"Vedanta Limited Q2FY2016 Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Vedanta Limited Q2FY2016 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashwin Bajaj — Director of Investor Relations. Thank you and over to you sir.

Ashwin Bajaj: Thanks, operator. Good day ladies and gentlemen. This is Ashwin Bajaj. Thank you for joining us today to discuss our Results for the Second Quarter of FY-2016.

On this call we will be referring to the 'Presentation' that is available on 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; our CFO — Mr. DD Jalan**,** we also have several other business leaders on the call; we have Mr. Mayank Ashar and Mr. Sudhir Mathur from Cairn India; Mr. Sunil Duggal from Hindustan Zinc; Mr. Kishore Kumar from the Iron Ore business; Mr. Abhijit Pati from the Aluminum business; Mr. Ajay Dixit from the Power business and Ms. Rashmi Mohanty-- Group Treasurer.

I will now hand it over to Tom.

Tom Albanese: Thank you, Ashwin and thank you, operator. Good evening ladies and gentlemen. I am pleased to Welcome You to Vedanta Limited's Second Quarter Fiscal Year 2016 Earnings Call.

Given the recent commodity price volatility and falls to multi-year lows, last few quarters have been a testing time for the natural resource sector globally. Of course, in the long term basic forces — supply and demand — are still driving these markets and its low prices are probably encouraging a bit more consumption and probably discouraging at least new supply may be existing supply. So at the end of the day economics 101 will still prevail. However, right now, the global resource sector is challenging in the short to medium term. I think that by prevailing through this we can be optimistic about the future of the resource sector in a longer term period of time. From my own perspective China which really does call the shots in terms of where commodities are going China will continue to grow, be it at much lower pace than it was in the past. I do believe that following a disciplined approach in capital spending and efficiency in operations will be a key to managing during this period of volatility. And we at Vedanta have been implementing a series of initiatives to reduce capital expenditures and operating costs to maintain financial strength during the period of weaker commodity prices.

So let me start with a Review of 2nd Quarter Performance and Highlight some of these initiatives and for those that are looking at the slides refer to the first slide #4 on Safety and Sustainability: On Safety, our deepest regret that we report that two of our colleagues were lost in the last quarter with fatalities. This is a deep disappointment for the organization and I just want to emphasize we are committed in our efforts to achieving an objective of 'zero harm' and let me assure you that 'zero harm' is an integral part of Vedanta's strategic priorities.

Moving on to Slide #5, I will talk about operations: Operationally, we had a robust quarter with higher production at Zinc India, Oil, and Gas, Aluminum and Power and high utilization at Copper India. At Iron Ore finally we commenced mining at Goa and I am happy to share that first export shipment was made in October. EBITDA was marginally up sequentially despite softer LME and Brent prices during the quarter. This increase is mainly driven by strong volumes and cost initiatives across the businesses. Our diversified portfolio helped us deliver robust EBITDA margin of 32% in this weak commodity price environment. And of course we continue to progress on the merger with Cairn India, with Indian stock exchange approval in hand and further steps in progress.

Moving on to Slide #6: Maximizing cash flows and deleveraging the balance sheet are our top priorities given the near term volatility and low commodity price environment. Despite the tough macro headwinds we have been able to reduce our net debt by $700 million during the quarter. We continue to focus on optimising CAPEX and OPEX across the business segments and realising savings in marketing. We have achieved about $150 million of savings in the first half of fiscal year 2016 through these measures. At Gamsberg which we have talked about over the past couple of calls we have rephased fiscal year 2016 capex have reduced over a project capex by about $100 million. We do want to achieve positive free cash flow at each of our business segments of Vedanta Limited. We are ready to restructure operations to protect those free cash flows. So during these past few months the rolling product facility at BALCO has been announced we temporarily shut down and at Lanjigarh where we always were running at lower capacity based upon environmental limits, we shut down one of the partial streams that was running and taking about 15-20% of Lanjigarh's capacity but with a significant improvement in overall unit cost. And we continue to be committed to delivering cost savings across the whole company and marketing synergies across the whole company of US$1.3 billion over the next 4-years.

So moving on to Slide #7: While we are naturally focused on the weak commodity prices in the near term, I would like to remind you that our portfolio of well invested assets that are expected and will enable us to deliver near time growth with minimal capex in the next few years. And we will take advantage of this unique growth optionality embedded in the portfolio of low cost assets in a disciplined manner with the focus again on free cash flows.

Moving to Slide #8: We are positive and we continue to be positive about the Indian growth story and want to be part of the growth. Let us remind ourselves that India is really the only bright star in the BRIC story as we see China slowing down and again 6.9% GDP growth but some of the BRIC in quite difficult stray India is definitely at the top in this part of the cycle.

On the regulatory front in India, there have been few positive developments over the quarter given the DMF or District Mineral Fund at 30% of royalty. And certainly, as I said, we are happy to highlight our First Iron Ore Export Shipment of 88,000 tonnes from Goa in October.

We are constantly engaged with the government on various fronts such as the aluminum import duty to counter Chinese aluminum imports, removable of export duty on low grade iron ore, linking of cess with oil price and fair price realization for our domestic crude product.

Moving on to Slide #9: This slide reiterates that our strategic priorities remain unchanged, the production growth in disciplined manner, asset optimisation, balance sheet deleveraging and completion of Cairn India and Vedanta Limited merger being the top priorities. At the same time we remain focused on preserving our license to operate, everywhere we do business and adding resources as we progressively deplete them.

So with that I will now hand over to our CFO — Mr. DD Jalan to go through the financial update. Over to you, DD.

DD Jalan: Thanks, Tom. Good evening ladies and gentlemen. As you all know commodity prices were weak during the quarter. Under the circumstances I am glad to report that we have delivered a good set of numbers for the quarter reflecting the strength of our low cost and diversified asset portfolio. The EBITDA of Rs.4,113 crores is 2% higher sequentially and we maintain robust EBITDA margin of 32%. Volume and cost focus largely helped deliver this improved set of numbers. We will talk in some detail on these optimisation efforts a few pages later.

