"Vedanta Limited Q2 FY19 Results Conference Call"

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Moderator: Good Day, Ladies and Gentlemen. And Welcome to the Vedanta Limited Q2 FY19 Results Conference Call. As a reminder, all participants will be in a listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing * then 0 on your touchtone phone. Please note that this conference call is being recorded. I now hand the conference over to Ms. Rashmi Mohanty from Vedanta Limited. Thank you and over to you.

Rashmi Mohanty: Thanks, operator. And a very good evening, ladies & gentlemen. I am Rashmi Mohanty, Head, Group Investor Relations, Vedanta. Thanks for joining us today to discuss our second quarter results for FY19. We will be referring to the presentation that is available on our website. The call will be led by our Group CEO – Mr. Srinivasan Venkatakrishnan. Venkat, as he is called, was the CEO of Johannesburg based AngloGold Ashanti Ltd, and has extensive experience across several markets in UK, India, Africa and South America. Under his leadership, AngloGold Ashanti Ltd achieved significant cost and debt reduction, saw successful completion of new mining projects, improved overall safety and sustainability performance, and had five consecutive years of either meeting or beating the market guidance metrics. Welcome, Venkat.

We are also joined on this call by our Group CFO – Arun Kumar. Several of our business leaders, Sudhir Mathur from Oil and Gas, Sunil Duggal from Hindustan Zinc, Deshnee Naidoo from Zinc International, Samir Cairae and Ajay Dixit from Aluminum & Power, Naveen Singhal from Iron Ore and Steel, P. Ramnath from the Copper Business, and Phillip Turner, Group Head ESG Practices.

Let me now hand it over to Venkat, to provide an update on the company's operational performance.

Srinivasan Venkatakrishnan: Thank you, Rashmi. Good evening, everyone. This is my first results presentation since joining the Group two months back. I would like to share with you some of my initial impressions before we go into detailed earnings presentation. And apologies if this is a bit too long.

It has been an exciting two months. I have been visiting some of the assets and have met with various business teams. At the outset, let me say, I am very impressed with Vedanta's vision and resources. When I refer to resources, the company has the finest resources that the world and the country has to offer in the form of some world-class deposits on one hand, and importantly people, with entrepreneurship, capability, drive, energy and commitment to get the most of these deposits on the other. I have also seen strong technical expertise within the Group, with a keen focus on exploration. This is also evident by the fact that we are one of the largest employers of engineers and geologists in India. Our operating mantra remains: safety, volume growth, and lowest cost of production.

We are uniquely poised to grow in commodities that have a rising demand, especially in India, with an enviable growth pipeline which is being brought to fruition in a very disciplined manner. At the core of this growth are long-life, structurally-low-cost, and diverse assets with excellent potential as we are market leaders in most of the commodities we produce. Strict discipline is inherent in our DNA. Any opportunity always gets evaluated through our values lens, both in the form of financial value and return, namely capital discipline and also whether it meets our principles as a company on sustainability and ethics.

In my years of experience in this industry, I have seen extractive companies generally offer either dividend as an annuity or growth. We offer both, supported by our robust balance sheet. Beyond the business of mining, we are also engaged in truly important sustainability work across a broad front, that is designed to improve in a tangible way the lives of the people, particularly women and children in the communities which host our operations. We are always striving to do better and to ensure that more people feel the positive effects of our work. We will work harder to share stories of this to ensure that our efforts are well understood.

Moving to this quarter's results:

I would like to begin by saying that our operations generally did well, resulting in revenue of Rs. 22,705 crores and EBITDA of Rs. 5,342 crores. Attributable profit after tax came in at Rs. 1,135 crores. Revenue for six months rose 10% as compared to the previous year. The second half of the year, in particular the fourth quarter, promises to be better in both top-line and bottom-line across the businesses as our growth projects in both oil and zinc ramp up.

At the meeting held today the Board has declared an interim dividend of Rs. 17 a share or Rs. 6,320 crores, which at current share prices reflects a yield of about 8% which is industry leading.

Now, if I can turn to the results presentation and start with safety. It is with deep regret that I share with you that we had three fatal accidents during the quarter. One life lost is one too many, and we are learning from these accidents and have resolved to further strengthen our initiatives around safety matters, with an increased emphasis on the roles and responsibilities of our senior management, their safety support teams, front-line supervision, improved compliance to procedures and behavioral changes to name a few.

Moving to the broader area of ESG:

It is pleasing that some of our initiatives on this front are being recognized. We are happy to announce that Hindustan Zinc was ranked number one in the environmental category globally by the Dow Jones sustainability world index in the metals and mining sector, and fifth in overall sustainability sector within the mining sector as well. This stands as a testimony to our commitment to zero harm, zero waste, zero discharge. Separately, Vedanta topped the Bloomberg ratings for the CSR spend.

We are undertaking waste to wealth programs that are helping recycle large quantities of high-volume low effect wastes like fly ash. As of the second quarter we have recycled all of the fly ash we have generated this by our operations against 90% for the same period previous year. We have achieved this by transferring high volumes of fly ash to the cement industry in a remunerative manner.

Turning to water management, savings and recycling both remain focus areas. Our water risk mitigation measures to make the business water self sufficient include a variety of steps. Hindustan Zinc has built a 20 million liters a day sewage treatment plant in Udaipur where 30% of the city's sewage is being treated. Untreated water is prevented from entering the city's lakes, and the treated water is being used by our Rajpura-Dariba complex reducing dependence on the local water body by about 85%. Our IPP plant TSPL is working on efficiency improvements and onsite water storage increases. Our initiatives for reducing our water consumption are progressing well. We have already met 40% of the savings target of 1.5 million cubic meters.

Our focus on enhancing livelihood opportunities in the local communities continue. We believe that empowering women to be economically independent and self reliant is vital for every society. Today, over 32,000 women are part of more than 2,600 self-help groups and related programs like *Sakhi* at Zinc India, promoted by Vedanta.

Skill India is the government's initiative to bridge the skilled manpower gap by providing training to all sections of the workforce, and hence skill development of the youth in rural area is important for us if we want to include them in the nation's development. Through Vedanta's various projects like Tamira Muthukkal at Tuticorin, over 3,400 youths have been trained in different trades, and we have recently awarded around 5,000 scholarships for education there.

Now, moving to the business highlights:

Starting with Zinc India. With 100% of our mining now underground, our volume ramp up continued at a good pace, and we delivered 212,000 tons of refined zinc and lead. Silver production at 172 tons was a record. The cost of production was impacted by lower volumes, higher mine development and increasing input commodity prices, especially coal and diesel. We expect that as volume ramps up in the second half of the year, these costs will reduce.

