"Vedanta Limited Q1 FY20 Results Conference Call"

July 26, 2019

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY20 Earnings Conference Call of Vedanta Limited. As a reminder, all participants will be in a listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing * then 0 on your touchtone phone. Please note that this conference call is being recorded. I now hand the conference over to Mrs. Rashmi Mohanty from Vedanta Limited. Thank you and over to you.

Rashmi Mohanty: Thank you, operator. And a very good evening, ladies & gentlemen. I am Rashmi Mohanty, Head, Group Investor Relations, Vedanta. Thank you for joining us today to discuss the first quarter results of FY 20. We will be referring to the presentation that is available on our website. The call will be led by our group CEO – Mr. Srinivasan Venkatakrishnan. On the call we are also joined by our Group CFO – Arun Kumar; several of our business leaders, Ajay Dixit from Oil & Gas; Sunil Duggal from Hindustan Zinc, Deshnee Naidoo from Zinc International, Ajay Kapoor from Aluminum and Power, and Pankaj Malhan from ESL.

I now hand it over to Venkat for an update on the company's operational performance.

S. Venkatakrishnan: Thank you Rashmi. Good evening, ladies and gentlemen. And welcome to Vedanta Limited first quarter FY2020 Earnings Conference Call. At the outset, before we go into the quarter's results, if I can draw your attention to the two releases that went out in the last 24 hours. One came from Volcan late last night, and the other was from us this morning. Volcan announced last night, it was exercising its right to call the bonds early and unwind its stake in Anglo American. Vedanta also announced that it has agreed today to entirely unwind it structured investment ahead of the originally envisaged scheduled maturity. If you would recall, this structured investment was entered into in December last year, between our subsidiary and Volcan. This investment was part of our cash management activities to deliver superior returns. Following completion of this unwind and Volcan exercising it's call options on the convertible bonds, neither Vedanta nor Volcan will have any exposure to the shares that were held in Anglo American.

At a very high level, if I can make the following points. This investment has delivered a net gain of about $100million for Vedanta Limited shareholders in the eight months it was held. If you recall, we said we went into this with an idea of generating superior returns, and that objective has been met. Importantly, Vedanta Limited didn't have a right to unwind this investment ahead of the scheduled maturities in 2020. But after discussions, Volcan has agreed in the interests of all of the shareholders of Vedanta to grant Vedanta that right, realize and pass on all of the gains arising from the transaction. And I think that's quite important, and it's been appreciated by a number of our shareholders this morning.

This unwind reflects our disciplined approach to treasury management and capital allocation, together with our commitment at all times, to act in the interest of all of our shareholders. Our strategy continues to focus on our existing businesses, where we believe that there are significant opportunities to unlock their full potential. Finally, on that subject, following completion of this unwind and Volcan exercising it's call on the convertible bonds, I repeat, neither Volcan nor Vedanta will have any exposures to the shares that were held in Anglo American.

If I can then move on to some big picture takeaways and reassurance, turning to some key takeaways from our first quarter results. Despite volatile commodity markets and price headwinds, we posted a solid operating performance with improvements across some of our key verticals. Our annual guidance for FY20, which if you recall, projects year-on-your volume growth at 11% on Hindustan Zinc and Lead, 14% in the case of silver from Hindustan Zinc, doubling of volumes of zinc concentrate and metal at Zinc International, 11% at Cairn Oil & Gas, 18% at Electrosteel, and in the case of aluminum a drop in unit cost of 14%, are all unchanged given a strong second half to this year that we are expecting. Finally, on that subject, our growth projects are on track and have started to deliver some of the initial volumes that we were expecting.

Spending a bit of time on the commodity markets. This has been a weak quarter across commodities, triggered by prolonged trade tensions, and a mixed outlook on global growth. Turning to our commodity basket on oil, the first half of 2019 saw supply exceeding demand. Geopolitical tensions are likely to remain high in the Middle East, which could weigh on prices, even though so far impact on oil price has been minimum. Base metals, which are perhaps the ones most exposed, prices of zinc and led remain range bound, aluminum prices have fallen to its low and are likely to induce smelter cuts, generating some recovery soon. We continue to be bullish on silver, and if you recall, silver has rallied by about 16%-17%. Iron ore is spiking on continued supply disruption and record China's steel output, and we expect the deficit to keep some of these prices high.

We are entering the seasonally weak period of July to September. And a pickup in demand is now likely again in the second half of 2020. And when you look at the commodity cycles which have happened in the past, the first one to rally is gold, followed by silver, subsequently oil and then the other commodities start to rally, there is a lag impact which we see coming through in the second half of this year.

Turning to India, our strong presence in India keeps us excited about the portfolio of businesses here. If we combine the enormous economic growth potential of our country, together with a vast untapped and underexplored resources, it provides us with a massive opportunity, being the only diversified private sector natural resources company in the subcontinent. We are pleased with a renewed focus by the Government of India on natural resources sector as an engine of economic growth. The new National Mining Policy and the OALP opens up the natural resources space in India and we are best placed to benefit from this opportunity in a responsible and sustainable manner.

Now turning to the key highlights in the quarterly results, starting with our aluminum business:

We continue with our cost reduction trajectory for the third consecutive quarter with our costs down 8% year-on-year. This was backed by the highest ever production of alumina at our Lanjigarh refinery which went up 37% year-on-year with the lowest cost in the last two years at $284 a ton.