On balance sheet side, the free cash flow post CAPEX is a quarterly record of Rs.7,100 crores, again a result of focus on working capital, cash preservation and operations help get us there. We have a cash flow water fall slide coming up too along with other initiatives on strengthening our balance sheet. The resultant reduction in net debt is around Rs.5,300 crores during this quarter driving it below Rs.30,000 crore. Net gearing is back to the levels seen in Q2 last year prior to the impairments we took at the year end. We believe these are a good set of numbers as we continue our dual focus on the cost and P&L and cash and balance sheet on the other hand.

The Board has approved an enhanced interim dividend of Rs.3.50 per share.

Moving to the Slide 12, on this waterfall chart we can see uncontrollable factors of impact to EBITDA adversely by about Rs.376 crores. More importantly, as you all can see on the right side of the chart the operational focus on volumes, cost, and marketing savings infer to on the previous page is evident. Volume increase together with cost and marketing initiatives contributed over Rs.520 crores quarter-on-quarter. I will cover our efforts on cost and marketing initiatives in detail in the next page.

Moving to Page 13: I wanted to dwell deeper in next two pages around our cost and marketing initiatives. At our Capital Markets Day in March we shared with you our cost and marketing savings program of $1.3 billion over 4-years. We have made good progress and realized over $147 million during H1 and expect to realize around the same amount in H2 if not more. These savings are over the corresponding prior period as reflected in lower cost per tonne or higher realizations for our products. It also includes capex that has been permanently reduced or avoided. These savings reported this quarter to you is a progress card on our total cost of ownership methodology and it does not include the benefits or extra spend due to input commodity price inflation or deflation, regulatory or technology changes. We will present quarterly progress card going forward.

Moving to Slide #14: From here we can see market and regulatory headwinds impact EBITDA by over Rs.6,500 crores. However, happy to share the strong operational performance on right hand side of the chart. A strong volume growth together with cost and marketing initiatives and a few one-off contributed over Rs.2600 crores to EBITDA. The cost and marketing initiatives of nearly Rs.800 crores will tie into $126 million excluding capex saving I reported in the previous slide. These initiatives cover various areas such as efficient procurement, product line optimization, restructuring as views with negative contribution, etc. We have showcased few examples in the annexure to the presentation. We have an inventory of over 700 ideas we are evaluating and hope many of them will get into feasibility stage and produce bottom line savings to us.

Moving to Slide #15: We have been able to reduce the net debt by over Rs.5,000 crores. We were able to achieve this by optimising working capital cycle, reducing cash to inventory cycle and temporary one-time working capital reduction initiative. Out of Rs.5,500 crores, Rs.3,700 crores is sustainable in medium term and balance may unwind in the second half of FY-'16.

Moving to Slide #16: In the current market we had redrawn our capex spend for current year from $1.6 million to a billion dollar as announced at the beginning of the year. Now we have optimised further to $0.7 billion to be spent during the year. This will be achieved by creating flexibility in our Oil and Gas business where we will continue to focus on development projects like EOR and see opportunities to defer capex where possible. Gamsberg Zinc Project spend for the year is now reduced to $40 million for the year and a range of $60 to 100 million for FY-'17, which will result in around 9-months of postponement of first volume compared to original plan of FY-'18. Total capex for FY-'17 is now expected to be around $1 billion.

Moving to Slide #17: While on the balance sheet and cash theme this phase lays out our balance maturity profile and our refinancing plans. We continue to benefit from comfortable liquidity position in India along with a declining interest rate scenario. Of the FY-'16 maturity of $1.5 billion, $0.5 billion has already been tied up and for the balance in-principle approvals have been obtained. Considering the low interest rate scenario, our plan for rest of the year is to convert our short term instruments to long term loans which would result in extension of maturity profile of our debt at competitive rates.

During half year ended 30th September, 2015, we were able to successfully renegotiate the stress on our existing term loan portfolio by an average reduction of 22 basis points along with the interest rate cuts by RBI in India we lowered our overall borrowing cost by 30 basis points over last year. Our cash balance of Rs.52,000 crores continues to be well and safely invested with RBI "AA" or higher rated products producing an average post tax return of 7.4% in H1.

Moving to Slide #18: On income statement page you can see benefit of low cost refinancing and declining interest rate scenario going into bottom line. However, finance cost is likely to go up marginally during FY-'16 with capitalization of assets. Other income fluctuation between period is largely due to timing differences in the maturity of our investments given that we recognize income only in the quarter of maturity of investment. The underlying portfolio did well with an average post tax return of 7.4% as mentioned earlier.

The D&A charges is likely to be slightly higher in H2 due to again capacity ramp up. The tax rate for the current quarter is 10% mainly due to one-off differences between quarter-on-quarter but full year rate continue to remain at 15% as guided in the previous quarter.

In summary, we continue to focus on optimising opex and capex, generate and preserve cash, allocate capital prudently and focus on reducing net debt.

With that I will hand back to Tom.

Tom Albanese: Thank you, DD. We will now go on over to Slide #21 and start with the discussion of the Oil & Gas business. The gross production of Oil & Gas increased by about 6% year-on-year; however, production was 2% lower quarter-on-quarter due to the conversion of some of our pre-produced wells in Mangala into polymer injectors. This conversion will eventually lead to ramp up in production and we have been on track with our guidance to maintain production from Rajasthan in the current year at fiscal year '15 levels.

On the cost side, substantial savings were obtained in key high value contracts through negotiations, optimisation of field operations and improvements in well drilling tonne. Rajasthan water flooded opex remained low at $5.5 per barrel of oil equivalent in the second quarter of the fiscal year. We continue to invest in our core fields and drive growth projects. At Mangala EOR the injection ramp up plan is on track to increase the polymer volumes from 80,000 barrels per day to 200,000 barrels per day quarter-on-quarter. Aishwarya Infill Campaign: We successfully brought six more wells online in the second quarter, increasing the total well count to 12 from the 20 planned. The Bhagyam EOR is also progressing well. On the RDG development project, we have recently signed an agreement with GSPL. As per the agreement they will build the pipeline and provide us with a tie-in provision to connect to their grid. Exclusion of pipeline from the scope of work will help us reduce our capex for the project and we are now progressing on the tendering process for the new gas processing facility. The production is expected to start in second half of 2017 subject to the pipeline approval. With the gas pipeline tie-up with GSPL we expect to close fiscal year 2016 with capex of $300 million as against our earlier estimates of $500 million. At current crude prices we expect that fiscal year '17 we will see capital outlay in the region of approximately $500 million. We are engaged with the government on initiatives like revision of the cess on oil production to some type of ad valorem, PSC extension policies, etc.,

And finally I want to reemphasize our priority at the Oil & Gas business remains to be free cash flow positive in a low crude price environment. We said this now since the beginning of the year and that is what we are delivering. Over 90% of our production volumes are at the core fields of MBA, Ravva, and Cambay with very low operating cost and high margin.

