“Vedanta Limited Q1 2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Vedanta Q1 FY'22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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 Ms. Raksha Jain from Vedanta Limited, Investor Relations. Thank you, and over to you.

Raksha Jain: Thank you, operator, and good evening, ladies, and gentlemen. Thank you for joining us today to discuss the First Quarter Results of FY'22. This quarter has been a good start to the year. The call will be held by our Group CEO -- Mr. Sunil Duggal; and Group Deputy CFO -- Mr. Ajay Goel with several of our business leaders; Mr. Prachur Sah from Oil & Gas; Mr. Arun Misra from Hindustan Zinc; and Mr. Sauvick Mazumdar from Iron Ore and Steel. Mr. Duggal and Mr. Goel will be discussing the Operational and Financial Updates for the Quarter, followed by a Q&A Session.

Now I would like to invite Mr. Sunil Duggal to present the results. Over to you, Mr. Duggal.

Sunil Duggal: Thank you, Raksha. So, good evening, ladies, and gentlemen, and welcome to Vedanta Limited FY'22 First Quarter Earning Conference Call. I'm happy to announce another strong quarter with continued momentum across all businesses. We were able to deliver our best by relying on our talent pool, asset-base, digital-first approach, continued focus on cost discipline and commitment to our core value of ESG, which is our fundamental.

We remain hopeful that post-pandemic, India's recovery is likely to be quick with strong GDP growth. Global commodity demand continue to be strong as global economy, particularly the advanced economy gain momentum, while supply side constraints remain leading to metal prices touching multi-year highs. Oil prices are supported by gradual increase in demand, focus on investment in green energy, infrastructure and sustainable mobility will provide strong support to demand for commodities at Vedanta like steel, aluminum, lead, zinc, and copper, while oil demand to strengthen from increasing mobility.

Government continued thrust on infrastructure spending; incentivizing manufacturing and easy availability of credit will increase commodity demand in the coming quarters. And more states progressively unlock restrictions; consumer demand is set to come back in Q2.

Coming on to slide #5, the second wave of COVID-19 struck India hard and impacted economic recovery as country went into localized lockdowns. So, government continued thrust on infrastructure spending, incentivizing manufacturing and easy availability of credit will increase commodity demand. As more states progressively unlock restrictions, consumer demand is set to come back in Q2. The second wave of COVID-19 struck India hard and impacted economic recovery as country went into localized lockdowns across the country. We undertook several measures to help over 4.5-lakh people in over 500 villages by providing vaccines, oxygen, medical equipment, test kits, PPE kits, medicines, and sanitizers

With permission from the Supreme Court, we started the oxygen plant at Sterlite Copper, which has supplied around 1,400 tons medical oxygen to hospitals around our location, free of costs, taking the total oxygen supplied by the group to 2,250 tons approximately.

Coming to Slide #6 and #7 now, at Vedanta, we believe in giving back to the society and being the developer of choice by communities, "Anil Agarwal Foundation", our umbrella entity for Vedanta's giving back to initiative, has rolled out Rs.5,000 crores, social impact program is focused on nutrition, women, and child development. Healthcare, animal welfare and grass-root level sports including investment in a corona-free village project across several states to combat the pandemic. As part of this initiative and with an aim to tackle expected third wave, we have started "Swasth Gaon Abhiyaan" across 1,000 villages in 11-states, touching lives of about 20-lakh people by conducting vaccination drives, supplying oxygen, and providing medical and diagnostic infrastructure, among other things.

Coming to Slide #8, as the world is slowly getting back to normal, we are determined not to let our guards down. Our centers of task force headed by the business CEOs continue to monitor the situation on ground. We are well prepared to assist our internal ecosystem in case of any anticipated third wave. We have deployed all required medical support and infrastructure at our site, along with hospital tie-ups for any emergencies. Testing and vaccination of all our employees, business partners and their families are ongoing as we speak. We are prepared to go the extra mile to ensure welfare of our employees and communities.

Coming to Slide #9, we are saddened by the loss of two lives at Zinc India this quarter. We have completed in-depth incident investigation for the fatalities. The learnings from the incident are being reviewed by our employees and business partners for implementation across business units and are being tracked and monitored at exco level. Safety continues to be our high-end focus as we aim to achieve zero harm and ensure that everyone goes home safe at the end of each day.

Achieving our safety mission, we have fatality learning program through ICAM training. We have also improved our safety inflection all the way to senior leadership level through visible strength leadership.

Coming on to "Decarbonization," we are developing a net zero road map with a concrete action plan till 2030 to be rolled out in the next six months. This includes risk assessment, developing science-based targets, carbon pricing and revamping our energy mix. We continue to analyze and monitor environmental risk as a result of our operations and aim to achieve a net zero impact on the environment. We are also identifying areas within each business, wherein we plan to launch "Net Zero Pilot" program to achieve early success which can be scaled up.

