"Vedanta Limited Q2 FY17 Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Vedanta Limited Q2 FY17 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ashwin Bajaj. Thank you and over to you, sir.

Ashwin Bajaj: Thank you, operator. Hello, Ladies and Gentlemen! This is Ashwin Bajaj – Director of Investor Relations. Thanks for joining us today to discuss our results for the second quarter of FY2017. On this call today, we will be referring to the presentation that is available on our website. Some of the information on today's call maybe forward-looking in nature and will be covered by the disclaimers on Page #2 of the presentation. From our management team, we have with us our CEO – Tom Albanese, we are also very pleased to introduce our new CFO – Arun Kumar today. As you know, Arun took over as CFO of Vedanta about a month ago. We also have several of our business leaders with us; we have Abhijit Pati from Aluminum, Sudhir Mathur from Cairn India, Sunil Duggal from Hindustan Zinc; Deshnee Naidoo from Zinc International; Kishore Kumar from Iron Ore and Ajay Dixit from the Power business. With that, let me hand over to Tom. Tom, over to you.

Tom Albanese: Thank you, Ashwin, and Good Evening, Ladies and Gentlemen. I am pleased to welcome you to Vedanta Limited's Results call. As Ashwin noted, I would like to welcome our newly appointed CFO – Arun Kumar. Arun takes over from D.D. Jalan who has superannuated after 16 years with the group. Arun has been Deputy CFO of Vedanta. I would like to take the opportunity to thank DD for his service as CFO and his valuable contribution to the Company.

Fiscal Year 2017 has generally been a good year so far for our sector. Investors are beginning to return to the sector with less concern than they had about 6-9-months ago. Commodity prices have been stronger and more stable, with zinc, silver and oil particularly delivering strong returns. Chinese growth has also been relatively stable in the first half, delivering growth within the range of their guidance of 6.5–7% for Calendar Year 2016, although the real facts in the ground are probably lower than that.

India remains the fastest growing major economy in the world, and there is an increasing level of confidence and expectation on growth, with the government continuing its strong emphasis on reforms to enable future development and future job creation. As you know, I have been saying that commodity lows we have seen in early 2016 should be the trough for the markets, and seeing some more investors are believing this now.

We started this year with ramping up of Aluminum, Power and Iron ore business. The current improvement in commodity prices have come at a very opportune time, helping us to accelerate our pace towards stated targets.

So with that, I will now move over to the slides and update you on Q2 FY2017 performance: As always, I will start with a slide on safety and sustainability. On safety, I am pleased to say we had a zero-fatality quarter. However, we regret that we had one fatality in the beginning of the first quarter, so we have had one year to date. This has been a huge improvement, but we cannot be complacent on this. We remain committed in our efforts to achieve our objective of Zero Harm. We are taking several initiatives like training our line managers on risk identification and mitigation measures, implementation of safety performance standards and safety leadership drives towards achieving Zero Harm.

Our Lost Time Injury Frequency Rates (LTIFR) for the last five years have come down as shown in the chart at the top right side of the page and we are also working hard to reduce our water consumption rate and increase our water recycling rate.

If we can move to the next slide please -- Delivering on all fronts: During the first half of this financial year, we have been focused on delivering on all fronts. We were delivering on our guidance to ramp-up aluminum, power and iron ore. We are generating higher free cash flow and de-levering our balance sheet. Commodities have been supportive in the first half and we believe that fundamentals have improved significantly. However, we do remain focused on continuing to drive down our costs.

The merger with Cairn India was approved by both sets of shareholders, which is a significant step towards creating long-term shareholder value, and we are pleased that the market response since then has been very positive.

We are pursuing value accretive and low CAPEX organic growth in line with what we said our approach towards prudent capital expenditure. We remain very optimistic about the India’s growth potential, which will drive demand for our commodities, and we are well placed to tap India’s resource potential and contribute to its growth.

At this juncture, I would say that these have been areas of our focus for the past few years. If you go back to our statements a few years ago, you will see that we have been consistent with our priorities, and consistent with pursuing a target of delevering the balance sheet.

So if we can move on to the Second Quarter Highlights: Operationally, we had a strong quarter in terms of ramping up production as planned at the beginning of the year. At Aluminium, we are ramping up our new smelters. We unfortunately do have some pot outages which I will speak about at the smelters which are now being rectified. At TSPL, the third and final unit was capitalized during the quarter. At Goa, we started mining and shipping ore post the monsoon. At Zinc India, Mined Metal production was significantly higher than second quarter as compared to first quarter and as we guided, second half production was expected to be significantly higher than the first half.

In Oil & Gas business at Cairn, Rajasthan, Mangala EOR project increased by 24% and costs have improved 10% sequentially. As you see on the EBITDA mix pie chart, contribution from Aluminum and Iron Ore has increased significantly in the last 12-months, better balancing the diversified portfolio.

Our group simplification, the merger with Cairn India has been approved by shareholders. We have applied for approvals from the Reserve Bank of India, the Ministry of Petroleum and Cairn India has applied for the High Court approval, while Vedanta will apply for that in due course. We remain on track to get all pending approvals and close the transaction by the first half Q1 Calendar Year 2017.

Talking about our Financial Highlights, we are pleased that this quarter EBITDA and PAT has been highest in the past seven quarters with a strong EBITDA margin of 39%. As I said, commodity prices have improved significantly, but we continue to maintain our focus on cost savings. Arun will talk more about that in his section, but we have delivered cumulative savings of $421 million over the last 18 months. With strong operational performance, we have reduced our net debt by Rs.2,260 crore over the quarter.

So now I would like to focus on our ramp-ups -- Aluminum, Power and Iron ore: This page talks about how we are progressing against our stated plan of ramp-up at Aluminum, Power and Iron ore. As the graph suggests, we have made significant progress in increasing production at each of our businesses and will continue to see higher production during the second half. I would just like to remind those who have been following our company for the past several years, when we first started putting the slide out, people said, “Oh! That looks pretty promotional.” But we have been actually delivering what we promised.