Moving to Slide #22 and we will talk about Zinc India: Our world class Zinc portfolio had a very strong quarter as mined metal increased during the quarter driven primarily by higher ore production across all our mines. This refined metal production was even higher on account of processing of earlier inventories and high smelting efficiencies in the second quarter. We lowered our cost of production during the quarter to $770 per tonne in spite of higher levies like water cess and electrical duties due to the higher volumes, cost saving initiatives and again the Indian rupee depreciation. We expect cost of production to go down in the second half if prices of commodities like diesel and coal remain at current low levels.

During the quarter we also wrote back the additional provision of DMF which is now notified at 30% of royalty against earlier provision of 50%. And I am separately pleased to report a 60% higher silver production due to higher grades, annual production from the SK mine and this is expected to continue into the second half. Of the announced 1.2 million tonne per annum expansion at Zinc India, overall underground mine development crossed 13 Kms during the quarter which is a record that gives us confidence to ramp up the underground mines as per our plan and commitment. The pre-stripping work for further development of Rampura Agucha open pit was also made impressive progress during the quarter. At the SK mine the internal infrastructure works at 1,000 meters level of advancing well and we expect to enhance the overall production capacity at SK mine by 50% to the year-end that is from 2 million tonnes per year to 3 million tonnes per year.

Moving to Slide #23 at Zinc International: Production was affected by shut downs at Skorpion and beginning of the ramp down of production at Lisheen which will now end mine production in November of 2015. Overall, we are on track to produce our 220,000-230,000 tonnes in fiscal year 2016. At Skorpion, the push back is in progress for an extension of the pit from fiscal year 2017 to fiscal year 2019 which has resulted in higher cost of production as we previously have guided. At Gamsberg, the pre-stripping commenced in July and the projects been developed using a modular approach as we have said to allow flexibility to manage the capital expenditure program in line with the markets. The overall Gamsberg and Skorpion Refinery project capex of $782 million has now been reduced by about $100 million and the spend is also being rephased. As DD had already said, fiscal year 2016 capital is expected to be $40 million and fiscal year 2017 capital is in the range of $60 to $100 million. And this result in about a 3-month delay in the ramp up of volume as against the original plan.

In light of current market conditions, the business is following a lock box approach towards capital whereas the capital will be funded by the cash flow generation from the businesses of Zinc International.

Moving on to Slide #24 in Aluminum: Production from both the smelters and the refinery was stable. Aluminum prices and premiums declined further during the quarter whereby our EBITDA margin has declined from $177 per MT in the second quarter of fiscal year 2015 to

$95 per MT in the second quarter of fiscal year 2016. Our cost of production has been lower year-on-year both at Jharsuguda and BALCO due to currency benefits, lower alumina cost, lower power cost probably offset by higher coal cost at Jharsuguda. In the absence of captive bauxite and to deal with this challenging market backdrop we have also put in place several structural measures. This include as we said shutting down the high cost roll product facility at BALCO resulting in about Rs.60 crore savings p.a. from fiscal year 2017 onwards, although we will in the short-term need to face some one-off cost in the current year on account of work force reduction. We also plan to put into place 270 MW CPP plant which is our older power generating unit BALCO and less efficient on standby post the start of the new 300 MW CPP at Korba in the 3rd quarter. At Lanjigarh where we are always running at lower than its operational capacity due to the environmental limit of 1 million tonne per year, we shut down the one stream that was only running at partial capacity. So we are running at one full stream at roughly 850,000 tonnes per year and again as I said at a much lower cost than we are running at 1 million tonne run rate.

We are increasing the proportion at our smelters of value added products in sales. We are also in discussion with the government to control the dumping of Chinese aluminum and scrap into the Indian markets with an increased proposed import duty.

In terms of further ramp up of our Aluminum Smelters we will continue to follow a disciplined approach and ramp up only if there is positive cash generation on an incremental basis. We are in discussions with the government authorities for using power from the 2400 MW power plant for the Jharsuguda II Smelter and expect to start ramp up the remaining pots of the first line of 312,000 tonnes in the 3rd quarter well back BALCO-II ramp up is on hold for the time being. Notwithstanding the above measures, we are mindful of the weak Aluminum prices and premiums so we will continue to evaluate all parts of our business as we go forward.

Moving on to Slide #25 I have talked a bit about our vision in attempt to create a power vertical and I am pleased on the progress made by the created power vertical organization. We have already been seeing the benefits of a lot of best practice sharing which has improved plant performance and brought good progress on in terms of commissioning of new units for production. We have consolidated and we are centralizing our power sales and ramping up our sales of power with that. We have consolidated and centralized coal procurement through the group and we have integrated Hindustan Zinc, MALCO and Tuticorin for procurement under central coal procurement group from the second quarter. And with this integration Vedanta's coal import procurement is fully centralized leverage on the volumes and bringing synergies across the coal supply chain. Some of the areas we are focusing on still to be done what I would say would be logistics and service contracting across the group, e-auction buying, etc., and logistics would be not just in the coal business but all areas where we would be involved with rail, port, ship and truck transportation.

During the quarter PLFs at the 2400 MW Jharsuguda power plant was at 32% due to continued lower demand and softer rates. We expect the PLF to increase gradually in the 3rd quarter of fiscal 2016 as we start ramping up the pots at Jharsuguda-II smelter and bringing in more CPP equivalent production. At TSPL the first 660 MW unit had availability of over 80% and the unit is expected to operate at above 80% availability. The second 660 MW unit of the TSPL plant which synchronized in the 3rd quarter of fiscal year 2016 and first 300 MW IPP plant of the 1200 MW Korba power plant has commenced operations and its second unit has been synchronized in the 3rd quarter of fiscal year 2016.

