"Sesa Sterlite Limited's Q2 FY-2015 Results Conference Call"

October 29, 2014

MANAGEMENT: MR. TOM ALBANESE – CEO
MR. D.D. JALAN – CFO
MR. TARUN JAIN – DIRECTOR
MR. S.K. ROONGTA – CEO, ALUMINIUM & POWER BUSINESSES
MR. SUDHIR MATHUR – CFO, CAIRN INDIA
MR. AN JOSHI – VP-CORPORATE AFFAIRS, IRON ORE BUSINESS

MODERATOR: MR. ASHWIN BAJAJ – DIRECTOR, INVESTOR RELATIONS, SESA STERLITE LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sesa Sterlite Q2 FY-2015 Results 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 at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by entering '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashwin Bajaj. Thank you. And over to you sir.

Ashwin Bajaj: Good Evening, Ladies and Gentlemen. This is Ashwin Bajaj – Director of Investor Relations. Thanks for joining us today for Sesa Sterlite's Results Call for the Second Quarter of FY-2015. On this call, we will be referring to the 'Presentation' that is available on the home page of our website. Some of the information on today's call may be forward-looking in nature and will be covered by the Safe Harbor language on Page #2 of the 'Presentation.'

From our management team, we have with us our CEO – Mr. Tom Albanese; Mr. DD Jalan – CFO, Mr. Tarun Jain – Director and we also have several other business leaders; we have Mr. Sudhir Mathur from Cairn India, Mr. SK Roongta from our Aluminum and Power businesses and from our Iron Ore business we have Mr. A.N. Joshi. I will now hand it over to Tom.

Tom Albanese: Thank You and Good Evening to some, Good Afternoon to others and also Good Morning to some of you Ladies and Gentlemen. It has been an eventful quarter with the new Indian government and I am seeing is launching various initiatives, as India is becomes the more prominent part of the global economic landscape today. At Sesa Sterlite, we have delivered progress operationally and financially, and while we have seen some global macro-economic volatility towards the end of the quarter, our diversification and exposure to low-cost Zinc and Oil & Gas operations gives us a strong operating position.

I have spent some time in London and I have spent time meeting with many in the markets, over the past few months we have seen a lot of general sector chatter about declines particularly for Iron Ore, other bulks and oil prices. I just want to remind all of you that we have strong Zinc and Aluminum positions which will offset this. So at any point in the cycle you have some market hits and some market misses which really is the beauty of the diversified portfolio.

So moving on to Slide #4:

Operationally we have had a good quarter with improving production rates at Zinc India, Copper, and Oil & Gas.

At Zinc India, mined metal production started ramping up in September as we would have flagged and as per the mine plan and we would expect the second half to be significantly higher.

At Rajasthan Oil & Gas business we did complete the plant shutdown of MPT terminal and operations there have normalized as we would have scheduled.

At Copper India, the smelter has operated record utilization following its own plant out in May and also benefited from a strong TC/RC environment.

Meanwhile, in the Aluminum business we have the ability to continue ramp up our low-cost aluminum smelters and they continue to operate efficiently, and we are in the process of ramping up new pot-lines as we speak.

Moving to South Africa, our project review at Gamsberg is at the final stage.

Again from a capital standpoint in our prolific Rajasthan Oil & Gas block development drilling is on track.

I would say that the Iron Ore business and the slow pace in getting the Iron Ore shipments going in, in Goa has been a disappointment and we do await government interventions at the state level to resume mining in Goa and to a lesser extent in Karnataka.

But, overall with a continued focus on cost controls and efficiency improvements, we sustained strong EBITDA margins of more than 45% and delivered 15% higher attributable profits after tax. And leading contributors to EBITDA as we have said in the past are Oil & Gas and Zinc India with high EBITDA margins in both businesses in excess of 50%. DD is certainly going to talk about this more later.

We have reduced our gross debt by Rs.1,000 crores over the last 6-months, and our balance sheet remains strong with more than Rs.47,000 crores of cash.

Moving on to Slide #5:

This is again focusing on those priorities that I laid out 6-months ago as the incoming chief executive.

Overall, my focus has been to create the momentum and build step-by-step.

Safety remains my top priority and our goal is to eliminate fatalities. In line with our focus on disciplined capital allocation, to the extent we are allocating new capital, we are spending it on zinc and on oil, and at other places we are completing the existing projects and getting them into production.

At Zinc India, the expansion to 1.2mtpa by fiscal 2018 is on track. At Rampura Agucha, we are deepening the pit to de-risk volumes and have stable mined metal output while we transition to underground.

We are looking at Gamsberg and Skorpion as an integrated zinc project, and this project review is at the final stage.

As you know recently in Oil & Gas, we have appointed Mr. Mayank Ashar as our new CEO of the Cairn business. He has over 36 years' experience in Oil & Gas, and worked in leadership position with companies like British Petroleum, Petro-Canada, Suncor Energy, and Irving Oil and we are certainly excited to have him join us.

At Rajasthan Oil & Gas block – the Mangala EOR project is on track for first polymer injections and this will help improve recovery rates. Aishwariya field has received JV approval and we hope to ramp that up to 30,000kboepd, and in the Barmer Hill formation, we have undertaken some of the largest fracks in the region, initial results are encouraging. We have plans to ramp up gas development to about c.100 mmscfd by fiscal year 2017 and this has been approved by the joint venture.

In some of the other businesses though things are moving in the right direction, but not in all cases as fast as we have hoped for.

At Aluminum, the key constraint, as I flagged in the past is coal for captive power, in the near term this is expected to continue to be a constraint and in the near term coal imports will significantly exceed the estimates even the current estimates by the government.

The government has announced the auction of coal blocks and I do see this as a positive development potentially emanating from the crisis of the present shortage and we would hope to see the first set of blocks open for auction may be in the new calendar year as has been recently announced.

For aluminum refining feed, we have attained laterite deposits in Odisha and continue to work with Government for alternative means of bauxite.