Turning to Slide #10 and 11, turning to our key Operational and Financial Highlights of the Quarter, we continue to deliver strong production performance across all businesses, along with continuous focus on lowering cost. Special mention to aluminum, Zinc International and FACOR, where we continue to achieve new levels of production with continued focus on structural reduction in cost and better capital management. This quarter, we clocked record revenue of Rs.28,105 crores and highest ever EBITDA of Rs.10,032 crores with a robust EBITDA margin of 41%. The net debt has come down by Rs.7,000 crores from June last year which shows the strength of our balance sheet.

Vedanta's diversified product portfolio puts us at a sweet spot with production ramping up across all our businesses, with recent ferro chrome and pet coke addition strengthening the portfolio further. We remain focused on achieving potential production across businesses from our existing resources and enhancing performance via technology leverage discipline.

Coming to Slide #12, we have reoriented our management structure and are focused on following key value drivers. In each of these areas, various initiatives are being strategically driven to unlock further value for the company. Upholding our core commitment to ESG, we are updating the Board Sustainability Committee to Board ESG Committee to strengthen board-level rigor and advice into all aspects of ESG. We remain committed to provide equal opportunities to employees regardless of their race, nationality, region, caste, creed, gender, or age.

Set up Center of Excellence with R&D as foundation to leverage technology and improve asset base.

We will also unlock value through integrated procurement and marketing; establish digital transformation task force to improve efficiency across businesses, including initiatives for risk monitoring and analysis.

Exploration and reserve growth is the key focus area for all our verticals. We are working on various Greenfield projects; few examples, execution of Thanewasna copper block in the next couple of weeks with drilling expected to start in next four weeks post monsoon; extension grant of Dubarpeth from Government of Maharashtra expected shortly; expected to get forest permission to drill 18 bore holes through BCL; Baghmara gold block Chhattisgarh, forest approval received in the process of executing a stated commencement of exploration in current quarter.

At FACOR, we have onboarded an exploration partner where drilling has commenced with expected total R&R addition of 10.54 mt based on Q1 exploration. We continue to work towards assessing new mining zones and expanding partnership to strengthen R&R base.

Coming to Slide #13, turning to our Business Verticals, Aluminum business, we witnessed an exceptional quarter, highest ever hot metal production of 549 kt, which was up 17% YoY. Lanjigarh cost of production was at $258/ton; and aluminum cost of production at $1,526/ton, up due to input commodity headwinds. This quarter saw highest ever EBITDA margin of 36%, making aluminum business almost equivalent to the highest contribution to EBITDA at our group level.

We have emerged as a successful bidder for the Kuraloi north coal block in Odisha. The operationalization of our coal blocks, Jamkhani, Radhikapur and Kuraloi north will be one of our key focus in high priority areas as this will ensure almost 100% of the coal security for the business with the potential to bring down coal cost by around 30% to 35%.

Turning to Slide #14, in our effort to be among the top global leaders in aluminum with sustainable tier-1 cost structure, we are undertaking the expansion of BALCO smelter from 0.57 mt to 1 mt, taking the total VAP capacity at BALCO to more than 90% maximizing the NEP. The Line-6 ramp-up in Jharsuguda will take total capacity to 2.8 mtpa. The ramping up of alumina refinery from 2 mtpa to 5 mtpa is on track, which will move us towards our vision to be vertically integrated across entire value chain.

Coming to Slide #15, on Zinc India, one of the key pillars of our business, it has been delivering consistently on volumes despite the challenging times. We delivered one of the strongest first quarters. Mined metal production stood at to 221 kt, up 9%, with metal production at 236 kt, up 17%; and silver production at 161 kt, up 37% YoY. Zinc cost of production stood at $1,070 per ton, higher on account of commodity prices, mainly coal, cement, and diesel. We look at a stronger year ahead on the back of fully commissioned projects, digital initiatives, and structural efficiency improvement.

We look at a stronger year ahead on the back of fully commissioned projects, digital initiatives, and structural efficiency improvement. The shafts at Rampura Agucha mine and Sindesar Khurd are fully operational. Moreover, increased use of advanced process controller at both SK and RD mills for purpose of grinding on use to improve recoveries. This year, there is an increased focus to increase our reserve base by upgrading resources. We are leveraging advanced surface and geophysical technology to achieve the targets.

Owing to Zinc International business, Gamsberg mine is setting new records with its excellent performance for building highest-ever MIC of 46 kt in the quarter, up 84% YoY, on way to achieve the target up to 50 kt, which is more than the design capacity. It also demonstrated several best performances like highest mill throughput, mill utilization and ore treatment. Cost reduction trajectory of Gamsberg continue with COP of $1,299/ton in Q1 from $1,350 per ton in Q4 FY'21, through effective plant maintenance and monitoring, internal efficiency and digital initiatives, apart from recovery improvement. We are confident of achieving the target driven by the capacity enhancement project at Gamsberg.

Plan to ramp up mining by 3x in FY'22 to more than 75 mt versus 24 mt in FY '21, two additional mining business partners have been onboarded, ongoing project to remove debottleneck of zinc production to achieve 600 tons per hour mill throughput and expansion of rougher circuit to improve recovery. Reagent addition project to run at 600 tons per hour. BMM produced about 15 kt MIC in Q1. It has started a new scalable product line of magnetite. Advanced step towards developing a 3 mtpa iron ore project are being undertaken, with the first production seen from the pilot plant already started. Phase-1 of this project expect to produce between 0.7 mt to 1 mt of iron ore.