Turning to Zinc India:

Mined zinc and lead production were stable year-on-year tonnage did go up, while silver production outperformed year-on-year by 15%. More on silver in a short while. The ramp-up at our Zinc International Gamsberg mine, given the monthly improvements in the key metrics that we are seeing, is on track. In our oil and gas business, the production has been lowered by 8% year-on-year in the first quarter. The reasons include natural decline, the proactive maintenance and work overs which are being carried out to enhance asset reliability for a smoother ramp up in the subsequent quarters. By doing this now, we are ensuring that we have a stronger second half to this year when some of those projects come on screen. We recently secured 10 additional blocks in the OLAP round II and III, totaling to around 10,000 square kilometers. With this acquisition, we now have 51 exploration blocks spreading over 60,000 square kilometers.

Turning to our iron ore business:

Our iron ore sales in Karnataka tripled year-on-year, and our pig iron sales went up by 7%, again year-on-year. Electrosteel continues to perform well with production up 34%. The benefits of the above volume increases were somewhat dampened by a fall in the commodity prices. Our EBITDA of Rs. 5,200 crores rounded up, represents a margin of 27%, and that was despite the lower commodity prices. Our balance sheet remains steady with a net debt to EBITDA ratio of just around 1.3x, more of these will be covered in Arun's presentation.

Turning to the most important subject of safety environment and sustainability:

After a continuous run of four months without any fatality at any of our 41 business units, I am deeply saddened to report that we have three fatal accidents at the start of the first quarter, two at Hindustan Zinc, and one at Cairn Oil & Gas. All three accidents related to our business partners, that is contractors, and none of these were directly related to the production areas. A life lost is one too many, and we have redoubled our efforts in this regard with more involvement from our side with the business partners and their safety teams and ensuring compliance to our procedures. Since then, our business units have been fatality free for over three months.

On energy and water management:

Savings and recycling we are tracking well, against our annual targets of achieving energy saving 1.75 million gigajoules and water savings of 2.5 million cubic meters, both of which remains a focus area. We continue to focus on improving the managements of our Tailings dam, we will be commissioning India's first ever Dry Tail Stacking Plant at Zawar mine this quarter. This will increase process water recovery by 2,500 cubic meters per day, also reducing any risks associated with tailings dam. Our waste to wealth efforts continue to bear fruit with the company recycling 107% of its high volume low toxic waste. At Hindustan Zinc, we have seen a significant ramp-up in waste utilization, utilizing 175,000 tonnes in road construction versus the 70,000 tonnes same time last year, and sending 13,800 tonnes to the cement industry.

Our businesses continue to win prestigious awards this quarter. For example, Hindustan Zinc was selected as a member of the FTSE4Good Emerging Index for the third consecutive year.

Now turning through to our respective business verticals:

Starting with Hindustan Zinc, lead and silver. Here, we are starting with our silver business, which represents significant value that has not been day-lighted in our portfolio. Silver companies and silver streaming companies traded multiples well north of 12x to 17x. In addition to us being a global leader in the zinc and lead business, we are also soon to get to a similar position in our silver business. We are the fastest growing silver producer in the world at a cumulative annual growth rate of 18%, targeting 750 tonnes to 800 tonnes of production this year. The volumes have more than doubled in the last five years, rendering us a place amongst the top 10 producers of silver globally. We expect to reach over 1,000 tonnes in the next two years. This ramp up will be achieved through higher volumes in a silver rich geography, implementation of Fumer technology and improved recoveries. As I said with silver prices up 15% over the past three months, this business could contribute EBITDA in excess of $500 million.

Zinc and lead remain a key pillar of our business with a stable mined metal production of 213,000 tonnes for the quarter. The quarter saw a 10% higher ore production year-on-year, but it was offset by temporary geological geotechnical issues, leading to lower grade and other once off factors. Integrated metal production for the business was up 3% year-on-year, with Zinc being stable whilst the lead production jumped by 13% to 48,000 tonnes, driving higher silver volumes to 159 tonnes, a jump of 15% year-on-year. Zinc cost of production before royalty during the quarter was $1,067 a tonne, higher 2% year-on-year, primarily driven by lower ore grade, higher power cost and water cost.

We look at a stronger year ahead on the back of our growth projects to deliver on our market guidance of around 1 million tonnes of integrated metal for the year. These include some specific examples at Rampura Agucha mine the shaft project is on track and is expected to be completed by the third quarter of this year. At our SK mine, the shaft is commissioned and is being integrated with the mine. It is expected to completely ramp-up and support the operations in the latter half of this year. The second paste fill plant was also commissioned in June. At our Zawar mine, in addition to the dry tails stacking plant, two paste fill plants are on track for completion during the third quarter, which will allow additional mining to take place. This year there is an increased focus to ratchet up our reserve base by upgrading resources at Zawar and RA mines, in particular the Galena Lead Zone, and enhancing our reserves and resources of the Kayad mine lease, new ore body at Balmia Kalan near our SK Mine and new ore body below existing SK deposit. We are leveraging advanced surface and geophysical technology to achieve these new targets. And if you recall, at our last call where we met in person, we said exploration and reserve growth is going to be a key focus area across our verticals.

Now turning to Zinc International:

At our newly commissioned Gamsberg mine, the mining operations are running at their design capacity to deliver ore at 330,000 tonnes per month, with available stockpile of 1 million tonnes. Our June exit throughput was at 450 tonnes per hour with a recovery of around 63%. We aim to achieve the target of 80% recovery by Q2 using advanced process controls. Continuous focus on grade, throughput and recovery optimization, should help us deliver 250,000 tonnes per annum run rate by end of the fourth quarter. The first quarter production was 23,000 tonnes with ramp-up in progress and better recoveries production will increase over the remaining quarters to meet our guidance of 180,000 tonnes to 200,000 tonnes with a cost of production of around $1,000 a tonne.