We have started commissioning aluminum potlines using surplus power – at BALCO, as we have previously flagged, we started 84 pots and in Jharsuguda, as of today we are at 16 pots out of the 50 pots we flagged that we want to ramp up to in its 1st phase.

At Goa Iron Ore, the government announced a policy for the grant of Iron Ore mining leases and we are working now with the relevant authorities to get the necessary approvals and hopefully resume production in the fourth quarter of this year.

I would have to say I am disappointed by our Iron Ore situation in Goa. We have not seen the production that we would have liked to have seen by now, but frankly in these markets perhaps it is not that bigger deal, because we are not looking at the same levels of EBITDA, as a matter of fact without some relief on the current export duties, these businesses would not deliver a lot of EBITDA margin even if we were to get them up and running. So we have been separately discussing with the government the need to provide relief particularly for lower grade ores from these export duties in the current week seaborne market.

At the group structure level – earlier in this fiscal half, we completed $200 million buyback of a 2% stake at Cairn India.

And at Hindustan Zinc and BALCO, we would like to see the minority buyouts moving forward – the government has appointed valuers as we understand and we do know that they visited our sites over the past few months.

Moving on to Slide #6 – sustainability is at the core of our business and I am focused on taking the performance to the next level and establishing a culture of zero harm.

I am pleased to announce that we have recently appointed a new Head of Safety, Philip Turner, who used to work for me and has done more than three decades of safety experience with companies such as BHP Billiton, Rio Tinto, JK Tech, etc., he understands underground mining, surface mining, smelting, oil & gas. So I think he will give us some seasoned practical experience that will help all our businesses in their pathway for eliminating fatalities.

We have been actively addressing our environmental footprint and in this regard we have invested over $250 million across the businesses over the last 3-years. And from a CSR perspective 3.4 million people are benefited directly through our various community initiatives on health, education, livelihood and environment and I am proud to say our CSR program in India is among the largest in the country.

Moving on to Slide #7 – the Indian markets have significantly outperformed global indices, and we see a new government's overwhelming majority and the mandate of industrial growth and job creation certainly as a strong positive for Sesa Sterlite.

The government has announced a broader initiative focused on improving transparency and the ease of doing business in India, promoting manufacturing, infrastructure spending, urban development, policy reforms for land acquisition, labor laws, policy award, frameworks, etc.

India has also outperformed other BRIC countries and stands out as a net importer of raw materials. So the recent weakness we have seen globally in commodity markets against the emerging markets has been countered to what we have actually seen a positive win in the back of India which has created additional stimulus for India's growth. While we have not seen the sentiment affecting the recent economic data yet, we would expect the positive lag effect in the near term as confidence in the economic activity picks up.

Moving on to Slide #8 – things have indeed been moving on the ground. We received approval for various Oil & Gas development projects in Rajasthan and the government is clearly prioritizing energy security. Since we are a contributor of 25% to 30% of domestic crude production, we look forward to their licensing policy for new blocks. We have seen over the past few weeks the government announcing a new gas pricing policy. As I have already mentioned the power sector is facing coal supply constraints and I think we have seen that the government is putting this higher on their own priority list, actively looking at policy frameworks to address this which is the country wide issue.

Across the business we have seen the progress in other areas – for refinery feed we received laterite deposits. At Goa, the policy for grant of Iron Ore mining leases was announced and we do see them beginning to process those leases where stamp duty had been paid. And our minority buyouts and government's valuers are visiting individual assets. So as a largest Indian corporate creating significant value for India and I think one of the largest tax payers in India we continue to engage with the government towards achieving our strategic priorities and what is good for Sesa Sterlite certainly is good for India.

Moving on to Slide #9 – just from my own perspective, I have said this for years in terms of the emerging markets, I do believe India remains a good market with metal consumption yet to break out in the classic 'S' curve, and as you can see from the chart on the top right hand side India is a very low metal consumption intensity and you have seen from prior discussions I have mentioned India's per capita consumption is about $1/10^{th}$ that of China as just one example. While India's trajectory is probably not going to be like the export-oriented economy such as South Korea or even China, the rise in metal consumption will be non-linear and very steep particularly in the next phase of India's economic growth from where India is today. I think that in many ways India's GDP growth against the 'S' curve will have an added tailwind of excellent demographics with so many hundreds of millions of new Indians coming into workforce between now and 2025. So, India remains a key market globally and Sesa Sterlite is well placed as a top ranked local producer across its commodities. And I would say compared with export-dependent growth economies, India's greater reliance on domestic demand makes it less vulnerable to some of the global economic slowdowns. As commodity importer, India benefits from lower commodity prices, especially crude oil which is expected to translate into lower current account deficit and help lower inflation. As you know, India imports $400 million of crude oil every day while a third of its basins are yet to be even opened up for exploration and certainly not developed. So again in some ranks, Sesa Sterlite is very well-positioned as a large Indian natural resource provider. Now over to you, DD.

D.D. Jalan: Thanks, Tom, and Good Evening to you Ladies and Gentlemen. I am happy to share the strong set of results for Q2 FY-'15.

I am on Slide #11. EBITDA for Q2 was Rs.6,381 crores. Margin continued to remain strong with our diversified portfolio. EBITDA in Q2 was lower by 8% versus last year Q2 mainly due to anticipated lower volumes, slightly higher costs, and a stronger rupee, partly offset by improved Aluminum and Zinc, LME and the Premia. However, EBITDA performance improved by 13% sequentially driven by higher volume and prices. We continue to focus on deleveraging and our gross debt is in reducing trend as touched upon by Tom also. We are comfortable with net gearing of 23%. With the improved performance minority share reduced to 49% as against 59% in the corresponding period last year. We expect similar numbers for the full year too. Attributable PAT before exceptional item was 15% higher versus last year and 24% higher sequentially. EPS before exceptional item was at Rs.10 per share in H1 as compared to Rs.7 in comparable period last year.

Moving to Slide #12, on the right hand side of the chart, under 'controllable factors' you will see two red bars comprising impact of Rs.1,081crores due to lower volumes and higher costs. Some of this are due to anticipated lower volumes as per mine plan and some are due to timing difference. We expect about 40% of it will be reversed with targeted volumes plan for H2.