ZI is well positioned to undertake next phase of growth, in line with the vision to become a 1 mt producer. With robust R&R of 30 mt of metal and proven track record, ZI is embarking on expansion projects. Gamsberg Phase-2 to almost double production of existing Gamsberg mine from 240 kt to 450 kt. Conversion and expansion of refinery at Skorpion Zinc Namibia to produce 300 ktpa fine metal from sulfide ore Gamsberg. Drilling has also commenced at Gamsberg 2 and Swartberg. Two significant drill targets have been identified through deep, looking magnetotelluric geophysics technology.

Coming to Slide #18, on our oil and gas business, gross oil and gas operated production during the first quarter was 165 kboepd. Gas sales were impacted due to reduced demand during the first two months. This was normalized during June, and we exited the quarter at 170 kboepd. Gas production has ramped up with a new terminal now fully operational. We have onboarded O&M partner to manage the gas processing facility to improve operational efficiency and also enable us to focus on R&R addition. All wells for Aishwariya, Barmer Hill have been drilled and volume ramped up. The polymer injection has been ramped up to the design capacity.

Coming to Slide #19, for the current year, we have planned CAPEX investment with two-fold objective of adding near-term volumes and sold-through exploration. We plan to spend around $200 million to monetize 40 million barrels of reserve. Infill drilling has been commenced in Mangala. Drilling and tight oil, tight gas and offshore shall commence progressively from Q2. We intend to spend around $150 million to grow the resource portfolio. Our 15-wells drilling program in OLAP, we have drilled four wells already, and currently, drilling is ongoing in Cambay and North East. We expect to commence exploratory drilling in Rajasthan and Ravva block during the current year.

Coming to Slide #20 and moving to Iron Ore business, Karnataka saw highest ever margin supported by strong domestic iron ore prices and focus on value-added products through strength in full value due to trade barriers. Sales were consistent, while the production was up 53% YoY. For Goa mines, we are engaged with state and central government for favorable ruling for resumption of mining. At value-added segment, we achieved the highest-ever quarterly hot metal production of 202 kt due to productivity improvement and margin improved to $184 per ton, which was up 6x YoY.

We are also very happy to announce integration of our recently acquired coke plant, having a capacity of 0.9 mtpa in Gujarat, making Vedanta largest merchant coke player in the country, taking the capacity to more than 1 mt.

Coming to Slide #21, Steel business recorded quarterly saleable production of 289 kt, up 8% YoY with a margin of $115 per ton. The sales were at 265 kt for the quarter, down 13% YoY due to challenging domestic condition amidst the second wave of COVID. The VAP mix decreased in Q1 to 75%; however, our focus remains to achieve more than 90% in FY'22. We are tracked to double hot metal capacity to 3 mtpa in next 16 to 18 months' time.

Debottlenecking of existing blast furnace is planned in October. Upgradation of other unfinished facilities with technology, automation, and digitization are ongoing for productivity improvement and capacity enhancements.

Turning to Slide #22, FACOR is continuing its turnaround story, has seen 3x growth in ore production in comparison to last year. In fact, this quarter witnessed highest ever ore production. Plant productivity has increased by 11% post the annual maintenance shutdown in April. We have completed several efficiency initiatives like debottlenecking of furnace and optimization of stable ferro chrome production. We further plan on increasing the productivity through various debottlenecking and technological initiatives.

With this now, I would like to hand over the mic to my colleague and friend, Mr. Ajay Goel, for the Financial Summary. Over to you, Ajay.

Ajay Goel: Yes. Thank you, Sunil, and good evening, everyone. We have delivered yet another very strong quarter, and Q1 has been an outstanding start of the year, both operationally and financially. This quarter witnessed our best-ever quarterly EBITDA performance and very low net debt-to-EBITDA ratio. This quarter, we also made investments in various futuristic CAPEX projects, augmented digital and people capabilities, and supported societies very well in this tumultuous times.

Some of the key highlights of the quarter from Page #24 are highest ever quarterly EBITDA of Rs.10,032 crores, up 150% YoY, with an underlying EBITDA margin of 41% being an industry-leading margin. Attributable PAT before exceptional items, stands at Rs.4,280 crores, up 314% YoY. (ROCE), Return on Capital Employed at 22%. This is up 375 basis points versus last quarter sequentially. Gross debt stands at Rs.51,579 crores and with cash and cash equivalents of Rs.31,318 crores shows underlying very strong liquidity position on the balance sheet. Net debt of Rs.20,261 crores, down 26% YoY, and that is almost Rs.7,000 crores with annualized net debt-to-EBITDA ratio of 0.6x, continues to be lowest amongst Indian peers. I want to underscore that 0.6x ratio means that almost with the seven months of profitability we can repay the entire net debt on the balance sheet.