Turning to our Black Mountain Mine:

It had the best quarter in the last five years, with production volume of 19,000 tonnes, up 24% year-on-year. Scorpion mine production at 18,000 tonnes was up 76% year-on-year with the annual maintenance shutdown completed in April of this year. Scorpion experienced a stroke failure in May and the revised workaround mining plan is being developed. Zinc International as a whole, saw 134% year-on-year increase in production to 60,000 tonnes at a cost of production of $1,597 a tonne, which represents a reduction of 32% year-on-year.

Turning to our oil and gas business:

We now have an optimum portfolio mix across our oil and gas lifecycle to funnel our growth aspirations. In exploration, we have secured 10 additional blocks, this makes our total acreage in our portfolio to 65,000 square kilometers across 58 blocks. We have commenced an investment, you will recall, of $3.2 billion to monetize 400 million barrels across a rich set of opportunities covering enhanced oil recovery, tight oil, tight gas and exploration and appraisal projects. With this portfolio mix and CAPEX investment we intend to ramp-up our production significantly. We are partnered with legal global oil field service companies to execute our projects; our investments generate an IRR in excess of 20% at the oil price of around $40 a barrel. We have 10 development rigs at site currently, our work program includes drilling over 500 wells. We have already drilled 139 wells and hooked up around 46 wells. The execution of this CAPEX program at site is in full swing, and it shall be the key to our production ramp-up in the current fiscal year.

Our production for the first quarter at 180,000 barrels per day, we intend to exit the first half of this year with around 200,000 barrels and close the financial year with an exit rate of approximately 270,000 barrels per day, thereby meeting our annual guidance of 200,000 to 220,000 barrels per day for the current year. This production increase shall come by the year end primarily on account of two factors:

Firstly, the well drilled across the projects shall increase to 250. Of this 185 shall be hooked up for production.

Secondly, our processing capacity for both oil and gas shall increase substantially by year end. The facility upgradation project at MPT is planned to be completed by the year end, and that shall increase our liquid handling capacity to 1.3 million barrels of liquid per day. In tight gas RDG, the early production facility commissioned earlier is being ramped up to 90 million scuffs, which equals to 15,000 barrels. In addition, the completion of the gas terminal by the end of the fiscal year shall add another 90 million scuffs, which is around 15,000 barrels.

Investment in exploration is key to generate a stable portfolio of development projects to increase production on a sustainable basis. The acquisition of 51 exploration blocks spread across India with a mix of both onshore-offshore provides us with a unique opportunity to unlock the potential of India's basins. In order to fully exploit the potential of these blocks, we intend to carry out 2D and 3D seismic as well as drill over 190 exploratory wells during this period. We intend to execute this work program through an integrated partnership model with global oilfield service companies. We have already shortlisted Lloyd's Register as the integrated project manager to help drive this exploration work program across the basins in India. In addition to our efforts on OALP, we are further augmenting our resource base in Rajasthan, Ravva and the KG Basin through exploratory and appraisal drilling. The drilling work program in Rajasthan and Ravva shall commence in the current year. Overall, in the oil and gas business, we have a robust portfolio in place. Our execution efforts across projects shall lead to a substantial increase in 2P and 2C resources and reserves by the end of the current fiscal year.

Turning now to aluminum:

We are pleased to report that the unit cost reduction trajectory continues with the first quarter COP at $1,764 a tonne, a reduction of 8% year-on-year. We saw new records in our captive alumina production at Lanjigarh with the highest ever production of 446,000 tonnes, up 37% year-on-year. This was very well-supported by higher supply from OMC, meeting around 65% of our bauxite requirements for the quarter. Consequently, our Lanjigarh refinery saw one of the lowest costs of production, as I said earlier, of $284 a tonne, which is a significant improvement year-on-year.

On the coal side:

Our captive Chotia mines will comfortably achieve its full capacity of 1 million tonnes per annum this year, with Q1 FY20 production at 188,000 tonnes. Further, our linkage materialization improved to 72% during the quarter. With our plans to increase coal linkages through participation in future auctions, enhancing bauxite sourcing through exploration of new resources, captive alumina ramp-up, and other cost production initiatives, we are edging closer to our target COP of $1,500 a tonne.

Turning to Electrosteel:

Our plant saw production rise of 34% year-on-year. But the EBITDA margin slowed down temporarily by 5% owing to a weaker market. The business recently launched their rebranded value-added steel portfolio basically, TMT, wire rods, ductile iron pipes, to reposition our production in the market. On the expansion plan, the technical feasibility study for expansion from 1.5 million tonnes to 2.5 million tonnes plus capacity has been completed.

Turning to our iron ore business:

Our sales in Karnataka tripled year-on-year 1.2 million tonnes, and pig iron production went up 7% to 178,000 tonnes. In Goa, we are continuously engaged with the state and central governments. With the support of the people adversely impacted by the Supreme Court's statewide ban for the resumption of mining in the state of Goa. The state's High Court process is currently underway in respect of our copper smelter at Tuticorin. We continue working with the local communities and the various stakeholders to achieve a win-win breakthrough to reopen the plant with their support.