At Zinc International:

Scorpion and Black Mountain mines are poised for a better second half. We are pleased to report that the trial production has commenced at Gamsberg at the end of September, and we will be ramping up. Gamsberg is another example of strict capital discipline as we are finishing the project within budget.

In our Oil and Gas business which delivered 186,000 barrels of oil equivalent per day, for the second quarter, our growth projects are progressing well, and we will pick-up steam in the second half. These include additional infrastructure to bring forward gas production, drilling and hooking additional wells, improving our liquid handling capacity in a phased manner, and polymer, ASP, tight oil and gas interventions, to name a few.

We are excited with the opportunity offered by the 41 OALP blocks that we recently won, which together with our current production capabilities will take us a step closer to our aspirations of meeting 50% of the country's crude oil demand. Also pleasing is the recent grant of a 10-year extension to 14th May 2030 of the PSC contracts for the Rajasthan block by the government of India. Sudhir will cover all of these in detail during his presentation.

The aluminum business which produced 494,000 tons of aluminum during the quarter will continue to benefit from sourcing of bauxite from Orissa as the OMC mine ramps up. On power cost this quarter, it was no different for us as compared to our industry peers. We continue to work on our plan for a structural reduction in the cost by securing additional linkages and working towards nil dependency on both purchased alumina and purchased power. The TSPL plant achieved high availability of 94% during the quarter.

Moving to iron ore:

Post the Supreme Court judgment in March this year, mining operations in the state of Goa are shut, and that includes us. Given our commitment to the region and the considerable favorable impact on the economy which it could have if this shutdown is removed, we are continuing to engage with the government for the resumption of the mining operations there.

On Electrosteel:

This it he first complete quarter of operations post the merger. We have made significant progress on improving efficiencies at this asset, and I am quite pleased that we exited the quarter with a monthly run rate of 1.3 million tons per annum. The EBITDA margins improved to $90 a ton from $55 a ton a year ago. We see scope for further improvement here as the business ramps up to 1.5 million tons capacity in the near-term.

At Tuticorin, the company has made a representation to the National Green Tribunal, which is hearing the case on merits. The NGT has referred the matter to an independent committee to submit a report on the environmental compliances by the plant. We expect the committee to take a decision in the current quarter. Meanwhile, we continue with our engagement with our local communities and stakeholders through various outreach and CSR projects and on the ground interactions. We are seeing more and more stakeholders supporting the appeal to reopen the plant, given its compliance record; and at a macro level, the wider social and economic impact in Tuticorin by the plant being shut.

Tuticorin was one of the sites I have been to this month. I visited the plant and met all of our employees there and a wide cross section of stakeholders who are all very supportive and keen to see the plant reopened. Our copper smelter is amongst the best copper smelters in the world in terms of environmental practices, and the plant uses best in class technologies to be a zero discharge plant.

I will now hand you over to Arun for the financial updates.

Arun Kumar: Thanks, Venkat. Good evening, everyone. As outlined by Venkat, we laid a solid foundation in the first half of this fiscal by consolidating underground volumes at Zinc India, commencing almost the entire $2.5 billion growth capex in oil & gas, executing as per plan on the Gamsberg mine, aluminum seeing key wins on bauxite and coal linkage auctions, and getting electricity up to current rated capacity. I believe this sets up for a strong second half across the board in line with our growth play book as we had laid out earlier this year.

Some key highlights of the quarter that went by on Page #1 of the Financial section. Sequential EBITDA maintained subject to price movement, price was negative. Strong delivery on free-cash-flow post capex of Rs. 3,500 crores. Continued delivery on ROCE at 15%+ post-tax, net debt to EBITDA continuing at 1x, backed by strong performance with volume growth, robust margins and enhanced returns to shareholders.

We have a detailed income statement in the Appendix, some key updates on the income statement. Under exceptional items it is largely driven by an impairment reversal in oil and gas business, stemming from commercial production of oil from the onshore KG block by the operator ONGC.

On the depreciation line, it is up in line with the production volume, especially in Zinc India, and there is no specific change in guidance. Impact, if any, with the PSC extension will be evaluated in the subsequent quarter.

Interest costs have inched up 22 basis point just above 8% now compared to FY18, again, in line with our guidance as well as the market movement. On interest income, we continue to invest safely our surpluses in AA+ high quality instruments and have a periodic internal review mechanism as well as key approvals in place.

No change in the tax rate guidance at around 30%, plus/minus 2% for the FY19. Q2 has come slightly below average, it's timing between the quarters as we know, caused by deferred tax.

The key highlight has been the declaration of an interim dividend of Rs. 17 per share. This is in line with the dividend policy which has been in place for the last two years, and represents a third consecutive year of elevated interim dividend. It also represents a dividend yield of almost 8% at current market prices. The contribution to exchequer for the first half of the year albeit if I may just include dividends that we have declared at Hindustan Zinc as well, though outside of the first half, was approximately Rs. 21,000 crores. And continues to be one of the highest contributions in corporate India.

Moving to next page on the EBITDA walk:

As we can see on this page, the volumes and costs were fairly similar to the previous quarter. As I said, the consolidation continued into quarter two. Given our full year and second half guidance, one should expect to see more movement in the second half, especially with the zinc shafts coming up, Gamsberg coming on commercial production and oil projects driving the volume bar, and consequently lower cost. The cost bar should also get impacted positively with progressively higher levels of Orissa bauxite which will come into play in aluminum, as well as the improving coal security mix.

However, on the market and regulatory side, you will notice that while the price of zinc and aluminum weakened during the quarter, the sharp depreciation in currency helped cut back the price losses. As you can see in the subsequent pages, we have given the impact of currency depreciation at Rs. 600 crores per annum EBITDA uplift for every rupee of depreciation. So theoretically if the rupee depreciates by Rs. 6 or Rs. 7, then you can as well annualize it.

Moving on to the next page on the net debt walk:

Happy to report that the net debt came down by approximately Rs. 3,500 crores during the quarter, which is primarily a reflection on the post capex free-cash-flow that we generated. These were driven by strong working capital performance, which we had indicated last quarter that we would reverse some of the Q1 trends, and that is exactly what we have done in this quarter.

The company has further rolled out a huge working capital reduction program across the board and targets to reduce the level further during the year. Capex spend was broadly in line with the guidance, albeit, will be heavier in the second half.

Moving on to the details further on this capex, on the next page:

Overall, CAPEX guidance for the year is around $1.5 billion, this includes the optionality around the alumina refinery which is in the final stages of feasibility evaluation. The second half spend picks up as the oil projects progress. Again, to reiterate, capex funding will be out of the year’s cash flows, hence completely self-funded. We continue to deliver mid-teens overall ROCE above 5%, these are driven by the ever-improving returns, thanks to the zinc and oil & gas sector, which we have highlighted consistently at above 30% IRR at conservative LME price assumptions.