You may have seen that we have a detailed income statement in the appendix on Page #31. I want to call out a couple of vital few numbers for your benefit. Starting with the business-in-charge for the quarter at Rs.2,124 crores, it is higher by 23% YoY primarily due to capitalization of major projects, especially at oil and gas and higher ore volumes and capitalization at zinc and aluminum businesses. The numbers quarter-on-quarter is marginally higher by 3% due to capitalization at oil and gas and higher ore production at our Zinc International business.

Finance costs for Q1 was Rs.1,182 crores, down 6% YoY and down 11% QoQ, due to lower average borrowings, partly offset by higher interest costs. The average cost for the quarter stands at about 8.1%. Income from investment for the quarter at Rs.726 crores, down 29% YoY, mainly on account of mark-to-market movement and 16% lower quarter-on-quarter, primarily due to change in mix of investments. The average income from investment for the quarter stands at about 5.3% pre-tax on the current portfolio. The normalized (ETR), effective tax rate, stands at 26% versus 28% in the previous quarter on account of change in profit mix within entities in our portfolio. As you know, normalized ETR excludes any tax on exceptional items, tax on inter-group dividend and one-time deferred tax asset that we recognized almost Rs.3,000 crores in the previous quarter from integration of our ESL from the previous losses in the fourth quarter.

Now starting with the EBITDA Bridge, first, YoY versus last year on Page #25. As you can see on this chart, in summary, significant portion of EBITDA increase of Rs.6,000 crores from Rs.4,000 crores last year same quarter to Rs.10,000 crores this quarter, has been market or pricing-driven, both LME and Brent. The increase in volumes at zinc, aluminum and iron ore has been partly offset by cost mitigation and aluminum business which again is marked to market. Overall, the absolute EBITDA for the quarter vis-à-vis last year same quarter has gone up 2.5x, which I think is quite commendable.

Moving on to the EBITDA bridge sequentially on Page #26 vis-à-vis the previous quarter. EBITDA for the quarter is higher by 10% quarter-on-quarter. Now as we can see from the bridge, the market and LME factors have positively impacted our EBITDA by Rs.1,669 crores and the pricing alone giving almost a gain of Rs.1,928 crores. This is partly offset by input inflation, majorly at aluminum and ESL.

On the operational front, lower volumes at zinc and iron and steel business has impacted EBITDA by Rs.705 crores. Overall, the higher metal pricing and the brent and inflation on input side have been the major themes, both quarter-on-quarter and year-on-year, lower different managing.

Moving on now to next page on net debt side on Page #27, net debt as of June 30 stands at Rs.20,261 crores, showing a decrease of net debt by Rs.4,153 crores sequentially and deleveraging versus last year is almost Rs.7,000 crores, almost 26%. The decrease in net debt is attributable to positive free cash flows post CAPEX is almost Rs.2,800 crores as a result of strong operational performance, and secondly, also receipt of almost Rs.1,500 crores on account of intercorporate loans that we got repaid from Vedanta Resources Limited.

Finally, moving on to the balance sheet, last page, page #number 28, we remain highly focused on managing our balance sheet efficiently and has a very strong position in terms of cash and investment, totaling almost Rs.31,000 crores plus. The average maturity of term debt is almost three years, with average borrowing cost at 8.1% for the quarter. The rating has remained constant as in the previous quarter with a stable outlook from India Ratings. With the net debt-to-EBITDA at 0.6x, we are amongst the lowest in Indian peers by a long margin.

Overall, in summary, with an excellent Q1 performance and structural improvement in volumes across businesses, we delivered both profitability and deleveraging and we believe a stronger balance sheet as in the quarter-end where we begin. This sets us to deliver a very strong yearly performance.

Thank you. And with that, I hand over back to Sunil for wrapping before Q&A.

Sunil Duggal: Thank you, Ajay. Before we open the floor for question and answer, I would like to reiterate our strategic priorities and vision that will drive our long-term value. Number one, vision of becoming world-class ESG organization. Two, strengthen our reserve and resource base to enable growth. Three, strong focus on operational excellence and cost leadership. Four, maintain strong balance sheet and optimal capital structure. Five, continue delivering value-added growth in all our businesses.

Now, I declare the floor open for question-and-answer. Over to you, operator.

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 two questions. The first one is your expansion plan at BALCO, 414 ktpa. Now, what kind of ROE or ROIC, do you envisage from this expansion, because one of your competitors in India is expanding this primary aluminum capacity while you are going ahead and doing it, so I just wanted to understand the thought process behind it?

Sunil Duggal: I think we wanted to go to 1 mt club at BALCO, and we also wanted to realize our vision of 3 mt production. And with the infrastructure focus and the growth of green metal demand for aluminum, I think the demand is going to grow in India. And by making and adding the capacity, which is almost 100% value-added product, I think we can come to the first docile of the cost curve with our structural measures around securing our bauxite security, raising the Lanjigarh capacity from 2 mt to 5 mt with a potential to go to 6 mt. We are also in the process of taking the approval for 6 mt from MoEF and then operationalization of the coal blocks. Just to also let you know that the recent Kuraloi coal block, which we have just won, the potential cost of the coal is around 40 paise to 43 paise per GCV compared to our existing cost of 74 paise, 75 paise. And securing coal from three coal blocks which we have already won, it almost gives us the 100% coal security. With all those structural measures in place and adding the value-added capacity at Jharsuguda and the previous quarter also, the capacity which we have declared at BALCO, with this expansion with the 100% value-added capacity, I think the aluminum business is on par to 3 mt tons, contributing $3 billion EBITDA to our kitty, and we are quite excited and motivated to announce this expansion.