Talking about aluminium, we have achieved production run rate of first 1.2 mtpa in the second quarter including the trial runs. As I said we have capitalized the 3rd unit TSPL and again at Goa, as expected the second quarter production was low during the normal monsoons, but we have resumed mining and we expected it in third quarter. I mentioned earlier, we are more diversified than we were in terms of our balance of earnings.

The next slide really talks about those benefits of diversification and the resilient margins that we have overall. Our commodity basket has been much less volatile than the individual commodities, but at the same time has captured the rebound in commodity prices very well, our basket being up 33% since the 1st of January. Our EBITDA margins have been strong throughout this volatility, 30% for Fiscal Year 2016 and as I said, rebounding to 39% in the current quarter.

With that I would like to introduce you and hand you over to Arun to take you through the Financial Update. Over to you, Arun.

Arun Kumar: Thank you, Tom. Good Evening to all. As highlighted by Tom, it has been a strong quarter for us driven by planned ramp up in production volumes, supportive improvement in the commodity prices and operational delivery on cost savings and efficiencies.

If you look at the page on Q2 Financial Highlights, EBITDA for the current quarter was Rs 4,640 crores, coming in at a robust margin of 39% as compared to 32% in the previous quarter, a good improvement. The absolute EBITDA growth is 31% on a sequential basis. Most of our business segments saw EBITDA growth, reflecting the strength of our diversified portfolio model. I will come back on some of the drivers of this growth in a while. Attributable PAT at Rs 1,252 crores double compared to the previous quarter and is 17% higher year-on-year. As Tom highlighted earlier, both EBITDA and attributable PAT were the highest in the last seven quarters. We also generated a healthy free cash flow post CAPEX of Rs.2,600 crores which helped improve our net debt-EBITDA ratio, de-lever further, with net debt going down by approximately Rs.2,600 crores.

It may be noted that the opening debt numbers have been adjusted for operational buyer's credit which was earlier treated as part of debt, now classified as trade payables under the new IND AS standards. This is now well aligned to our existing IFRS disclosures at the parent Vedanta Plc level. This resulted in a downward adjustment in the opening net debt by Rs 10,400 crores to about Rs.14,000 crores.

The Board also approved an interim dividend of Rs.1.75 per share. Regarding the policy itself, our listed subsidiary, Hindustan Zinc had announced its dividend policy last week. At Vedanta Limited, we expect to finalise our dividend policy towards the end of the financial year following expected completion of the Cairn India merger.

Moving on to the next page on the EBITDA Bridge: 31% EBITDA improvement over the previous quarter is equally supported by external as well as internal drivers. Commodity prices and lower discount to Brent for Rajasthan crude improved our EBITDA by about Rs.600 crores. On the operational side, higher volumes from Zinc, Zinc India, Oil & Gas and Commercial Power contributed to about Rs.330 crores. This is further supported by our continuous and relentless focus on cost saving program which further delivered by adding Rs.160 crores to the EBITDA sequentially. In H2, we continue to ramp up our pots in Aluminum further, have re-commenced Iron Ore dispatch as Tom mentioned post the monsoon and as guided expect to have higher production levels at Zinc India.

I would like to talk a bit more about the delivery of our cost savings initiatives on the next page: I am happy to share that we have achieved cumulative saving of $421 million during the last 18-months on a cost base of FY 2015. We are on track to achieve our stated savings target of $1.3 billion, perhaps 6 months in advance of our original plan. Our cost savings program takes place across all our businesses while savings from Aluminum and Power stand out. Procurement and cross functional teams across businesses are involved in delivering the cost saving program which in certain instances is further supported by strong external expertise. Additionally, in this quarter we have introduced few more cost savings focus areas like logistics, quality control and operations planning across the business, for example, we aspire to achieve savings in our logistics spend not only through standard levers like road contract renegotiations, back-haul, multi axle trucks, etc., but also through effective deployment of technology and other best practices to significantly reduce turnaround time and manifold improvements in asset utilization.

Moving on to the income statement on the next page: The slide is self-explanatory. On the finance costs, the blended cost of borrowing for Q2 FY17 is about 8.1%, expected to go down further in the second half, reflecting improving credit profile and lower interest rate environment.

On other income, we have generated healthy post tax 8.8% in the period. This is driven by mark-to-market gains on FMPs and bond portfolio even as we continue to invest in high quality paper only. It will be slightly lower in H2 if the current interest rates stay at this level. Depreciation for FY17 would be marginally higher as compared to FY16 on account of capitalization at aluminum and power units. Tax rate for the current quarter is at 20% in line with our earlier guidance and is expected to remain at this level for the remainder of the year. Attributable net profit after tax at Rs.1,252 crores resulted in EPS of Rs.4.22 per share.

Moving on to the next page on Net Debt: As explained earlier, operational buyer's credit was earlier treated as part of debt under IGAAP, and is now classified as trade payable under IND AS. This resulted in a downward adjustment in opening net debt by Rs.10,400 crores. On this new base, the free cash flow post CAPEX was Rs.2,600 crores driven by strong EBITDA growth and working capital initiatives. CAPEX spent is in line with the guidance and well invested in growth projects and project creditors payments for ramp up. Some more details on CAPEX spend coming up on the next page.

We continue to apply disciplined capital allocation and continuously optimize the spend. Our current outlook for FY17 reflects an estimated spend of $0.8 billion. This is lower than earlier guidance of around $1 billion at the beginning of the year. This is primarily due to re-phasing of CAPEX spend pattern as we concluded project contracts at our overseas and Indian Zinc businesses with largely no change in the project schedules. The CAPEX estimate for FY18 is $0.8 billion as well. The FY18 numbers will include further investment in Zinc business with a planned pit expansion project at Skorpion mine at Namibia while continuing to invest in the ongoing Zinc projects at India and Gamsberg.

In Oil & Gas, we continue to retain the flexibility to raise capital investment as oil prices recover with an additional bucket of $150 million in the growth projects with good returns as and when needed.

A quick snapshot of our debt maturity profile on the next page: In H1 of FY17 we successfully raised long-term funds through various sources. As mentioned earlier, net debt reduced by Rs.2,300 crores approximately in the quarter. We not only leveraged our strong relationships with our lending banks, but also accessed the capital markets for long-term funding at lower rate. Extending the maturity of our debt profile continues to be our priority. We further paid down the intercompany loan to Vedanta Plc and the outstanding intercompany loan as of date is about $380 million. We are quite comfortable on the credit metrics and liquidity at this point of time. The liquidity for the group remains strong with $8.2 billion of cash and cash equivalents, up from $7.7 at end of June.