Moving on to the next page on the balance sheet:

Given the current market situation on rupee depreciation and liquidity, we thought it will be good to focus on these aspects, just reiterating our strength and also the progress that we are making in these areas.

Firstly, on the depreciating rupee. You would notice that we stand insulated on our debt portfolio, given our policy of full hedge on any foreign currency loans. And hence, we are largely un-impacted. If at all, we are impacted positively on the P&L as mentioned earlier, with every rupee depreciation broadly worth Rs. 600 crores EBITDA per annum as I had earlier laid out. Secondly on liquidity, we continue to maintain nearly Rs. 40,000 crores of cash and cash equivalents, pre-dividend of course, post to the dividend we have used some cash, along with a good sum of undrawn lines as a head room; while at the same time all our FY19 term maturities are largely refinanced as required well in advance.

Further, you would observe our constantly improving debt maturity profile with the average term debt maturity almost knocking at four years at this point of time, a good improvement from 12, 18 months ago. As mentioned earlier, the interest cost has increased marginally by 22 bps from the last year and focused continues to invest the surpluses safely.

Moving on to my last page on capital allocation:

Over the last two years I have restated our commitment to our well-balanced capital and disciplined allocation framework. Venkat also alluded to this in his opening comments. We have created value for our stakeholders and balanced out all the objectives. Most growth has been through brownfield capex leading to mid-teens ROCE and robust IRRs in the project, consistent returns to our shareholders, the dividend yield has been one of the highest amongst the private sector companies, yet we have managed consistently a leverage ratio of one or lower. We believe this approach further enhances the value for our stakeholders, backed by a strong operational performance. Vedanta continues to be an emerging leader in natural resources sector and a compelling investment proposition.

With that, I will pass it back to Venkat. Thank you.

Srinivasan Venkatakrishnan: Thank you, Arun. If we can then start on the growth projects, I will cover zinc and aluminum, and then hand you over to Sudhir in terms of oil and gas.

As I mentioned, we can enviable growth pipeline and ramping up of these projects in the correct sequence on time within budget with a proper stage gauging process will remain a focus area for me.

Turning to Zinc:

In Zinc India we continue to ramp up our underground production as we expect it to increase progressively every quarter as you will see in the charts before you. We remain on track to deliver our guidance this year of higher MIC production as compared to last year.

Silver production will be in the range of 650 tons to 700 tons for the year.

Our projects are progressing in line with expectation of reaching 1.2 million tons per annum of MIC capacity next year. If I can touch on some of those building blocks, at our flagship Rampura Agucha mine the mid shaft was commissioned on the 28th September for man winding and haulage, which will result in improved haulage capacity and manpower productivity. Following commissioning of the loading system, we are hoisting weights through the shaft, and it will facilitate higher volumes until the shaft is fully commissioned. The ramp up of the mid shaft hoisting to full capacity, the second paste fill plant, enhanced mine development and improved ventilations are the other levers. Off shaft development is on track and we should see commercial production from the main shaft from the fourth quarter of this financial year.

Turning to our SK Mines:

The production shaft work is progressing well and the material hoisting from the shaft is expected to start in the third quarter of this year. The new 1.5 million tons per annum mill is expected to be commissioned in the third quarter. At our Zawar mine, civil and erection work on the 2 million tons per annum mill is on track, and expected to be commissioned by Q4 of this year. The fumer project in Chanderiya is expected to be commissioned in the current quarter. With these near-term milestones we are simultaneously planning for the next phase of expansion to 1.35 million tons per annum, as we reported earlier.

Turning to Zinc International:

I am happy to share that Gamsberg we put the first ore feed to the mills, and we have commenced trial production in September. We have been producing steadily at the required rate and have already stockpiled 750,000 tons of ore ahead of the plant. We have commissioned the plant and we have built enough crushed ore stockpile for the feed. Based on the forecast mine ore grade, mine plans and ramp up schedule, we are now forecasting around 75,000 tons of metal in concentrate in the current financial year, slightly lower than our earlier guidance. However, lower production will be offset by lower cost, ranging from $800 to $1000 per ton. We will be moving to full ramp up of 250,000 tons by the early part of FY20.

Our plans for operational readiness have been put in place, and the operational teams already mobilized. The digitization project in mining will help in grade management for better process control and quality. With the construction largely complete, we are also happy to share that this project has been completed within the targeted capital of less than $400 million.

In line with our modular approach of expansion and project execution, we have advanced feasibility and design of Gamsberg Phase 2 expansion. The Phase 2 expansion of Gamsberg will increase the production to 450,000 to 500,000 tons per annum from Phase 1 capacity of 250,000 tons, which I mentioned earlier. At our Skorpion mine, the pre-stripping of Pit-112 continues in the second year of the project. Over 65% of the waste stripping has been completed, with full completion expected by the fourth quarter of this year. With the ore production fully ramped up and higher grades exposed, production in the second half of the year is forecast to increase.

To sum up the Zinc story:

The outlook for zinc continues to remain robust on the back of low inventory levels, tightness in refined metal production and higher demand growth projections, especially in emerging markets. We expect significant increase in volume in the second half of the year and in the coming years, and therefore the cost of production to reduce in both our zinc businesses.

Moving on to aluminum, where I am sure you have a lot of questions:

The volatility that we witnessed in Q1 with respect to input commodity prices continued for this quarter as well. We shared our plan with you last quarter to create supply sources for our raw material to eliminate such volatility and drive a structural reduction in our cost. Despite the progress we have made on our plans, our cost for the quarter were higher at $2,000 a ton due to market forces. Our target will eventually move to a sustainable cost of $1,500 a ton, will be driven by continuing to work on factors that we have mentioned earlier. And if I can talk on each of those blocks.

Firstly – on coal, we are undertaking measures to improve our coal linkage materialization. We have secured 3.2 million tons of additional linkages from Tranch IV coal auctions. We have this week commenced mining at the Chotia mine which has started to supply coal to BALCO. These are two positive developments which will improve our overall coal position. We will continue to work on improving materialization from linkages, and increase linkage through participation in future tranches. We will also evaluate the coal block auctions as recently notified by the Ministry of Coal for improving our coal security. That is in respect of coal.

Now turning to bauxite and aluminum:

Lanjigarh production was strong this quarter, and following our debottlenecking initiative it is expected to move from 1.3 million tons per annum exit rate we had in Q1, to an exit run rate of around 2 million tons per annum by the end of this year. Our cost of alumina production at Lanjigarh is significantly below the current import alumina prices, and we have significant value unlocking opportunity by expanding the alumina capacity. The first phase of Lanjigarh refinery expansion from the 2 million tons per annum to 4 million tons per annum is in the final stages of planning.