Before I hand over to Arun, if I can recap on our strategy to enhance long-term value:

As I said, there are five areas we are focusing on. Number one, something we will not compromise is ethics, governance, safety and our social license to operator. Secondly, in the natural resources business, expanding our reserves when resource base is key. Third, we are a growth company, we want to continue our track record of delivering value added growth in all of our businesses. Fourthly, this growth will be achieved with strict capital allocation and a sharp balance sheet focus. And finally, delivering the best out of our assets and with best teams by pressing our assets more and harder is the final area of focus which will provide us the cash flows to basically fulfill all of our growth expansion plans.

On that note, I will now hand over to Arun.

Arun Kumar: Thanks, Venkat and good evening, good morning everyone. As outlined by Venkat, we continue to strengthen the foundation of the volume and organic growth across businesses. In Hindustan Zinc, underground operations have stabilized, be it paste fill plant, shafts. Volume ramp-up at Lanjigarh continues. Structural cost improvements as well in the aluminum business steadily chipping costs away. These are very encouraging. Gamsberg ramp-up proceeding slowly but steadily. Oil and gas projects again proceeding well, marginal delays in commissioning. All this sets up a strong foundation for H2 of this year, and hence the rest of the year performance. As Venkat already outlined, this gives us the confidence to reconfirm our guidance on volume, costs and growth CAPEX investments as communicated in the May full year results.

Coming to the financial performance, EBITDA for the quarter, I am referring to the first page there in the financial section. EBITDA for the quarter was Rs. 5,188 crores with a margin of 27%. ROC continues to be in the double digit and the balance sheet remains strong with a net debt to EBITDA ratio at 1.3x. We have a detailed income statement in the appendix, some key updates on the income statement as usual are as below:

1. The depreciation charge is higher YoY due to capitalization of capacities and volume ramp-up at Gamsberg. As guided earlier, this trend is expected to continue for the rest of the year.
2. Investment income, is flat year-on-year. As guided, investment income should continue the current levels of around 7.5% pre-tax, subject to mark-to-marks on the portfolio. Last quarter, we booked significant unrealized gains on the Volcan structure transaction, if you would recollect, which is now realized in the manner of speaking, which I will cover in detail shortly.
3. Finance cost is lower year-on-year due to higher capitalization. The interest rate guidance for the year remains the same at 8.2% - 8.5% range as guided earlier, could start to tend down of the interest rate scenario eases a bit.
4. The tax rate for the quarter is 27% underlined, excluding the DTA recognition at Electrosteel business, which as you heard from Venkat, stabilized quite well during the year. A detailed note on that is given in the notes to account. It essentially represents the DTA on the carry forward losses of this acquired business, now starting to be recognized in FY20, given the reasonable certainty we have, having stabilized the operations and the business model post acquisition. On a comparable basis, the FY20 full year guidance is expected to be 30-32%, no change in that, meaning that the 27% I alluded to for the first quarter underlying tax rate will go up in the subsequent quarter to get or catch up with a full year average of 30%- 32%.

Moving on to the next page. I would like to provide further details on the unwinding of the CIHL treasury investment transaction:

CIHL had negotiated an early unwind of the restructured investment well ahead of maturity, netting a superior return in percentage terms of around 70% IRR, a net gain of about $100 million dollars or approximately Rs. 746 crores in the eight months that the principle was invested in. The difference between the same, i.e. the unrealized gains recognized till 31st March 2019, of Rs. 944 crores and the Rs. 764 crores which is the total gains which amounts to a difference of Rs. 178 crores have been accounted for in the current year's quarter results as a charge. With this, Volcan exercised an early call option to settle the MXBs as well, which had exposure to the shares of Anglo-American PLC. Entire realization net of transaction cost has been passed on to CIHL. With this transaction, neither Volcan nor Vedanta Limited have any exposure whatsoever to Anglo American. As Venkat outlined, our strategy continues to be the focus on our existing businesses and there are significant opportunities to unlock the potential. This also reflects a disciplined approach to treasury management and capital allocation together with our commitment at all times to act in the interest of all shareholders as we had outlined earlier.

Moving on to the next page on EBITDA bridge:

As it can be seen on this page, EBITDA for the quarter is at Rs. 5,200 crores, lower by 20% YoY. As you see, the controllable on the right side are pretty much constant. And the only variable is really the metal prices, zinc and aluminum which are significantly lower, partially offset by the input commodity tailwinds of alumina and coal, as well as help from currency depreciation. We have seen good progress in the operational performance as outlined earlier.

Further moving to the next page of net debt, reported net debt on June was approximately Rs. 28,750 crores, higher by about Rs. 1,800 crores, its mainly due to some unwinding of working capital and repayment of buyer's credit, which was normal in our first quarter. And also classification of lease liability under borrowing category pursuant to accounting changes, basically IndAS 116 implementation. We expect the first half working capital to be a positive, and hence quarter two much of this Rs. 1,800 crores should come back.

Moving on to the final page on the balance sheet:

We remain focused on maintaining the balance sheet efficiently. We have manageable maturities in the current year, which are mostly in the second half. The budgetary proposals of the Union Government aimed at restoring liquidity and credit off-take in the markets should perhaps help refinance in a cost-effective manner. The average majority of our term debt consistently remains about three years on a rolling basis, with a refinancing strategy in place to further improve this in the coming year. All our cash investments are rated Tier-I by CRISIL, and with evolving market situations the portfolio is being monitored tightly on a regular basis. Our relationship with banks, lenders, capital market participants remains strong, with ensured strong and continuous access to capital. With a strong financial and operating performance, we continue to focus to improve on all our balance sheet metrics and ratios, sound capital control and allocation, yet set aside cash for shareholder return.