With the decline of imported coal prices in the quarter by 8% to 12% the increased proportion of imported coal used from 18% to 25%. And we expect to commence mining from our auctioned Chotia coal block in the second half of fiscal year 2016.

Moving on to Slide #26 and I will speak about Iron Ore first: Mining resumed as I said in the second quarter with the first export shipment made on the 19th of October and we expect to produce 5.5 million tonnes at Goa in Fiscal 2016. You will notice the photo in this slide includes the Chief Minister of Goa demonstrating his support for the resumption of mining in the Goa state. Our Goa Iron Ore which is relatively low grade has received a positive response from the Chinese markets even though Iron Ore currently is considerably oversupplied into the overall global marketplace. Steel mills are trying to reduce their purchase price of iron ore by buying lower grades and running at optimal blends and secondly as we said the phosphorous content of Australian qualities of our peers have recently spiked and some cases to 0.1% or more and this has offset some of the field mills were inclined to buy some of our low phosphorous iron ore from sources like Goa for its positive value in used products. So that is a key part of our strategy of getting this product at a fair price into the Chinese market notwithstanding the over supplied nature of the seaborne sector.

Locally, we have seen some reduction of market for international Pig Iron. So we have been working to take advantage of the stronger domestic demand and increasing our domestic market share of our Pig Iron production.

Again speaking to Copper India and our Smelter at Tuticorin, second quarter production was impacted by maintenance shut down and we expect 90% utilization rate going forward. In terms of calendar year 2016, TC/RCs they are expected to remain strong and for us greater than 24 cents equivalent per pound on the account of improving mine supply and improving supply balances for concentrates. We are building enhanced complex concentrate handling capacity as we see the delta from complex for zinc concentrates beginning to increase so that we can improve our operational flexibility and get better net realizations. And meanwhile, in the downstream side of the business we are working towards enhancing high margin rod manufacturing capacity to serve the increasing domestic demand.

So my sum up on Page #27: Notwithstanding the difficult markets our strategic priorities remain unchanged. We are focused on production growth, asset optimization and de-levering the balance sheet. We have demonstrated our intention to achieve the objectives through optimised opex and capex in the quarter and will continue on this path. We have adapted the new normal environment for commodity prices and pragmatic decisions would maximize free cash flows after capital at each business unit. We are focused on completing the merger of Cairn India and Vedanta Limited.

Finally, with continued focus on improving production and reducing cost, we aim to keep delivering superior returns for our shareholders. So, with that I would like to open the floor for questions, operator.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Navin Gupta from Goldman Sachs. Please go ahead.

Navin Gupta: Sir two questions from my end; One, we have seen cost decline in BALCO in the quarter by roughly about $120/tonne, but cost at VAL is pretty much unchanged on a quarter-on-quarter basis. So if you can just help us understand that?

Tom Albanese: First of all, I think as I would have said in my remarks, at Jharsuguda we have seen improvement in efficiencies, etc., but we saw an increase in our coal pricing. So that would have an effect on the overall quarter-on-quarter cost. But I think the trend that we have seen in BALCO, we hope to see this trend at Jharsuguda half-on-half where efforts that we have been putting into restructure and then trim all the areas of costs are beginning to play dividend, sometimes because of inventory effects they take some time to work in the system, it would expect them to begin to be percolated through the system progressively in the coming quarters.

Abhijit Pati: Tom, you have covered. So far as the cost is concerned for Jharsuguda, there is definitely a good amount of structural measures have been taken, there is reduction in every field, but what you are seeing as a more or less unchanged of the number of the cost structure is on account of getting tradeoff between the high coal price vis-à-vis the cost reduction measure. But BALCO on the other hand is a large number of strategic initiatives, it has been taken both into the variable and the fixed cost portion and also the improved efficiency parameter compared to the last year. So that is the reason which is reflecting in lowering the cost by around $120.

Tom Albanese: Navin, the other thing that we would expect to see progressively in the first half, you will see continuing into the second half would be that seaborne Alumina prices are declining quite a bit. We were seeing in the 323-330 range seaborne pricing just a few months ago and now we are looking at the numbers closer to 250/tonne and again as LMEs stabilize at these levels we would expect to see continued improvements in seaborne Alumina prices.

Navin Gupta: My second question again is on Aluminum. As you had mentioned in your opening remarks that the industry has to run on economics and if we look at the second quarter average LME price has been roughly about 1590, the current spot is about 1440. Now, if you can just help us understand how long would it take or at what price would you think that you would have to look at closing the smelters because if I look at BALCO, we are still running at about 80,000 tonnes a quarter, at what particular price point would you say that, so is there a price stop and a time stop in terms of the operations?

Tom Albanese: Navin, I want maybe Abhijit go through in detail but before he does just to make a point that when we look at the numbers we have to look at not only the LME price plus the normal physical premium but also our value add. So we get a considerable amount in the value add which has to be built into that overall equation. And as I said earlier, as LME prices decline, we do see that the Alumina cost is declining reasonably proportionately with that. I read all your reports, Navin, do not worry, but I see as you point out as prices decline, you see shifting of the cost curve to the lower end and that is exactly what we are seeing in our own operations. So, it is a dynamic process.

Navin Gupta: If I can just add before that, assuming all other things constant, just on LME, let us say at what particular price point, assuming other cost do not change, do we see looking at more shutdowns?

Tom Albanese: Can you start, Abhijit? We are going through part of your question I will talk about what I would say from an industry perspective.