On bauxite:

We are working on increasing captive alumina production and we are simultaneously working on tying up high quality bauxite feed. The key positive development for us this year has been the start of Orissa bauxite delivery from Orissa Mining Corporation. The mine is ramping up well and we are targeting 250,000 tons per month exit run rate this quarter in order to meet half of our Lanjigarh requirements.

Other than these initiatives, we are also working on a number of other measures, including logistics, plant operating parameters, adding efficiency and achieving further cost savings. We are maximizing our inland movement by rail, as opposed to road. Inside the plant, specific power consumption of smelter, power plant technical parameters and railroad turnaround times are important operational focus areas for us as well. Simultaneously, on the marketing side, we continue to focus on improving net premiums by progressively increasing value added production. The value added production is expected to grow by 25% in the second half from 432,000 tons which we saw in the first half, driven by improved sale of wire rods in the domestic market, as well as higher billet sales internationally.

On account of some of these measures coming into fruition in the second half of the year, we expect the full year cost of production to be in the range of $1,950 to $2,000 a ton. Additionally, despite having sufficient domestic capacity, the Indian market is being flooded by imports on account of the US-China trade war. Total aluminum imports increased by over 20% in Q1 and Q2 with the import of scrap increasing by 25% year-on-year in Q1 and 19% year-on-year in Q2. Specifically, scrap imports from United States have significantly increased by an astonishing 128% in the first quarter of this year, and a further 144% in our second quarter, over the same period last year. This is one of the areas we are taking some policy intervention and support from the government. We are certainly committed on improving the overall profitability in the aluminum business and unlocking its true potential.

With that, I hand you over to Sudhir to talk through the oil and gas projects.

Sudhir Mathur: Good evening to you all. As Venkat mentioned, we have secured the approval for the Rajsthan PSC. With this extension our 2P reserves in Rajasthan have jumped more than 4 times from 138 million barrels to 596 million barrels. Given this large reserve accretion as well as huge success in the acquisition of the 41 blocks in OALP. Let me first lay out the strategic objectives of the oil and gas business.

This is perhaps the first time we have a robust portfolio comprising a number of exploration blocks with promising prospects, large pool of development projects and prolific producing fields. In the next few slides I will cover the work we are doing in each one of these aspects in order to achieve our vision of contributing 50% to India's domestic oil production.

Our planning for future growth includes exploration which we will do in 41 blocks we have been awarded under OALP. These blocks are spread across major basins and provide us with a variety of exciting opportunities. We plan to carry out seismic survey of over 10,000 square kilometers and drill over 150 wells to unlock this potential. We have already commenced global vendor outreach and plan to have vendor engagements meet in India and Houston in the third quarter of this fiscal.

Moving on to the next slide. On exploration, our focus is to target high impact prospects across basins. In Rajasthan we are deploying five rigs in the second half for exploration and appraisal. We shall drill 7 to 18 exploration wells. We will also carry out appraisal for four of our key fields, with a potential of around 200 million barrels of resources. In KG offshore, the first exploration has been a discovery. Multiple reservoir zones were encountered in the Mesozoic Rift formation. The second exploration well shall be drilled in the fourth quarter. Ravva block has been a global benchmark with recovery of around 50% and we continue our success story through exploration and development efforts to add incremental volumes and resources.

The next slide, we plan to monetize our reserves through various projects across enhanced soil recovery, tight oil, tight gas and facility upgradation with a total capital investment of over $2.5 billion. Although, the closure of our contracts for the risk reward partnerships with global vendors took longer than initially envisaged, impacting near-term volume, we have blocked world-class recovery rates at very low capex cost.

With enhanced oil recovery techniques, we shall have ultimate recovery from our core fields at around 50%, significantly higher than around 35% world average and around 40% in US and 45% in North Sea. Also, our capital investment cost is around $5 per barrel, which is much lower than the global average of around $5 to $7.5 for key projects.

On the next slide, are details of each one of projects individually which we are working to boost production. The slides provide timelines for each project on rig availability, wells drilled and hooked. Let me highlight a few things. Second half of the year will be fairly busy with increase in rig counts, well drilling and hookups. During the second half of the year our drilling rig count shall jump from 7 to 11. The number of wells drilled shall increase to 132, thereby drilling 100 more wells in H2. The numbers of wells hooked up shall increase to 56.

The first tight oil well drilled in the second quarter was the longest horizontal section in India of 1,294 meters. The second well surpassed this record with a lateral dent of 1,315 meters. We are accelerating our tight gas project to bring incremental volumes in the near-term. The GIGL pipeline is nearing completion. Facility debottlenecking at our end will lead to increase in gas volumes by Q3. In addition, we are building early production facilities to increase our production by around 90 million scuffs by the end of the fiscal. We are increasing our liquid handling capacity by around 30% in a phased manner to handle incremental volumes.

To conclude, our growth prospects for oil and gas business with the many opportunities we have, are very promising. Our capex approach through unique integrated model did take up some additional time. However, the contracts are locked in around $5 per barrel for capex and world-class recovery rates. Our projects will generate superior returns. With a surge in drilling activity and hookups in the second half, we expect the average to be around 200,000 barrels per day.

Thank you and over to you, Venkat.

Srinivasan Venkatakrishnan: Thanks, Sudhir. Before I wrap up, I'd be amiss not to mention thanking my predecessor Mr. Kuldip Kaura for an excellent period holding the fort and also in helping me transition into this new role in the last two months. So, thank you Mr. Kaura.

Let me wrap up by saying that our strategic priorities remain unchanged. We are committed to achieving our objective of zero harm, zero wastage and discharge, thus creating sustainable value for all of our stakeholders. Growth with an eye on strict and disciplined capital allocation will remain a focus area whilst we continue to strive to improve our operations, sweat our assets further, optimize costs and improve realizations. With that we will open the floor up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia: First question is with respect to the oil division. Now, we have cut our volume guidance by almost 10% mid-point to mid-point for this financial year. So, if you could just elaborate the reason behind the delays in ramp up? And number two, how are we now placed with a medium-term target of 300 kilo barrels which we were looking to achieve in one or two years from now? Thanks.

Sudhir Mathur: As I mentioned while I was talking earlier, the main reason for the delay was that as we went into contracting last year we felt that the prices that we could get on the contract, given that the service company activity had fallen during the low crude price regime, we were getting significantly better contracting rates than we expected, both for drilling as well as for EPC facilities. And our belief was that it was better for us to add certainty, we had committed to you that we would be doing IRRs in excess of 20% at $40 a barrel. But when we saw the capex rates that we could negotiate down, we felt that we would get the same IRRs even at $35 a barrel. And therefore we went into a situation where we would offer all our shareholders a sense of greater certainty on the returns of these projects by being able to slice off from the capital expenditure cost 5% to 7% than what we had originally conceived of. So, that led to the negotiations with the potential partners creating a delay of about a quarter, which has led to us revising the guidance. But the reserves are very much in place, as I mentioned, there are almost 600 million barrels of reserves. And on the medium-term guidance of 300, I think very much there. I think when we give our, I will leave that to Venkat and Arun, but I think normally we give out the medium-term guidance on the closure of the annual accounts.

