of aluminium positively in CY18. On the other hand, emergence of trade protectionism and strong dollar value coupled with more than expected moderation in Chinese demand may put downward pressure on LME price of aluminium.

On the domestic front, we expect demand to recover significantly in FY19 with the surge in industrial activity. The power, packaging and transport sectors are the likely demand drivers of aluminium in India in FY19. The domestic imports of aluminium products, including scrap, are growing significantly, which is a major concern for the domestic aluminium producers.

1.2 Copper Segment and Industry Review

The year gone by witnessed a copper concentrate supply crunch due to major disruptions at the world's top two copper concentrate mines. The first disruption had occurred in Indonesia where the government was nationalising natural resources, as a result of which production was halted for months. The other major disruption took place due to labour negotiations for wage hikes at the world's largest mine in Chile. These disruptions took few months to end, affecting concentrate supplies in the first half of 2017. In the second half, supplies returned to normal and posted marginal market surplus of around 40 Kt, from surplus of around 90 Kt in CY16. The adverse concentrate market led to decline of benchmark Treatment Charge and Refining Charge (Tc/Rc) value for the second year in a row, by about 5%, in CY17 against a decline of 9% in CY16. The Spot TC/RC, which was already 5% lower as compared to the benchmark starting of CY17, declined steadily during the year and was 11% lower compared to the benchmark by the yearend, reflecting a tightened copper concentrate market.

The LME price of copper recorded volatility during CY17. At the beginning of the year, the LME price of copper increased due to the disruption in the mines coupled with the continuous recovery in global economic activities. This trend continued throughout CY17, mainly on account of improved global market sentiments, lowering of the quota for importing scrap in China and decline in global inventories.

On the demand side, global consumption of refined copper in CY17 grew at almost the same rate as in CY16, that is 2.5%. The major demand drivers being the user industries like construction, electrical and power and consumer durables. Growth in Chinese demand was at 5% in CY17 vs 4.5% in CY16 on account of robust growth in the construction, renewable energy and consumer durables sectors. Whereas overall World ex. China continued to witness lower growth of ~0.5% in CY17 against growth of 1% in CY16.

According to the latest data on imports released by Directorate General of Foreign Trade (DGFT), overall demand in the domestic market increased from 2% in FY17 to 6% in FY18, mainly on account of increase in demand from end-user industries like computer and electronics, electrical equipment, machinery, and automotive. The significant growth in demand came in H2 FY18, after a subdued H1 FY18.

In India, production grew by 5.5% in FY18 compared to 0.3% in FY17. The low-cost imports from Free Trade Agreement (FTA) countries, at 35% market share in domestic market, remained a concern for domestic players.

1.2.1 Outlook

Globally the demand for refined copper is likely to touch around 24 Mt in CY18, thereby registering growth of around 3%. The major growth in demand is expected to come from China and India. China is likely to face moderation in the construction sector due to government policies. However, due to lowering of the quota in the category and scrap import in China, demand of refined copper may get marginal support. It is expected that demand of refined copper in CY18 will grow by 3%, primarily supported by lower scrap imports and increasing demand from the power and consumer durables sectors.

In the copper concentrate market, CY18 benchmark Tc/Rc reflects further tightness in concentrate availability and settled at 11% lower compared to CY17. The expectation at the beginning of the year was tighter: however, the recent disruptions in some of the smelters at Philippines and India have resulted in change in the outlook for CY18. This has led to spot Tc/Rc improving from $70/c7 in Q1-CY18 to nearly the benchmark level in June 2018. The market balance for the remaining CY18 will depend on the timing of the restart of these smelters. CY19 is expected to be a deficit year mainly due to likely disruption at the world's second-largest mine in Indonesia because of its shifting operations from open pit to underground mining.

In the domestic market, demand of refined copper is expected to grow further to around 10% in FY19 from growth of 6% in FY18. The growing demand from the power sector, government thrust on renewable energy and increasing demand in the housing segment will lead the demand of copper in India.

1.3 Novelis – Aluminium Rolled Products and Industry Review

Aluminum rolled products are semi-finished merchandise that constitute the raw material for the manufacture of finished goods ranging from automotive structures and body panels to food and beverage cans. Economic growth and material substitution continue to drive increasing global demand for aluminum and rolled products. Global beverage can sheet overcapacity, increased competition from Chinese suppliers of flat rolled aluminum products, and customer consolidation are also adding downward pricing pressures on the beverage can sheet market.

In the domestic market, demand of refined copper is expected to improve significantly in FY19.

Meanwhile, demand for aluminum in the automotive industry continues to grow, which drove the investments we made in our automotive sheet finishing capacity in North America, Europe and Asia. This demand has been primarily led by the benefits that result from using light-weight materials in the vehicles, as companies respond to government regulations driving improved emissions and better fuel economy, while also maintaining or improving vehicle safety and performance.