Finally, a sum up on the next page: In summary, focus on generating increasing free cash flows with disciplined capital allocation, delevering the balance sheet with strong liquidity, and accelerating cost savings continue to be the key financial priorities. We are focused on long-term shareholder value, group simplification and dividends as key priorities. The Board will finalize the dividend policy at the end of this financial year.

Thank you all and over to you again, Tom.

Tom Albanese: Thanks, Arun. As you know, I have been talking about strong fundamentals for zinc over the last six months, we continue to believe that zinc still looks strong among the metals pack. Along with zinc, silver has also had a good run in calendar year 2016. So we go through the slide to see on the global cost curve, Hindustan Zinc operates lowest quartile in the cost curve. You also note that the cost reflected in the curve is before silver by-product credits. If we were to take into account silver by-product credits, these cash costs would further reduce to about $500 per tonne. Concentrate markets continue to be in deficit and that becomes visible when we look at spot Tc/Rc. Given the fact that Tc/Rc is under pressure, the smelters are continuously finding it difficult to support concentrate post closure of a number of old mines and that does suggest even more physical tightening of the metal in the coming months. So we do expect refined zinc to stay in deficit and this deficit with slow improvement in demand is drawing inventory from LME and the other Chinese and other exchange warehouses, which are now at a six year low.

So we look specifically at Zinc India and Hindustan Zinc, Mined Metal for the quarter was 192 kt, 51% higher sequentially in accordance with the mine plan. Refined metal production was also higher in line with the mine plan. We are moving ahead as we said with the extension of Rampura Agucha open pit with modified Stage-V, now limiting the incremental pit depth from what had been 50 metres to now being 30 metres. With this improvised plan which also significantly reduced the pre-stripping, we have accelerated ore production so the pit would be expected to be complete by March of 2018.

We move over to the SK mine: We are on track to expand this mine from 3.75 mtpa to 4.5 mtpa by ramping up production from declines. Preparatory work on head gear erection of main shaft has commenced while the development work on the shaft is progressing well. There has been no change in full year guidance for Zinc India with mined metal production in second half to be significantly higher than first half and cost will be sequentially lower as we increase production in the second half as compared to the first half.

Moving over to South Africa and Southern African was Zinc International: Second quarter production was lower due to the maintenance shutdown as was planned at Black Mountain. Cost of production moved up due to lower production at Black Mountain. Last year, we mentioned in a period of lower zinc prices that we were deferred the pre-stripping at Skorpion for the next pit layback. Now, of course, since zinc prices have recovered, we are working towards that Skorpion pit extension and anticipate to start early next quarter, that is the fourth quarter of this year and this will extend mine life by two years. Hence, with that, we are also planning to defer the roaster CAPEX for a couple of years. The reason we are doing that is as I mentioned earlier we have a tight concentrate market. So what we found is that we can go into the market all of our Gamsberg concentrate without the need of a roaster for the near future, we will look at that on a year-by-year basis as we go forward.

In terms of outlook, our production guidance for the year is 170,000-180,000 tons and we would expect cost of production in the second half at US$1,200 per ton.

We continue to be very excited with the Gamsberg Zinc project. Pre-stripping is well underway. First ore from Gamsberg is expected in mid-calendar year of 2018 and will ramp-up to full capacity of 250 kt in 9-12 months after that. We have put in some of the major orders already and we expect Gamsberg will come on stream in a deficit zinc concentrate and physical zinc market, and generate strong returns for shareholders.

Let me move on to Cairn Oil & Gas business: Mangala EOR production increased 24% over the quarter, while overall Rajasthan production remained stable. Water flood costs have been lowest since the last 10-quarters with a blended cost for the water flood reducing by 10% sequentially.

We are moving towards phased ramp-up of the RDG project with 8 wells being bought online. Under Phase-1, production will increase to about 40-45 mmscfd by the first half of calendar year 2017, this will further increase to expected 100 mmscfd by the first half of calendar year 2019.

In our earlier call, I think you heard this from Sudhir at the Cairn call last week, we spoken about continued encouraging results we receive both in terms of better productivity and cost reduction. Based upon our improved initial well rates and reservoir characterization, we now estimate the ultimate recovery of gas from the RDG field to be higher by almost 26%. This increases our gross recovery potential including condensate from 74 million boe to about 86 million boe till 2030. Higher expected recovery along with cost efficiencies have also improved our rate of return and expect 25-30% from earlier stated 20%.

We are looking to ramp up this gas production in a phased manner as we expect also a ramp-up of the production to about 40-45 mmscfd by the first half of calendar year 2017 from net current level of 28 mmscfd and ultimately as we said 100 mmscfd by 2019.

We maintain our production and CAPEX guidance for the Oil & Gas business for Fiscal Year 2017 and we estimate that Fiscal Year 2018 capital to be about $100 million. That is the base capital level. We would anticipate that as Sudhir described last week, the Raag Deep Gas, Aishwariya and Bhagyam EOR and Aishwariya, Barmer Hill projects, all fit together if collectively add potentially another $150 million of CAPEX, if they are all approved and they all are shown and proceeded by the board, which could put total fiscal year 2018 CAPEX for the Cairn business as much as US$250 million. I think we have a range of between 100 and 250 million for CAPEX for next year.

At Aluminum, the ramp-up is progressing well. We have completed ramping up the first line of Jharsuguda of 1.25 mt sequence and BALCO 325 kt smelters.

As I mentioned, we had incidents of pot outages at Jharsuguda and BALCO smelters due to power failures and pot failures. Fortunately, we had no injuries; however, we were disappointed with these outages and we realize we need to work much better on the safe, sustainable and more stable running of these operations. We have taken all necessary steps to mitigate the impact of these incidents and we have been able to broadly maintain the production guidance and we would expect exit production run rate for the quarter is 1.1 mtpa excluding trial run production.