The next bar of negative variance of Rs. 88 crores comprises the EBITDA impact due to putting our copper mines at Australia under care and maintenance

Improved Aluminum and Zinc prices combined with better premia across businesses contributed Rs.1,163 crores over last year, partly offset by lower Brent by Rs.319 crores. During the intervening two periods, as you are aware, rupee appreciated marginally by 2%. Given that our business model is of dollar-linked prices in all businesses it impacted Rs.318 crores to the bottom line as the rupee appreciated.

Moving to Slide #13 – Finance cost is almost flat compared to the corresponding previous period. The interest cost is lower than Q1 due to impact of benefits of refinancing of project loans as Aluminum part pre-payment of Cairn acquisition-related loan towards the end of the previous quarter and the effect of a one-off charge in Q1. Post tax return on investments are around 10% in H1; however, credit to P&L account on Q-on-Q basis, differs to align with maturity of investment as per the accounting standards.

Depreciation was higher on account of methodology change at Cairn and normal capitalization at other businesses. It is likely to further increase in H2 due to progressive capitalization of lines at our Aluminum Smelter and Power businesses. We are also reviewing the useful life of the plant in line with Schedule 2 of the new companies' act which could lower the depreciation charges.

Amortization in current quarter was lower, primarily on account of lower production at Cairn India, Zinc International and due to putting Australian mines under care and maintenance. The tax charge in current period is Rs.560 crores, representing a tax rate of 14.7% excluding exceptional item. As guided earlier, we expect the full year tax rate about 15%.

Moving to Slide #14, as you will observe from the slide that our free cash flow is far exceeding the capex profile. Over the next 3-years, we expect 80% of our growth CAPEX will be on value accreting Oil & Gas and Zinc assets in India, remaining 20% about $0.7 billion for completion of Aluminum and Power projects.

Moving to Slide #15, we are planning to repay FCCB out of internal cash as well as raising of NCDs which have already been planned. With this maturity over the next couple of years will be light with less than about a billion dollar each year. As you can see on slide, we have cash and liquid investment of $7.6 billion and undrawn line of credit of about $1 billion, which makes our balance sheet quite robust and strong.

Thank you. With this, Ladies and Gentlemen and I hand back over to Tom.

Tom Albanese: Thank you, DD. I will now briefly review the operating performance for each of the businesses.

Let us move on to Slide #17 please and start with Oil & Gas.

Our overall gross production was slightly lower due to first of all planned maintenance shut down at the Mangala Processing Terminal in Rajasthan which we had previously flagged and what we have not flagged and had not anticipated was a several month temporary suspension gas sales at Ravva as a consequence of the offshore stay down operator of the pipeline complex having to shut down all the offshore pipelines due to an incident within their own facilities and since we are upstream of those facilities we were affected. That has now been fixed and our gas sales from Ravva have resumed.

Moving back to Rajasthan, our focus has been on near term volumes from development and key areas include:

First is enhance the recovery from the currently producing fields through a polymer flood project, leveraging existing infrastructure to quickly scale up, and monetize the Barmer Hill formations and existing discoveries, while at the same time developing and growing a long term, sustainable Gas business. And as we have announced progressively over the past quarter, there has been exploration upside. We are on track to drill out targeted 3 billion barrels of hydrocarbons in place, taking the total in place resource to 7 billion barrels and have identified prospect inventory for the next stage of exploration to take this 10 billion a barrels of hydrocarbons initially in place.

And again just to remind, since we resumed exploration in Rajasthan only last year, we made 11 new discoveries, taking the total number of discoveries in a block to 36, and we have established 1.4 billion barrels of in-place resources and looking for every opportunity to accelerate its early production.

To save a little more time on the Oil & Gas business even if so important I want to move on to Slide #18. Again, on Slide #18 as you can see these three main areas, the MBA fields, the Barmer Hill fields, and the Satellite fields have a gas. At MBA, we remain focused on the creation of infrastructure projects and implementation of the EOR process including the Mangala polymer flood EOR which will be one of the largest EOR projects in the world and we are on track to deliver the first polymer injection in Mangala this year. That Mangala ASP project has also yielded excellent results so far well above our expectations. At Barmer Hills development, we were focusing on leveraging our existing infrastructure on the surface for quicker monetization. So we have been working on both vertical fracks more recently and horizontal fracks, and the initial results from the horizontal well fracking trials have been quite good.

On gas development – we do remain excited about the gas potential in Rajasthan and our plans to double volumes from the current levels of 12 million cubic feet per day by the fourth quarter 2015 through the existing pipelines by the addition of some compressing capacity which is currently underway and again longer term we plan to install a new gas terminal and a 30-inch pipeline to ramp up gas initially to 100 million cubic feet per day which again the FDP has been approved by the joint venture.

Now move on to the next business, Zinc India Slide #19 – As we had flagged the second quarter was a good quarter as the production started recovering in line with the mine plan and we would expect the second half to be significantly higher with the first half, second half more skewed and similar to what we delivered but opposite to that in the fiscal year 2013, where the fiscal year 2013 the first half was strong and the second half was not so strong. The business continues to deliver stellar cost of less than $550 per tonne of zinc if you consider byproduct credits for Silver and Lead. And compared to the first quarter the cost improved, and the second quarter in line with higher production and should even be better than the second half with higher volumes as per the mine plan, and just as a reminder, this is against the LME price of about $2,250 per tonne. As I think Hindustan Zinc business has been flagging in its results, our projects for expansion to 1.2 million tonnes p.a. of mined metal continue to progress well, and Rampura Agucha we are nearly complete with studies for deepening of the open pit from 372 meters to 420 meters to increase the life of the open pit part of the mine by 2 to 3-years that will take until by 2019. Mine design and planning are in progress and we expect to start preparatory work in the fourth quarter. This is expected to de-risk mined metal volumes as we make that important transition from open pit to underground mining. Meanwhile, the SK Mine which is going to be another big important contributor to our volumes, shaft sinking is ahead of schedule.

