"Vedanta Limited Q1 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Vedanta Limited Q1 FY 2018 Results Conference Call. As a reminder, all participant lines will be in the listen only mode, and there will an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashwin Bajaj. Thank you and over to you sir.

Ashwin Bajaj: Thank you, moderator. Good Evening, ladies and gentlemen. This is Ashwin Bajaj, Head of Investor Relations. Thanks for joining us today to discuss our results for the first quarter of FY'18. We will be referring to the presentation that is available on our website. Some of the information on today's call maybe forward-looking in nature and will be covered by the disclaimer on Page #2 of the presentation.

From our management team, we have with us our CEO -- Tom Albanese; our CFO -- Arun Kumar; we also have several of our business leaders with us; we have Sudhir Mathur from Cairn India; Sunil Duggal from Hindustan Zinc; Deshnee Naidoo from Zinc International; Kishore Kumar from Iron Ore; Abhijit Pati from Aluminum; and Ajay Dixit who is in-charge of the Alumina vertical as well as TSPL Power.

So with that let me hand over to Tom. Tom?

Tom Albanese: Thank you, Ashwin, and Good Evening, ladies and gentlemen. I am pleased to welcome you to Vedanta Limited's First Quarter Fiscal 2018 Earnings Call. Starting with the commodity markets, our quarter-on-quarter basis, we have seen lower commodity prices during the quarter except for aluminum where Chinese efforts to restrict excess capacity in aluminum has been helping. During the last quarter, I was in China. I can witness the pragmatic steps of aluminum producers in order to control the pollution. So I think we will see probably steady tightening in China in terms of new supply. Aluminum LME continues to shift to positive buyers for the first time in nearly a decade. Having said that we have also seen a smart recovery in zinc prices recently. I will speak about that in a little more detail later.

As I have said in the past couple of calls, we expect that the rest of fiscal '18 will be more of a supply-driven story in our sector barring any macro shocks in the global economy. So we begin to see large capital inflows back into the sector, we are probably going to continue to see just progressively tightening markets and hopefully supporting prices.

Renewable energy and electric vehicles are evolving rapidly worldwide. With each quarterly call, you hear more and more about it; however, India's strong demand growth for gasoline and diesel is continuing and likely to continue for the next several years. Over the longer-term, surge electric vehicles remain strong demand for our base metals like copper, aluminum and lead given their extensive usage in transportation system and also electric batteries. Of course, Vedanta will strongly benefit from these new demands for metals. Overall, our diversified portfolio metals plus oil is fundamentally strong and structurally low cost which should directly benefit from any of these emerging macro trends.

So with that let me just take you through the First Quarter Performance. As always I will start with the slide on "Safety and Sustainability." Continuing to build on a zero harm culture Vedanta, I am pleased to announce we have had no fatalities during the first quarter of 2018 nor have we had any on a year-to-date basis. Outlining that regard, it is up to us to deliver zero harm on a continuous basis. We will continue to work to make ourselves a safer and better company.

Moving to Operations: On the operations front the next slide, we continue with our production ramp up across our portfolio with production guidance for fiscal year 2018 largely unchanged. We had significantly higher production quarter-on-quarter at Zinc India. Gamsberg zinc project is on track for mid-calendar year 2018 production. At aluminum, we exited the quarter with a stabilized production run rate of about 1.4 mt per year.

Talking about the Financial Highlights, typically for Vedanta Q1 and fiscal year seem to be subdued as compared to the previous fourth quarter and typically the fourth quarter is typically the strongest month mainly driven by mine plants, seasonality and operational maintenance. Given that I am happy to report the first quarter EBITDA at Rs.4,965 crores, represented 40% increase in year-on-year EBITDA.

Our first quarter fiscal year 2018 profit after tax of Rs. 1,525 crore is more than double back of last year. Our cost savings, we have continued the strong culture of cost control and has been required to assist in further savings. I am now happy to state the delivery savings of nearly 856 million over the last nine quarters. However saying that we are not pleased given that we have had the sharp uptick of aluminum cost, some of them inflationary related, which I will talk about later in my presentation. Continuing on the path of deleveraging, we have reduced our gross debt by nearly Rs. 9,000 crores in the first four months of fiscal year 2018.

So we move over to our slide on delivering on strategic priorities. We really have this slide for now going on three plus years just to remind you of the strategic priorities which have remained unchanged, and our focus area for fiscal year 2018 remain the same as stated by us in the beginning of the year. We are generating increasing free cash flow via continued production ramp up and with the relentless focus on costs and managing working capital with delivering our balance sheet.

Our new dividend policy demonstrates our commitment to providing strong returns to our shareholders. We have completed merger with Cairn India. We are realizing the benefits of the merger. We continue to identify the next-generation resources by leveraging the expertise of central mining exploration route. Of course, we are committed to achieving zero harm and creating sustainable value to our stakeholders.

So with that let me move on to capital allocation and the focus on shareholders' return. Just to reiterate, our capital allocation policy, which is underpinned by our world-class assets and operational excellence delivered strong, stable and long life cash flows. As you know most of the investments are growth projects for these assets are nearing completion and will result in continued improvements in cash generation.

We have a diversified portfolio of businesses which continued to remain fundamentally strong and structurally low cost. We will continue to deliver superior value to all our stakeholders throughout the cycle.

With that I will now hand over to Arun Kumar, who will take you through the "Financials."

Arun Kumar: Thanks, Tom. Good evening to all. I like to start off on a slightly different note. Just this morning, FTI Consulting Asia, a global business advisory firm has released India Disclosure Index based on our annual report. I am glad to report that Vedanta Limited has come out as a role model in the mining sector. Overall in India, only three companies are head on this course scoring 10 on 10 and Vedanta as a joint second with few other companies at 9.1 out of 10. We feel good of this truly global recognition and the comfort our investors and stakeholders draw from this recognition. As always, we reset our target now for a perfect 10 on 10 for next year.

Moving on to the chart, as you can see in front of you, during the quarter, we delivered an EBITDA of Rs.4,965 crores, 40% higher year-on-year basis with an EBITDA margin of 36% driven by strong operating performance, i.e., volume and cost efficiency, while prices were off their lows over last year. The sequential quarter numbers reflect the base effect of a skewed mine plant especially at Zinc India which the management team covered in the result earnings call last week and additionally marginally lower LMEs and Brent.