1.3.1 Outlook

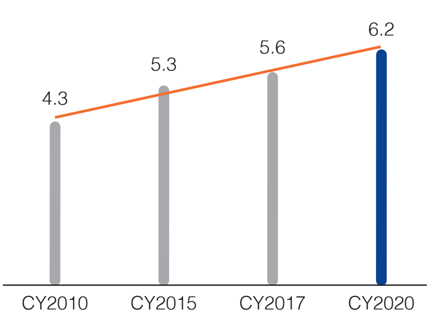
With respect to the markets in which Novelis is operating, the demand for aluminium flat rolled products, mainly in beverage cans, automobile and speciality markets, remained strong. It remained high for beverage cans as the market has grown at CAGR of 4% between CY10 to CY17 and is expected to grow at the same pace in the coming years.

In the automotive segment, aluminium-intensive vehicles continue to be a core part of the market, with increased adoption of aluminium globally, driven by focus on EV, energy efficiency and light weighting. The use of aluminium in the automotive market has also grown at CAGR of 32% between CY10 to CY17 and is expected to grow to 2.2 Mt by CY20.

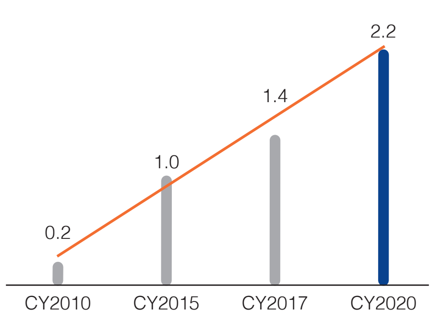
The specialties market has grown at CAGR of 5% between CY10 to CY17 with strong global demand and is expected to reach 13.6 Mt by CY20.

GLOBAL ALUMINIUM FRP MARKET SIZE

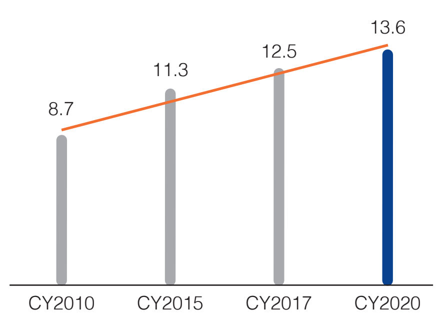
BEVERAGE CAN SHEETS (in Mt)



AUTOMOTIVE SHEETS (in Mt)



SPECIALITIES (in Mt)



2. BUSINESS SEGMENT REVIEW

2.1 Hindalco – SWOT analysis

Strengths	Weaknesses	Opportunities	Threats
India Aluminium			
• Integrated business model generating healthy cash • Dominant player in India across upstream and downstream • Utkal - amongst the most economical and efficient; capacity expansion planned • Increased focus on Value added products (VAP)	• Commodity product with smaller share of VAP today	• Immense headroom for growing-current domestic aluminium consumption at 1/12th of global average • Increasing aluminium penetration in segments like B&C, Auto and Packaging bodes well for VAP • Substitution opportunity vs Steel, uPVC, Wood, among others.	• LME, forex and raw material price volatility • Competition from China • Threat of imports - scrap and VAP • Domestic availability / shortage of coal and bauxite
Novelis			
• Global presence – across 10 countries. Enabling global play with marquee customers • Market leader in can and auto aluminium flat rolled products (FRP) • 57% share of recycling in Novelis portfolio – cost competitiveness • Strategy of deploying healthy cash flow to grow capacity and stay ahead of the market	• Lack of access to Shanghai Future Exchange (SHFE) metal in China	• Growing penetration of aluminium cans for beverage packaging in emerging markets • Growing auto market driven by EV, energy efficiency and lightweighting agenda across the globe • Foray into adjacent markets such as Aerospace	• Increasing tariffs and protectionist measures • Widening LME-SHFE gap, hampering competitiveness in China • Price erosion on account of growing competition • Stagnating carbonated soft drinks and beer consumption in the US and EU
Copper			
• Balanced portfolio of revenue streams to tide through a volatile market • Secured concentrate supply • Increased focus on VAP	• Import dependence for copper concentrate	• Immense headroom for growth due to lower consumption vs. global average	• Mine disruptions • Duties & FTAs – Trade politics • Oversupply in India

2.2 Operational Performance & Financial Review

Financial Table – Hindalco Standalone & Consolidated

(₹ in Crore)

Description	Standalone		Consolidated	
	FY18	FY17	FY18	FY17
Revenue from Operations	**43,435**	**39,383**	**1,15,809**	**1,02,631**
Earnings Before Interest, Tax and Depreciation (EBITDA)				
Aluminium	3,708	3,473	4,692	4,033
Copper	1,539	1,456	1,594	1,438
Novelis	-	-	7,903	7,194
Others (including other income)	825	890	836	894
Total EBITDA	**6,072**	**5,819**	**15,025**	**13,558**
Depreciation including impairment	1,617	1,428	4,606	4,469
Finance Cost	1,901	2,323	3,911	5,742
Earnings Before Exceptional Items and Tax	**2,554**	**2,068**	**6,508**	**3,347**
Exceptional Income/(Expenses) (Net)	(325)	85	1,774	(8)
Profit Before Tax	2,229	2,153	8,157	3,315
Tax	792	596	2,074	1,433
Profit/(Loss) After Tax (attributable to the owners of the Company)	**1,436**	**1,557**	**6,083**	**1,900**

Post the applicability of GST with effect from July 1, 2017, Revenue is required to be disclosed net of GST as per requirement of Ind AS 18, 'Revenue'. Accordingly, the Revenue figures for the quarter and fully year ended March 31, 2018, are not comparable with the previous periods.