The other side of the world in Southern Africa and in Europe we move on to Zinc International on Slide #20. As Zinc International, second quarter production was lower at Skorpion and Black Mountain due to some temporary operational issues which we have resolved and we are on track to produce about 330,000 tonnes to 340,000 tonnes in fiscal year 2015. We are evaluating the Gamsberg mining project and the Skorpion refinery conversion as an integrated zinc project between Northern Cape in South Africa and Southern Namibia, and this is in line with what we previously talked about in terms of capital allocation policies to a high margin Brownfield projects in Oil and in Zinc. So we have completed the detail feasibility for 250,000 tonnes open cast zinc mine in Gamsberg and this is smaller than we would have flagged may be a few years ago but it is also what we see has been more capital efficient and really as a starting project that gives optionality down the road and pre-feasibility for the Skorpion refinery conversion which will allow us to produce not only Oxide Ores but also Sulfide Ores from Gamsberg and other deposits so we would see over the next few years. In summary Gamsberg will ultimately replace output from Lisheen while Skorpion may run out within the decade, so effectively we are not going to add supply into the global zinc market on an overall basis.

Moving on to Slide #21 in Aluminum – we have continued to operate our smelters of high efficiencies despite grid failures and a nationwide shortage of coal which we would expect to continue into the near-term. E-auction volumes of coal were nearly non-existent in the second quarter and the power cost of Aluminum Smelters rose by 26% to $728 per tonne as we have had a temporarily purchase power and we have had much greater imports of coal. Power costs were significantly higher at BALCO also with tapered linkage, driving the average cost higher despite a much lower cost of overall power and aluminum at Jharsuguda. And we expect the power cost to remain effected in the short term. We will continue to work on this towards the overall coal availability issue. Additionally, as per the recent ordinance, de-allocated coal blocks will be auctioned. Meanwhile, we have commissioned 84 pots at BALCO and at Jharsuguda-2 we are commissioning 50 pots currently and pursuing a range of options for continued ramp up thereafter.

Finally, on refinery feed, as I said, we received three Laterite deposits and we will continue to pursue Bauxite and Laterite options with the Odisha government.

If we look at the other suite of assets on Slide #22 on power, the PLFs at 2,400 MW Jharsuguda power plant were lower at 34% in the second quarter due to temporary issues with the turbine at one of the units which has now been corrected. As we have said, coal availability is a concern and we will continue to work toward it with the expectation of increased imported coal in the meantime. And a TSPL commissioning of the 1st unit is in progress and the reliability run will be done in this quarter.

Moving on to our Copper businesses – our Copper India, Smelter has been operating at record utilizations completing a maintenance shut down in the first quarter and going forward we would expect to operate in more than 90% utilization. And just looking at the Copper markets, I know all of you are sensitized to the risk of Copper prices fall and we have new copper supply coming in the market, which is actually having a counterintuitive effect on TC/RCs which we would anticipate more copper concentrate coming in the market well in excess of the new smelting capacity coming in the market, so that this time would expect to see TC/RCs remaining strong with this increased concentrate supply, not only this year but potentially into the coming year. Meanwhile, within our Copper Mining business in Australia, drilling at the D-panel and other areas are currently underway and we hope to be able to come up with the production decision over the course of the next year.

Again, as we talked a bit about Iron Ore at Karnataka, we mined about 300,000 tonnes this year out of our total provisional capacity under the cap of 2.29 million tonnes and we are currently in the process to renewing our forest licenses and depending on when we will start mining, we may or may not fully utilize just 2.2 million tonnes capacity for this year, and frankly the longer it takes for us to get these various forest approvals, the harder it will be for us to fully mine within that 2.29 million tonne capacity for this year.

And again at Goa, with the progress we are starting to see within the stage, we will expect this to restart mining in the Q4, and again based upon what we will see as the lease is that we allow the mine, we will expect to be about half of pre-shutdown mining capacity, 14.5 million tonnes p.a., but again, realistically to get what I call reasonable and competitive EBITDA margin, we need to see some relief on this export duties.

So, I now really want to spend some time on the last Slide #23, then we will give you to questions. Over the past 6 months, I am giving you focus on those strategic priorities, kept those business that aren't pulling in their weight, to pull in their weight and those strong business particularly in Zinc and in Oil & Gas to build on that particular strength. We are focusing on sustainability not only in terms of stakeholder issues, but certainly sustainability of our balance sheet. Disciplined capital allocation to Zinc and Oil & Gas, driving operational excellence, ramping up production and free cash flows while we focus on deleveraging exploration and mine life and simplification of the group structure. I think that post the election there was a euphoria that the Indian Government has got to quickly fix everything on its place, I think there has been probably a more realistic set of assumptions now and expectations that the government is going to move in the right direction, but it is going to move at its own pace. So I do think we are beginning to see the Indian Government take the necessary decisive steps to get the projects going, to create the new jobs, and certainly from our perspective deliver on the 'Make in India'.

With that I would like to open the floor up for questions and operator, as we again did last time, please direct the questions to D.D. Jalan in the first instance and to the extent that they are related to the businesses, will be redirected onto the business units presidents to provide the fulsome details. Over to you operator.

Moderator Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Chirag Shah from Barclays. Please go ahead.

Chirag Shah My question really is on the Power business. As I understand the PLF of the first 2.4 GW power plant is currently lower apart from the distribution issue, also because it has not been granted the CPP status. Now, we read some media reports talking about granting the CPP status to the 2.4 GW. In that context, I was just wondering, where can PLF settle for the 2.4 GW next year, also given the fact that now new distribution infrastructure is catching up?

Tom Albanese Let me make the opening point and then turn over to Mr. Roongta who is on the line. I think as we have said in the past, there is an excess power generating capacity, a lot of it is our own, meanwhile, we have Smelters that are running. From the perspective of both increasing the effective load of the power plant which is utilizing capital we have already built, but putting that power to best use by producing Aluminum, particularly in what is the stronger LME market with physical premium makes the most sense. We have been engaged with the State of Odisha looking at a number of different options and what is the best way to effectively create a conversion of all part of that IPP capacity into CPP over some type of hybrid of CPP and Mr. Roongta and the team has been very heavily involved and turn it over that to you, Roongta.