As communicated earlier, the pot failure at Jharsuguda and the TSPL power plant impacted earnings by approximately Rs.500 crores, but these are now behind us with a ramp up and commencement of operations respectively at the locations. We are on track to meet our full year volume and guidance across businesses.

Our gross debt excluding ZL temporary borrowings reduced by approximately Rs.9,000 crores during the last four months since March 2017. Thanks to 4Q cash earnings and opening cash balances. These are partly offset by issuance of preference shares on the Cairn merger for Rs.3,000 crores.

I reiterate like I did in mid-May when we met for the annual results that the strong liquidity of Rs.48,000 crores, low gearing and low net debt-to-EBITDA of 0.8x amongst the best-in-class in Indian conglomerates, strong operations, reducing gross debt trajectory, generally robust EBITDA cash conversion and sound management, all continue to reiterate Vedanta's strong investment case.

Moving on to the next page on the EBITDA Bridge: As seen on this page compared to the previous year, EBITDA is up by approximately Rs.1,400 crores, 40% growth as mentioned earlier. Improvement in the commodity prices held through currency appreciation especially Indian rupee by 4.2% and the South African Rand by 13%, and input commodity inflation impacted EBITDA adversely resulting into a net positive impact of Rs.750 crores on the market

factors. As far as volume and cost is concerned that is in our control, and the contribution has been a good Rs.550 crores approximately.

Zinc India has gone through a successful transition from open cast to underground mines in the last 12-months with significant increase in the current quarter volume. At aluminum business we have fully completed ramp up of smelter-2 at BALCO and VAL Jharsuguda ramp up is progressing well after the earlier setbacks. TSPL back to around 90% availability as we speak.

The cost savings program continue to do well and on track for H1 FY 2019 target savings. Overall, the general trend in volume consolidation, ramping up of capacities, focus on cost efforts, all the assets back in operations, all of them being basic building blocks for a strong company and balance sheet is intact.

Next page on the Income Statement: While this page is self-exclamatory, I will draw your attention to the attributable PAT before exceptional items, which at Rs.1,525 crores more than doubled over the previous year. Depreciation and amortization has decreased mainly on account of change in depreciation methods consequent to the accounting guidance changes under Ind AS in the oil & gas business effective 1st April and lower mine production at Zinc India. With this FY 2018 depreciation is likely to be marginally lower than FY 2017. I am sure you absorb the notes to account we have given on this account.

Finance cost has marginally increased quarter-on-quarter due to capitalization of new capacities at aluminum, temporary borrowing at Zinc India offset by lower interest rate and gross debt reduction. Cost of borrowing for the quarter was below 8% at 7.9% lower compared to 8.2% in Q4 FY17.

With the reduction in interest rate for our term debt which was refinanced 80 basis points to 100 basis points overall cost of borrowing is likely to be 20 basis points to 25 basis points lower than last year. Blended rate of return on investment for the quarter was around 6.7%, reflecting the interest rate curve as well as the mark-to-mark on the bond investments. The tax rate guidance for the year at mid-20s to 30% as articulated during the May 2017 meetings still holds.

As seen in the notes, in early July, the appellate tribunal gave unfavorable ruling regarding dispute around computation of tariff for our subsidiary TSPL around the area of coal sourcing. Based on the grounds of appeal and the external opinions, the group is of the view that there is a high probability of success in these matters. Approximately Rs.40 crores of EBITDA for the quarter is accounted on this note.

As you would notice in the pack, the guidance on volumes is largely unchanged as I mentioned earlier. Cost is expected to be marginally improved aluminum, driven by inflation, though LME there continues to be stronger helping to mitigate the impact.

Moving on to the next page on Net Debt: During Q4 2018 Vedanta and its subsidiary, Zinc India, declared a record in Indian corporate history special dividends rewarding the shareholders which

was subsequently paid out in April. Post this, the preference shares issued to the Cairn shareholders pursuant to the merger is also reflected in the walk.

There is some unwinding of the working capital in Q1 as is normal, which is likely to come back in the following quarters. Our CAPEX program is progressing well in line with our guidance given in the last results call. The net cash from operations was around Rs.4,100 crores, but as outlined above was invested back in CAPEX and working capital. Net debt post dividends and preference shares stayed at almost the same level more or less over the last quarter.

On the next page on the Balance Sheet, continuing with our focus on gross debt reduction while the net debt-to-EBITDA ratio remain strong as we discussed earlier, the company repaid Rs.9,000 crores of high cost term loans during the last four months and has also been able to lower the costs on those outstanding debt portfolio during the quarter. The rate of interest on outstanding term loan portfolio was reduced by about 80 basis points to 100 basis points.

The improved credit profile also helped us compress our spreads on capital markets borrowings, giving us access to competitively priced points. Our access to debt market and relationship banks continue to be comfortable. We look for opportunities to actively manage our balance sheet by extending our maturity profile and reducing our cost of borrowing. As usual, the liquidity of the group remain strong with over Rs.48,000 crores or $7.5 billion of cash and about $1.1 billion of undrawn lines credit.

Finally, on the last page on Financial Priorities: Our financial priorities remain consistent. As Tom articulated earlier, we will continue to remain focus on cash generation from the business by running them efficiently, reduce gross debt while ensuring robust shareholder return yet and all our CAPEX requirements internally. In short, we aim to allocate capital wisely and appropriately.

Thank you all and over to Tom for the business section.

Tom Albanese: Thank you, Arun. We will now move over to zinc, and like to first start by talking about the zinc market fundamentals since that is our strongest business. I have been talking about the zinc fundamentals for quite some time as you know, and I talk about the fact that we continue to see strength both on stable demand and again diminished supply and we continue to see these fundamentals on trend and its fundamentals intact. Over the past few months there were some doubts about refined market given the fall in zinc prices, but we were a believer and again we have seen those markets recover and this smart recovery in the zinc LME justified what I will consider to be a fairly strong view we have on zinc.

The continued shortage of new supply and the continuous draw down of refined zinc inventories both LME and Chinese registered warehouses have led to multi-year low stock levels, some of them going back more than 10-years. The concentrate market continues to be tight, it is a fact that just now finally started reflecting in the refined market and the impact of this tightness is

getting accentuated in the coming months. TcRc do remain low although even marginally up in the past few months. Just a reminder 60% of Zinc fine is used in galvanizing.