Second line at Jharsuguda commissioning of pots started in July and will be gradually completed in the course of the year. We have planned to commence the ramp-up of the 3rd line from November, ahead of our earlier plan in the fourth quarter of fiscal year 2017, and this again was one way of mitigating for the year, the effects of the pot line failure in the second line.

We benefited from higher aluminium prices during the quarter, as the average prices for the quarter has surpassed $1,600/ton. We delivered strong EBITDA margin of 247/ton which is the highest we have seen in the last six quarters.

Our hot metal cost for the quarter was $1,462/ton and the sequential improvement was due to lower power cost partially offset by higher alumina cost.

The impact from these pot outages as described has been limited on our production guidance; however, we have reduced aluminium production to 1.1 mt for the year excluding a trial run and hot metal cost for the second half is expected to be in the range of US$1,400/ton I think Abhijit has previously guided

We are on track to produce 1.4 mt of alumina for the year. During the quarter, we achieved run rate of 1.2 mtpa. We expect alumina cost at about US$250/ton for the second half.

Next slide on Power. At TSPL, the third unit was capitalized during the quarter with overall plant availability at 77%. BALCO 600 MW PLF was at 54% due to weak spot power market in the second quarter. As guided earlier, we target TSPL availability at 80% for the second half. With respect to coal sourcing, I think we have been well placed strategically and I think we have seen notwithstanding we see at the international seaborne coal markets, our own weighted average coal cost has moved lower in the last few quarters. Domestic coal prices have remained stable or dropping despite huge volatility in the seaborne coal markets. So as you can see, we remain relatively unaffected by that recent increase in coal prices internationally as we procure more and more requirement particularly at BALCO and Jharsuguda and TSPL domestically.

Moving on to Iron Ore: The current quarter production and sales were low during the Q2 as expected due to monsoon at Goa. We have now resumed mining and shipping from Goa post the monsoon. We have achieved sales of over 40% of allocated mining capacities in the first quarter. With current mining rate we will complete our 5.5 mt mining limit, we do expect to see this in Goa by the end of the third quarter. So we are engaging with respective state governments for allocation of higher volumes.

The chart on the right hand side of the page shows our cost efficiency. Mining, processing and logistics cost at Goa was at US$13/ton. Despite such low cost of operations, our EBITDA margin is at US$17/ton as we realized lower prices for Goa iron ore due to issues pertaining to grade, alumina content and moisture.

Pig Iron business remains strong in the quarter, producing 192 kt, 27% higher Y-o-Y. I would like to note that we also have current environment of high coking coal seaborne prices, so we have been agile, we are pursuing some coke samples from our coking plant and reducing pig iron production accordingly to take advantage of high coking coal prices and that mitigated the damage we would otherwise seen in our cost of production for Pig Iron. We maintain our production outlook for the year at 5.5 mt and 2.3 mt from Goa and Karnataka, respectively.

On Copper India: Copper India performance was marginally lower for the quarter. We did have an impact an outage in September due to two separate boiler leakage incidents in the smelter. Tc/Rc have come down significantly since the beginning of the year and acid prices in India have been lower, resulting in lower EBITDA for Copper India business. The production outlook for the fiscal year 2017 is maintained at 400 kt as smelter efficiency has improved post the outage. Tuticorin Power PLF remain low due to lower demand. However, as mentioned earlier, we get compensated 20% of the contracted rate for any offtake below 85%.

Moving over to the final page: Our strategic priorities remain the same if you have seen the slides for the last couple of years, it has been happily very boring. We are progressing well in our production ramp-ups, and growing production in a disciplined manner. We remain focused on optimising CAPEX and OPEX to generate strong free cash flow and using that to deleverage. We remain committed to group simplification and expect to complete the merger with Cairn in the first calendar quarter of 2017. We are confident that this transaction will deliver long-term sustainable value for all shareholders.

Vedanta Limited has had a strong track record of dividends, and this board has today approved an interim dividend as announced. The board is expected to finalize a dividend policy as Arun says towards the end of the financial year once the merger completes. You would have noted that Hindustan Zinc has already announced their dividend policy just last week. Of course, we remain focused on preserving our licence to operate, and adding resources as we deplete them.

I think before we get into Q&A, I would like to wish those of you who are celebrating Diwali, a very happy Diwali and enjoyable holiday with your families. With that, over to you, operator for Q&A.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia: I will start with a few book-keeping questions: First, in aluminum cost of production there is a saving of close to $30 in power cost. Now, this is kind of a surprise given the prices in India and imports are higher. Can you explain what drove this?

Tom Albanese: Looking at the aluminum savings, I will ask Ajay Dixit, our Head of Power to speak more about this, but I would comment that in the first quarter, you remember we had some outages and some upsets which led to some penalty purchases and we had said that the first quarter was anomalous, I think as we said second quarter was better as a confluence of that.

Ajay Dixit: So in the second quarter, if you see the commissioned BALCO units, and we got this better efficiency of the plant into full operation, so this also contributed in the second quarter for lowering the overall power cost in BALCO and thereby the average cost of power coming down in aluminum. Second is that the outages which were there which Tom already told, they were eliminated and we were in a therefore position to save on to this. So both the topics led to better power cost in the second quarter.

Sumangal Nevatia: The standalone debt not moving much…when I say standalone, I mean, consol less Cairn, Hindustan Zinc and BALCO, so clearly, we are just breaking even on cash flow level at the standalone basis, so when can we expect that to start reducing?

Tom Albanese: Maybe Arun will comment about that, but just a reminder that as we ramp up our Aluminum business, we do build up working capital for that. So once that is stabilized, that will be a more positive effect cash flows than we would have seen so far in this first half.

Arun Kumar: Primarily, on the standalone basis, if you see that iron ore, aluminum, power and copper as Tom articulated the ramp-up does mean little bit of investment in working capital like the metal that needs to be invested in the pots. Just a quick reminder, the iron ore business normally in Q2 is the monsoon period. So there is not really any sales and cash flow. So as I articulated in one of my pages, the iron ore comes back and the pots keep ramping up in second half. So that should see some movement on that line in H2.

Sumangal Nevatia: Now, any benefit of classifying buyers' credit under trade payables, better leverage ratios could lower our interest cost or it is just a book entry?