S.K. Roongta As Tom mentioned that we have been engaged with the Government of Odisha to find solution to use our own IPP power for running our Smelter and we have had a meeting at the very highest level with the Government of Odisha very recently. It has been agreed in principle by them that, yes, Sesa Sterlite is entitled to use its power from its IPP for running the smelter which is a win-win situation for us as well as for Government of Odisha which will generate taxes and revenues for them as well. So, along with Government of Odisha and Gridco, we are in the process of finding a solution and some kind of timelines also have been agreed with the Government of Odisha and we have to find acceptable solution in the next 2 months. In the meanwhile, our priority will be to sell in open access, to the extent we have corridor as well as we get the remunerative prices for our power and sequentially, we will ramp up our pot beyond 50 ports in the first line and then rest power will flow out of this 2,400 MW power plant, and once we commission the first line maybe sometime by middle of next calendar year, then we will take up the second line; obviously, that should really improve the PLF significantly in the financial year FY'15-16.

Tom Albanese I would like to say that we were 6 months ago sensitized to the fact that this conversion raises a series of successive policy and other issues. So, we are going to realistically see that we fix them all like turning on the light switch although in engineering we would say we should just be able to turn on like a light switch. But, so what we have recognized is that, taking steps at a time by bringing power gen on a progressive basis and then creating small winds, that can lead to next stage of successive is the right approach and I am pretty happy with the way things are going so far.

Chirag Shah My second question is on Zinc International business. Now, over the next couple of years, we should expect the mix to change significantly with Lisheen production expected to come down and Skorpion, BMM expected to ramp up. The question that I have is with the change in mix between these mines, how do we see the cost of production moving?

Tom Albanese At this stage, I would not expect to see a fundamental change in our positioning on the cost curve as we move forward, but we would be producing different mixes, we will have some byproducts, and we will be opening up different ore bodies as we go forward. So, our intent is to stay around the midpoint of the overall cost curve and what we see is the rising Zinc market.

But I think the important point particularly on opening up Gamsberg with its relatively small stage forcept is as we get into ore body, we understand the technology better and understand the ore body better, we hope to see stronger markets, we have the optionality to quickly look at ramping up that capacity as we go forward. We have always recognized this is one of the largest undeveloped zinc deposits in the world, but I think frankly, it had not been developed over the past 10 to 20 years, the initial cost of capital were pretty high, so what we are trying to do is break that hurdle by reducing the entry point.

Chirag Shah BALCO has seen a very sharp increase in cost of production during the quarter. As you have mentioned one of the reasons is there has been a drop in the linkage coal from Coal India. Now, if you can just give us a sense of what is the coal mix right now from BALCO and how much percentage of coal really comes from the linkage?

S.K. Roongta BALCO, the cost increase in Q2 has primarily been on account of our power cost even on a combination of factors. Yes, one is that there was further tapering of coal linkage by 25%, so we are left with 25% of coal linkage of the original. Then, all of a sudden there was a drying up of e-auction quantity and BALCO was primarily depending upon e-auction quantity. So, that not only impacted the remaining prices but also created problem about the availability of coal and temporarily we had to go for some power purchase. So, that has impacted the cost considerably and most of the increase had come on account of higher power cost. As of now, we have only about 15% of our requirement which we are getting to linkage coal. We are pursuing with the government now that the coal blocks have been cancelled for restoration of the original linkage, because we had the linkage prior to allotment of coal blocks. And rest of course, we have to solve from some partially restored e-auction as well as we are going for import of coal.

D.D. Jalan To supplement what Mr. Roongta said, almost we have imported 20% of the coal requirement during this quarter and we have used 7% from linkage and balance from auction and washeries.

Moderator Thank you. The next question is from the line of Navin Gupta from Goldman Sachs. Please go ahead.

Navin Gupta Just following up on the previous question on power cost increase at BALCO, can you quantify how much was e-auction component at Jharsuguda Smelter, because the cost increase there has been only $100 per tonne, whereas BALCO cost has increased by $250, so is it possible to quantify just for a comparative understanding?

Tom Albanese Maybe, D.D if you want to start with and then Roongta, if you want to add anything.

D.D.Jalan Basically, we just try to look in Jharsuguda, it was 35% linkage coal which was there as compared to 7% in BALCO what we talked about. The auction was almost 42% in Jharsuguda and balance being imported.

Navin Gupta What was the average e-auction cost in the quarter?

D.D. Jalan The average e-auction cost was for Jharsuguda it was about Rs.3,000, for Korba it was Rs.2,600.

Navin Gupta What is the status of the 1200 MW power plant at BALCO, when do we expect…?

Tom Albanese I will start with that and then Roongta in the vicinity you can comment on that. We built that facility and we have been waiting for this final round of approvals. We have had a series of notice requirements we have successfully completed over the past few months and every time I ask Mr. Roongta the question, he says it sits around the corner. So, maybe Mr. Roongta you can tell this group of 100 analysts and media on how close that corner is?

S.K. Roongta Certainly, we have been mentioning that, we are in the last stages of these regulatory approvals. I consider that we are making further progress but not at the pace at which it should have really happened. By now this full approval should have come but things are moving at little slower pace. But, I can say that one important milestone towards this regulatory approval which has been achieved and notification for land use change is expected by tomorrow because they issue the gazette notification on Thursdays. Once that happens, then rest some more formalities of file movements through approvals of the building plans, and we should get our "Consent to Operate" approvals within this quarter.

Tom Albanese The objective here is once we have that complete and provided we have the call for that, to run that so we have the coal issues, of course, like we have everywhere else, then the intent would be to complete the ramp up of smelter line-3 of BALCO and bring that to full capacity in due course.

Moderator Thank you. The next question is from the line of Roger Bell from JP Morgan. Please go ahead.