The end use of zinc is largely driven by construction, transportation and infrastructure. As you are aware India is growing significantly in each of these sectors and surprisingly so India does not yet galvanize its vehicles, and for most of the building construction would not be using galvanized rebar. So there is still I think quite a bit of upside in terms of future demand increases just in the Indian market. Urbanization and industrialization will continue to drive demand in all of these sectors.

Moving on to the business itself for Hindustan Zinc: Starting with our Hindustan Zinc business we commenced the year achieving mined metal production of 233,000 tons. Our cost of production for the quarter was higher mainly due to the sharp increase and input commodity prices and our asset realization was also lower.

On our projects, we are on a way to achieving 1.2 mt of mined metal capacity in fiscal year 2020, underground mining move 80% in the current year before completely transitioning to underground mining in fiscal year 2019.

Our Rampura Agucha mine, the underground ramp up continues to proceed well, and we expect to start ore production in the third quarter of fiscal year ‘19. At SK mine, we were at 1.5 mt in new mill contracts to L&T, which will take our mill capacity at SK up to 5.8 mt per year.

We do believe the Zawar group of mines have a potential far beyond the existing resource and reserve and we are extremely focused to continue to explore that full potential and critically adapt in the coming years.

We maintain our overall production guidance for fiscal year 2018 of refined zinc metal production of about 950,000 tons. Silver production is expected to be over 500 tons while cost of production is expected to be marginally higher compared to fiscal year 2017.

Moving Overseas to Zinc International: Higher sales volume of Black Mountain helped us deliver strong EBITDA despite a plant shut down at Skorpion and the asset plant during the quarter. As you may recall, sales were lower last quarter and some of those had been also pushed into the current quarter. While cost of production for the quarter at $1,690/t was high, it was largely driven by the shutdown at Skorpion.

Moving on to Projects. The Gamsberg project is on budget and on target for first production by middle calendar year 2018 and we made significant progress during the quarter. The critical milestone in completing the north access ramp as part of the open pit development was achieved as per schedule. The north pit pre-stripping is now fully ramped up in the quarter.

All major orders for the integrated process plant, water and power, mining and other pre-start activities have been placed and manufacturing critical machinery like mills, crusher and transformers are all progressing well.

At Skorpion, as you know, we announced last year a pit expansion project and that is proceeding well and we will ultimately extend the mine by another three years. Our fiscal year 2018 production and cost of production guidance remain unchanged with production of about 160,000 tons and cost of production at $1500/ton.

Two weeks ago actually most of the sell side analysts were part of our Oil & Gas Day at our Gurgaon office. We got really good positive feedback from that and based upon that positive feedback and help you better appreciate our zinc business we are planning to host a Zinc Day very soon and we will shortly follow up with details.

Normally I would speak about the Oil & Gas business, and in order to ensure our shareholders get as much information as they need on our Cairn Oil & Gas business it is appropriate that Sudhir Mathur, the CEO, speaks directly about the highlights of Cairn. Sudhir, over to you.

Sudhir Mathur: Thank you, Tom and Good Day to everyone. The Oil & Gas business continues to deliver stable production volume with higher free cash flows and managing the field at a low operating cost. We have also commenced our growth journey on both exploration and development fronts. Our co-fields continue to deliver along expected lines with gross production across our three assets at 187,000 boepd for the quarter. Rajasthan production was around 160,000 bpd. Mangala EOR continues to deliver strong performance with Q1 FY'18 volumes at 56,000 barrels a day. Continued reservoir management and production optimization help deliver steady production from water flood operations across the field. The Rajasthan asset recorded an excellent uptime of over 99% during the quarter.

Gas production from RDG increased to average of 35 million cuffs per day for the quarter. During the quarter, we commenced production from two more satellite fields Cambay II and Gudha in Rajasthan. The offshore asset production was at 28,000 bpd with Ravva contributing 18,000 barrels and Cambay 10,000 barrels. Effective reservoir management practices and production optimization help contain the natural decline. The offshore assets also recorded excellent uptime of over 99% for the quarter.

Our world-class operational capabilities have kept the operating cost at the lower end among our global peers. Rajasthan water flood OPEX was 5.5% lower than Q4 at US$4.3/barrel. Blended operating cost for Rajasthan was also lower by 1.2% at US$6.2/barrel with the polymerized liquid injection at 420,000 bpd in Q1.

Moving to the next slide and looking ahead. As we have mentioned in the past, our projects deliver healthy economics at $40 Brent. We have commenced our CAPEX cycle.

Let me begin with the Gas Project: Raageshwari Gas project is progressing well as per plan. Phase-1 of the project is on track to complete in Q2 which would increase gas production to 40-45 million cuffs per day. For Phase-2 the trending activity for the new terminal is progressing well.

The drilling rig contract has been awarded with mobilization by Q3. Phase-2 is expected to increase the gas production to over 100 million cuffs per day and condensate production to about 5000 boepd by H1 calendar 2019.

Moving on to Oil Projects: Mangala has been our most prolific field over the years. We are commencing a 15-well infill drilling program at Mangala to monetize the reserves early. The rig has already arrived at the site and drilling shall commence in a few days from now. We are upgrading the facilities at the Mangala processing terminal to facilitate increased oil production. Liquid handling capacity will go up from 950,000 to 1200,000 bpd increasing water injection capacity from about 650,000 to 850,000 bpd and production enhancement to water treatment, health services and facility modifications.

These are being implemented over in a phased manner. We look to leverage the learning from the excellent performance of Mangala EOR to enhance production at Bhagyam and Aishwariya to polymer injection. Bhagyam EOR field development is under discussion with our JV partner ONGC. We are continuing polymer injection in the select well for incremental volume. The injective retested Aishwariya has been successfully completed in three polymer injected wells. The Field Development Plan for Aishwariya EOR is under discussion with our JV partner. We are continuing polymer injection in the select wells for incremental volume.

The large hydrocarbons in place 1.4 billion boe of Barmer Hill offer significant growth potential. Aishwariya Barmer Hill Phase-1 has been approved and the production from the existing appraisal well will commence from July 2017. Execution of Aishwarya Barmer Hill Phase-2 is expected to begin in fiscal 2018.