Abhijit Pati: Basically, today, Navin, if you really see the overall cost perspective, definitely, today, we are not seeing that much of a big threat so far as the closure of smelters are concerned because we have an opportunity which is coming in both on our structural reduction process if you see that the refinery is also able to show a very good progress so far as the cost of production is concerned. So there is an impact of one stream operations which has financially given a lot of positive impact. Moreover, the Alumina price internationally is also coming down because we have a dependency of around 1 million tonne of Alumina import pertaining **to** these two smelters. And the way structurally we are driving the BALCO's cost structure and definitely today if it is at around 1900 plus level or 2000 level of cost to achieve able to definitely another $200 to 250 reduction is possible to buy a structural drive. So, we do not really foresee much of an issue so far as the decision of closure of the smelters are concerned and today Jharsuguda cost structure does not really even in the present LME level and if you really see our premium channel which has come in, in Q1 and Q2 there is a reduction so far as the premium is concerned, is something around $80, but if you really see our overall net sales realization on account of our product development and focusing more to the domestic market as well as our typical alloy production has really made the overall realization more or less at the same level between Q1 and Q2 even with the falling MJP level, whatever you have seen between Q1 and Q2 which is something around $70-80. So what we foresee is that with our footprint we are driving the costs, we do not foresee much of an issue, because there is a huge opportunity for further $200 reduction in BALCO which we will certainly happen with the measures we have taken. Lanjigarh is coming out because today from $340 of cost of production we have just concluded in the last month around $299 which is a very strong and very creditable progress so far as the cost of production is concerned. Also, the international alumina coming in, we will see that the viability of both the smelters continue to remain. Even today at present LME which is average LME for this month is around $1540. So, we will continue to definitely float on. The other measures which Tom has already explained to opening slides he talks about the transformation journey of commodity procurement as well as the marketing initiatives will certainly give us lot of aids so far as our float is concerned.

Tom Albanese: I guess it is not going to be a static process, we are going to sit and wait for the prices to move I would say in all aspects of energy conversion, coal procurement, alumina procurement, bauxite procurement, alumina production, the carbon products, our conversion cost and maximizing our premium on top of normal premiums, all of these have separate initiatives under Abhijit's desk to basically improve upon but like everyone else in the world they are doing exactly the same type of things. So everyone is racing a dropping market. We are mindful that some players are going to be pulling production off on a global basis probably LME and premiums is somewhere in the midpoint of the global cost curves, so half the world's production is probably facing the very question, Navin, you are saying is, should it be shut down or not. So you are going to see that is going to have some stress eventually in the market but also we would anticipate that there is another 5+ million tonnes of new aluminum smelter capacity currently under construction in China as we speak.

Moderator: Thank you. The next question is from the line of Jigar Mistry from HSBC. Please go ahead.

Jigar Mistry: Two questions from my side; first is for Tom. The impending merger with Cairn India. Now the swap ratio really is very different from what is proposed and some media channels were quoting you saying that no sweetener is currently in the offing. As I understand it, the scheme is yet to be filed with the high court. So, in theory, if Vedanta India were to offer a sweetener, can it potentially do it after the scheme has been filed but before the shareholder vote? There is no precedent in India. So sorry for bringing this up to you but is there a theoretical possibility of doing this?

Tom Albanese: I just want to point out that we are obviously mindful of the markets and we can divide the price of the Cairn share with the price of a limited share. So we understand what those ratios are. We are mindful of media speculation but we will not comment on anything that has not been approved by the respective boards of any of the speculation. And our focus right now is entirely on moving the processes through the normal regulatory approvals so they can be positioned to take it to the shareholders as those boards will take it to the shareholders.

Jigar Mistry: The second question was to Mr. Jalan. In Slide #12, there is this Rs.699 crores regulatory benefit coming from RPO and DMF reversals. Sir, can you please help us break this down into businesses? We saw Rs.140-odd crores coming in Hindustan Zinc. But where is the other booked?

DD Jalan: Jigar, I think as you would have seen that the RPO liability was provided for in Q1 largely in two businesses – Aluminium and Zinc business. So since those were the provision in Q1 and not in Q2, so that is why part of that is there. And DMF liability was on Hindustan Zinc account and this is basically Rs.240 crores of reversal, Rs.140 crores for last year and Rs.100 crores for the Q1. So that way the total amount is panning out to be.

Jigar Mistry: So both is Aluminum plus Zinc?

DD Jalan: Yes, that is right.

Moderator: Thank you. The next question is from the line of Chirag Shah from Barclays Capital. Please go ahead.

Chirag Shah: I think Vedanta is now one of the largest consumers of coal in India. I was just wondering if you can just elaborate a little bit on how you are seeing the coal availability and pricing going forward for coal in India because we are seeing a lot of end users complaining about Coal India's prices being uncompetitive even if the availability has improved. So from that context, your comments that CPP is still facing coal shortages and Jharsuguda's Aluminum operations still seeing higher coal cost. How does the scenario move going forward?

Tom Albanese: I like Ajay to comment on that as our new Head of Power vertical, but just from my own perspective, we consume right now about 32 million tonnes of coal moving upward to 40 million tonnes plus the coal consumption. I'ma free marketer at heart. So, I talked about economics 101 in my written comments but another part of the economics of 101 is that a monopolist will restrict supply to maximize price. I think that has been done at the detriment of the Indian industry. So, I am not in favor of a monopoly position of coal of India. I have said that publicly and I will say that again publicly and I think for coal to be available as a need to there has to be some mechanism for professional coal miners to be using the latest of global technologies to be producing coal and selling on the commercial basis.

Ajay Dixit: I would say, we are passing through a temporary phase in which you will see the fluctuations coming because on one hand when the mines were canceled and they came up for auction, the auction mines have still not come for production, so all the captive power plants are going to the auction area and therefore, the prices are fluctuating at the moment, whereas the coal for the IPPs is I would say linked and therefore it is continuing. So this fluctuation would remain for some time and we would see now with the linkage for captive power plant coming in, in place, import prices also coming down, this would stabilize over a period of time when also the captive mines are also coming up into production. So we would see this temporary phase, but yes, the Coal India has to improve on the overall output and this monopolistic thing has also come down when the commercial mining starts. So we see moving forward has entire global effect is there on the coal. This would also settle down somewhere in India.

Chirag Shah: My next question is to Mr. Jalan. Sir, on Slide #15, it shows that there is some debtors cash cycle and also working capital one-time benefit. Can you just explain this a little bit more, what the debtor initiative is all about?

DD Jalan: So, basically Chirag, what we have done that, normally in our business there are huge amount of debtors, so we try to encash part of the debtors rather than making treasury transaction, we thought that it would be better to encash the debtors and similarly in some of the cases we have received the advance from the customers. So I think those are some of the initiatives which are likely to continue over a medium period of time. And then the one-time initiative which you will see under the bar of 'cash flow from operations' is Rs.1806 crores of working capital initiatives, those are one-time initiatives because of the cycle of the payment of creditors or may be some of the receivables. So because of that this Rs.1806 crores is there. So that is the temporary one time whereas Rs.3,774 crores as I mentioned is hat is also one-time but over a period of longer period of time.