Amit Dixit: Just wanted to understand the ROE, ROIC estimate if you have put any for this particular expansion?

Ajay Goel: As you heard from Sunil that this BALCO project is quite aspirational and we will be entering the one MTPA club very soon. Now, as you know, the entire growth of this market is about a 7% to 8% CAGR. So, this is a building capacity for the future. It is showing seed for next generation. Now, the entire project has very healthy financials. If I look at maybe IRR as a key metric that we normally track, it is between 20% and 25% depending where LME will rest. So, 20%-plus is for sure is IRR, is quite strong. Payback is another set while looking at this kind of project. So, between 4 to 4.5 years is a real payback on this project. We have the multiple scenarios in terms of LME going up, going down if we overrun. Overall, looking at multiple scenarios, the project is a well stress-tested and 20% plus IRR, 4, 4.5 years is a payback.

Sunil Duggal: But I also want to add on, this IRR is worked on a very conservative cost number, which is the existing cost. With the structural measures which I have just said, the bauxite security Lanjigarh capacity going up, operationalization of the coal blocks and our value-added product, I think the MSR potential going up from the current level, if the LME remains at the same level, we have a potential of around $300 to $400 additional MSR contribution from this business.

Amit Dixit: The second question is on your aluminum waterfall chart that is on Slide #39. Now if I see the cost elements, everything has increased QoQ except conversion cost and others. So, is there some RPO obligation write-back that is responsible for this decline from $101/ton to $64/ton or I mean what are the drivers for this decline?

Sunil Duggal: There's no RPO write-back in this cost.

Amit Dixit: So, it's purely the efficiency factors that has resulted in this?

Sunil Duggal: Absolutely.

Moderator: The next question is from the line of Ashish Kejriwal from Centrum Broking. Please go ahead.

Ashish Kejriwal: My question was on net debt position of company ex-Hindustan Zinc where we are seeing it has declined just by Rs.2,000 crores on a quarter-on-quarter basis, and out of that, around Rs.1,500 crores is the ICD payment by the parent company, there is a Rs.500 crores decline in net debt ex-Hindustan Zinc. So, my question is, how do we see ex-Hindustan Zinc net debt panning out throughout the year? And secondly, you talked about the coal block. So, all these three coal blocks, when do you think that will start contributing and giving some kind of advantage in the coal block or power cost as well as what's the CAPEX plan for BALCO, and we are expecting how much CAPEX we will do?

Ajay Goel: No, I think all these three coal blocks, we are on a drawing board and working out the numbers for operationalization of all these coal blocks. So, my rough estimate is that we will have to spend around Rs.3,000 crores for operationalization of all these coal blocks. And my own sense is that we are in the process of taking some approvals and then land rights and working out MDO model in discussion with various parties or potential vendors. So, this could become operational in the next 12 months to 18 months' time with a rough CAPEX estimate of around Rs.3,000 crores. On net debt of Hindustan Zinc, again, yes, sure, if you read maybe two charts in our presentation, Page #27 on net debt position and the Page #32 that shows our cash position by entity. See, the deleveraging, if you look at numbers quarter-on-quarter between March and June, our net debt has gone down by almost Rs.4,200 crores. The contribution by Hindustan Zinc is almost Rs.2,000 crores, and the remainder is from different entities. So, it is half and half.

Ashish Kejriwal: So, that's what I was saying sir, that Rs.1,500 crores is just the ICD repayment by the parent. So, from operating cash flows of ex-Hindustan Zinc, we were able to reduce net debt by Rs.500 crores only.

Ajay Goel: I think you're right; the number is Rs.760-odd crores.

Ashish Kejriwal: Yes. So, my question on that was how do we see ex-Hindustan Zinc net debt coming down throughout the year?

Ajay Goel: As you know, we don't give guidance in terms of net debt or the cash flow for the fiscal. But one can look at the numbers. If you look at our fourth quarter, the cash flow generation, and for the Q1, historically, in our industry and in our company in Vedanta, typically, the first quarter is a cash investment, I mean that is how the business cycle, that is how the entire debtors and inventory really works. Maybe the first time in the recent past, we are looking at deleveraging in the first quarter. I think by each passing quarter, and I don't need to give guidance, but the volume in the second quarter should be higher than the first quarter, it need to go up. So, with the higher volume quarter-on-quarter, cost compression and assuming LMEs continues, EBITDA for the current fiscal will be far higher than the last year, and even that led to significant cash flows. So, we should be looking at significant deleveraging in the current fiscal. The debt number, I do appreciate, it is hard to provide for now.

Ashish Kejriwal: And sir, that question was the CAPEX for BALCO 400 kt expansion?

Sunil Duggal: Around Rs.6,600 crores.