2.2.1 Hindalco Aluminium Business (Excluding Novelis)

Revenue for Hindalco's aluminium business (excluding Novelis) touched ₹21,396 Crore in FY18 compared to ₹20,602 Crore in FY17, up by 4%.

EBITDA was higher by 16% at ₹4,692 Crore compared to the previous year at ₹4,033 Crore, backed by higher realisations and supporting macros.

In the consolidated financial statements, within the aluminium segment, the significant entries are Hindalco and Utkal Alumina International Ltd. Since Utkal Alumina is a wholly owned subsidiary of Hindalco and supplies substantial quantity of its production to Hindalco, we have analysed the combined performance of Hindalco's aluminium business along with Utkal Alumina.

PAT

(Consolidated)

₹6,083 Crore

220% y-o-y

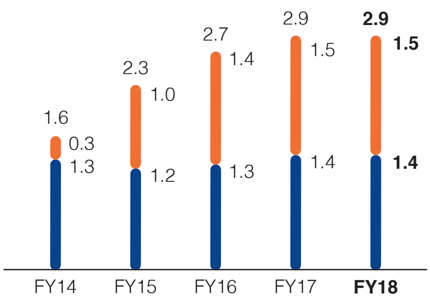
2.2.2 Operational Overview – Hindalco Aluminium (Plus Utkal)

The Company has achieved remarkable performance in its aluminium business in FY18 as all its manufacturing units were operating at their designated capacities and stable operations. It has achieved record production of aluminium metal at 1.29 Mt and alumina at 2.88 Mt in FY18. The overall metal sales in all forms stood at 1.27 Mt in FY18 compared to 1.24 Mt in FY17, showing marginal increase of 2%.

Utkal Alumina continues to be the most economical and an efficient alumina producer globally as it ran at maximum capacity producing 1.5 Mt of world-class alumina and providing strong support to Hindalco's smelting facilities, leading to better cost optimisation. The production of VAP including the wire rods was 479 Kt in FY18.

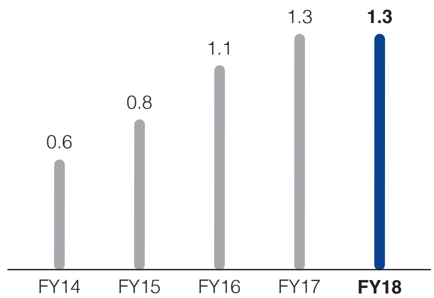
On the coal side, the Company has further secured around 3.2 Mt of coal in the linkage auctions concluded during FY18. With this, the total quantity secured through coal linkages reached 11.9 Mt translating to about 71% of the annual coal requirement of Hindalco. Overall annual requirement of coal is currently secured for close to 94%, through long-term linkages and captive mines. Currently three captive mines that is Gare Palma IV/4, Gare Palma IV/5 and Kathautia are fully operational. The captive mine at Dumri is in the process of obtaining necessary statutory clearances by the end of FY19.

ALUMINA PRODUCTION (in Mt)

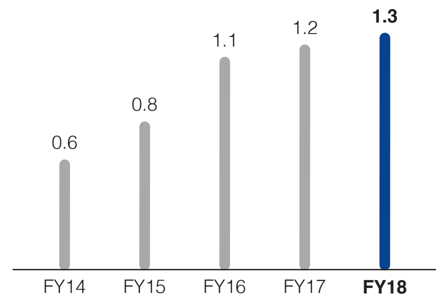


Other Refineries of Hindalco   Utkal

AL. METAL PRODUCTION (in Mt)



AL. METAL SALES IN ALL FORMS* (in Mt)



*including Wire rods and other Value-added Products.

2.2.3 Financial Overview

Hindalco Aluminium (plus Utkal)

Aluminium revenue including Utkal for FY18 was at ₹21,089 Crore compared to ₹20,327 Crore in FY17 reflecting growth of 4% over the previous year, driven by higher sales of aluminium metal, better realisations and supportive macros. The EBITDA was ₹4,790 Crore in FY18, up 17% compared to ₹4,094 Crore in FY17 on account of stable operations with supporting macros, despite increase in cost of major inputs like caustic soda and carbon products.