Chirag Shah: So if I understand this correctly, Rs.3,700 crores is not only the advance on sales but also a lot of debtors that you would have shortened the day cycles?

DD Jalan: Absolutely right.

Chirag Shah: As regards the advance from sales is concerned, where exactly do you report the balance – is it appearing as loans and advances?

DD Jalan: This comes as advance from customers. That is the normal nature of the advance.

Moderator: Thank you. The next question is from the line of Anuj Singla from Deutsche Bank. Please go ahead.

Anuj Singla: I have a couple of questions; the first question is on the dividend payout; we have seen a sharp increase in the dividend payout in the first half. Now, given the company's focus on capital preservation and cutting down the capex, still increasing the dividend. So, what kind of dividend payout we should be expecting for the full year and what is the strategic reasoning for increasing the dividend payout to such a level despite having to cut down the growth CAPEX in Cairn?

DD Jalan: So Anuj basically I think as we have articulated the capital allocation process is basically essentially to balance between the return to the shareholders as well as delever the balance sheet and to allocate the funds for the growth of the business. So we have to triangulate our optionalities between all these three. We have seen that there is increase dividend flow from Hindustan Zinc, they have declared a special interim dividend during this period. So because of that there is additional inflow of funds at the company, and more so as Tom was mentioning that we are putting all the business to all the four cylinders so that they generate optimal amount of cash and each of the business should be generating cash flow from their businesses. That gives us good amount of confidence of the cash flow what we see for the year. As far as our policy is concerned, there is no given policy that the dividend is whether progressive or pay out based, but these are eventually based on the cash flow what see from the business. So based on that, the directors have decided that it will be optimum to enhance the interim dividend by 100% as compared to what it was last year interim.

Anuj Singla: Second question pertains to the profitability of the Iron Ore operations. As Tom mentioned, we have started exporting from Goa. So given the depressed Iron Ore pricing scenario globally, what kind of profitability are we making at the shipments that we are doing at Goa at the moment?

Tom Albanese: Thank you. I think we have Kishore Kumar online, our chief executive of Iron Ore and he will go through the numbers, but maybe before he does that, just I want to stress that we have been looking at all aspects of the Iron Ore business and recognizing that we have to compress not only opex but also any of the costs that government introduced. The irony is that even though Iron Ore prices have more than halved since our last operations the payments required for the government have almost doubled in this period of time. So we have to continue to engage at both the state and the federal level and the thing is like the 10% export duty for low grade products. We have double taxation effect between the state permanent fund and the new DMR royalty effectively. So these are the types of things we are engaging with government and I think some good receptivity and understanding of logic of the arguments. We also have to engage with our workforces, our operations but also haulers and transporters in the Goa area, you will see some press there that the haulers are protesting that we are trying to cut the cost from what it was during the peak days. If we can't make positive margins of Iron Ore nobody gets any business. So these are the types of interactions that Kishore and his team has to have with all stakeholders in Goa and the Government of Goa so we can get the business running to generate a healthy margin, so ultimately we can build those not only our production but increasing the production. Once we do that we would like to then talk to the government and talk to the courts about increasing the overall cap above the current 20 million tonnes range. With that, Kishore, why do you not walk through the numbers?

Kishore Kumar: Thanks, Tom. And Mr. Anuj, this consignment that we are exporting from Goa, at this point of time these are largely the auctioned cargo from the government, and as of now, the Goa is sitting at about almost 9 million tonnes of cargo which needs to be exported. On these cargos we normally have a purchase price and we also book our sales price simultaneously so that we are looking at low double digit margins, whereas when we come to our own mine operations which is where the 5.5 million tonnes would come from, there our cost structure at this point of time as Mr. Tom has alluded, is largely overweighed by the taxes and duties, to give an example at a $40 FOB price of ex-Goa the duty structure is about $16 and that is what kills this business, and our cost structure we try to always manage in low-20s. So we are always at probably the break even and recovering our fixed cost marginally, that is where we are today. But we are hopeful that our engagement with governments both in center and in state have received positive affidavits filed in the Supreme Court, and we hope the Supreme Court would hear us in the next couple of months.

Tom Albanese: And we are mindful of the fact that with some increasing Iron Ore production from other major producers, there is some downward pressure on Iron Ore prices as we speak. So that puts us greater pressure on Kishore to engage with the government but also engage with all of our operations to reduce this cost.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Regarding our power generation, the generation was lower quarter-on-quarter, I think mainly the Jharsuguda was lower. So any guidance on the Jharsuguda ramp up? And how many units of Jharsuguda are now permitted to be used for the new aluminum smelter?

Abhijit Pati: So far as the ramp up is concerned, as we indicated earlier in the expansion phase in SEZ we have been planning for 70, out of which 336 is installed and today basically the low PLF on account of hardly any consumption in our expanded facility though we plan to really expand and ramp up at least one line in this particular financial year. So as far as the clearances are concerned we are looking for at least one unit in a very advanced stage for getting into the CPP conversion and for your record we have already synchronized with the power from the Unit-4 and obviously in another couple of days we have a last minutes to be drawn with the GRIDCO and WESCO before we really punch in this power to the expanded facility. So we are expecting the first week of November should be the further ramp up beyond 70 pots. That is what as of today. So one unit we are trying to get a complete conversion into the deemed CPP mode, but obviously, our effort is there for another two units so that next year we can also see further ramping up of the facilities.

Bhavin Chheda: Sir, still to get the final approval for the one unit to be classified as a deemed CPP, right?

Abhijit Pati: You will appreciate one thing because the matter is in regulatory, that is basically OERC, Odisha where it functions, and they have interim give us a very-very favorable verdict and that is the speed we have gone and synchronized the unit and that scheduling portion is left because for the scheduling portion you need to have certain amount of formalities to work with SLDC which is the state distribution agency. So that is the only phase. If you ask me simply the order clearance of the one unit is concerned from the OERC side, the clearance is absolutely on to the board, it is only the last leg of getting the clearance and scheduling the formalities to be obtained with the state. That is only the last phase of what future like. That is what we are talking about, first week of November should be power all beyond 70 pots.