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

Pinakin: My first question relates to the BALCO expansion. In terms of the 0.4 mt aluminum smelter, would there be any additional power capacity be set up? And if so, what kind of capacity would that be?

Ajay Goel: No, I don't think any additional power capacity is required, we don't need any power infrastructure, and we don't need any water infrastructure. The advantage is that the power sufficiency from our current power plant and converting IPP to CPP will be good enough to meet demand for the expanded capacity.

Pinakin: So, essentially, we should expect, sir, the power sales that we are currently seeing at BALCO of roughly 400 million units a quarter, that would reduce as and when the smelter comes online?

Ajay Goel: Obviously.

Pinakin: Sir, my second question relates to the oil segment. The oil segment EBITDA were at Rs.1,064 crores is actually lower on QoQ basis, Q1 versus Q4, even as the oil realization is $67 is around $7 higher versus the fourth quarter and oil production is flat. So, even with higher oil price list, sir, and flat volumes, why is the EBITDA lower sequentially?

Ajay Goel: So, the EBITDA lower sequentially is majorly on account of our PP trend, which has increased from 50% to 60%. That has given some impact on the EBITDA.

Pinakin: And sir, this will be recurring?

Ajay Goel: Yes, so we are in the 50% tranche for the year FY'22, and we'll continue with that.

Sunil Duggal: It is not exactly 60%. As per the agreement, this has gone up from 40% to 50%. So, minimum will be 50%, but it has also got a formula of investment multiple, that means the CAPEX spend and as a result of that, it could vary from 50% to 60%. We are at a highest tranche because of the investment multiple. But if the investment goes higher, as a result of which, the volume could go higher, PP could come down to 50% going forward.

Pinakin: Just to continue with this oil, there was another expense of oil exploration wells being written off of Rs.99 crores in this quarter. Historically, we have not seen that kind of an expense, sir. So, sir, what is the kind of inventory of exploration wells which is sitting on the balance sheet and could get expensed off in the P&L going forward?

Sunil Duggal: See, these are OLAP wells. We have budgeted 15 wells for exploration. And you know in the exploration not that every well get the success. So, we have drilled four wells. Out of that, three wells have been found right, but one well has given the success, through which we are commercializing the production. We are in the process of drilling more wells. And as a process, when the wells get dry or we find these dry wells, we have to write off this cost. So, it is a very standard SOP which is followed.

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

Ritesh Shah: First question is on capital allocation. Wanted to hear your thoughts on copper smelter, fertilizer plant at Hindustan Zinc and oil refining business, and lastly general divestment, that's the first question on capital allocation?

Sunil Duggal: So, capital allocation, we have budgeted $1.8 billion, in which project CAPEX and sustaining CAPEX both are included. But apart from that, the project which we have declared today is part of that investment could also come. But all in all, I think for the current year, the CAPEX investment should remain at not more than $2 billion. Apart from that, whatever projects you were talking, we are in the process of evaluating all these projects and on our drawing board to do the complete design and the final design. And in the copper smelter also, you know that we had issued the EoI, and we got the interest from the three coastal states, we are in discussion with them. But we have not conceptualized or finalized anything. As we will conceptualize or finalize anything, we will come back to you, and we will announce at the right time.

Ritesh Shah: Sir, my second question is on dividend payout. I was just looking at the Vedanta Resources bond holding. On 16th of July, Vedanta Resources terminated the consent solicitation with respect to two bonds that is 2024 and 2025. I understand basically the guarantees are not only from VRL but also from Twin Star as well as Volcan. So, just wanted to understand, given this consent has got terminated, what is the reputation it could have or how should one read it to the dividend payouts from Vedanta to the parent?

Ajay Goel: The two parts, if you're starting in the first, that bond content, we think seeing the bond consent is a positive for all the stakeholders. And it's part of our continuous efforts in terms of various initiatives. Now we can't attribute this to any one specific initiative. Now looking at the response from the bondholders, we think at this stage, it is not in our best interest to go for this consent and hence, Vedanta has called off this bond consent. The second question, if you look at the payment of dividends, and I know you track Vedanta quite well. Our dividend yield has been amongst the highest in the Indian peers. Now, if you look at the current fiscal, with the higher profitability, driven by both the volumes and the prices and resultant EBITDA, I think a stronger free cash flow is a given. If you look at maybe the last quarter, the balance sheet strengthening remains our single biggest priority. And the proof you might have seen, almost Rs.7,000 crores, almost a billion-deleveraging year-on-year. But with a strong performance and improvement in the COVID situation, I think it is fair to also assume that in the near future, the payment of dividend is an option. Would that be happening in the next quarter or the quarter next? We have to wait and watch. Secondly, also deleveraging at Vedanta Resources is one priority. That again will be from payment of dividend, which may be from both operating free cash flows and even at some kind of leverage at Vedanta Limited. So, deleveraging at Vedanta Resources, it's through payment of dividend, both through operating free current cash flow and the borrowing is an option in near future.

Ritesh Shah: Sir, just to continue with this, how should one look at the growth CAPEX versus the balance sheet ratios like we have indicated net debt-to-EBITDA is the best in last four years at 0.6x, so how should one look at growth CAPEX versus the balance sheet ratios that we are looking at versus the dividend payout?