(₹ in Crore)

Description	FY18	FY17	% Change
Revenue	21,089	20,327	4%
EBITDA	4,790	4,094	17%

Revenue

(Hindalco Aluminium plus Utkal)

₹21,089 Crore

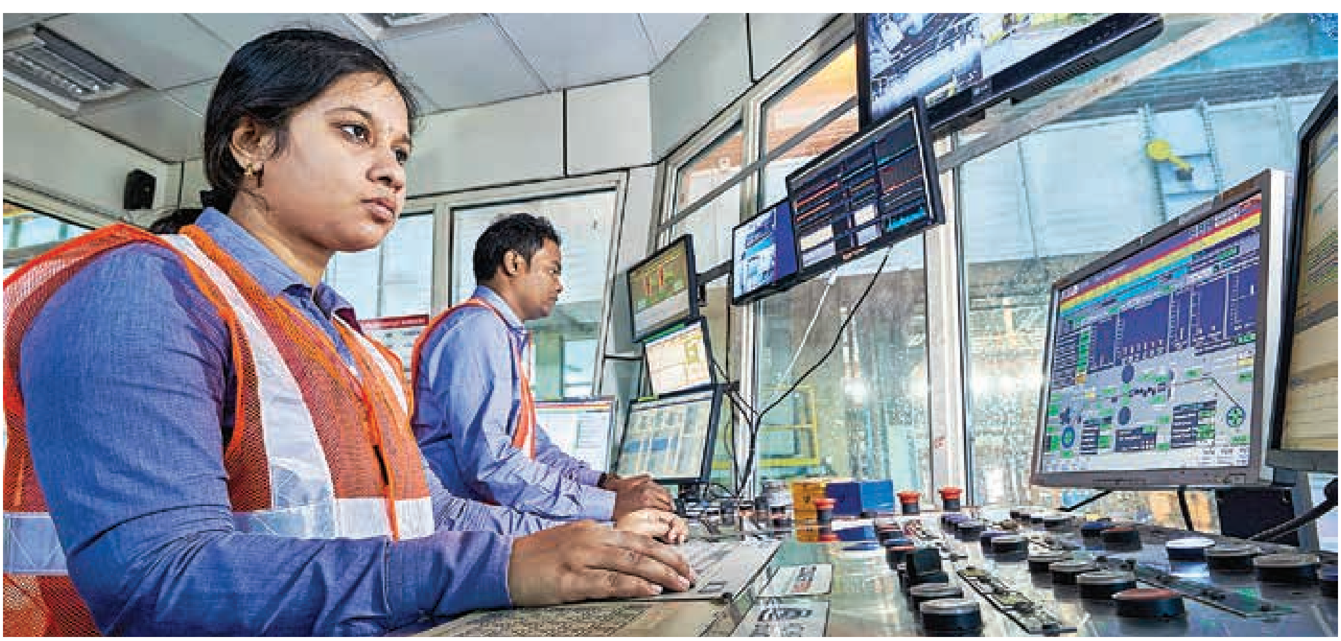
4% y-o-y

EBITDA

(Hindalco Aluminium plus Utkal)

₹4,790 Crore

17% y-o-y

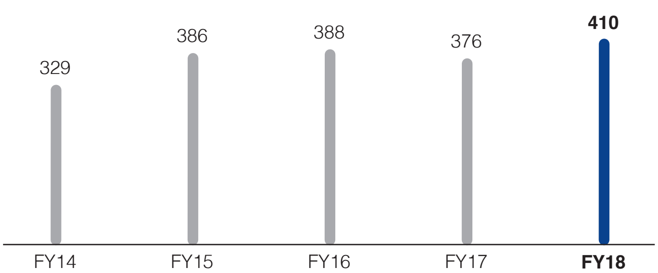


2.3 Copper Business Review

2.3.1 Operational Overview

The copper business reported highest-ever volumes and continues to deliver strong performance in FY18. Cathode production was the highest ever at 410 Kt in FY18, which was 9% higher than FY17. Copper cathode rod production stood at 156 Kt in FY18, up by 4% compared to FY17. The production of Di-Ammonium Phosphate (DAP) was lower at 205 Kt in FY18 compared to 301 Kt in FY17 due to some operational issues which were resolved in April-May 2018.

CATHODE PRODUCTION **(Kt)**



CATHODE SALES **(Kt)**

2.3.2 Financial Overview (Copper Business)

The copper revenue for FY18 stood at ₹22,371 Crore compared to ₹19,408 Crore in FY17 reflecting growth of 15%, driven by better realisations in VAP and increase in overall volumes.

EBITDA in the copper business was ₹1,539 Crore in FY18, up 6% compared to ₹1,456 Crore in FY17 on account of higher by-products realisation and volumes in FY18. The Tc/Rc was marginally lower in FY18 versus the previous year.