Arun Kumar: I think we face this question several times in our investor calls because in IGAAP it gets treated in a particular way and in IFRS which is globally acclaimed accounting standard and globally audited by global audit staff, it is well classified under trade payables. So this year it has been a natural conversion I would say with implementation of IND AS. So that evens out all the confusion and ease in understanding our results now. In so far as the credit agencies are concerned, each of them have their own framework and the way they treat all these items. So, that is something that is unique to each credit agency framework, while yes, on an overall basis, our net debt-to-EBITDA looks better with this but the credit agencies go much deeper than that.

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

Pinakin Parekh: Just two questions on aluminum: The first question is that if we look at the alumina production ramp up other than one line of 313 kt essentially the company would have started production on 2 mt of aluminum capacity, so from 1.1 mt production in FY17, at the run rate of exit of FY17, what kind of production can we expect for next year? Second related question is that the aluminum CAPEX for next year seems to be not taking into account any expansion on the Lanjigarh refinery. So how should we look at the alumina refinery expansion – has that been put on hold and hence the alumina cost of production in Lanjigarh would bottom out at $250/ton or can it go further lower?

Tom Albanese: I will give you some high level response, but I think since we have Abhijit here, he can go into a more thorough detail, but on your first point, as we look at fiscal year 2017, we look at putting all BALCO in during the course of the year and at this stage looking in the Jharsuguda mines acceptable last line and that we would hope to see the last. So we would start fiscal 2018 with full BALCO and Jharsuguda less one line and then that would be ramped up depending on the timing of some technical matters need to be solved before we can start that line. We refer to Line-VI, we refer to in this language here I think Line-IV. On Lanjigarh, in the first instance, we are looking at bringing that up to its 1.7-1.8 mt debottleneck of 2 mt given the bauxite mix we have. My feeling is that over the next six months, we hope to see steady progress in finding new bauxite resources either through OMC or some other way and that will give us the impetus to move forward with the next stage of the Lanjigarh expansion. But what we are trying to do is to create something which does just in time delivery of that expansion as we see the bauxite being available. But with that, Abhijit, do you want to expand the both?

Abhijit Pati: I think the run rate which you are seeing as 1.1 mt is an average for the year and in fact if you see whatever the ramp up Tom has explained about the three lines in this year for SEZ, Jharsuguda units and one full line for the BALCO, so invariably in March 2017, we are getting into a monthly production rate of around 1,65,000 which is proportionate to equivalent run rate of 1.9 mt. So that is precisely give you the answer that whatever has been planned is really built in into the speed. The reflection of that quantity is not visible in this year because if the ramp up we are where you need to build up the heel metal and thereby lot of metals get consumed into stabilizing the heel of the metal at the initial stage. So far as the Lanjigarh is concerned, I think Tom has explained absolutely rightly, things are prospective now, looking up with the Government of Odisha and we hope to see that how it really work out in coming six months and then take a call for the expansion. But having said that, the drive for the cost reduction of the alumina is still on, we have been offloading and looking for many other measures to not to remain at around $250, our H2 projection is around $250, but every opportunity, further reduction of improvement of the efficiency and reduction of the input cost is always onto the card and effort is on by the team.

Tom Albanese: I think you will see that on Slide #16, we make reference to the Lanjigarh refinery expansion not as part of our primary capital guidance but as optionality.

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

Ravi Shankar: Two questions: One is on the rising net debt at BALCO. Where do you see that peaking out? Second is on the cost of getting smelters back on track. How has that been accounted for after the outage at Jharsuguda?

Arun Kumar: As far as BALCO rising debt, you are right, it should just about peak at that level because as you know the CAPEX is all spent, it is only the ramp up expenditure and that too for the next couple of months. So BALCO should peak and should start coming down. In so far as the cost of smelter is concerned, we should probably have on either side somewhere around Rs.150 crores each both on Jharsuguda and BALCO as the cost of setting the pots back to their original condition. Given that they are in a trial run mode at this point of time, they were not capitalized. These would add to the project CAPEX and on receipt of money potentially on insurance claim that we have filed, these would be then decapitalized. So that is how this would be treated.

Ravi Shankar: Are there any technical complexities with the fourth line ramp up at JSD, so when it remains under evaluation, I want to just get a sense of what all factors are being considered for the fourth line?

Tom Albanese: I think Abhijit can cover that one, but again, it will be a combination of just having the primary power, backup power on the same vein the primary transmission capacity and backup transmission capacity.

Abhijit Pati: I think for the last line of the SEZ is so far as the primary power requirements are concerned, there is absolutely no issue but you will appreciate one point that any aluminum smelter needs a continuous power supply 24x7 365. So thereby the reliability of the power both in flow of the power as well as transmission of the power is important and you will need substantial amount of redundancy into the system by way of the standby proposition. So that is one factor of evaluation which we are doing and we are creating certain amount of infrastructural set up to remove that constraint whichever is there for the fourth line. Having said like that, there are also areas which we are looking into is some additional supply of the anodes because you will need constant supply of the anode for the fourth line. We have sufficient green anode plant, but maybe a residual improvement into the efficiency of existing plants and also maybe a possibility of creating a certain infrastructure of GAP only and not in bake oven and other rodding plant. So that is under evaluation. So these are the two areas which we are considering and trying to debottleneck for the fourth lines ramp up.

Tom Albanese: There is also a transition matter, so maybe I just ask Ajay who can add any additional points he wants to do.

Ajay Dixit: We want to move the entire plant to central transmission utility connectivity. This is a much higher reliable networks. So we are having a line which is getting completed by November. Once we are there, we would be shifting this to the central transmission utility. But we are also seeing that Odisha is a very cyclone prone area and we would like to have a redundancy in the system. So we would be constructing one more line so that we are in a position to have redundant connection to the central transmission utility. This would also provide us for getting any import or export of power much easily in simultaneous places. So, this would bring robustness in the entire transmission infrastructure.

Tom Albanese: I would like to just want to add with that, the transmission line is not a big time, but it is in the capital guidance, it is more of the question timing of getting it done.