Ajay Goel: You may have seen our CAPEX guideline for the current fiscal is almost 1.1, 1.2 growth CAPEX. Additionally, almost 0.7 billion or 0.8 billion is sustaining CAPEX. So, overall CAPEX for the current fiscal, almost 1.8 billion to 2 billion. Historically, we have never exited our CAPEX guidance, and we are quite conservative, we are quite rigorous in terms of bidding for

CAPEX approvals. Now typically, our net debt-to-EBITDA, historically, last five years, is in the range of 0.9x to almost 1x. Right now, 0.6x, I think by far the best in the Indian peers. If you're asking about, will that sustain? I think 0.6x might be too low, but again, 0.9x or 1x is too high. I am foreseeing at the current fiscal, including the year-end, it must be in that huge spot of almost 0.7x to 0.75x.

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

Sumangal Nevatia: Just continuing on the previous question on dividend, just want to understand that as per the cash flow, what is the deadline for us to get the tax shield on the dividend income we received from Hindustan Zinc for this year?

Ajay Goel: Well, as you may have seen the current fiscal, there is no dividend for Hindustan Zinc, and typically, as you know, Sec. 18 and income tax act. So, we have to pass on the dividend from our subsidiary to our parent company within the same fiscal. So, whatever amount we get in the near future, if at all, any payment is happening, we have to pass on that to the parent in the same fiscal.

Sumangal Nevatia: My understanding was we get a tax shield or tax credit, whatever you call, in the tax filing of next fiscal. So, is that right, I mean, I thought November is the deadline normally, I think it was also discussed in earlier calls, but you are saying that the tax shield for last year's dividend is lost, so we don't have that?

Ajay Goel: What I was saying is the timeline to get the entire dividend is before one month we file the return. So, if timeline is on 30th November, then we must pass on the entire dividend by October 31.

Sunil Duggal: We have time to go.

Sumangal Nevatia: And did we get any COVID-led extension of the timeline last year or any extension of this timeline expected this year because of the COVID situation?

Sunil Duggal: We don't know.

Ajay Goel: Right now that is hard to say what the government will do, but it is quite possible, they might extend. But we have irrespective time till October 31st.

Sumangal Nevatia: Second question is with respect to steel, the expansion of 1.5 mt to 3 mt. What sort of CAPEX and the time line we are looking at? And secondly, are we looking to just add hot mill or some downstream as well?

Sunil Duggal: No, actually, this is a CAPEX which is a half-finished project when we took over this company, I think there were a lot of equipment which were installed, and it's a half-finished project. So, we are putting all balancing equipments and completing the project and this will take the capacity to 3 mt. But we're also looking at debottlenecking of the existing furnaces similar to what we have done in our value-added business. So, this will all take the total capacity to 3 mt, that way the existing capacity of around 1.3 mt to 1.5 mt and adding the additional capacity to 1.5 mt, so, 3 mt will be the hot metal capacity. We are also adding the value-added product capacity that means steel mills and the Power billet. The overall plan is to have a value-added product of 90% and the CAPEX investment is around $230 million. So, Sauvick, you are also in line. Anything you would like to add on this?

Sauvick Mazumdar: Yes. Only one point, in the value-added segment, we are also adding the ductile iron pipe. So, presently, we have got around 220,000 tons. So, this total capacity of the ductile iron pipe will go up to almost 400,000 tons. So, that is all I wanted to add.

Sunil Duggal: So, all in all, we are looking at a graft capacity of more 90%.

Sumangal Nevatia: With respect to the BALCO expansion, in the presentation, it is written that the value added will increase to 90%. So, what is the planned contribution we're adding? Is it just pots and smelters we're adding, also some downstream at BALCO?

Sunil Duggal: We are adding 100% downstream of billet. It's a more than 100% capacity, along with this smelter capacity addition, that is a pot addition. More than 100% of that will be converted into VAP and that is billet capacity.

Moderator: The next question is from the line of Rashi Chopra from Citigroup. Please go ahead

Rashi Chopra: Just on the BALCO expansion, you mentioned that the CAPEX will be in the range of $1.8 billion to $2 billion, which has not changed from earlier. So, how should we apportion this CAPEX for the new BALCO announcement, and when can we expect production from this smelter? That's one. And second, is there any update on the Supreme Court ruling on the Hindustan Zinc stake?

Sunil Duggal: So, on BALCO expansion, this CAPEX will be completed in 18 to 24 months' time. And the overall guidance for the current year will remain around $2 billion, maybe $200 million of the cash flow could happen. But depending on what cash flow will be there next year, we will be coming back and giving the guidance in the coming quarters. On Hindustan Zinc disinvestment, the date has not been fixed as yet. But we believe that whenever the date will be fixed, now the courts are opening up, that could be the last hearing.

Moderator: The next question is from the line of Vishal Chandak from DAM Capital. Please go ahead.

Vishal Chandak: My question was with regards to the green metals that you mentioned, saying that you would be expanding BALCO capacity by 400,000 tons. How would that translate into green aluminum because I understand our bulk of power would still be coming from captive coal mines?