Speaking of our exploration activity, we continue to work towards enhancing our prospect portfolio of Rajasthan by high impact place. Prospects have been firmed up for exploration drilling within the current year. In addition to this the focus on enhancing prospect resourcing, service contracts has been awarded for shallow oil prospects and deep gas prospects in the Barmer basin. We are also planning to drill two exploration wells in the KG Offshore block. For the fiscal 2018, we expect to have steady production volume from Rajasthan at 165,000 bpd with the potential upside from the execution of growth projects. The net CAPEX is estimated to be $250 million with further optionality for growth project.

Following in on from earlier comments during the Oil & Gas Day, the re-commencement of our investment in the exploration and development projects is a step towards realizing the full potential of our prolific Barmer basin. We are committed to our ultimate vision of achieving growth production levels of 500,000 barrels per day thereby contributing to 50% of India's domestic production.

With that, over to you Tom.

Tom Albanese: Thank you. Again for those on the call I just want to reemphasize that post the Cairn merger we want you to make sure you get the same level of quality information from Sudhir, the Cairn team that you would have had before the merger.

So with I will now move on to Aluminum. At aluminum we continue to ramp up our operations. I am happy to share the BALCO 325,000 tons smelter is now fully operational as well as capitalized. At 500,000 tons Jharsuguda-I smelter as announced earlier, we had an outage in April 2017 with 228 pots of the total 608 pots were damaged. Rectification of the damaged parts is in progress and as this date 35 pots have been restarted and we expect full ramp up by the third quarter fiscal year 2018.

Coming out of the progress of the ramp up at Jharsuguda-II: The second line has been fully ramped up and capitalized from the fourth quarter of fiscal '17. At the first line and third lines, currently, 187 and 152 pots respectively are operational, and we expect full ramp up by the third quarter of fiscal year 2018. We expect to produce between 1.5 mt and 1.6 mt of aluminum excluding trial run production in fiscal year 2018.

On realizations, as you know, we benefited from higher alumina prices during the quarter. Our realized premiums were marginally higher than last quarter although significantly higher on year-on-year basis.

Our hot metal cost for the quarter as I mentioned earlier were $1,727/ton, mainly on higher import prices for alumina, Indian rupee appreciation, increased input cost and some temporary cost pertaining to pot outages.

Obviously, we are not happy with that sharp increase in the costs and our team are working hard in several operational and procurement initiatives including improvement at our Chhattisgarh bauxite quality, local procurement of coal, efficiencies in our power plants, and we also expect to see Odisha bauxite allocation now sooner rather than later with some pretty good progress over the course of the past quarter.

Pot rebuild efforts are progressing well and within our budget. It may be noted that about $40/ton of the reported first quarter cost of production pertains to pot revival costs which we should get rid of as soon as the damaged parts are repaired as I said most likely by the third quarter.

As we progressively ramp up, the aluminum cost production will also see a downward trend from the second half of the current fiscal year. We estimate the hot metal cost production in the second half of the fiscal 2018 to be between $1,575 to $1,600/ton.

We expect fiscal 2018 alumina production in the range of 1.5 MT to 1.6 MT implying about 50% of our alumina requirement is met via captive production.

At our BALCO mines, we expect to mine 1.8 mt to 2 mt of bauxite in fiscal 2018, and again we continue to work with the Odisha government on the allocation of bauxite to drive future expansion at Lanjigarh refinery.

Moving on to Power: At TSPL, all three units are restarted and at the end of June and currently running availability of about 90%. As announced earlier, the plant without production as we had a fire at the coal conveyor unit in April 2017. We expect availability of 70% for the full year.

At BALCO 600 MW and Jharsuguda 600 MW we saw sequentially lower offtake in the first quarter. This remind you we have had long-term power purchase agreements for about 60% of the 600 MW capacity of BALCO which are being substantially met and serviced.

The 100 MW Nalco power plant has been put under care and maintenance effective from the 26th May 2017 due to lower demand in southern India. The plant had been selling commercial power for the last eight years and had generated significant cumulative EBITDA of about $170 million over those eight years.

With respect to coal sourcing, we have observed temporary disruptions in domestic coal supply, which meant some increased power costs. We have been reducing our dependence on imported coal at BALCO and Jharsuguda despite increasing coal requirements as we ramp the smelters up. We did secure 2 mt of coal linkages in July during the linkage auctions. This is in addition to the 6 mt we secured a year ago. We believe options of coal linkages are beneficial for long-term security of coal sourcing at competitive prices.

Moving on to the Iron Ore slide: We had sales of 2.28 mt and production of 3.24 mt. At Goa, production was lower primarily due to the early onset of the monsoon as well as the temporary halt in mining in some areas by the government, which expect to be resolved in this coming third quarter.

Sales were lower due to lower pricing environment and a widening of discount for 56% grade as compared to the 62% iron grade, and this will result in negative EBITDA per ton. However, we have been very busy during this monsoon season working on an upgraded product and we expect to come out of the monsoon season with a better material that we are selling.

We are working on the beneficiation and blending with higher grades so that we increase our overall iron content to about 57.7% grade as well as lowering the alumina content from 4.2% to 3.5%. We would expect that this will enable narrowing of current discounts and improve our realizations per ton.

At Karnataka, we have achieved 50% of our annual mining cap reproduction of 1.09 mt during the quarter. Our sales were lower at 0.42 mt due to muted e-auction sales. However, beneficiation of ore has resulted in improved prices at $24/ton compared to $18/ton in the first quarter of fiscal 2017. We remain confident of achieving our allocations of at least 5.5 mt and 2.3 mt at Goa and

Karnataka respectively well ahead at the end of the fiscal year and we continue to engage with respective state governments from increased mining allocations in both states.

We will talk about Copper India. Copper India production was about 90,000 tons of cathodes. Production was lower primarily due to plant shutdown for 11-days as well as an unplanned shutdown for four days due to a boiler leakage at the smelter.

We advanced the maintenance shutdown to the first quarter to coincide with global mining disruptions of seaborne concentrate. Global concentrate supply has since recovered as you are aware as the effective mines have begun to ramp up production. Smelter is now operating at high efficiency following the shutdown and expected to produce about 400,000 tons of cathode during fiscal year 2018.