(₹ in Crore)

Description	FY18	FY17	% Change
Revenue	22,371	19,408	15%
EBITDA	1,539	1,456	6%

2.4 Novelis Business Review

2.4.1 Operational Overview

Novelis Inc., the world's leading aluminum rolling and recycling facility, continues to report remarkable performance for the fiscal with a significant year-on-year increase in the adjusted EBITDA, net sales, net income, free cash flow and overall shipments in FY18. This was mainly driven by its focused strategy to improve operational efficiencies, increasing shipments of auto products, and key investments into the growing automotive capacities to secure its global leadership position in the aluminium industry.

Over the last year, Novelis has achieved record automotive shipment levels, supporting new product launches including the Land Rover Velar, Jaguar I-PACE, Ford Expedition, Lincoln Navigator and Jeep Wrangler and continues to collaborate with customers to launch electric vehicle platforms such as the new NIO ES8 and the London Electric Taxi in the coming years.

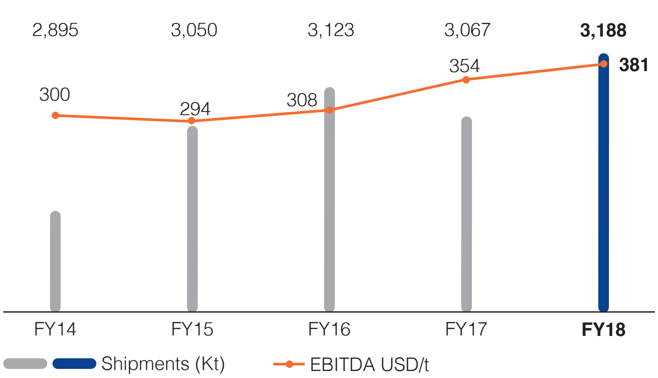
During the year, the total Flat Rolled Product shipments increased by around 4% over the previous year to 3.2 Mt in FY18 on account of higher automotive shipments which increased from 18% in FY17 to 20% in FY18. Beverage can shipments increased from 60% in FY17 to 61% in FY18 and specialties product shipments was at 19% in FY18.

Novelis operates in the four key geographies of North America, Europe, Asia and South America. In North America, in FY18, the total shipments were 1,089 Kt compared to 1,010 Kt in FY17, reflecting an increasing trend over the year. Novelis has also announced plans to set up a 200 Kt automotive finishing facility in Guthrie, Kentucky in the US, to cater to the growing demand of automotive in this region.

In Europe, the Company has shipped 930 Kt across product categories in FY18. It has agreed to acquire the operating facilities of a plant in Sierre, Switzerland, that was been historically leased. In Asia, Novelis shipped 711 Kt of rolled products in FY18 versus 699 Kt in FY17. During FY18, it sold 50% ownership of its Ulsan facility in South Korea to Kobe Steel for $314 Million. In South America, Novelis made shipments of 523 Kt in FY18 compared to 474 Kt in FY17 reflecting an upward trend in this geography as well.

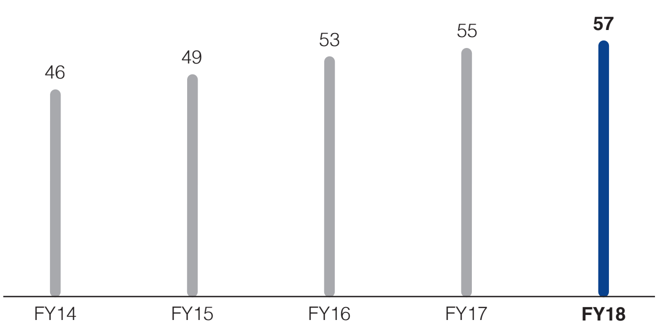
In FY18, the Company reported a record overall adjusted EBITDA per ton at $381 vs $354 per tons in FY17 reflecting continuous strong performance of Novelis year after year.

SHIPMENTS AND EBITDA/TON



With Novelis' continuous thrust on sustainability and recycled aluminium, it has now increased inputs from the recycled material from 55% in FY17 to 57% in FY18. The Company has invested significantly in recycling initiatives and developed high-tech recycling capabilities over the years.

RECYCLING INPUTS **(%)**



2.4.2 Financial Overview

The Net Sales of Novelis increased by 20% to $11.5 Billion in FY18 driven by higher average aluminium price and increased shipments during the year across all the products. The Adjusted Annual EBITDA (excluding metal price lag) stood at $1.215 Billion, up by 12% compared to FY17, on the back of higher auto shipments, operating efficiencies and favourable product mix, metal costs and currency impacts, partially offset by lower can prices. Novelis in FY18 has reported a record free cash flow of $406 Million driven by stronger adjusted EBITDA and lower interest, despite significant working capital pressures from higher aluminium prices.