Roger Bell Just two questions from me; first of all, you outlined 820 million of project CAPEX during the first half of the year. Could you give us how much sustaining CAPEX you spend during the period? And then also, in previous periods, there has been a discrepancy between IFRS definition of debt at Vedanta PLC level and the Indian GAAP definition of debt due to operational buyers' credit. Can you quantify what that discrepancy was at the end of September please?

D.D. Jalan Roger, 820 million was the project CAPEX and it does not include the sustaining CAPEX what we do it out of the free cash flow and normally, we incur sustaining CAPEX of almost $200 million a year and considering that being this half year, it will be somewhere around $70 to $80 million. Second question about difference in classification of debts. So you were absolutely bang on point that the difference between numbers which is reported in Vedanta plc and Sesa Sterlite is basically on account of buyers' credit for operational requirements and this buyers' credit for operational requirement is about $800 million to $900 million.

Roger Bell So that $800 million to $900 million as of the end of September?

D.D. Jalan Yeah, that is what is included in Sesa Sterlite.

Moderator Thank you. The next question is from Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh Two questions are on Coal; my first question is how should we look at coal cost for the next two to three quarters, in the sense that e-auction volumes are not going to pick up. So has coal cost peaked out in this quarter or should we see further increases? My second question relates to coal block auctions. Now, Sterlite as an entity would be the largest coal consumer, probably outside some of the big power utilities like NTPC. But to that extent, there is an evacuation constraint in India. So what is the optimum distance that companies can truck coal, beyond which it will not be possible? So we are just trying to understand that are there any nearby mines available for Sesa Sterlite to participate in the auction or would it be difficult for the company to participate outside of the BALCO coal block?

S.K. Roongta As far as the coal costs are concerned, coal costs have definitely peaked in the Q2 and going forward we expect coal cost to come down in Q3 and Q4. Traditionally, Coal India availability in Q3 improves and it peaks in Q4. We get higher linkage tonnage also in Q3 and Q4 as compared to Q2. As far as e-auction is concerned, also which had certainly dried up completely in the months of August and September, is getting partially restored plus we are better equipped to go for imported coal where prices have further softened. So, I suppose taking into account all these factors, we expect coal costs to be lower in Q3 and Q4 as compared to Q2.

Tom Albanese I guess Mr. Roongta answered that, we should recognize that our facilities were designed for the coal qualities in the median coal basin that those facilities are located in. So, we had to reconfigure our material handling and material movement facilities to adapt to higher levels of import and greater blending requirement. So it has not been like yield in terms of boiler efficiencies, etc., but we are making deal with best results. Ideally, again, we would like to be seeing more coal from the basins that our plans to sit again going to those facilities.

S.K. Roongta Yes, exactly, so we are expecting more coal from the domestic sources in Q3 like, Q1 was not that bad, we got comparatively better coal in Q1. The problem suddenly came only in Q2 which is now easing and we expect more domestic coal to improve our blending requirement also. Now on the coal block, we believe that there are 42 plus 32 coal blocks, government will be probably concentrating first on the e-auction of 74 coal blocks and there are enough coal blocks in Chhattisgarh and Odisha which may be put on auction. As far as logistics are concerned, currently coal is being moved even to a very long distance, because primarily the sources are HCCL and MCL mines and coal today is going even to northern side and western side. So there is no such constraint that coal cannot be moved beyond a point. Of course, the economies are moving coal from a long distance remains. So we look at all the options when government comes up with the e-auction of the coal blocks and we are adjourning our options.

Tom Albanese I would like to say from my perspective, initially, we were concerned, there continue to be a bias in favor of steel and cement companies in terms of participation, but we have seen recently guidance level in the playing field between aluminum, the steel and the cement businesses, frankly, anyone has got a CPP should be stating in this auction, so, I have been encouraged by that. I have also been encouraged by some of the signals coming out of government recently that they are receptive to non-state owned coal miners been in a position where they can sell coal into the market. Bring in the private sector into the coal mining business, for merchant mining is probably the single biggest thing that policy makers can do to relieve the country from this particular crisis.

Pinakin Parekh Just a follow up question on coal. The government has also allowed in a circular that one can use the coal for any other plant other than that particular captive plant which would theoretically mean that if the company were to get the previous BALCO coal block it could supply to its Odisha plant. So to that extent, if the BALCO coal block were to come through again, can it be ramped up quickly or is it something that it will take time to get production moving up to let us say 5, 10 million tonnes?

S.K. Roongta Government has ordinance for three categories, i.e., Steel, Cement and Power including per captive uses. So, within that end use, probably the coal can be used. Let us see, it is premature to talk about the coal block is going to be open for e-auction, others can bid for BALCO coal block as we can bid for other coal blocks. There are many other coal blocks also with better coal quality. Let us see, what happens, we do not want to speculate as if we are set on this coal block.

Tom Albanese It is important that we should not be speculating that, because every block has got unique resource differences, some may be open pits, some may be underground. So, you actually look at the specifics or the configuration of the plant or there pre-shipping requirements, what is the state of the environmental planning, what is the state of the mine planning, all those need to be done in the normal course of the business before you actually would see first coal production.

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

Ritesh Shah So one good thing which I saw in the results was alumina costing actually has remained flat on a sequential basis. What I wanted to understand is what our bauxite sourcing arrangements are like and what would be our domestic sourcing cost and imported bauxite sourcing cost?

Tom Albanese Mr. Roongta can handle that. While you think about the answer, I would add that we are in a position where it is somewhat hand to mouth. We are certainly again whatever bauxite we can from BALCO which has actually been down a bit in the past quarter on a Tolling business and then elsewhere within Odisha then else would then the next priority would be within India and the final priority would be West Africa. We are mindful of the Indonesian situation, but frankly, the Indonesian export issue is more a Chinese phenomena than it would be an India phenomena.