TcRcs have been lower for the quarter at $20.08/pound. This decrease was an account of reduction of global benchmark to TcRc rates and lower spot TcRcs. Over 80% of our concentrate requirements are sourced through long-term agreements.

Our net cost to conversion was higher year-on-year mainly on account of higher coal and input commodity prices, lower realized asset prices and lower volumes due to the maintenance shutdown I just mentioned.

We do continue to evaluate the expansion of Tuticorin smelter by further 400,000 tons per year and we should be able to provide further updates on this progressively during the course of the year.

So now to close we like to remind everyone of the compelling investment case for Vedanta Limited. We have got a large diversified asset base geared toward base metals and oil producing sector-leading production growth. As we talked about low cost production profile in the lowest quartile many of our assets is the company generating positive free cash flow even in some of the low commodity prices we have seen in prior years.

One of the strongest balance sheets among India and global peers with net debt-to-EBITDA of 0.8x and gearing of 20%. We remain committed to achieving our objectives of zero harm and creating sustainable value for all shareholders.

As this is our first quarterly reporting period for the newly merged Vedanta, we are getting off to a good start.

Now, operator over to you for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia: First question is on the zinc business. Really look like the next big potential value unlocking division in the group and is very encouraging to see that Gamsberg is progressing well. Just want to understand once production starts say mid-2018, how fast can ramp up happen to 250 KTPA and how will BMM the existing mine phase out in the next two years?

Tom Albanese: Maybe I will start with some comments both on the Gamsberg, but also talk about BMM and then maybe I will ask Deshnee to supplement those. Thank you for your positive commentary about the Zinc International business. I think that has been a real home run for the company since its acquisition and with Gamsberg coming on board is going to be delivering its next chapter. But we would expect that as I said that Gamsberg should be completed and in production by the middle of next calendar year and realistically we are looking at 12 plus months to ramp it up aggressively as we go forward. I think that will be something that will basically give us the 250,000 tons of zinc production as we previously advised. I do want to clarify and actually correct one of the things with all due respect that you said about what are we going to do to replace Black Mountain, because we have been doing some good exploration in the Black Mountain area and we found a number of targets actually more targets that we have actually drill resource to go after now. What that gives us confidence is that as we begin to continue mining in Black Mountain over the next few years, I would expect the some of the nearby ore bodies including Swartberg which we have mined in the past would increasingly take up the slack as the Black Mountain's current resources begin to expire. So actually I have a pretty positive perspective that Black Mountain is going to be around for a good time going forward. With that, Deshnee is there anything further you would like to add?

Deshnee Naidoo: I think as Tom said it, Gamsberg project by the middle of next year we would have the first of feed into the plant give us 9-to-12 months after that to ramp up to the full 250,000 tons of metal in concentrate. I think what is exciting about that resource is that that is just Phase-1. So the team and I now need to make the call on when we want to press the button on the phase-2 part of this project and we have both the phase-1 project almost trying to factor in an incremental ramp up to phase-2 and phase-2 could be another 180,000 tons to 200,000 tons of metal concentrate. That still maybe in 18 months to two years away, but I just want to put it up there that this resource has got another phase potential to it. So from a complex point of view to answer your question and as Tom said, yes, the deep shaft at Black Mountain will ramp down in the next three to four years, but we have accelerated our exploration and we do believe that there is a future on the Swartberg resource which is predominantly a lead and a silver resource from a vision point of view. We foresee quite an attractive, what we are calling a "Black Mountain Mining Complex Vision" for the Gamsberg zinc on the one side and then the lead silver deposit in the current mine. The team and I are now focused on how do we integrate this to make this a very competitive complex that in the first quarter of the cost curve, as Tom said for many years, but at least for the next 20-years we are quite clear on what the vision will look like.

Sumangal Nevatia: So just from a broad perspective, the phase-2 will also have a similar CAPEX intensity as phase-1?

Tom Albanese: All we know now is that the current phase-1 gets us 4 mt per year mining rate, we have got a total resource of 180 mt and that is likely to expand. So I think we have got a lot of engineering to do before we get to a point of even seeing with the scale of phase-2 would be over its capital cost.

Sumangal Nevatia: The oil business EBITDA looks very strong, not able to reconcile. Any one-off here which we should note?

Tom Albanese: I think maybe it would be good for Arun to start with that and Sudhir if you want to say anything else.

Arun Kumar: I think the oil & gas business normally goes through the typical per barrel EBITDA plus they would be in various quarters cost recoveries of plus/minus because that is a standard practice in that business. We do have a one-off cost recovery that is there in this quarter… Sudhir will like to just spend very brief moment on that, but it is a very minor thing.

Sudhir Mathur: Thank you, Arun. Cost recovery is something that often goes in a lag, in the sense that we have done in exploration like we do in Rajasthan at sole cost when we bring these fields into production we are able to recover. So in sometimes some of the projects I spoke about we would start incurring the cost on behalf of ONGC as well to order these items, and when the FDP gets approved we claw that back in terms of ONGC share as well as the government share of profit petroleum. So this quarter we had bit of higher entitlement interest.

Sumangal Nevatia: Is it possible to share the quantum?

Sudhir Mathur: Normally we do not share details of that because it is between our partners and us on how we manage these issues. But as I mentioned, our total cost of production is $6.2/barrel and we should be able to derive a reasonable number if you want in the profit, but the cost structure is better half by 1.2% over the previous quarter.

Moderator: Thank you. We have the next question from the line of Pinakin Parekh from JPMorgan. Please go ahead.

Pinakin Parekh: The first two questions on aluminum. The first question is that while we have been in discussions with the Orissa government regarding bauxite security, obviously progress has been very slow over there. Would the company look to go ahead with the expansion for the refinery even without captive bauxite given that the bauxite is still available regionally or would bauxite security still remain the key driver for any decision to expand the alumina refinery?

Tom Albanese: From my own perspective, I think we have three steps ahead of us -- The first is to ramp up our existing capacity to 2 mt per year and do that within the materials that we have and that is currently the order of business. We have been working on the engineering for the Lanjigarh expansion also seeing if there are other technologies or other ways that we can do. It has been moved on from five plus years since the original expansion vision. So that is going to be looking

at that, and based upon that that is going to give us sort of breakevens for running rates etc., that could cause us to say Let us go ahead with it before the bauxite actually available. But my own personal preference is to make sure we have the burden in the hand that is the bauxite and its allocation so that we can then basically have the security of supply, and security of feedstock, so we can move forward with the expansion, of course, these are parallel efforts, they are not necessarily mutually exclusive.