Srinivasan Venkatakrishnan: Sudhir, if I can come in here. Really, in terms of our revision to the guidance is really one around timing. We are excited about the reserve growth which we are seeing in oil. And some of these delays when you are looking at one of the largest expansion and capital expenditure in the oil and gas sector, a few months delay in terms of project coming on-stream is not the end of the world. So, from that perspective I am still excited in terms of the oil and gas business, and we will update our medium-term guidance in terms of when we announce our results at the end of this year. What for me is even more exciting is the award of the 41 blocks which we received in terms of OALP, that has got the potential to create another Cairn amongst itself, and our focus here is to start to fast track some of that exploration effort to bring more value to the table and quicker.

Sumangal Nevatia: Understand. Now, second question is with respect to capex, now this Lanjigarh refinery expansion Phase 2, I think this is the first time we are talking about this. Now, if I look at the current bauxite, we are talking about 250 kt to meet around 50% of our existing requirement. So, if you could share, I mean, what visibility do we have for this expansion? And since we have included in our FY20 guidance chart of around $600 million capex for this, if you could share how much is for Lanjigarh and how much is for Electrosteel? And what is the timeline of this expansion?

Arun Kumar: I think we have been flagging off for the last year or so that we have started looking at the Lanjigarh refinery expansion, given the visibility that we have on bauxite. And I will leave it to Ajay to talk more about this after I finish the numbers side. In terms of guidance for next year, we have built roughly you can say $200 million to $300 million guidance optionality on that, the balance being to Electrosteel, which is another story which I will deal with shortly. On Lanjigarh it should be read as about $250 million to $300 million for next year. And it should pay back perhaps within 18 to 24 months, given the potential for savings that we have there. In fact, every ton of aluminum produced with the Odisha sourced bauxite which can be used in expanding refinery capacity, will give us a EBITDA advantage of $400 per ton. So, if you are able to cover 50% or 60% of our requirement, then to that extent $200 to $250 straight away goes up in the EBITDA margin on a permanent basis, because reserves will last for easily 15 years and more mines will come up. So, with that I will just hand it over to Ajay, if he has any quick comments on the plan for refinery expansion which is on the final stages of drawing board. And when we have the requisite approvals from the board we will announce the same. Ajay, any quick comment?

Ajay Dixit: Completed by let's say December 2019 - go up for production and then ramp up from thereon, bauxite is fully secured. So, this is a ramp up after securing the bauxite.

Arun Kumar: And just to add, Sumangal, on the 250 that you mentioned. 250 kt per month bauxite means about 3 million tons per annum run-rate. And what Ajay and the aluminum team are doing is they are investing in some capex at the pit-head of the bauxite mine to take it up to 6 million tons. So, that should probably coincide in terms of the output when the refinery expansion also gets done. So, it is all going as per a certain plan and ensuring that there is a structural way ahead in the aluminum business. Thank you.

Sumangal Nevatia: Understand. And just one quick question, I mean, there are a lot of media reports with respect to us thinking of spending on the zinc smelter in Africa around $600 million - $700 million. Is there any plan on that front?

Srinivasan Venkatakrishnan: Let me pick that up here. It is certainly something, if you look at any company, particularly in the extractive industry we do have a range of projects which are actually on the pipeline. It is in its initial stages, it will have to go through its full feasibility study analysis, etc. So, if you ask us immediate plan, probably not something which we can announce, but it is something we will need to look at down the line.

Moderator: Thank you. Our next question is from the line of Indrajeet Aggarwal from Goldman Sachs. Please go ahead.

Indrajeet Aggarwal: Two questions from my side. First on aluminum, so this first half we did a cost of production of about $1,978 a ton and for the full year we are guiding at $1,950 to $2,000. So, in spite of the cost saving or cost control measures that you talked about, like using more captive alumina, more linkage coal, our guidance does not change from second half versus first half. So, what exactly is our view over here, I mean, where could we see more cost inflation compared to this half?

Arun Kumar: Let me just introduce that topic and leave it to Samir to add any further comments. Fundamentally, the potential in the aluminum business is that we are currently operating about 2 million tons, and you are aware our capacity is about 2.3 million tons. The potential there, based on those building blocks that we are putting in place, that you can also see that we have referred to in our pages on aluminum, where we are talking about three buckets - on coal initiatives, alumina ramp up which we talked about, as well as the bauxite sourcing, and a few other things which are I would say more internal in terms of logistics. The broad design is to take it to $1500 a ton, this will be a medium-term journey. As I said, some of the capex need to go into place to ramp-up the bauxite from the mines. And as well as we have just completed a very successful fourth round of coal block auction, the supplies will start from January. So, we can imagine that from a short-term perspective the pieces will not come through, but from a medium-term perspective they will come through, which is why second half guidance is what it is. At $1,500 per ton, as you know we don't give specific guidance quarter-wise, but at $1,500 per ton the business is nearly what business has been always in terms of about $2 billion in terms of EBITDA, if you add the surplus power which they can sell. So, that is, I would say, broadly the big picture in aluminum. All the four buckets of actions we have done and progressed, our report card says at least two ticks or three ticks during the quarter, including the first half of the year. Samir, would you like to add any further comments?

Samir Cairae: I think, look, the comment is that structurally actually we have made a good progress, I think we have talked about bauxite, so that is a structural change in the cost structure of aluminum, which is a very positive aspect. On the coal security, again, two structural changes which happened in the last half, which is additional linkages of 3.2 million tons which were secured, and additionally our own coal block in BALCO Chotia which was started. And thirdly was more an internal cost reduction which we did was GCV improvement. Then there were other improvements in logistics and carbon, etc. If I put all that, actually in last half we have saved about $90 per ton versus $120 which we had guided. Now, what we ran into was really the headwinds of, I think all of you are aware of, the coal shortages and specially the coal diversion to IPPs versus CPPs, it has hampered our cost. And of course the alumina which has been very volatile. But what I would say, frankly, what Arun was saying, structurally driving down the cost to $1,500, there has been good progress made in the last half on the bauxite, on alumina production as well on the coal security, of course, buffeted in the half and in the current quarter by the coal shortages and imported alumina price volatility. I mean, those are timing issues, those are not structural things. So, that is what I would just add.