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

Jigar Mistry: Two questions from my end: First, on the power side, declaring TSPL targeting the availability of 80% in H2, with that DC in place, in the last conference call we guided for EBITDA closer to 13 billion, that still stands with whatever has been progressed so far?

Tom Albanese: Maybe Ajay, if you start with that talk about what we have done on that and what we expect in terms of PLF and then Arun to talk about the numbers.

Ajay Dixit: So as far as the availability is concerned, we brought in this third unit and we have now put it on commercial in September. Immediately on coming in September, once we commission, there is a small time lag between the linkage coal because you need to apply after commissioning and getting it finally running. We have been able to do in the shortest possible time, but that small gap is causing 77% availability. The second topic is that one of the units we took under annual maintenance prior to the scheduled maintenance time. So as a result of this, now this unit availability which perhaps we would have taken in the next half has come into the first half, so I do very clearly see that the availability moving forward on an average basis, when we move to the second half, we will be able to achieve (+80%).

Jigar Mistry: That is for the full year of operations essentially or just for the second half?

Ajay Dixit: No-no, that is the average on full year operations basis. So once we achieve on an average for the full year, in any case then the financial number stay intact.

Jigar Mistry: You did mention that you have secured a coal linkage of 6 mt for the captive power plants through the recent auction. So how exactly is the total coal requirement structured at the moment? You have given percentages, but if you can throw some more color into how comfortable are we once we ramp up the full aluminum production?

Ajay Dixit: First of all, as you see, we have been able to reduce significantly on import and that was I would say very conscious decision to move away from import and this import is only a small amount which is mandatorily coming on a group basis on our plant. As far as the overall aluminum is concerned, we are very comfortable because I would say from BALCO perspective, two-third through the linkages and the balance one-third through auction is secured. In case of Jharsuguda, we are in a position to secure about 40% already through the linkage, another 40% through the auctions and spot auctions and we will be soon having another round of linkages and we are very hopeful to secure additional things. So already another 20 mt unspecified auction linkages are already in the market. I would say Government of India is doing well in raising the production capacity. We do not see any concern regarding availability of the coal as we move forward.

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

Amit Dixit: I have two questions: One is regarding the bauxite and laterite mining, if possible can you give the timelines when are we going to commence them? We have around 3.9 billion of debt maturing in FY17 and FY18. Can you just throw some light that how much is it likely to be refinanced and what would be the approximate cost of debt going ahead?

Tom Albanese: I will ask Arun to tackle the second question and of course Abhijit on the first one. Just on the first one on bauxite mining, I just want to remind you what we said in the previous meetings is that, the restrictions or the barriers of bauxite mining have not been technical, they have been very much non-technical, social, etc., So, as we look at these, we have to navigate a whole series of challenges including forest clearances, **prior informed2** consent, the status of the government resource matter, etc., What that means is we carry out portfolio of opportunities that we are proceeding all with, some of them we made good progress. We are also reminding of the fact that we had activists tracking some of the convenience, political, thing for NGO to go after. So we do not want to elevate specific names too much in the public domain just because it does tend to represent a blocker for progress on that particular project. So, with that, maybe Abhijit, you can talk about that.

Abhijit Pati: You have two questions: One is laterite and then OMC bauxite. Let me handle the laterite first because we discussed even in the last call. So laterite has moved significantly but that MMDR Act where you have minor minerals to the major minerals, that is a conversion which has taken place and you will appreciate one point because these conversion needs cabinet approval at the state level. So presently this is the only approval which is pending over here at the state level which we are hopeful that the matter should get cleared off in the Q3 end by the state government. Once it is done, then there will be some other peripheral activity which gets maybe another 3-4-months' time to start looking into a possibility of getting out the laterite from the mines. So I am talking about roughly around 6-7-months of further drive into the laterite with all approval in place and getting into the mining first. So far as the bauxite of OMC is concerned, because the only one mine Kodingamali which is under process and there are good amount of progress has been made by the Government of Odisha, public hearing gram sabha was already conducted and the file has moved for the forest clearance and we are expecting maybe sometimes at Q1 of the next financial year with the government support and everything, the OMC can start looking into the mining possibility from Kodingamali. So these are the two very broad timeframe and as Tom said very rightly that it is more of tacticals, you know the propositions and government is trying to handle everything together. But the progress is positive and progress is under tremendous amount of focus by the government.

Tom Albanese: Just maybe if I can add to that, I had one of our geologists sent me an e-mail with a photo last night which showed a wall made of bauxite and he was traveling in an area, there is a road cut cutting through bauxite and the villagers had built a wall next to it of bauxite and this particular area was long ways away, tens of kilometers from any discovered bauxite deposit. So it is not hard problem of finding the bauxite, the difficulty is actually getting it through the various regulatory and land processes for developments.

Arun Kumar: On the question regarding the debt and the refinancing of 3.9 billion over the next 18 months to 20 months, as I recap, the financial priorities did mention that debt being refinanced at longer maturities and lower interest cost should be one of our key priorities as well as continue to generate cash. So that gives us a few options on refinancing and delevering as we ramp up our operations. Given what we mentioned in terms of improving access to markets for long-term debt, in fact, this afternoon we have just released another information to the market that we received Rs.300 crores of NCD at about 8% to the market. So our objective will be to delever with free cash and issue a new debt or refinance a debt at lower than the cost that exists at this point of time.

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

Harsh Agarwal: I wanted to ask a couple of questions, Tom, not sure if you can answer these. There have been media reports suggesting that the company might be getting closer to acquiring the balance stake in Hindustan Zinc. If you can throw any light on that would be helpful? There were also talks about Hindustan Zinc conducting a share buyback. So I guess if you can clarify that would be helpful as well?

Tom Albanese: Again, sometimes when we see something immediate, that is from somebody else, it is hard for us to actually respond to that. I think that is the case here. What I read over the papers over the past week is some encouragement that files are being opened and people are looking at these things again and maybe there is some effort by the government to revisit the disinvestment of Hindustan Zinc and if that happens, I am certainly very pleased with that, certainly, we will work towards that, but we have not been instructed along those lines by the Government of India. In the meantime, I would certainly look forward to continuing to work with the Government of India. They have been good partners, they have been good members of our board, and they have been very supportive of management. I would look forward to continue to work for them. If that is the decision they make, ultimately, their decision to disinvest or not, their gift, their power and we will rolle with the direction that they take. There are always discussions in the Hindustan Zinc board of various options. We should just respect the fact that those kinds of board discussions are generally non-public matters and we should keep them non-public. We do have Sunil Duggal the CEO of Hindustan Zinc on the call. Is anything else, Sunil, do you like to add to that?