($ in Million)

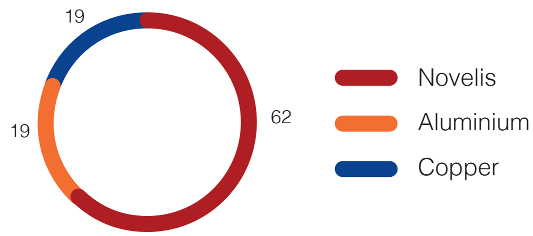
Description	FY18	FY17	% Change over FY17
Net Sales	11,462	9,591	20%
Adjusted EBITDA	1,215	1,085	12%
Net Income/(loss)	635	45	

3. CONSOLIDATED FINANCIAL STATEMENTS

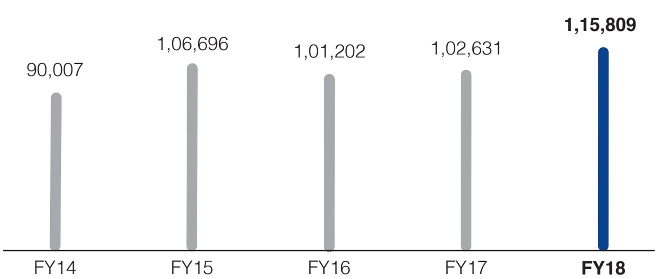
3.1 Revenue

Hindalco's Consolidated Revenue has grown to ₹1,15,809 Crore in FY18 compared to ₹1,02,631 Crore in FY17 as a result of excellent operating performance of all the businesses, and better realisations. The business-wise Revenue Split for FY18 is as follows:

REVENUE SPLIT (BUSINESS-WISE) **(%)**



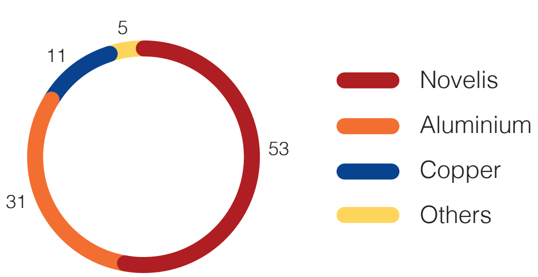
REVENUE **(₹ in Crore)**



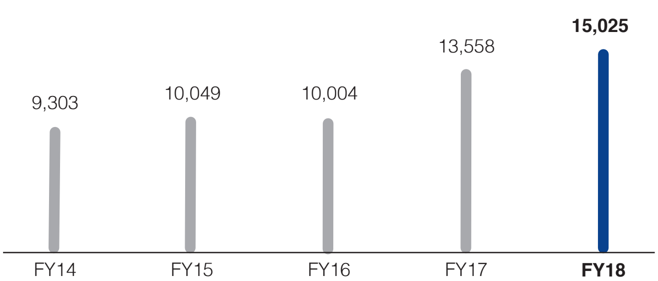
3.2 EBITDA

Consolidated EBITDA (Earnings before Interest, Tax, Depreciation & Amortisation) has grown by 11% at ₹15,025 Crore compared to ₹13,558 Crore in FY17. This record performance was on the back of strong performance by all business in India and excellent performance by Novelis in FY18.

EBITDA SPLIT (BUSINESS-WISE) **(%)**



EBITDA **(₹ in Crore)**



3.3 Finance Cost

Finance Cost has reduced by 32% at ₹3,911 Crore compared to ₹5,742 Crore in FY17 on account of ₹7,996 Crore prepayment and re-pricing of long-term project loans in India and also refinancing of Senior Notes and term loans in Novelis.

3.4 Depreciation

Depreciation and amortisation increased from ₹4,469 Crore in FY17 to ₹4,606 Crore in FY18 on account of progressive capitalisation and certain reclassification during the year.

3.5 Exceptional Income/(Expense)

Exceptional Income in FY18 was at ₹1,774 Crore compared to ₹8 Crore of Exceptional Expense in FY17. This income was mainly on account of pre-tax gain due to Novelis selling approximately 50% ownership of its Ulsan facility in South Korea to Kobe Steel for $314 Million in FY18.

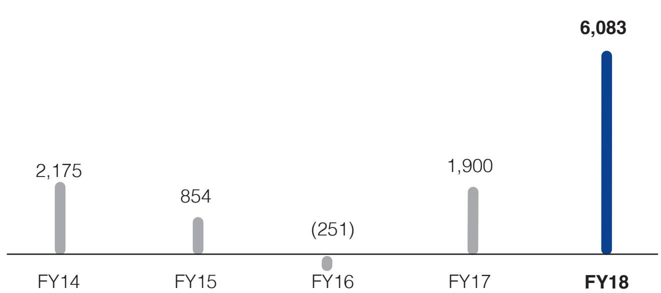
3.6 Taxes

Provision for tax was at ₹2,074 Crore in FY18 against ₹1,433 Crore in FY17. This increase in taxes was on account of increase in the overall profitability of the Company.

3.7 Net Profit/(Loss) (attributable to the owners of the Company)

Profit after Tax has trebled in FY18 at ₹6,083 Crore compared to ₹1,900 Crore in FY17, up by 220%. This includes the exceptional gain (before tax) of ₹1,774 Crore on account of sale of approximately 50% share of Ulsan, South Korea facility under Novelis in FY18.