Arun Kumar: So, I think Samir summed up very short-term cost pressures because of coal situation and the global alumina supply situation. Whereas the medium-term structural changes are well on track.

Indrajeet Aggarwal: My second question is more like a housekeeping question, what is the current exit rate for our oil production, say, maybe in September end or in October currently?

Arun Kumar: I think exit rate for oil production is somewhere between 190 to 200. And the guidance for the second half of the year is 200 to 220.

Moderator: Thank you. Our next question is from the line of Rajesh Lachhani from HSBC. Please go ahead.

Rajesh Lachhani: Sir, one question on aluminum. Sir, you were talking about certain policy measures that the government is planning to take against aluminum imports. Sir, can you please specify what are we seeking from the government?

Srinivasan Venkatakrishnan: Firstly, I was referring to the fact that the extent of scrap imports have increased. And what we are really seeing is a level playing field wherein the domestic industry is not negatively impacted because of the scrap being landed in India. So, effectively we are asking for potentially an increase in duty in terms of imported aluminum scrap, it is as simple as that. So, that the domestic market gets a fair share of actually participating on a level playing field.

Rajesh Lachhani: Sir, actually we have seen some media reports of raising the import barriers to 10%. So, is this the import duty that we are seeking from the government?

Srinivasan Venkatakrishnan: In fact, a 10% import duty, it would certainly go a long way in terms of helping the domestic sector grow up, because as I mentioned in the call, I was shocked to see the extent of U.S. scrap imports landing in India and the increase going up to around 128% to 145%. Just to give you an idea, in China, the extent of duty which is being imposed on scrap is around 25%, so just to give you a scale as to what the other countries are doing to protect their domestic industry.

Moderator: Thank you. The next question is from the line of Amit Dixit from Edelweiss. Please go ahead. With no response, we will move to our next question, which is from the line of Anshuman Atri from PremjiInvest.

Anshuman Atri: My question is regarding the oil ramp up. What are the challenges which has resulted in our production being in the range of 190 to 200? So, in the past also this is a range which has been difficult to cross and what range, again, we are expecting it to sustain say 220, will it be able to sustain next two to three years? And how do we sort of see it going forward?

Srinivasan Venkatakrishnan: In fact today, Sudhir, you answered the question, but if you want to sort of cover it again in terms of the challenges which were there and also in terms of the new projects coming on-stream? But I think we actually did highlight it. It was a combination of the fact that some of these projects didn't come on-stream quicker than what we had wanted. We are still keeping our long-term targets and vision in mind. And certainly, we will update you on the guidance in terms of next year and the medium-term guidance when we announce our results at the end of this year. But with hindsight, if those projects had come on-stream earlier, it would have actually helped us ramp up our oil production.

Anshuman Atri: Yes, sir. But in the 2013 annual report we had talked about a 300,000 barrel output in near term. But we have plateaued at 200,000 barrels, so that's something which probably, when we see the production then probably it will get more confident.

Sudhir Mathur: In 2013 the oil prices were at about $100 plus, and we had a lot of projects online, which, when the crude prices fell to $40 or so we had no option but to abort them and rework them because they were done at a viability level of $65. So, we went back to the drawing board, came back with the same projects and more, which is what has increased the reserves from whatever, 138 million to 596 million barrels and made them viable at $40 a barrel, viable in the sense of ensuring a 20% IRR to all the stakeholders. So, there was a gap in the investment period between 2014 to almost now, where we have just recently started that capital expenditure program. And that is what led to oil production sort of declining because we invest behind a production profile, and if you go back into the history of each one of our investments, we have beaten each one of those production profiles. So, what led to the delay in just the recent past, as Venkat mentioned and I had mentioned earlier, was to be able to get some great contracting rates, which has made us a world-class development cost of $5 a barrel. So, that negotiation with some of the vendors created a lag of about three months over than what we had thought earlier, but gave us IRRs of 20% at $35 a barrel, adding to the certainty and the robustness of the project. So, now we have the momentum, and as you will see on the slide, the rigs are in place, the drilling has started, we have accelerated the building now as our rigs have got used to the better rate, and you would see that bump up, that Arun spoke about in the second half of the year of production.

Anshuman Atri: My second and last question is regarding the organic versus the inorganic capex. So, given the strong organic capex profile, what kind of mix can we see in terms a next NCLT bids versus organic percentage approximately?

Srinivasan Venkatakrishnan: I think I can pick it up, actually. We are quite excited with the growth potential in our own backyard, in terms of whether it is Hindustan Zinc or whether it is Zinc International, oil and gas, whether it is Electrosteel, whether it is aluminum, whether it is copper. So, from that perspective, meeting our investment hurdles we are quite happy investing in-and-around our existing projects. You never say never in terms of, effectively, other opportunities, but at this stage the focus is getting the best out of our interesting assets as we ramp up volume and reduce costs in a safe manner.

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

Pinakin Parekh: My first question is on the recent production sharing contract extension that happened. Now, while we understand that the press release mentions that it is subjudice. But till the court order is out, would the company have to shell out an additional 10 percentage points of profit shares to the government?

Sudhir Mathur: See, firstly the 10% under the policy would be applicable when the current PSC term expires, that would be in May 18, 2020. The matter is, our request for saying that the contractual sanctity be given weightage, because our belief is that our contract, the Rajasthan contract, does not allow PP tranche movement in the extended period. So, we are working with the government, and the matter is sub judice as well, so that will continue. And there is enough time before 2020 May to resolve this issue amicably. In Ravva and CB, of course, we believe that the contract says changing terms and conditions, so we accept that policy that the government has come up with.

Pinakin Parekh: And my second question is on aluminum. The production release which came out a few days back mentioned that given the disruptions in domestic coal availability, there was a power import in the aluminum segment. Can the company please explain what power import means, does the company have to buy power externally?

Srinivasan Venkatakrishnan: The short answer is, yes, but Samir can cover it.

Samir Cairae: I think in a part we covered this. The issue what happened was that there were sudden diversion of coal by Coal India, and you must have seen in newspapers that there were circulars issued in the sense of saying that the coal should be diverted to IPP's and no coal coming to CPP's. Now, aluminum is a continuous process industry, we cannot let our pots solidify because it takes us six months for the pots to revive. So, to keep the aluminum pots running, if there is a sudden stoppage of coal then the only recourse we have is to buy power in the grid and keep the plant running. Of course it is not a long-term solution, but short-term, that is the only solution, and that's world-wide how the aluminum industry works, because that is in the nature of the technology and the process. And it is the same for HINDALCO, NALCO or anybody else.

Pinakin Parekh: Sure. So, just to strengthen this point further, where was the power purchased, in Jharsuguda or BALCO? And at what rates and how much was this power purchased?