Sunil Duggal: No, Tom, I agree with you that the government might be making up their mind and maybe some press statement as a result of that but as of now there is no board discussion which has happened and with the cordial relationship with the government if they would come forward we will see at that point of time but it may not be possible for us to divulge anything which has happened in the board but I would say that no such discussion has happened in the board as yet.

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

Abhishek Poddar: Just one small question around the debt. Last year in the four quarter results, Mr. Jalan had mentioned that some part of working capital will be unwinding in FY17, I think the total working capital release that year was close to Rs.50 billion. What is the status of that? Also, if you could provide the buyers' credit number for September '16?

Arun Kumar: I think if you notice, Abhishek, in Q2, our working capital, we have held it fairly flat whereas in Q1 there was an unwinding of approximately about Rs.1500 crores, so that came as part of our Q1 results. In so far as the September end buyers' credit number is concerned, it is around the same, Rs.10,000-odd crores.

Abhishek Poddar: Should we expect more working capital unwinding for the rest of the year?

Arun Kumar: I think we have various levers in our hand and there is enough meat in the balance sheet that we go after. So if there is any unwinding, we should be able to perhaps offset it.

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

Ritesh Shah: Sir, my first question if you could provide some color on the physical market premiums and specifically for VAL and BALCO separately?

Tom Albanese: I will just ask Abhijit to comment on that. My answer is still lousy, we have been seeing pretty low physical market premium because of the pressures of oversupply in the markets and that is bothon the global basis and in India.

Abhijit Pati: Physical premium for the aluminum is roughly an average of around $135 now. So we have a different category of the product which we are selling it like I can say specifically talk about, billet and wire rods and maybe some value added alloy ingots which we are producing which is in the tune of around 120-140, that is the level it varies and simple ingots premium is in the tune of around $100. So that is a type of the average premium moving into the market as of now.

Ritesh Shah: Sir, how has the premium moved on a sequential basis… how much was that in Q1 Vs Q2?

Abhijit Pati: In Q1 in the tune of around 145 to 155 level and Q2 in fact there is a decrease into the premium which is falling to roughly around $15 to $22. So that is the shift which has happened between Q1 to Q2.

Ritesh Shah: Second is more of clarification. You indicated about Kodingamali mines. What are the volume expectations from OMC if this at all materializes?

Tom Albanese: This is still permitting process. So I cannot say we are in a position of giving specificity on volumes, tons until we go through these early stages. But with that Abhijit, is there anything you can add to it?

Abhijit Pati: Overall, as of today, the estimated mines capacity for the Kodingamali is around 81 mt. Now question is that when they start the mining, what phase they will be doing, either it is 1 to 2 mtpa. That is still under evaluation. OMC need to really fix up that guideline. So that is still under evaluation. But so far as the overall volume of mine capacity is concerned, it is around 81 mt.

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

Anshuman Atri: My question is regarding the iron ore operations. Can you please enlighten us what progress we have made in terms of getting higher allocation given that other miners have not been very active in Goa and how much more allocation can we potentially get in Karnataka?

Tom Albanese: I will ask Kishore to comment on that, but just recognize that while miners aren't necessarily meeting their own allocation, they do not like to lose their rights to ramp up. So as we talk about this with the government, we have to recognize some sensitivity with the other miners.

Kishore Kumar: As you know in Goa the overall EC capacity of 20 mt continues to be the target which the state government is chasing. As on date there are two opportunities coming up – one is the forest area declaration where about almost 2.5 mt of iron ore cannot be mined because of the Godavarman Committee Report is getting discussed at the Supreme Court. So you have theoretically therefore 17.5 mt which can be mined by the miners for whom the EC limit has been allocated. Then also some mines who are not able to produce for various reasons. So overall you can say between 3 to 5 mt of unallocated EC limits are there with the state government and this obviously would apply that if the state government wants to push its achievement of the 20 mn cap which is there currently they would request the current mining companies to come forward and as Mr. Tom had mentioned that we are well poised to achieve whatever excess that state government would like to allocate to us at an appropriate time. Coming to Karnataka, where we have a EC limit of 2.29 mt, we have made applications to the relevant authorities for achieving our original EC which was 6 mt for the state. As you know in Karnataka, there has been a cap imposed of 5 mt in Chitradurga area which is where our mine is. So there is a recent hearing in the Hon'ble Supreme Court where the court has mentioned that the current 30 mt to the state be allocated to the A and B category mines which means NMDC and MML who are the other two state miners, their EC limits will be curtailed at some point of time and we can be beneficiary of our expansion from 2.3 to 6. But having said that, our application have to go through the approval mechanism which is going through at this point of time and we should have a better visibility of the enhanced cap booked by the end of this quarter.

Anshuman Atri: The question related to Goa operation also is now that we are making a good EBITDA. So is the logistics largely the operators, are their contracts linked to realization or is it a fixed one, so if the iron ore prices move up further, will it directly translate into EBITDA or will it also be taken away by other logistics and cost?

Kishore Kumar: No, logistics costs are all based on the logistics commercial parameters, they are not linked to the prices of iron ore. So, prices of iron ore keep floating and we always have a month of shipment average in our policy so that the top line is always free.

Anshuman Atri: Last question on alumina operations. So I could see BALCO had filed for environmental clearances for its mines. So any progress on those?

Tom Albanese: Maybe I will start with that and then Abhijit of course will follow up, but we have two areas of mines – one of them is fairly the north of BALCO in Korba at Mainpat. I just actually had the opportunity to visit there about three weeks ago and we are starting mining and that is all on a mechanized contract mining basis.