Thank you all. And back to the operator to open line for questions, if any.

S. Venkatakrishnan: Thank you. Operator, we are very happy to take questions now. I have got my respective CEOs of the business on the call as well. So, we will be taking questions and passing them on to the respective CEOs.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: I have a couple of questions. The first one is on deferred tax assets, which you have recognized in the respect of Electrosteel. However, in the annual report there was no deferred tax asset recognized with respect to losses at Electrosteel. So, what has changed since then? And if you can guide us on the recognition in this year, and next couple of years that would be helpful.

Arun Kumar: What we have done is that in FY19 it was a year of acquisition and stability of operations. And hence now that we have reasonable certainty, as per agreement with the auditors and the accounting standards, we have gone ahead and started recognizing the deferred tax assets on the old carried forward losses. This will be trued up over the next couple of quarters. You should expect more deferred tax asset to be recognized. And with the successful turnaround, as our CEO outlined, these should be quickly utilized in the coming years. And I think that reflects the strength of Vedanta's turnaround of that business. Thank you.

Amit Dixit: The second question is with respect to certain brief statements that we see, particularly with respect to aluminum cost. So, in Q4 if you look at it, your aluminum cost is around 1770 or something, but now it has been restated upwards. Similarly, the power generation at BALCO, that is also significantly up actually, so if you can explain these numbers.

Arun Kumar: There is no restatement of cost, if any. There could be some minor representation of the cost, I am given to understand, which is basically some of the other costs we have included in the hot metal, primarily relating to renewable power obligation liabilities. For more details I encourage you to contact the IR team, it has all the details and can send it to you offline.

S. Venkatakrishnan: I think the important point to make here is that comparing to where the overall cost of production of aluminum was three quarters ago to where we are got to, we are getting closer to our long-term target of getting it $1,500 a tonne, at $1,764 we are within shooting range. There will be volatility in the cost, but certainly the direction of travel is the critical one. And that's heading in the right direction for us. Ajay, do you want to comment anything on the aluminum cost?

Ajay Kapur: I think as Arun has rightly pointed out, there's a little representation, which we can take it offline. But directionally I think you are correct, there is an impact on RPO for sure, because RPO prices in the market have gone up. So, that does have an impact on the power cost. Otherwise, all the KPIs which are going in, for example, percentage of linkage at 72% for the sector as a whole is in the right direction. The production from our own captive mine Chotia is actually at 100%, ramping up for 1 million capacity. So, I think all KPIs are in the right direction, other than the prices of commodity LME which has already been explained.

Moderator: Thank you. The next question is from the line of Indrajit Agarwal from Goldman Sachs. Please go ahead.

Indrajit Agarwal: Sir, I just have one question. If you look at the EBITDA per barrel and relation per barrel of oil business, it has not moved in line with the crude price increase. What has gone in there? And how should we look at it going forward?

Arun Kumar: I can take a stab at it, and after that Ajay Dixit, if you have any comments, feel free. The EBITDA per barrel of oil business, if you look at over the couple of quarters, will definitely be in line with the Brent movement. Typically, between quarters it can always swing due to profit petroleum which comes out of the cost recovery, depending on how much CAPEX you spend, the CAPEX any quarter could have a little bit more EBITDA margin, a CAPEX light quarter could have less. So, that's a counting anomaly in that kind of a business given the cost recovery model. Otherwise, I think the most important is all the growth projects and the volume increase that the team is planning to deliver, Ajay, you would like to comment on that?

Ajay Dixit: You are right, Arun. I mean, as far as the per barrel operating cost there, I mean, it's pretty stable. It moves up and down based on whatever cash call we recover. So, it's a variation only on that account.

Indrajit Agarwal: Second question on aluminum business, actually alumina to be particular. At current alumina price level what is the benefit that we get on import versus own production in terms of dollar per ton?

S. Venkatakrishnan: Ajay, do you want to respond to that one?

Ajay Kapur: Sure. So, currently, if you see, first of all, there is a lag effect because at any given point of time by the time you buy, and by the time it arrives from the port to the plant, there is a lag of three months. So, whatever impact we will see of the low alumina prices will have an impact in Q4 beginning. Now today, we are seeing some deals being stuck at under 300, just about 300. And if you add it straight, the landed price would still be slightly higher than the price of the locally sourced bauxite. Or it does help us in optimizing the overall source mix, and therefore our guidance also for the full year, which was given last time, remains the same.

Arun Kumar: If I may just quickly add a bit out there, at any point of time if you see the history of the business, you would always have a cost advantage of alumina produced at Lanjigarh vis-à-vis the imported alumina. It can easily vary from $60- $70 to $200-$250. But never in the history, if you see the recent history of last five years, you would have a opposite situation unless alumina price really drops to $150 dollars or $200 FOB. So, I hope that helps address your query.

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

Pinakin Parekh: Sir, just two quick questions. The Zinc International operations, even though it has higher volumes Quarter on Quarter on production, and LME prices are also higher, there is a very large decline in revenues, and I think that's falling through the EBITDA and cost of production is also higher. So, what's the trend, how should we look at Zinc International going forward?