Samir Cairae: It was at Jharsuguda, I think the impact on our cost was around $50 to $60 per ton. The rates will vary because these are IEX rates, so I will not be able to give you a precise rate because it depends on when the power was drawn, etc. But the impact on us was what I indicated to you.

Pinakin Parekh: So, just lastly, what we understand from various players in the entire coal value chain is that many of the other industries are saying that Coal India, more or less, would not be able to supply coal till the next elections and power demand will remain high. So, in that case, if coal supply does not improve really from here, would we expect the power purchases to continue to keep on running the smelter?

Samir Cairae: No, as I was telling you, there are two changes which have happened to us. One is that we got additional linkages of 3.2 million tons, which are going to come in the fourth quarter. Second is, our own coal block in Chotia which is starting, so that will alleviate some part which was being bought in the auction. But primarily, when there is a shortage of coal in Coal India, first impact is on the e-auctions and ad-hoc auctions, where there are no linkages. For us that was an impact. Second is, yes, on the materialization of the linkages itself. So, that I think we have to wait and watch how the situation will evolve. And, of course, as you say, that if there is a view and it turns out that these shortages are going to continue for the long-term, then, for sure, a good option is to enter into a PPA at a reasonable rate with somebody who has coal. It will be primarily IPP, because CPPs are all in the same boat as us.

Srinivasan Venkatakrishnan: Just to supplement what Samir has said, a couple of other items to bear in mind. The Chotia mine has already started supplying to BALCO, that is the first aspect. Secondly, as the coal auctions come online, we would start to increase our participation here. And the other thing we also picked up is that the coal situation is slowly easing. And as I understand it, 10% has actually been allocated in terms of going to the private sector as well as our understanding from some of the news releases that have come out. So, hopefully, the situation will ease, certainly pre the election period, that is what we are looking for. But certainly, we are prepared in that regard. And also what we understand is Coal India is starting to ramp up production of coal, given the impact it is having across the country.

Samir Cairae: I think if I may just add one thing, normally the quarter four is a better quarter for coal production in dispatches, because most of coal because of the monsoon it gets affected quite strongly. So, that will play a role. And there are also now developments, we understand that there has been a committee which has been formed to look into coal swaps of imported coal versus coal which is inland. So, I think the government seems to us, is quite abreast of the situation and are looking into it quite seriously to alleviate the situation. And we are quite hopeful that something should work out. But yes, we are ready for all eventualities as Venkat said.

Pinakin Parekh: And the problem is more acute at Jharsuguda versus BALCO, right?

Samir Cairae: Yes, simply because BALCO has linkages up to 75%, whereas Jharsuguda has 42%, which increases up to 52% with the new coal block. And I think you are also perhaps aware that the new coal blocks have been put for auctions, for which we, of course, will be participating.

Moderator: Thank you. The next question is from the line of Vineet Maloo from Birla Sun Life. Please go ahead.

Vineet Maloo: My question is related to the previous one, I just want to know, in Jharsuguda what is the quantum of external purchases currently for coal? How much tonnage are we buying from the open market?

Arun Kumar: I think broadly, as Samir summed up, Vineet, I think, with the fourth round of successful completion of linkage auction, the linkage crosses 50%, which is a significant milestone. And business has also done very well in sourcing imported coal. So, largely it takes care of nearly 70% - 75% of the requirement. It doesn't depend on e-auction, spot-auctions and perhaps aggregator stage. So, that is broadly the split at this point of time in Jharsuguda. And it is much better in terms of coal security than what it was six months ago, a year ago, thanks to the round three and round four of linkage auctions where we have been large beneficiaries from a structural position. I hope that answers your question?

Vineet Maloo: I am sorry, just to understand, I mean, the 52% is including linkage plus the mine which is going to start, right, which has just started?

Arun Kumar: The mine, Chotia mine is in BALCO, which is why I didn't mention it. Jharsuguda or Vedanta Limited as a legal entity does not own any coal mines, that is in BALCO.

Vineet Maloo: So, for Vedanta Limited, for Jharsuguda unit what is the situation, if you can just talk about that?

Arun Kumar: Right, let me just re-summarize. I will just summarize the Jharsuguda situation. About 52% percent would be linkage, about 20% plus would be imports, and broadly 1/4 would be spot auctions and other sources.

Vineet Maloo: On imports do we have any long-term management or we buy on shipment-to-shipment basis?

Arun Kumar: I think imports, we have call options on import including miners as well as from the import seaborne trade. But I will request Samir to add anything if he likes to, here.

Samir Cairae: Well, I think imports are long-term in the sense I don't know what you consider long term, but a 12-month contract is what maximum we will try to achieve.

Vineet Maloo: No, I mean, wherever you can lock in some kind of price. Quantitative commitment is not good enough, right?

Samir Cairae: Yes. I think, prices, of course as you say, as soon as we can lock in any price, we would try to. But same time, I think, as a policy in Vedanta we do not like to sort of hedge anything. So, in the sense that unless a price, because I don't know whether this price is going to be the highest price or the lowest price at which I will lock in. So, we have to be careful in saying that we should lock in at every price. Three months, for sure, we lock in everything so that we have our clear visibility and predictability of the costs over the next three months, goes for all commodities. Beyond that is not something which we do automatically, it is just because something might be available on market that we will lock it in. No, that's not what we try to do.

Srinivasan Venkatakrishnan: In fact, from our perspective what we don't want to do is end up locking in prices for a period just because there is a current potential shortage temporarily, and then find that we have actually caught the wrong side of the price.

Vineet Maloo: Understood. And last question is, what are your thoughts on a one time capital return to shareholders? I understand you are giving out a dividend, maintaining a certain payout, which is pretty good. But just want to understand, so that takes care of basically cash coming from current earnings. But I want to know your thoughts on one time cash return to shareholders.

Arun Kumar: I think those are really decisions of the Board. But broadly if you look at the capital allocation that I had covered earlier, I think third year in a row we are having nearly a 7%, 8% dividend yield, and broadly from a NIFTY50 perspective, if you look out the data we will be probably amongst the top three companies, as we understand, both from a payout ratio as well as dividend yield. So, I don't think that, with our own requirements of capex and cash, and any dividend is a return of capital, whether it's buyback or dividends. And, in fact, in the Vedanta Limited when we pass it on, the Hindustan Zinc Limited is coming with the dividend distribution tax set off, so there is no leakage either. So, that is broadly our play at this point of time from a capital allocation point of view. Venkat, would you like to add something?

Srinivasan Venkatakrishnan: In addition to that, typically a company goes and returns capital to shareholders when it has run out of ideas, and it cannot generate growth opportunities which give you 20% to 30% returns. In our case we have got growth, very good returns, so the money is better put into place in the projects, which will then give you a further kicker and an annuity in terms of dividends going forward.