PROFIT AFTER TAX **(₹ in Crore)**



3.8 Net Debt to EBITDA

To further bolster the balance sheet, the Company has prepaid close to ₹8,000 Crore of long-term project loans in India. This has led to significant improvement in the Consolidated Net Debt to EBITDA at 2.82x at the end of March 2018 vs 3.74x at the end of March 2017.

3.9 Consolidated Cash flows of Hindalco

The Cash from Operations for Hindalco Consolidated stands at ₹10,888 Crore in FY18 vs ₹12,687 Crore in FY17.

(₹ in Crore)

Particulars		Consolidated year ended	
		31-03-2018	31-03-2017
A.	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Operating Cash flow before working capital changes	14,082	13,078
	Changes in working capital	(1,786)	389
	Cash generated from operations	12,296	13,467
	Payment of direct taxes	(1,408)	(780)
	Net Cash Generated/(Used) – Operating Activities (a)	**10,888**	**12,687**
B.	**CASH FLOW FROM INVESTMENT ACTIVITIES**		
	Net Capital Expenditure	(2,956)	(2,870)
	Disposal of Investment in Subsidiaries (Net)	2,053	48
	(Purchase) / sale of treasury instrument (Net)	5,558	(418)
	Loans and Deposit (given)/ received back (Net)	(133)	(45)
	Interest and Dividend received	503	496
	Net Cash Generated/ (Used) - Investing Activities (b)	**5,026**	**(2,789)**
C.	**CASH FLOW FROM FINANCING ACTIVITIES**		
	Equity Raised	16	3,314
	Net Debt Outflows	(12,286)	(2,543)
	Interest & Finance Charges paid	(3,849)	(6,075)
	Dividend Paid (including Dividend Distribution Tax)	(294)	(248)
	Net Cash Generated/(Used) – Financing Activities (c)	**(16,412)**	**(5,552)**
	Net Increase/(Decrease) in Cash and Cash Equivalents (a)+(b)+(c)	**(499)**	**4,347**

4. BUSINESS OUTLOOK

The Company has strong focus on strengthening the balance sheet through deleveraging, allocation of capex towards growth strategies and generating positive free cash flows. It will also continue to increase its share in VAP. The Company is focusing on enriching its product mix and is evaluating investments in aluminium downstream facilities towards newer products and its existing product lines to cater to this demand. However, concerns on the import in aluminium and copper continue to hurt the domestic aluminium and copper industry. With the newly commissioned continuous copper cast rod plant (CCR#3), which is expected to ramp up in FY19, Hindalco's rod capacity will become ~80% of the cathode production, from the earlier 33%. This added capacity will help the Company service the growing demand of copper in the domestic market. The Company will continue to keep a close watch on input prices which can impact the cost of production, including that of coal, and strategise to mitigate these by utilising its resources well, with better efficiencies across all products and plant locations, including Novelis.

Novelis will continue to take a balanced approach and explore potential opportunities that will drive profitable volume growth in its current product lines and other core end-markets, while maintaining its balanced and disciplined approach towards the decision-making process in each of its product categories.

5. PRICE RISK MANAGEMENT

Hindalco's financial performance is significantly impacted by fluctuations in prices of aluminium, exchange rates and interest rates. The Company takes a structured approach to the identification, quantification and hedging of such risks by using derivatives in commodity and currency which is driven by a comprehensive risk management policy of the Company.

6. SUSTAINABILITY

The world is moving towards more sustainable products. There is widespread demand for developing new products which are environmentally and socially sensitive as well as utilising existing products in more sustainable applications. This places us in a unique position and sets us up for tremendous growth in times to come. Changing trends in other sectors such as automotive which is demanding lighter metals for enhancing fuel efficiency of vehicles, are also boosting this growth potential further.

It is our endeavour to become a leading metals Company for sustainable business practices across global operations and balancing our economic growth with environmental and societal interests. Our current footprint and nation-wide market presence also bestow upon us the responsibility of reducing the stress we create on the environment as well as enhancing inclusive development. Our focus is on leveraging operational excellence to optimise our environmental footprint. It helps us manage our resource sustainably while at the same time improving our performance on aspects like energy conservation, water use efficiency, waste minimisation and recycling, and safety performance. We have also aligned ourselves to the global call to mitigate climate change and have committed to do our bit to limit the global temperature rise to less than 2°C.

We continue to strive towards developing applications and products which maximise recycling and minimise resource extraction in India while Novelis maintains its position as the global leader in the FRP space. We draw upon the unique nature of aluminium which is a 100% recyclable metal and does not degrade in quality on recycling. The Company has initiated various steps to maximise usage of recycled materials as input materials. Novelis has invested in major recycling initiatives, including advanced equipment and technology, to process diversified scrap. Hindalco aims to avoid, reduce and reuse the waste we create by managing it through a lifecycle approach. We collect all the scrap we generate and process it for further use or disposal in a safe manner. During our upstream mining operations, metals production and during our downstream processes or product systems, we take care of our waste and focus wisely use of resources, using processes that create the greatest possible value. To this end, Novelis has been able to use 57% of the input in the form of recycled scrap. This has been achieved through significant amount of investment in recycling technologies and equipment. The same amount of focus on recycling is also exercised in the copper business.