Abhijit Pati: I think these two mines are very important mines for us. In fact, if you see that Kawardha and Mainpat both are under focus and definitely we have asked for the environmental clearance and idea is to further intensify the mining obviously with the mechanization because we get a feeling that there are a lot of value in trap and we can significantly support the refinery of Lanjigarh with Chhattisgarh mining both from the Kawardha and Mainpat. But having said like that, we need to also create certain amount of infrastructure improvement including some physical preparations and purifications of the minerals so that we get the right kind of the value at the refinery.. But these both things are under tremendous focus and we intend to carry out a larger volume of the mining from both these mines.

Moderator: Thank you. The next question is from the line of Vikas Singh from Batliwala & Karani Securities. Please go ahead.

Vikas Singh: Sir, at the start of the year we have given 30% EBITDA growth guidance at that current metal prices. Since then April the metal prices have moved up significantly. So still we are maintaining that 30% EBITDA growth target. So are we already comprehended the increase in price or there is a possibility of increasing the EBITDA or how it is?

Tom Albanese: Let me just try to recall the timing of when we talked about that, if I remember we would have given that in the fourth quarter of the year April where you had already seen a lot of the upward price movement for the beginning of the year. So remember in the chart we showed earlier, we had 33% increase in our basket. The bulk of that has happened between January and April. So if you look at price movements from April to now, they actually not have that same progressive price movements. But I would say, Arun, if I am wrong, but most of the increase that we have seen from April would probably be related to higher volume and of course just to remember that we have had a strong fourth quarter of last year Hindustan Zinc as per plan cycle, but we have a much weaker first quarter of Hindustan Zinc. So we have other things besides that as a period-on-period comparison we presented in April.

Arun Kumar: You are right, Tom, the prices are fairly consistent with what we had at that point of time and the markets have already moved up by that time.

Moderator: Thank you. The next question is a follow up question from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia: Now, after the Cairn merger, what do we do with the cash that we get – do we lower the gross debt, repay some dividends or start exploring expansion opportunities across businesses?

Tom Albanese: I will ask Arun to comment, but I just want to remind we have been saying for the past year about this that once the merger is complete, it will be up to the board of the company to determine the best allocation of capital. As you would have heard me earlier describe it, we would be expecting that our Cairn business itself will have growth opportunities, will want to have some money available for. I would like maybe Sudhir if you can talk a bit about that from Cairn perspective. Clearly, the market is generally expecting at least some delevering with this. So there would be room for quite a bit of flexibility with the board to meet our objectives which is to grow those parts of business to make a lot of sense particularly in oil and gas as we said, but also to improve the overall direction of delevering of the company. So maybe if I can start by asking Arun to comment from a balance sheet perspective and then Sudhir to talk about some of the gross things you have in your plate in Cairn.

Arun Kumar: As you rightly pointed out, several optionalities open up for us from a balance sheet point of view as several of the businesses ramp up and the prices continue at this level. But yes, the final decision on how that cash will be allocated is well left to the board under the broad principles of robust capital allocation. A quick reminder before Sudhir comes on is Cairn by itself on a standalone business produces significant positive cash flow post CAPEX every year. So with that, I will hand it over to Sudhir.

Sudhir Mathur: We have four projects that we are working on for the past year and the parameters that we have chosen for 18% to 20% IRR at $40 oil world, and in that context, we are quite pleased that the teams have worked to bring to life four ideas – one is on the gas project, which could have volumes of 25,000 to 30,000 boe, two projects related to enhanced oil recovery at Bhagyam and Aishwariya after the success of the Mangala EOR as Tom mentioned earlier on in the call is significant we believe that the combined volume that could come out of these enhanced oil recoveries would be in the region of about 30,000 barrels of oil per day. Then lastly, is the tight oil. Obviously, there is abundance, but the first project that we would like to do is on the Aishwariya, Barmer Hill which again is 20,000 boepd project. All these are very close to 18% IRR with the gas one being north of 25%. So we want to take these. We are reasonably well-aligned with the partner and we believe we should be in a position to get all approval including government over the next six to nine months and put these into execution. So all in all about 175 million barrels of reserve, out of which about 60,000-65,000 million barrels that has been already booked. So it would give an IRR of reserve placement ratio in excess of 1, as and when happens this is till 2030 and we look forward to executing these projects.

Sumangal Nevatia: The intercompany loan of $400 million to Vedanta plc, when do we pay that?

Arun Kumar: As we had articulated during Q1 results as well, we expect to pay down during this financial year.

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

Jigar Mistry: A small thing from Slide #36, if I take the revenue and divide it by total production or total sales , it gives me an aluminum selling price which is lower than LME and historically this has been sufficiently higher to reflect both the physical market premium and the product premium. 2Q F'17 30.3 billion of revenues, you divide it either by 296 kt of total aluminum production or 284 kt of total aluminum sales. So is that something that I am not reading right in this?

Arun Kumar: I think what you see there is the total production. If you cast your eye to probably Page #40, the aluminum sales would be 249 for the quarter.

Ashwin Bajaj: You should also subtract the trial run which is not booked through the P&L.

Arun Kumar: That is right. So the trial run is not booked through the P&L, out of the 284 trial run, net of trial run would be 249 and if you divide it by 249, you get your answer.

Jigar Mistry: No, trial runs frankly have been in the prior quarters as well, but it is better if I take this offline.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Bajaj for closing comments. Over to you.

Ashwin Bajaj: Tom, any closing comments?

Tom Albanese: I think again we always would like a better quarter, we would always like better numbers, we would always like better markets, I would have liked that we did not have the pot line failures, but that all being said, our revenues are up, EBITDA is up highest has been in fact in seven quarters, EBITDA margins are highest has been in several years, we do not have spectacular price improvements but steady price improvements on a calendar year-to-date basis and we said we would ramp up our production, we are ramping our production. All these are delivering us the cash flow, delivering us the delevering and with the pending merger of Cairn, we will have even stronger position. I know that most of you in the call have been quite positive in your recent assessments. Thank you for that and we look forward to seeing those continued positive assessments as we continue to deliver what you expect us to deliver. Thank you. With that over to you, Ashwin.

Ashwin Bajaj: Thank you, Tom, and thank you, ladies and gentlemen for joining us today and Wish You All A Very Happy Diwali Weekend.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Vedanta Limited, that concludes today's conference. Thank you all for joining us and you may now disconnect lines.