Sunil Duggal: I don't know what green you are reading. The green metal, we are taking the pilots in all our operations where we want to convert a part of our production in zinc, steel, aluminum, every business to the green metal. That means we want to source the power for that pilot through the renewable power and all other measures or all other initiatives we want to take to brand this metal as the green metal. So, this is only a pilot project we are taking. And the pilot will be such that how we have to scale it up to the full volume. As we speak, we are making a strategy and preparing ourselves to declare our strategy for making our operations carbon-neutral or how shall we progress in 2030, 2040 and 2050, in which we will convert all our energies to the renewable energies. But beyond that, what are the other ESG measures we are taking and how the journey will be traversing over the next few years. So, a complete plan and a public declaration, we will be making in the month of October.

Vishal Chandak: Sir, my second question was again with respect to the BALCO expansion. You mentioned that we would be doing 100% or more than that on the VAP. So, would we be stopping at wire rods or we are planning further value add products like extrusion products or something more than that?

Sunil Duggal: No, we will make billet only.

Vishal Chandak: In that 400 kt, it would end at billets only?

Sunil Duggal: Yes, that's right. The exclusion will be done by somebody else. As of now, we are not talking of any exclusion from billet.

Moderator: Ladies and gentlemen, we take the last question from the line of Rahul Jain from Systematix. Please go ahead.

Rahul Jain: Sir, I want to check on your priority for capital allocation. So, we're going to have very strong year of cash generation. So, as I understand, you said like Rs.10,000 crores CAPEX would be your first priority. And then to what extent do you want to upstream cash to your parent, Like I can read you have total parent the term debt is around $3.7 billion, so how should we look at your entire capital structure?

Ajay Goel: So, our policy on allocation of capital is quite consistent, and with kind of these priorities and strategy, we will not change quarter-on-quarter. So, we have done three strategic priorities. The first and the foremost remains deleveraging and some part of it, we have seen in the current quarter, deleveraging by almost 1 billion if you look at numbers year-on-year. Second remains growth CAPEX. Again, you may have seen 1.2 billion, the current year estimation. And the BALCO today announcement, it is in the same direction. Third is, how do we create value overall. So, these three are the priorities and they are not necessarily either/or. Now deleveraging is both for Vedanta Limited and Vedanta Resources. As you know, the net debt at Vedanta Resources as of June is about 11.5 billion. Now, a significant portion of deleveraging at parent, Vedanta Resources, will be through payment of dividend. That can come from again two sources: the free cash flow from profitability led by higher volumes and the pricing. And secondly, even borrowing at the Vedanta Limited payment of dividend for deleveraging at parent is an option. So, deleveraging both Vedanta Limited and VRL in the current fiscal is our single biggest priority.

Rahul Jain: So, what is the cap number that we're looking at on a net debt basis that you are not asked to pay dividend and by when this kind of dividend are we looking at in one year, two years, three years, I mean, any time line for that?

Ajay Goel: It is hard to give a specific time line. The payment of dividend you may have seen in the current quarter hasn't happened. In near future, is it an option if you ask me? I mean definitely. I think that seems quite logical. But to give some definite time lines is hard.

Rahul Jain: I am looking at a threshold of not going beyond 2x net debt-to-EBITDA or to keep the dividend, is there any number in mind we have?

Ajay Goel: We think any leverage around 2.5x is a good number, and for Vedanta Limited, around 1 or less than 1x is a good number. So, that is our normal threshold. But depending upon the environment, it might change.

Rahul Jain: And also on the expansion on alumina side, so what kind of cost reduction should we expect? And will we get fully integrated and will meet the requirements of BALCO as well?

Sunil Duggal: Yes, so it will cater to the requirement of BALCO. If we see the 5 mt, the current capacity, we'll be able to produce 2.5 mt of hot metal. And we are also looking at debottlenecking this to 3 mt. And for that, we are also aligning the permission EC for 6 mt. So, 6 mt has the potential to produce 3 mt of metal. With the capacity addition in BALCO, the total capacity will go up to 2.8 mt. With the Lanjigarh expansion, it will give you a cost benefit of, say $50 to $60. But apart from that, we are able to source the local bauxite from Odisha. We will have a further advantage of, say, around $50. So, the net-net, our vision is and our ambition is to get a more than $100 benefit from the cost from Lanjigarh expansion.

Rahul Jain: Sir, also, I'm wondering why would you want to expand so much in BALCO given that a higher level of minority interest, so priority will be to ramp up more at Jharsuguda?

Ajay Goel: No, I think the other advantages are also there; we have a water security; we have a power security there, we don't have to put our power plant. So, optimize the CAPEX and make it more productive, it is all the more important to put up out this capacity at BALCO.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Raksha Jain for closing comments.

Raksha Jain: Thank you, operator. Thank you, everyone, for joining us today on this call. Before we wrap up the call, I would like to announce that our Integrated Annual Report for the year 2021 is now live on our website. Please do have a look and let us know your feedback on the same. 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.

Sunil Duggal: Thanks, everyone.

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