To further strengthen its systems, the Company has adopted various technical standards released by Group Sustainability Cell which covers various aspects on environment, safety and occupational health. The Company is in advanced stage of implementing these standards.

Inclusive growth is one of the key priorities for the Company. Through extensive community engagement and investment in the creation of community infrastructure, we are propagating a culture of shared growth. By working in various areas such as healthcare, education, sustainable livelihood, infrastructure and social reform, the Company is doing its bit to help towards socio-economic development and upliftment of the underprivileged.

To further strengthen our systems, the Company adopted various technical standards released by Group Sustainability Cell which covers various aspects on environment, safety and occupational health. It is in the advanced stage of implementing these standards.

The focus is on the two concepts of triple bottom-line performance and trusteeship management help us carry out our business in a more responsible and sustainable manner year-on-year.

7. SAFETY

As a responsible corporate citizen, Hindalco, along with conservation of natural resources and the environment, is dedicated to the health and safety of its employees, associates and the society. Safety is considered a core value all across Hindalco and thus the Company's plants and mines follow the environmental, health and safety management standard that integrates environment and safety responsibilities into everyday business. Focused efforts are made to make Hindalco the safest company and ensure 'zero harm' to its employees, community and environment. Initiatives which were rolled out to help achieve this ambition and to be the benchmark within the industry are in advanced stages of maturity. Extensive work is in progress to ensure risk control in important areas like human behaviour; mining activities, road traffic management and contractor management. In order to build a sustainable safe workplace environment, a common health and safety management system across the Company is by and large implemented. This includes implementation of world-class safety standards, organisational safety competency and capability improvement, safety leadership development, a cross auditing activity to enhance sharing experiences and sharing best practices across Hindalco. FY18 was a year of some significant safety achievements. The Loss Time Injury Severity Rate (LTISR) at Hindalco this year is least in its history.

We aspire to make Hindalco the safest company and ensure 'zero harm' to our employees, community and environment

8. HUMAN CAPITAL

With nearly 25,000 direct employees in India and another 11,000 outside the country, people are at the centre of driving excellence at Hindalco.

The Aditya Birla Group is one of the most preferred employer in the country and was recognised as the Best Employer in the AON 2018 survey. This enables us to attract the required talent and retain them. Since 2016, we have hired more than 450 young professionals (Engineers, CAs, MBAs) from the best campuses in the country and our management attrition has been less than 5%. Through a robust succession planning process, we have identified bench talent for all critical positions across locations and functions. We are investing more than 4 days/ employee per annum on need-based training and development inputs on both behavioral/ leadership and functional/ technical aspects. We have also stepped up internal movements with a view to giving new experiences to our employees and are moving atleast 10% of the managerial population into new roles every year as part of our career development strategy. We are also making our performance management process more robust and transparent, with increased focus on goal setting, regular feedback and calibration, as well as linking our rewards to performance and market trends and

As on March 31, 2018, Hindalco is managing a pool of around 25,000 people in India and around 11,000 globally.

For leadership development, Hindalco works closely with 'Gyanodaya – Aditya Birla Group Global Centre for Leadership Learning'

practices. An HR shared service has recently been set up to enhance and provide consistent employee experience on HR processes and systems.

8.1. Training and Development

The Learning and Development function is well-integrated with the overall HR function and business objectives. The Company has a full-fledged learning infrastructure across locations to support its learning objectives. The Company's strategy aims at equipping people across units with business-linked knowledge along with developing them in ABG behavioural-based competencies.

Recently, the Company created Hindalco Technical University (HTU) for technical-cum-functional capability-building with the purpose of preparing people for current and future challenges of the business. For leadership development, the Company works closely with 'Gyanodaya – Aditya Birla Group Global Centre for Leadership Learning' that provides relevant and current knowledge and competency-based learning opportunities along with e-learning programmes.

9. INTERNAL CONTROLS

A strong internal control culture is pervasive throughout the Group. Regular internal audits at all locations are undertaken to ensure that the highest standards of internal control are maintained. The effectiveness of a business' internal control environment is a component of senior management performance appraisals. The principal aim of the system of internal control is the management of business risks, with a view to enhancing shareholder value and safeguarding the Group's assets. It provides reasonable assurance on the internal control environment and against material misstatement or loss.

Cautionary Statement

Statements in this "Management's Discussion and Analysis" describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian demand supply conditions, finished goods prices, feedstock availability and prices, cyclical demand and pricing in the Company's principal markets, changes in the government regulations, tax regimes, economic developments within India and the countries within which the Company conducts business and other factors such as litigation and labour negotiations. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent development, information events or otherwise