Pinakin Parekh: Secondly, on the aluminum cost of production from $1,727 to guidance of $1,575-$1,600. Is it only the lower cost from here would only be driven by the normalization of production or is the company also looking at some benefits either on the input side or the process side?

Tom Albanese: So I think it is a combination of the two. Obviously moving away from some of the pot repairs immediately takes the numbers down a bit. We are ramping up and increasing our procurement of our own and third-party bauxite which will allow us again to ramp up Lanjigarh and the produce cost of Lanjigarh alumina is much lower than the purchase cost of seaborne alumina. We are also looking at the alumina that we are procuring or hoping for improvement in that area. Then we continue to see areas for efficiencies, for example, one of the current phases of our efficiency improvement right now would be really looking hard of the supply chains and some of the logistics, and I think we are going to see some low hanging fruit still as we move forward in those areas.

Pinakin Parekh: My last question is in that Oil Day which the company hosted last week, it was obviously a very good presentation, we got a lot of insights. But one question is that at what point this year or next year can we get a more granular visibility on what kind of volume growth can we see across the Rajasthan basin -- is it a more long dated volume growth FY 2021 or can we expect substantial surge starting as early as second half of F'19?

Tom Albanese: I will leave Sudhir for that, but I will just give you my layman's response and that is that there is going to be very much a correlation with the production growth lag that we have to kick off some of the big capital spending, so some of the projects that we have talked about as we move down the spending profile in those projects that are certainly be the blueprint for the production expansion. But Sudhir, you can probably give a more expert view.

Sudhir Mathur: Thank you, Tom. I think we would be able to give out more granular sort of guidance towards the end of the current fiscal. We are working very closely with our partner ONGC as well as with DGH, and you know making sure that all the FDPs get approved in the next two quarters, which would really trigger off substantial investment. As I mentioned earlier we are putting up some capital for long leads to ensure that we can expedite the capital investment. Having said that, we do expect second half of FY'19 to begin see a surge in production, but just bear with us for a couple of quarters at most on granular details of our production ramp up, sooner than later.

Moderator: Thank you. We have the next question from the line of Abhishek Poddar from Kotak Securities. Please go ahead.

Abhishek Poddar: I had certain more questions on the aluminum production cost. In Slide #22 you have mentioned that sequentially the production cost has gone up which includes $45/ton increase because of the operational issues. Could you give more color on what is that pertaining to?

Tom Albanese: What I think we have a combination of factors there. I think as we look at it, we have had some changes in the quality of some of the alumina that we have taken in which has had some effect probably about half of it, we had at one point we ran short of alumina at BALCO and we had to basically come to a close. That will be a one off that took place. We have some wage revisions which are probably going to be on a continuing basis, but that is a very small part of it and some extra realigning costs.

Abhishek Poddar: I think on the power cost also we are seeing some increase from $548 to $609. But when I look at the power slide the coal costs have actually declined. So could we have more color on why that is going up?

Tom Albanese: As I look at the numbers here, it is hard to say the coal cost have declined, because the green bar has actually gone up quarter-on-quarter, if I am looking at the bottom right hand corner slide #23. Imported coal costs have been declined, but domestic has gone up which is the green line.

Abhishek Poddar: So that is mostly the cost inflation from the domestic coal is it from the option side?

Tom Albanese: Can I just add that one thing that we saw which we hope is a one off is that in the course of the past few months while we have heard a lot about the surplus of coal at large in India, what is actually taking place that there are local shortages that have been taking place, within the Odisha Jharsuguda area, what we have seen are actually some of the mines there not been producing to their expected levels. We have also seen a bias in terms of state policy and what I call central policy toward allocating the available coal in favor of the IPPs to keep power rates down for consumers, but that has been at the expense of some of the CPPs. So I have to say this has been problematic, business costs have scrambled a bit particularly as we are ramping up our aluminum production and that has had some effect in terms of sometimes running shorter coal, sometimes having to buy power and that has had probably a negative effect on our overall cost of power has converted to aluminum.

Arun Kumar: I think this is just one-off because of the pot issues, otherwise, these are all temporary problems as we ramp up. So the guidance is something that has been given and really the big picture here in aluminum is we have a good chance of exiting the year with 2 mt run rate, and the aluminum price and the overall outlook continues to remain strong seen after several years. So it augurs well, we have succeeded very well in the last two rounds on linkage options if you see Vedanta has got the maximum share with the linkage options at very competitive prices, of course, there will be few problems here and there when some of the coal mines of the government may shut down or may not operate very well, but overall the fundamental fabric is looking good in terms of volume, good EBITDA, good coal linkages. So hopefully in the second half we should be able to live up to our guidance and strong aluminum story is what we are looking at in Vedanta.

Abhishek Poddar: So there was this news on Odisha increasing the electricity duty rate. So will that impact our cost or that is already factored in when we are giving a guidance of 1575 to 1600?

Arun Kumar: All that is factored in, these are all small things will happen… plus/minus keeps happening, there are lots of taxes and structures, so nothing, much it is all factored in.

Abhishek Poddar: What was the buyers' credit amount in June?

Arun Kumar: As we replied last time also to the same question around the same levels as last quarter. So not much of variance, it is always plus/minus $10, $20 million in between quarters.

Moderator: Thank you. We have the next question from the line of Sanjay Jain from Motilal Oswal Securities Limited . Please go ahead.

Sanjay Jain: I have two questions -- One is on Aluminum again. As you mentioned that we have a good chance of exiting FY'18 with 2 mt run rate. What I want to understand is a little bit more on this pot outages. In one of the calls sometime back you have mentioned that grid transmission is also issue in ramping up in production. So is that issue behind and it will not come and haunt us again or still trying to manage with existing infrastructure?