S. Venkatakrishnan: Deshnee, do you want to respond to that question?

Deshnee Naidoo: So, in quarter one a lot of the cost was actually due to the increased TCRC that we are seeing in the market right now, so a direct impact of that. In terms of the Zinc International's overall cost base, as you have indicated before, the entire cost base becomes quarter one as Gamsberg starts to ramp-up. We had forecasted for the year a Gamsberg cost of about $1,000 per tonne, this quarter because of the TCRC we did see a larger impact. In terms of the overall cost of Zinc International, especially Gamsberg, as it starts to hit that 58,000 tonnes to 60,000 tonnes a quarter, the cost base will get back down to the $1,000 per tonne, even at the higher TC. Just another point to make that at Scorpion we did have some timing issues, because we did take a compulsory active plant shut at the beginning of the quarter. So, we did produce less for the higher fixed cost base. And in addition, because we are behind on the ore production from the pit, it had an impact in terms of inventory in the pit coming into the EBITDA. So, by and large, metal prices linked to TCRC impact, lower volumes at Gamsberg in the first quarter, and then at Skorpion specifically we had an issue with the shaft, some cost incurred there, and then lower put inventory lead to a lower impact on the EBITDA. So, that's why we can reconcile the cost went up.

S. Venkatakrishnan: Thanks, Deshnee. And Pinakin, if you still look at the big picture here, with regard to Gamsberg, when you look at the potential of that particular mine, the ramp-up coming through, ending up in terms of our guidance we have given 180,000 tonnes to 200,000 tonnes of metal concentrate coming out at a cost of around $1,000 a ton, it is going to be a big EBITDA swinger for us, given that it had nothing last year. We are getting all of the benefits this year, and that changes the complexion of the overall zinc business in a big way.

Deshnee Naidoo: Sorry, Venkat, just one more point to add there. Of course, in quarter one Gamsberg would have been largely in capital, so it would have not seen benefits coming into EBITDA.

Pinakin Parekh: Just moving on to the second question oil, your JV partner ONGC has mentioned in the last couple of quarters that there are issues on profit petroleum and cost petroleum, and there's something which needs to be paid, they say by their JV partner which as of now is under dispute. Can you throw more light, if there are any payment related disputes on the oil segment related to ONGC profit petroleum or cost petroleum recovery?

Arun Kumar: So, if I may chip in here and request Ajay to add if any. See, Pinakin, normally in any sort of a government partnership or accrual process there will always be reconciliations. So, there could be some pluses and minuses in the reconciliation, we are aware of some press reports. But I think we have fantastic partnership with the Government of India, as represented by ONGC. And Ajay and team work very closely with them with the larger objective of increasing production for the country. The recalculations will keep going on and they are normal part of the business. Ajay, you would like to add anything further on how you work with ONGC, how closely you work with them?

S. Venkatakrishnan: I can pick it up actually. Certainly, in terms of relationships, we have got a very good relationship with ONGC in terms of how we manage the joint ventures. And importantly, alignment with regard to both the Ministry of Petroleum and also DGH in terms of actually ramping up volume production of oil and gas in India. So, certainly there's commonality of interest, certainly these reconciliation issues will be there as Arun mentioned, but nothing really that is a cause of any substantial issue as far as we are concerned.

Moderator: Thank you. The next question is from the line of Abhijeet Mitra from ICICI securities. Please go ahead.

Abhijeet Mitra: The first question is on Zinc International, so a bit on the guidance. Skorpion and BMM greater than 170 Kt and Gamsberg 180 Kt to 200 Kt, any reasons for changing those numbers now or you are sticking with it?

S. Venkatakrishnan: We are sticking with the guidance, as we said. The only area which we have planned is this Skorpion pit where we are actually reworking the mining plan. So, with regard to the guidance we will probably look at in terms of Scorpion and Black Mountain towards the lower end of the guidance, but largely intact.

Abhijeet Mitra: Okay, great. And next is on oil and gas. You know the proposed ramp up from 180,000 barrels per day to 260,000 to 270,000 barrels per day, if you can help me understand how much will Rajasthan be contributing in that?

S. Venkatakrishnan: In terms of the ramp-up here, particularly the mix comes through in terms of both offshore, onshore etc. Rajasthan is a big contributor as far as the ramp-up is concerned. But as we said, we are looking at an exit of around total 200,000 coming through in terms of Q2, then a ramp up further in Q3 with an exist of around 270,000 but averaging to between 200,000 to 220,000 barrels a day. That's overall. But Rajasthan, MBA fields should probably contribute around roughly 60% to 70% of that.

Abhijeet Mitra: And what about tight oil and the tight gas? Because I see your presentation and I think majority of the incremental production which is adding up to the exit by FY20, and majority of that is actually coming from ABH and RDG. Is that what I am reading it, I mean is the reading right? And if you can help me understand what is the current RDG production?

Ajay Dixit: See, as Venkat pointed out in the beginning feed that currently we are ramping up the RDG, which is a gas, in 90s scuffs is getting stabilized. And by the end of the last quarter and additional 90 scuffs will be added which will correspond to 15+15=30. You are right that the major part of the addition has come from ABH and RDG. But additionally, that is also our MBA, i.e. Mangla, Bhagya, Aishwarya, polymer influences are also there which is going to produce. So, off all in all, from the current to 267, 14 comes from the offshore and balance is practically from Rajasthan based projects.

Abhijeet Mitra: Got it. So, essentially from 143 you are looking to reach around 245-250 by the end of this year, that's the key?

Ajay Dixit: Run rate is close to 270, as I said about what Venkat said earlier. We are exiting H1 at around 200, that is the intent.