S.K. Roongta As far as Bauxite sourcing for our 1 million ton Alumina refinery is concerned, broadly our mix is one-third from domestic sources Bauxite, one-third from BALCO mine for Tolling business, and one-third on imported Bauxite primarily from Guinea. In Q2, of course, because there were some logistics issues and some small local issues at BALCO mines, so we had to go for higher mix of imported Bauxite. That is one of the reasons the cost have been somewhat higher, but going forward, we want to maintain this mix of one-third, one-third, one-third. Of course, domestic Bauxite is cheaper as compared to imported Bauxite but then there are quality advantages in imported Bauxite. So, taking into account the quality advantages, we have lower Silica and higher Alumina as imported Bauxite is about 15% to 20% costlier than domestic Bauxite.

Tom Albanese You are really bringing a point, Roongta, that it is about value when used in some of the better quality bauxite we see West Africa will be much less cost and consumptive than some of the domestic materials that plays very importantly into the overall cost of Alumina production.

Ritesh Shah Sir, is it fair to assume Guinea Bauxite would be around 53% alumina, reactive silica content remains the same?

S.K. Roongta Alumina may be somewhat lower than 53%, it does not go to that, but, yeah, silica is quite less; just about 1% to 1.5% range.

Ritesh Shah Would it be possible to give absolute number on a per tonne basis for say international at factory bauxite cost?

S.K. Roongta FOB cost of the Guinea Bauxite is in the range of about $40 and freight keeps varying; it came down to as low as $19, $20, went up to as high as $32, $33,so, it has been fluctuating.

Ritesh Shah Just wanted to have some clarity on the tapering for 2400 MW. I understand it started October last year. So you did highlight that currently 35% of our supplies is coming from linkage. So this would be sustainable till when or is it expected that the proportion will reduce or is it more of a function of FSAs, if you could please provide some color over here?

S.K. Roongta Tapering as such is linked to the coal block allocations. So, logically, once the coal block allocations have been cancelled, further tapering should be really put to an end by the government, so, I suppose government is here to take a decision. But, it will not have any significant impact as far as one more tapering even if it happens from 75% if it comes to 50%, I do not think so it will significantly reduce our linkage coal.

Ritesh Shah Just correct me if I am wrong, the linkage is only for 1,000 MW at SEL 2400 MW?

S.K. Roongta Coal block was linked to 1,000 MW out of 2,400.

Ritesh Shah Just I had a suggestion, we give excellent disclosures, the only thing that we find a bit difficult to analyze is on the power costing front, what we give is the average cost of generation. So if you could possibly give generation cost separately for say BALCO 810 MW and VAL 1215, it would be a lot easier for us to analyze things?

Tom Albanese Okay, we will follow-up on that.

Moderator The next question is from the line of Giriraj Daga from Nirmal Bang. Please go ahead.

Giriraj Daga My question is like first we are talking about 1.2 million tonnes mined metal output. So should we take the progressive like 7-8% CAGR increase in the next three years or it would be a back ended growth?

Tom Albanese It is a bit back-ended as the open pit winds back in some of the underground mines hit their capacity.

Giriraj Daga So is it fair to assume like minimal growth in FY16 on mined metal, like 2-3%?

Tom Albanese What we would be expecting is that there would be a gradual increase over the next year to about a million tonnes and then after that we step up to 1.2 as some of the underground mines they themselves develop.

Giriraj Daga My next one relates to Talwandi Sabo. Now, we have commissioned like first unit. So what is the coal sourcing? We have included in the past that it is the government's responsibility to arrange coal, but have we had a word with the government how they are doing to do that? Let us say, no, we cannot do that, then what will be the next Plan B for us?

S.K. Roongta So, for Talwandi Sabo, we have the linkage coal allotted for this project and that is linkage coal with MCL, so, we are sourcing that. To make up for any shortfall of the linkage coal, because that is not up to the 100% PLF requirements. So, for the balance requirement of Talwandi Sabo, the Government of Punjab or PSPCL, they have agreed to supplementing it with imported coal.

Giriraj Daga So, will it be fair to assume that we can reach the full ramp up by the end of next year FY16?

S K Roongta Yes, we should be able to ramp up all the 3 units by FY'16, sure.

Moderator Thank you. The next question is from the line of Rupal Bhatt from IIFL. Please go ahead.

Bijal Shah This is Bijal Shah from IIFL. My question is on Hindustan Zinc. Like, beginning of the year we were very confident that Hindustan Zinc disinvestment is at around the corner. Now, with this new PIL, does it change our take on likely disinvestment or it still remains on course?

Tom Albanese From our perspective, the information we get is roughly that in the public domain this is a very doable disinvestment project in the context of the government's needs to meet its budget. That the Hindustan Zinc-BALCO disinvestment can be up to 25% of that budgeted disinvestment component in total, there is a ready market with a lot of uncertainty about it, it is a matter of getting the evaluation done. So, we are pursuing on that basis. But, we have not got any detail as to the process. We do know they have to undertake the proper evaluation.

Moderator Thank you. The next question is from the line of Prasad Baji from Edelweiss Securities. Please go ahead.

Prasad Baji On the Zinc International business, you mentioned that the Gamsberg project, the feasibility is virtually done. Can you share some set of details on what the feasibility is throwing up in terms of CAPEX cost, cash cost and projects, economies, etc., just to understand what we can potentially see in this project going forward?

Tom Albanese We are in the stage of refining all those numbers. So, it would be probably premature at this point to give specificity. But again, what we are looking for is a capital solution that I would expect it to be less than a billion dollars for both the Gamsberg open pit development, the plant associated with that, and the refinery conversion at Skorpion and that would be done over a period of several years. A big part of the cost would be a pre-shipping component in the open pit and that is probably going to be the critical path for the development. So, we would start off with the open pit pre-shipping in the first instance.

Prasad Baji So you said less than a billion dollars for the entire project including the refinery over several years?

Tom Albanese Correct.

Prasad Baji What kind of RoI or what kind of cash cost can we see in the project, how…?

Tom Albanese Again, our objective is to stay around the midpoint of the cost curve as I said earlier and we will be valuing this on realistic assumption regarding, these are big drivers, externalities are going to be the South African Rand and the Zinc price. From a perspective of numbers that would seem to be realistic in terms of the current Rand-US dollar relationship and probably a set of Zinc price series that would be seen as a conservative against a consensus assessment of Zinc pricing, we deliver a hurdle rate above our cost of capital.