Bhavin Chheda: My other question is on the bauxite and alumina if you can share the bauxite landed cost and what would be the source of bauxite as of now?

Abhijit Pati: Bauxite as of now is one particular stream the operation out of two in that stream. We are 100% focusing on to the domestic, because that is where it makes sense to source this bauxite from the domestic site and produce our alumina. So far as the long term bauxite supply chain is concerned… if that is your question, there are three different types of activities which is being performed –one is atleast the good part is there, the state has now released their consent to redo the gramsabha from the Niyamgiri to the center. So we are looking for to get the clearance from the center. So that will be one phase of our long term security. Second thing we are also working as indicated to you earlier we are working on to the laterite deposit which is interim supply in the form of laterite to the refinery which has also got cost advantage. All formalities is going as per the plan and we hope to get our final compliance in November to clearance for a gram sabha in the laterite and our target is to bring the laterite into the system by Q4 of this financial year. And apart from that there are other expansion facilities, like 1 million to 2 million tonnes by way of debottlenecking, a good part is there, in last nine days before the state has already cleared the Stage-1 clearance, the matter has now gone into the center and hopefully we should be getting into the place where 2 million tonnes clearances debottlenecking project clearance is approved in the 2 million tonnes in the shortest possible time may be in another one month's time we should be in a position to at least get that clearance.

Tom Albanese: If I can just supplement what Abhijit is correctly saying that when you look at the bauxite resource in Odisha, you got billion of tonnes, so you are in great hunting territory and what we want to do and what Abhijit was explaining is, we have a very strong portfolio of different ideas and different elements. I personally met with Abhijit the Chief Minister in Odisha and he is quite committed to make sure that we do everything we can to find local bauxite to preserve the viability of the Lanjigarh refinery and what you have seen is as Navin's earlier comment of very difficult aluminium pricing environment. And so if we can't go fishing on one hill, then we go fishing on another hill.

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

Pinakin Parekh: My question is on Talwandi Sabo Power Project. This was supposed to be fixed ROE project. So, how do we go from where we are currently and we have been making $15-20 million EBITDA per quarter to 15-16% fixed ROE on this project? What are the timelines? What are the markers that we need to achieve or demonstrate to the utility?

Tom Albanese: I might just start by saying that first and foremost important thing we can do is get all three of the units up and running and that successful commissioning of the plant and certainly Ajay and his team are entirely focusing on that. Ajay, over to you?

Ajay Dixit: One unit as you have seen is already delivering and the second unit the initial synchronization has been done to the grid and now we are in the process of completing the continuous run test. So within this current quarter which is running we will be in a position to bring the unit to declare the commercial operations and then immediately take over the last unit. So we expect within this financial year the complete plant would come up to commercial production and thereafter I would say then the next year would be the year in which we would be having complete plant availability to able to deliver the required results.

Pinakin Parekh: My second question is Aluminum. On Slide #24 we have this waterfall chart in terms of the aluminium EBITDA per tonne versus realisation at cost and the second quarter average EBITDA per tonne was $99, the average LME was $1591and LME has fallen roughly $100-120 currently versus 2Q average. So you did remark that the cost has come down. Now, have the cost broadly fallen in sync with the LME prices and hence this EBITDA per tonne is broadly what we should be running at or right now as things stand it is probably break even for Jharsuguda Aluminum operations?

Abhijit Pati: For the Jharsuguda it is not break even, I think we are little positive EBITDA in that. Yes, your statement is right because largely whatever has come down, we are able to maintain that level as of the level of the LME. Now, further going down as indicated in one of calls earlier that our FOB drawn to further reduction of that cost because please try to understand cost is dynamic and we have every effort to bring down both Jharsuguda as well as BALCO cost structure and the potentials are pretty high. So there are different initiatives which have been worked out already which has started giving us a lot of benefit and contribution so far as cost is concerned.

So that is the way we want to really be on our plot so far as the premiums reduction is concerned and also the cost reduction part for the hot metal is concerned. So that is the way we want to balance it out.

Tom Albanese: I might just want to supplement Abhijit's comment, if you go back to Slide #24 you look at the first screen bar of alumina cost, in the first half you had alumina purchase cost that was actually over $300 a tonne on average and now it is running closer to $250 tonne on average. So you have got probably $50 a tonne to $100 a tonne of Aluminum of movement half on half just from that particular part. And then if you think about Lanjigarh itself, as Abhijit said, we were at the lower level of production we can manage the source all of our bauxite needs domestically so we have then cut out that more expensive import of bauxite at these production levels and through other cost improvement efforts is reduced that the cost of alumina Lanjigarh had to, otherwise, we will have to shut down the Lanjigarh refinery in total which we do not want to do. So we have reduced those costs, not only on purchase alumina but also the procured alumina. So while we have seen about $100 per tonne drop in the current market compared to the average LME half-on-half we do expect to see commensurate reductions of more than that to mitigate that negative impact and create an overall positive EBITDA margin on all of our production including BALCO for the second half.

Moderator: Thank you. The next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: Post receipt of this captive CPP status, can you bid for coal blocks under non-regulated sector?

Ajay Dixit: Yes we can. Actually coal blocks, regulated and non-regulated are very clearly separate, but in any case in Jharsuguda, we have already have CPP and our bid has been put also in the non-regulated.

Raj Gandhi: But let us say VAL 1200 MW was putting bids till now. Can this deemed CPP units bid under non-regulated because as of now as we speak there is no clarity on this deemed CPP how will they be treated for bidding?

Ajay Dixit: At the moment our coal requirement does not need even deemed CPP to be coming up. As far as even 1200 MW is concerned, the guidelines which are there for bidding on the coal blocks you can go up to 1.5x normative value, even this is good enough for us to take care of the need even for 1215 MW. Additionally, in any case if the parent company is making a bid, the parent company can also move the coal in between the units. So we are not I would say strangled anywhere.

Raj Gandhi: But from a long term perspective, if you were to ramp up the new SEZ unit, how will this deemed CPP units be treated for coal bidding?