S. Venkatakrishnan: And that includes all of the projects in Rajasthan, we show that separately.

Moderator: Thank you. The next question is from the line of Vishal Chandak from Emkay Global. Please go ahead.

Vishal Chandak: Sir, just a small query. You have mentioned the total unwinding has resulted in the gain of about $100 million dollars for the Cairn India in this entire transaction. But if I recollect in the last quarter, I think you had mentioned that the net gains over that period to the Cairn India shareholders was about $150 million. So, if you could just walk us in how this $150 million has got reduced $100 million and what about the other expenditure or anything in decline in the Anglo prices or something?

Arun Kumar: Sure. I think what we mentioned last time was about $122 million to $130 million dollar if you recollect. And as one of you actually correctly reminded me that that is only a mark-to-market gain and it's not really an accrued gain. And every quarter we it gets valued. And when you sell, whatever is the exact price and whatever is the sort of the block discount applicable or any other deductions, the number will always be different quarter-to-quarter. And that's exactly what we discussed in the last call. So, cumulatively we have made above $100 million, and as I mentioned, this is about 70% from an IRR perspective, because out of the principle of approximately $550 million, we had only paid up about $300 million to $320 million original, and one more instalment later. So, the objectives, the alternative of a 2% FD for that surplus money. So, I think objective is achieved, wound up, and hopefully it is also sort clarifies our position what we have been maintaining in the last two quarters.

Vishal Chandak: Sir, I think I missed out on what you mentioned that lead to a reduction from $150 million to $100 million. I understand the objective, but if you could just walk me through the difference of $50 million in a span of one quarter.

Arun Kumar: Okay. We said $120 million to $130 million is what he said last quarter, not $150 million. It's coming down to about $110 million or so would be block trade discounts, and any other expenses. For further details, we can always connect offline. That would be the broad reconciliation of $10 million, $15 million, $20 million.

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

Ritesh Shah: My first question is on incremental capital allocation. There were talks about setting up a fertilizer plant at Hindustan Zin. Has there been some progress made over there? That's the first question.

S. Venkatakrishnan: If I can respond, and then Sunil can come in. It's very much at design stage right now. It's currently going through its feasibility study, etc. It's certainly a long-term intention to set up the fertilizer plant, but basically, it's something which is being reviewed, it will to go through our capital allocation process and then get approved in terms of actually commissioning. I am not sure, Sunil, are you on the line?

Sunil Duggal: Yes, I am online. Actually, we were trying to look at the design of the plant. So, the original design was 0.5 million tonnes and we did redesigning with the global consultants and our own consultants, we saw that we can with a little incremental capital we can increase the capacity to around 0.7 million tonnes and then add some value-added into that where apart from DAP we can add some nutrients into that. So, overall feasibility study has been revised. And we are working on that. And because of that the IRR is improving by another 5% to 7%. And in the meantime, the presentation to MoEF for EC clearance is also going on. We had a public hearing, so we are progressing on that.

Ritesh Shah: Sir, what is the kind of investment the fertilizer plant would attract? And is it in phases or is it going to be one shot?

Sunil Duggal: It could be to the extent of Rs. 1,000 crores to Rs. 1,200 crores, with revised IRR of around 18% to 20%.

Ritesh Shah: That helps. Sir, my second question is on Electrosteel. Our stake is still at 90%, I think it needs to be merged or we need to go to 100%. So, what is the status over here?

Arun Kumar: The process is on and the merger should happen soon.

Ritesh Shah: Sir, any timelines over here and what will be the outflow?

Arun Kumar: Outflow is about Rs. 200-odd crores as we had disclosed some time ago. It could happen in the next 90 days.

Ritesh Shah: Okay. Sir my third question is, how is Vedanta approaching the upcoming auctions? We haven't heard much about the bauxite leases which will be auctioned. Is there something that you can help us on? And will Electrosteel also be participating in the ore auctions? And between Hindustan Zinc and Vedanta, if there are certain mineral assets, how will it be dissected between both entities when it comes to approaching the auctions?

S. Venkatakrishnan: If I can pick up the broader macro piece, certainly the new Minerals Policy has opened up the natural resources space. We are hugely excited with the opportunities that they provide us. Needless to say, we will approach the auction with an open mind, but we will run through that with two values lenses, one, what does it mean in terms of adding value to Vedanta Limited, that’s the first aspect in terms of its integration with our existing portfolio, in terms of returns, etc. But the second value lens is the bigger purpose, what does it do for the country as a whole. So, in that regard, certainly you will see us participating in the auctions, in areas where we currently have existing vertical businesses that could include bauxite and coal for example, if the zinc mines adjacent to ours also come up we will look at those. So, certainly keeping an open mind in terms of auction. But every license which is coming up for auction will be looked at on a specific license-by-license basis, very similar to how we have evaluated all our business on.

Ritesh Shah: Sir, specifically can you provide color on iron ore from Electrosteel point of view and bauxite from our aluminum operations, given we could potentially increase refining capacity, is that something that we are eying for?

S. Venkatakrishnan: Yes. In fact, if I can pick up the iron ore one, and then I will hand over the aluminum one to Ajay Kapur. Certainly, if you look at the potential of our iron ore business, if you look at Karnataka, you look at Goa and you look at our Jharkhand mines near Electrosteel, its got a potential to generate around 50 million tonnes of iron ore. So, certainly our objective here would be in terms of Jharkhand integrating it with our Electrosteel operations and reopening of mining in terms of Goa. But of other iron ore mines come on auction, it's certainly something we will look at, again, has to meet our true value criteria. Ajay, you want to want to throw some light on aluminum, the question there in terms of refining?