Prasad Baji My second question is on the Alumina expansion that was on hold and where there is some progress in terms of the public hearing and we are hoping to get the EC. On that, what would be the milestones besides the EC and what kind of timeline do we see by which the project can start and we had earlier numbers for the CAPEX, so do we expect the same CAPEX to hold or should we see some revised CAPEX for this expansion?

Tom Albanese Let me start with the sequence of what we envision happening based upon events on the ground, then maybe D.D. can talk about the CAPEX numbers. First of all, this public hearing and the environmental approvals would be for the ability to ramp the facility up from a million ton current capacity to 6 million tonnes ultimately. And, of course, we would only want to build it up as we actually have Bauxite and because we have multiple numbers of resources within the Odisha nearby area, we are confident we will find that Bauxite in time. Likelihood is that we would be expanding the refinery in stages. Again, that is probably the most capital-friendly approach, but also recognizing that we have all the mines ready go at one shot. So, we would envision moving from million tonnes to about 2 million tonnes per year predominantly through debottlenecking up the existing facility which we have been able to bring efficiencies out just during running of this. So, the first stage, 2 million tonnes would not be capital intensive at all, and then probably, we will go in stages from 2 to say 3 or 3.5 and then from 3.5 onward to 5 million tonnes and my guess is that 5 million tonnes, we will be roughly balanced with what we see as our current configure smelter capacity of 2.3 million tonnes of the Aluminum smelting. So, when we are looking at the capital numbers, we will be looking at the capital numbers to be spent over a phased period of time, after we gone to 2 million tonnes of capacity and probably not all at once.

D.D. Jalan Prasad, if we just try to look at as Tom articulated, we are doing it in phases; first phase is to complete 1 to 2 million ton debottlenecking, that is more or less complete, I think it is hardly \$20 million to \$30 million will be required to be spent. Then from 2 million tonnes to 5 million tonnes, the total estimated project cost was \$1.6 billion, out of that 50% was already incurred and 50% was to be incurred. As of now, we are in the detailed work, evaluation is going on, but the preliminary indication is that we should be in a position to manage within \$800 million which is to be spent to increase the capacity from 2 million tonnes to 5 million tonnes.

Prasad Baji I also wanted to understand that besides the EC, what would be the key milestones – other approvals or things like that which would be needed for us to be secure on launching the project?

S.K. Roongta As of now, it is the EC only which we need to restart the construction and ramp up our capacity and thereafter that usual concern to operate.

Prasad Baji Forest clearance would not be required…?

S.K. Roongta There is no forest involved in this.

Tom Albanese Operator, we are getting on to time here now. Maybe the last question.

Moderator Sure. We have the last question from the line of Priya Ranjan from Phillip Capital. Please go ahead.

Dhaval Doshi This is Dhaval Doshi here. Two questions; one, with regards to the Laterite deposits. What could be the timelines in terms of commissioning these Laterite deposits and the quantum that we could expect from this?

S.K. Roongta These are 3 small Laterite deposits, we have got the PAL, now we will undertake the exploration and submit the exploration data to the government to seek mining lease, and thereafter, we have to have environmental clearance, this is a minor mineral, so it will be handled at the state government level itself. So, the timeline is we are expecting this Laterite to be mined sometime in FY'16 and the production level will be roughly about 0.5 million tonne.

Dhaval Doshi 0.5 million tonnes for the full year?

S.K. Roongta Yeah.

Dhaval Doshi Secondly, with regards to the Zinc International business, if I am not mistaken, there were some amount of inventory which was built up at the start of the second quarter, which was to be liquidated and that directional benefit was to flow through, I believe Rs.67 crores was the operating profit impact which was mentioned in the last call which was there for Q1. So has that come through in Q2, and if yes, then the numbers still do not add up?

D.D. Jalan So, Dhaval in this quarter also, whereas we were expecting this to come in this quarter, but this quarter also we have missed one more shipment, so that way I think it is carrying forward to the next quarter.

Dhaval Doshi And the cost that we have seen, can we see this as a sustainable costs going ahead or was it because of the Skorpion shut down that the costs were a bit higher?

D.D. Jalan As Tom gave the guidance on the cost that was very apt guidance and that is what we should try to look at going forward.

Tom Albanese I think right now we would like to see higher production in the first half and we will try to work on improving that in the second half.

Tom Albanese That is the end of the questions. I would like to just close by saying it has been now 6 months plus being Chief Executive at Sesa Sterlite has been a terribly enjoyable ride. I would like to say that every single aspect of government approvals would be done in a flick of a ten, that is not the case, but we are taking a realistic approach, step-by-step, as I said from day one, it has been about changing negative momentum to positive momentum and I just want to thank everyone within the Sesa Sterlite team to deliver to you the shareholders that positive momentum. Thank you very much.

Moderator Thank you, Gentlemen. Ladies and Gentlemen, on behalf of Sesa Sterlite Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

For further information, please contact:

Communications

Roma Balwani
President – Group Communications, Sustainability & CSR
Tel: +91 22 6646 1000
gc@vedanta.co.in

Investor Relations

Tel: +91 22 6646 1531
sesasterlite.ir@vedanta.co.in

Ashwin Bajaj
Director – Investor Relations

Sheetal Khanduja
Associate General Manager – Investor Relations

About Sesa Sterlite Limited

Sesa Sterlite Limited (SSLT) is one of the world's largest diversified natural resources companies, whose business primarily involves exploring and processing minerals and oil & gas. SSLT produces oil & gas, zinc, lead, silver, copper, iron ore, aluminium and commercial power and has a presence across India, South Africa, Namibia, Ireland, Australia, Liberia and Sri Lanka. Sustainability is at the core of SSLT's strategy, with a strong focus on health, safety and environment and on enhancing the lives of local communities.

SSLT is a subsidiary of Vedanta Resources Plc, a London-listed company. SSLT is listed on the Bombay Stock Exchange and the National Stock Exchange in India and has ADRs listed on the New York Stock Exchange.