Tom Albanese: So if I could maybe just take that, Sanjay, and say that there are two quite separate questions and issues. I think that the pot failures we have probably a combination of things and post review reflection were related to original construction, some were related to the fact that we had basically facilities that had been idle quite a long time for the time of completion to the time they actually began ramping up, which is some time in four plus years, and in other cases there were operational issues, and in many cases I think as we brought quite a number of new people in, we probably did not have the training at the level we would not needed to or the capabilities of all the skilled operators. So those are all items that we tackle on a going forward basis. We would see those as one-off. The grid issues really were things we talked about last year as we were seeking power solutions and we saw a lot of those that as we move to the trajectory of coming to a run rate of 2 mt. We see ourselves confident of the 2 mt per year run rate within the existing power plant configuration, some of the conversions from IPP to CPP and the transmission configuration between our and third-party facilities. As we however move to last pot mine which would take us from 2.0 mt per year to 2.3 mt per year, we still have to solve both power generation and power transmission matters. Hopefully, we will be solving those over the course of the next several quarters, so we could see that ramp up occurring in the next fiscal year, but at this stage we are not guiding to that.

Sanjay Jain: What is the customer advances figure?

Arun Kumar: Again, customer advances figure, I do not remember off hand, but there is nothing very significant movement there, customer advance is a part of normal business transaction, so whatever the number is pretty much what it could have been in the last quarter. Fundamentally, the efforts are always that volume, cost and efficiency is what drives our cash flows, and our

cash flows should be able to fund the growth CAPEX that we have in mind and do smart capital allocation with projects that have high returns. So that is really how we look at. I have no idea what the customer advance figure is, but whatever it is sort of constant normally between quarters.

Moderator: Thank you. We have the next question from the line of Rajesh Lachhani from HSBC. Please go ahead.

Rajesh Lachhani: My question is on iron ore. We have seen sharp cut in the profitability in iron ore with the discounts increasing and iron ore prices weakening. With beneficiation program, I just wanted to understand at what benchmark iron ore prices will this be profitable given we will also spend some additional amount as cost on beneficiation?

Tom Albanese: I mentioned in my earlier comments would be the emphasis is on increasing the grade up into the 57 from the 56 and then taking down the alumina content. It is also important to remember as we do that, that we cannot take the grade above 58%, because then we start incurring the export duty of 30%, which would make it all uneconomic. So we are sort of the balancing on a pin here to increase grade but not over 58% and then everything we could do to bring down the alumina. We had some wash plants that were previously being used in prior years as we have been basically we are having a put back into place over this monsoon season and we are confident that will lead us with an NSR that will be above the OPEX, obviously… I will Kishore to cover this a little bit, we are focusing very much in this environment and what are additional cost improvements that we can make on our baseline cost so that we can absorb these new washing cost. But Kishore can you talk about that a bit?

Kishore Kumar: Thank you, Tom and thank you, Rajesh. This question for the last quarter in terms of the performance had two impacts -- one of course is the price decline compared to the March quarter to June quarter, that is quite steep fall of 30%. In addition, we had a mark-to-market adjustment of the previous quarter because of the QP. So that was a one-time adjustment of quotational period which came through in this quarter which may not happen going forward. #2 is that the quality aspect we are very clear that on the quality we are going to be benchmarking ourselves with the FMG. So in terms of discounts which rose to a steep discount of 40%-and-odd during the Q1, we are expecting to mirror the discounts of FMG, SSM going forward. So that would mean over and above the cost of production of beneficiation we could look at anywhere between $7 and $10 incremental margin.

Rajesh Lachhani: At what prices that is?

Kishore Kumar: Prices I am leaving it at the market rate. I am not trying to talk the prices beyond June quarter prices.

Moderator: Thank you. We have the next question from the line of Dhawal Doshi from PhillipCapital. Please go ahead.

Dhawal Doshi: Sir, a couple of questions; first of all the linkage coal 2 mt, when is the supply expected to start?

Ajay Dixit: This supply will start from August.

Dhawal Doshi: Secondly, the explanation given for $45 of COP increase in aluminum, sir, a good chunk of it could be some one-offs, right, so short supply of alumina, additional relining costs, secondly, some power purchase that we had to do from the markets. So how much do you think is really going to be sustainable out of that and how much of it is one-off?

Tom Albanese I think it is incumbent on the management team of aluminum to ensure that they are all one-offs and we get them recovered. I think what you would see as a best practice, these are the things that would not be planned for and would not be expected.

Dhawal Doshi: But if I have to specifically look at for this quarter perspective, again, any numbers that we can look?

Tom Albanese I think it is fair to say that these were items we have not seen in previous quarters, so we would not expect to see them continuing.

Moderator: Thank you. The next question is from the line of Ravi Shankar from Credit Suisse. Please go ahead.

Ravi Shankar: Just one question on the CAPEX. So we did around $170 million of CAPEX this quarter with the full year guidance of $1 billion stay and we had another $200 million of CAPEX optionality on top of that number. So is that less likely or more likely now, now that one quarter is behind us?

Tom Albanese So I guess I will start by just commenting that again repeatedly we said there is optionality, obviously the longer it takes for us to consider to improve those projects, the less of that will come into this year and probably would spill into next year. All the primary capital projects are pretty much going on as we schedule, so those that are non-discretionary we would expect to see the bulk of that actually taking place as expected. So I would not necessarily model anything less than the guidance that we have given at this stage.

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

Amit Dixit: Deleveraging that was demonstrated in this quarter was quite encouraging. I would just like to know because of the cash flow generation in the company, so in there some target deleveraging we have, can we see further deleveraging here on?

Tom Albanese: So I will ask Arun to cover that, but I just want to really comment a bit on that, because we had a media call where I got the same question, from my own perspective we have done huge work over the past 18-months on deleveraging and we have taken the balance sheet, in newer calls we

are saying what are you going to do about it, we put in a position where we have some of the strongest balance sheet that you can see in the peer group whether it is in India or globally with the debt-to-EBITDA ratio is 0.8 to 1. What that means is that we do intend to continue to delever, but what we have is, we can delever on our own terms. So we can ensure we do it on a way which makes the most commercial set, take into account not only the debt markets, but also the equity markets and our shareholders. As you know we have been looking forward to returning value to the shareholders as we go forward. So these all take into account as we go forward, but this is definitely a quality question that we have the strength of a strong balance sheet to work off, but Arun if you want to say anything further?