Ajay Kapur: So, we have already mentioned last time that we will expand our refinery at Lanjigarh in steps, first going from 1.7 to 2.7 and then going to 4. The first one we are already working on. In terms of our bauxite security we are also, as Venkat already mentioned, going to participate in the new auction as and when they come up, and we are hopeful that it will come up soon. Besides, we continue to buy local bauxite from Orissa bauxite. And we have already seen in the results ramping up by 33% production from our Lanjigarh refinery, that's a direct result of getting much better local supplies. So, we are very positive that in time to come we should be able to substantially increase dispatches from locally sourced bauxite in sync with our expansion plans.

Ritesh Shah: Thank you. And just last question, government has put up a very large divestment target, are we expecting something on Hindustan Zinc to progress in forthcoming quarters or months?

S. Venkatakrishnan: Yes. I think this is something which they have certainly said that they would be looking at divesting stakes in public sector undertaking. We will wait for those announcements to come out. And we can actually make a call at that state. But certainly, we would be interested in terms of potential it offers. But we have to look at specifics when they are announced.

Ritesh Shah: Thank you. The next question is from the line of Ashish Kejriwal from IDFC securities. Please go ahead.

Ashish Kejriwal: Sir, two questions. One is on aluminum, if I am looking at your cost of production, besides your alumina and power cost, our other costs have in fact increase both on a quarter-on-quarter basis as well as on a YoY basis. So, what we are doing here to minimize it or what led to the increase in the cost of production over here?

S. Venkatakrishnan: Ajay has got some very good plans in terms of reducing costs in other areas, other than these two aspects which you highlighted. So, Ajay, you want to pick that up?

Ajay Kapur: So, as you have seen, and also Arun mentioned, there were some representation issues as well here. We are ramping up our value-added product portfolio, therefore there are some one offs which happened in the cast house area especially. But I can assure you that in going forward we see that coming back.

Ashish Kejriwal: So, is it possible to quantify what are the one-offs?

Ajay Kapur: These are at BALCO as well as Jharsuguda, we have cast house and we are trying to ramp up new products, including our allows, which are eventually going to get as a very good premium. So, there's someone one offs taken against those investments.

Ashish Kejriwal: No, I was looking at in terms of quantum, is a $50 per tonne or what kind of quantum was going on in first quarter?

Ajay Kapur: About between $20 and $30.

Ashish Kejriwal: Okay. And second question is, though it's not directly related to us but it's about the parent company Vedanta Resources. Vedanta Resources still has around $6.3 billion debt, and they have only Vedanta Limited as an operational entity with all kinds of cash flows. So, I am sure that interest obligation can be made from the dividend payment, but what's going to happen for the principal payment of that? So, is it possible to throw some light on how you are seeing it, or in future if the need arises we can again have some kind of payment or something which can serve the payment obligations of Vedanta Resources, the parent company?

S. Venkatakrishnan: Firstly, let me answer your second question first as to whether there would be any transactions between Vedanta Limited, similar to CIHL, the answer is no. And Arun can actually cover the aspects in terms of the balance sheet.

Arun Kumar: I think you would agree, Vedanta PLC has been extremely valuable parent, the group would not have been what it is at this point of time, if not for all the capital market activity that it went through the fundraising in London, and on the back of which many of these businesses were built. Now if we take the last three-year trend, the debt has actually come down in the parent, and the parent resources have other ways and means also of reducing debt rather than just depend on the dividend, there can be other opportunities of monetizing assets, if any, if the need arises in future. So, what we should expect broadly is gradual decline of debt, including on-time interest servicing at the parent. And the other thing is that it has also done excellent liability management exercises and the next two years there are absolutely no repayments of principle that's required at the parent. So, I think that's really well managed sort of a balance sheet. And the focus really on this call, all of us are really looking at the fundamentals of operations and the growth does seem to be getting its legs in terms of solid foundation having been laid, as Venkat explained, and we should look to a much better H2 and more cash generation, and that's really the fundamental strength that the group will bank on.

Ashish Kejriwal: Yes, I do agree with the fundamental strength of the company, and I think nobody denies to that. But the point from the investors angle is, as we have seen in case of CIHL, though our investment has generated good returns, but market has not taken into consideration the right thing on that. So, that's the reason I am asking what is going to happen for Vedanta Resources, if we don't monetize our assets then even after two years down the line when there's a large bullet payment which we have to do, how to go ahead with that. That's the only questions.

Arun Kumar: Sure. Thanks so much for your inputs, and you are absolutely right. So, will ensure that we balance all the objectives going forward and manage it proactively, so that generates cash and allocate the capital appropriately with the right distribution as well, and ensure the gradual de-levering. Thank you.

S. Venkatakrishnan: Operator, if I can just make one clarification. There was a question that was raised by one of the participants on the fertilizer plant, just to clarify for others on the call. This is not a greenfield project, its really a project to improve our realization on the byproducts because we have got captive sulfuric acid and rock phosphate which we have, it just enhances the value in terms of our byproducts. Just to clarify. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mrs. Rashmi Mohanty for closing comments.

Rashmi Mohanty: Thank you, everyone, for joining us today on this call. If there are any follow-up questions or if there are any clarifications required, you can reach out to the investor relations team. Thank you.

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