Ajay Dixit: It will be converted to CPP very clearly after the 51% criteria is fulfilled because that is the way captive power has to be judged every year irrespective of whether you convert or whether you start as a CPP. That is the Indian Electricity Act. So we are qualified for that and in long term as we move forward we have to see at what value do we acquire so we had to be acquiring at a reasonable sensible value which has to be long term sustainable.

Moderator: Thank you. The next question is from the line of Dhaval Doshi from Phillip Capital. Please go ahead.

Dhaval Doshi: Two questions; First, with regards to the coal block that we won in the auctions. So, a) with regards to the Gare Palma block, the high court was very much in favor of the company in terms of telling the government to finally decide on the matter and they have seen nothing wrong as far as the auction process is concerned. In the PPT you said that you have gone and filed the writ petition. So, is there some kind of disconnect? What has been the response from the government side?

Tom Albanese: I like your word 'disconnect' because you say the courts did recognize that the process was a proper process, went back to the government and said to sort this out with Vedanta. Nothing has happened. We are actually taking this one back to the courts and proceeding with it but we have not had any, real substantial progress with the government on Gare Palma yet.

Ajay Dixit: That is correct. I would say the Government the court had ordered to review the whole bid and this has been reviewed. The reasons are still not very clear for not awarding the coal block and that is the reason why court gave us a time window that in case we are not satisfied with the response from the government we could go back with an appeal which we have done and we are filing our rejoinder on this.

Dhaval Doshi: When is the Chotia block likely to commission?

Ajay Dixit: Chotia block is I would say we were waiting for the stamp duty amendment to come through as an ordinance which has been now cleared and I would say it is the matter of two to three weeks that we will start operation, we are targeting sometime in first week of November to have it through, so we are making all preparation for that.

Dhaval Doshi: My second question relates to the Cairn ICD. I believe that is maturing next year and in terms of do give us an option to renew the tenure or extend the tenure as well. But is it as per the revised company law that you will have to see the minority shareholder approval for the same or you can do it without that?

DD Jalan: So, Dhaval, I think we have got all the optionalities to take care of the maturity which is falling due in June-July next year and we shall be evaluating all those options and in case in the event we go for renewal we will be following the requirement of the Companies Act strictly in accordance with the rules and regulations.

Dhaval Doshi: Just to clarify, you will have to take the minority shareholder approval in case you need to renew the contract?

DD Jalan: No, we shall be reviewing all the requirements, so there are various interpretation involved. So at that point of time in the event we go for renewal, we will have to evaluate the option at that point of time.

Tom Albanese: I just want to emphasize, that is a speculative comment.

Moderator: Thank you. The next question is from the line of Anshuman Atri from Espirito Santo. Please go ahead.

Anshuman Atri: My first question is regarding the Copper operations. Recently, the event which is hosted by Tamil Nadu, so we were talking about expansion of this smelter by another 400 kt. So are there any concrete plans on this aspect?

Tom Albanese: We continue to go through both the court and the regulatory processes for that approval and also working with the Tamil Nadu government in terms of their own initiatives to increase industry and business in the state, and so I am hopeful that we will get an alignment by all the different pieces that we can see going forward. I think that over the past two years we have seen improving market prospects for the value of that expansion given the fact we have had a lot of concentrates come in the market, you have tighter supply/demand balance of concentrates and smelting and we demonstrate that we can take some of the more complex concentrates in Tuticorin which was certainly our intent with that expanded facility.

Anshuman Atri: Is there any timelines for this expansion?

Tom Albanese: Nothing definitive right now, we do not have the approvals to proceed and of course we have not built that capital in the guidance for the next three years. Obviously, if we were to get the approvals to proceed we would be looking to adjust the guidance accordingly in line with our overall comment before that testing all new investments from capital allocation standpoint.

Anshuman Atri: Second question is regarding the commercial power. Given that the power availability as well as coal availability is improving in India, so how do we see in terms of margins for our commercial power sales as well as volumes going forward say over the next one or two years?

Ajay Dixit: The power assets which Vedanta has is a combination of CPP and IPP. All the IPPs, I would say the majority of the power coming from TSPL, we have our power purchase agreement for 25 years, we do not see any problem in that which has a fixed charge, which is called as the 'capital charge' and the energy charge which is the pass-through. So it is a very safe model, we do not see any problem over there. And in case of other IPP which is 300 MW coming out of BALCO, there we are having already also tied up long term agreements for about six to seven years and we are also participating in medium term option. So we go by the seasonality and maximize our profits over there. So it will depend on how this whole availability in a particular region and also interstate is there. So we are also selling most of our LTAs out of BALCO are in the southern state. And the third location from where we are having commercial power is MALCO which is sitting in the southern part of the India where we have still the deficits. So, we do not see any problem on the commercial power at all. On the other side, I would say on the captive power, we are continuously improving efficiencies of the operating plant and as they come up for the operations, so this would also give us some chance of having some commercial power out of the surplus power of CPP which on seasonal variation we can sell. So, it is a very good model I would say where plant load factors will have a base load of captive generation and on the top we would have some improvement due to efficiency and optimization of the power which could be used as additional revenue for the sale on the open exchange.

Moderator: Thank you. We will take our last question from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.

Sanjay Jain: One question on Oil business. I did hear in the Cairn call that we have seen our discount for the crude actually deepening in this quarter because of that particular formula that is linked to. What I want to understand is if the formula does not change what is the outlook for this discount number? I do not really have very good hang on what are the variables which will drive this discount.

Mayank Ashar: This formula is called the four cut method it has some external reference points like crude, price of naphtha, the LSWR. So these are international benchmarks. And as you look at these elements of this over the past five years you do have in the last quarter widening of some of these market differentials which resulted in widening discounts. So, it is tough to say will this revert to the mean. What I can say is these are external benchmarks and we do have some anomaly which are caused by some of these refining fractions, which are behaving unusually and it is difficult to speculate, but what I can say is these are unusual relative to a five-year trend, and if you look at most refining spreads, there is a typically reversion to the mean. So hopefully that answers your question.

Moderator: Thank you. Ladies and Gentlemen, that was our last question. I would now like to hand the floor back to Mr. Ashwin Bajaj for closing comments.

Ashwin Bajaj: Thanks, operator and thanks, Ladies and Gentlemen for joining us today. If you have any further questions, please feel free to contact us at IR.

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