Arun Kumar: I think Tom articulated very well. It is a quality question as we put it for a strong balance sheet at 0.8 net debt-to-EBITDA and gearing less than 20%, probably it is best-in-class amongst the manufacturing, conglomerates in India. So now you know the focus is really on seeing that the gross debt also while we have cash on hand, how to match it and see that it comes down and glad to report that we have reduced Rs.9,000 crores of gross debt in the last four months, which is a significant progress that is exactly what we said we will do in our financial priorities and we have been demonstrating it. So a good problem to have and the most important thing is to get solid operations, solid cash flows as you observed and use those cash flows wisely to reward investors, to invest in profitable capital projects and use some of it to reduce the gross debt while continuing to strengthen the balance sheet. Thanks.

Amit Dixit: So next question is that there are media reports regarding Vedanta trying to put up a Jharkhand lead plant. Is there something on anvil in near to medium term?

Tom Albanese: I will answer that and I let Kishore say a few more words about it, because I have been to Jharkhand twice so far this year. What we were talking about when Jharkhand government is the development of some mining leases which we have conducted some exploration on this year and then match that with Goa like value add facility which we would be producing cast iron, ductile pipe, those types of things which have low capital cost intensity, but are very much needed for future manufacturing in the Jharkhand and Eastern India markets to match the type of product range that we sell out to Goa. What we see is something that it makes good business sense, it addresses what I call local stakeholder issues are showing value add, but also quite capital-friendly. Kishore, there is anything else you want to say about that?

Kishore Kumar: Thanks, Tom. Nothing more, except that we have signed MoU with the Government of Jharkhand to build 1 mt pig iron plant overall span of maybe five to 10 years, but it starts with basically the same concept that try and beneficiate the iron ore that is produced in the state. We are doing the exploration on the Dobil mining lease, the work is under progress.

Moderator: Thank you. We have the next question from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: So my next question is regarding the aluminum segment. Are we seeing any disruption in the supply of carbon pitch and because of various production cuts which are done in China and during winters are we stock sufficiently so that we do not have face any disruptions?

Tom Albanese: I would say that we are seeing tightness in the market pricing not supply disruptions, but Abhijit, if you want to just quickly add to that as you can.

Abhijit Pati: No, I think we are going positive so far as the supply is concerned. Yes, there are some amount of the impact of the issue price of pitch book. So far supply is concerned, we are extremely positive.

Anshuman Atri: Second is on the steel again. There were also a few reports around Karnataka plant being explored by Vedanta over a longer period of time. So will that have less opportunities for Jharkhand facility?

Tom Albanese: What we have talked about is we are working on our iron ore in Karnataka, our iron ore with value add in Goa and visioning iron ore plus value add in Jharkhand. I think that gives enough on Kishore's plate and keep him pretty busy.

Anshuman Atri: On Cairn India, is it possible to get cost of production for the quarter?

Sudhir Mathur: Our cost of production for the quarter for the whole of Rajasthan was at $6.2 and for just the water flood operational cost was US$4.3 per barrel.

Arun Kumar: May I refer to Page 20?

Moderator: Thank you. We have the next question from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.

Ashish Kejriwal: Sir, my first question is related to your net debt. We have been harping that we are going to deleverage our balance sheet significantly. But is the sense remaining the same when we look at net debt ex-Hindustan Zinc, because here we are seeing increases in your net debt obviously partly because of its increase in preference shares, but given the CAPEX guidance which you are giving and the kind of operational profits which we are going to make, do you think that by the end of the year, we can see net debt ex-Hindustan Zinc declining from current levels?

Arun Kumar: I think a good question. This is the strength of a diversified company as you see that there will be various businesses at various life cycle, and as we said earlier mature business investing more in CAPEX as zinc story is great, you are putting money at 40% plus IRR projects, on the other hand you cannot be in a better position in aluminum where you have already invested 95% of your capital and if you really see the marginal rate of return on what you are going to get when the ramp up produces the EBITDA on stabilized commercial production basis, we have very attractive return on marginal capital employee. So I think we should feel good about the fact that it is developing into a good twin engine kind of a jet where you have the zinc businesses both

international and domestic zinc business doing very well, robust expansion plans, robust cash generation and on the other engine, you have aluminum which has tremendous promise to deliver as I said good chance of exiting with 2 mt run rate and the oil & gas business doing pretty well, lining up several projects which are at (+20%) IRR with $40 Brent. So we do not see any reason why with or without zinc we should not be able to produce enough cash in the near future to delever the gross debt, where they continue to maintain that the group as a whole as one of the best balance sheets in terms of consolidated net debt position, but a good question and we will do well to live up to our words.

Ashish Kejriwal: So any benchmark or any like net debt-to-EBITDA which we have in our mind while looking at standalone operation?

Tom Albanese: So I just would say that any benchmarks we would have had a year ago we blew right through. So we are working in verified area in terms of companies that have balance sheets as strong as ours.

Ashish Kejriwal: Because normally we compare Vedanta with Vedanta not with others. So that way I was looking at.

Tom Albanese: In our last results, we provided a bench how we could benchmark our overall balance sheet compared to our sector peers.

Ashish Kejriwal: Second question is on alumina cost. Do you think that alumina cost increase, we have already taken into account while giving a guidance of second half cost of production?

Tom Albanese: What we have done is we recognize the fact that a large portion of our alumina is purchased on the market on indexes and somebody's index is running in the range of 19% LME. So it is really driven half of what the LME prices. So we have taken that into consideration when given that guidance.

Moderator: Thank you. Ladies and gentlemen, that was a last question.

Tom Albanese I guess just maybe for me to close and I think as you are aware this is my last earnings call for Vedanta Limited, it has been a truly exciting and eventful journey. I think we have a little more price volatility than we would have ever imagined over the past four years and I have to say very cherished moments particularly with this team of Vedanta people on this call right now. I have enjoyed interacting with all of you over the past four years. I have only gratitude to offer to every one of you on the call listening on today and certainly everyone on the Vedanta team both in this call and also supporting this call and all those people working at the mines, at the factories, our board and all our stakeholders. I leave Vedanta with a clear view that I have had in the past, which is that India will act as a powerful growth catalyst for a sluggish global economy and my years in India only reinforce that belief. So I continue to be very positive about both demand prospects for minerals in India, the supply prospects for minerals in India and very excited about Vedanta's future. Thank you.

Arun Kumar: Thanks, Tom. Ladies and gentlemen, thanks for joining us. If you have any other questions, do contact us.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Vedanta Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.