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

Abhishek Poddar: The first is regarding Zinc International. We saw in 1H the production was about 50 kt and the production cost was in the range of $2,300 to $2,400 per ton. We are guiding for 100 kt in 2H with the production cost of probably $1,600 to $1,700 per ton. Could you give more color what is changing there?

Srinivasan Venkatakrishnan: Yes, in fact Deshnee can come in, but it is clearly around where the mines are in their stripping pattern, and the second half is going to be a more promising period. And in addition to that, it is the Gamsberg ramp-up. But I will pass the microphone to Deshnee. Deshnee?

Deshnee Naidoo: So, Venkat, on the Black Mountain, we did plan a four equal quarter year, and we did have some setbacks on development as well as on getting copper, because we get a copper credit at Black Mountain. So, that explains the Black Mountain volume as well as the cost. The bigger one for us was Skorpion. But Skorpion, as you know, is busy waste stripping on Pit-112. So, the first half of the year, by design, was actually planned to be a higher stripping half of the year. What we can tell you is that we are almost on target to do waste that we wanted to strip. So, the ore that we are planning to expose to give us the second half tonnage is actually on plan. So, yes, it does seem like a very steep second half of the year, but it was planned this way based on where we are in the shaft at Black Mountain, and based on where we are in terms of the pit stripping at Skorpion. This guidance of 150 kt excludes Gamsberg, which we have guided at 75,000 tonnes of MIC for the rest of the year. In terms of cost, one of the bigger drivers for us in the first half was related to volume of cost. But when we couldn't get the volume of ore that we needed at Skorpion for the first half, instead of shutting part of the plant, which might have been an option, we didn't really have the time. So, we ran blending in number of oxides, external oxides that we purchased. But of course, at these prices, oxide did come at a cost. So, that is the reason why the first half looks the way it looks, and that is the reason why we are confident that we can deliver a second half against the guideline volumes and costs.

Abhishek Poddar: The second question is regarding Gamsberg. Earlier the cost guidance was about $1,000 to $1,100 per ton. This time we are seeing it to $800 to $1,000. So, what has changed there?

Deshnee Naidoo: Okay. So, I mean, that guidance, the original guidance came with the investment proposal. Of course, in parallel, as we have done more work on the execution side, the team has also done more work on the costing side. So, this will be a fully outsourced operation. So, we will have one contract, one business partner for mining and then one for the plant as well as the plant operations and maintenance. There can only be maybe six or seven business partners at most. So, what has changed for us is probably the operating philosophy that has allowed us to actually now cost a much lower rate. But in addition to that, I mean, this is a starting, this is a plant that is in start-up, so the mining is still quite shallow, although we have stripped more than 90 million tons now, of waste. And additionally, Gamsberg has been voted to be one of the most technologically advanced plants. So, from a labor point of view, very low numbers, as well as from a maintenance point of view at least for the first two to three years, we are forecasting minimal maintenance in terms of replacements, etc. So, we are now more confident with this guideline, given the work that we have done since.

Abhishek Poddar: So, Deshnee, on this the cost should go up in FY20, if that is so, when you are more in the deeper part of the mine?

Srinivasan Venkatakrishnan: I think we will provide for FY20, Deshnee, when we will release our results.

Deshnee Naidoo: Absolutely. But I was just going to say, what is exciting about the outsourced model is that this almost the entire cost base, more than 80% of it is actually done on a variable cost basis. So, we only pay for the volume that we get on both the mine and the plant.

Abhishek Poddar: Okay. And just the last question on the aluminum side. I just want to understand the bauxite sourcing. We are now targeting 4 million tons of alumina, which would probably require about 11 million to 12 million tons of bauxite. Could you give a color that what would be the broad sourcing arrangement for those 12 million tons?

Ajay Dixit: Yes. So, let me give a little bit of detail what we are doing today. We are already sourcing around 5 million tons of bauxite. We already now ramped up Lanjigarh for another 3 million tons, that makes it about 8 million tons. And I think that you would have read some of our previous news articles that we signed MoU with EGA for Guinea-bauxites of 4 million tons. So, this, in any case, secures 4 million tons. And our strategy is as more and more our own linkages of bauxite increases, so we could substitute some of the existing arrangements. So, already, we have this firmly in our hand. And as we continue, we would only improve on quality and cost.

Abhishek Poddar: Sir, what will be the cost difference of getting bauxite from Guinea versus the local sourcing?

Ajay Dixit: You should practically say that it should be the freight forwarding charges.

Abhishek Poddar: Any ballpark number incremental cost per tonne of bauxite?

Ajay Dixit: Well, that I would not like to give at the moment.

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

Amit Dixit: Sir, this is Amit here. So, the first question is regarding our aspirations in the steel space. So, in case of Essar, we ran very close, but finally, well, somebody else entered the deal, but Essar was a sizable plant of 10 million tons. So, do we have further aspirations in the steel space, can we see the company going out for acquisition of plants outside or within India?

Srinivasan Venkatakrishnan: I think we are quite comfortable with what we have in Electrosteel. It was a very good purchase. And as I said, the current exit rate is around 1.3 million tons per annum. The EBITDA has more than doubled already since the merger. In addition to that, we are looking at getting it to 1.5 million tons per annum without any capital expenditure. And the next is expansion is 2.5 million tons, and that comes with not just the volume growth going from the current levels to 2.5 million tons, but it also comes with the improvement in margins as well. So, it will be a very good cash generator and income generator from the business. So, from that point of view, we are quite comfortable in terms of having Electrosteel in the family and quite contented at that.

Amit Dixit: Great. The second question is on Electrosteel itself. Yesterday, Electrosteel Steels declared its results, and there is an apparent disconnect between EBITDA they reported and EBITDA that you have reported. So, EBITDA that they have reported is Rs. 65.5 crores, while you have reported Rs. 168 crores for this quarter. So, just wanted to tie the numbers up.

Arun Kumar: I think the IR team can send you a reconciliation offline, because there are ways of defining a legal entity which could be different from a consolidated point of view. I think the bigger picture in Electrosteel for us is, as far as volume is concerned we have hit is close to 1.5 million ton run rate. And the current EBITDA is around $125. And our target or vision, it's not a guidance, is to get to at least 200 by the end of this fiscal year. So, that it is a good $300 million kind of EBITDA pool for next year as we ramp it up to 2.5. So, these are not guidance, but these are the broad design there. Now the difference in a legal entity could be, there could be pre-acquisition adjustments in the legal entity stable which is more accounting, which typically goes into reserves from the time it take overs, which is what the consolidated accounts would be. So, that could be one reason, but specific reconciliation I would request our IR team to send it across to you. If it's okay with you, Amit.

Moderator: Thank you. The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Sir, my question, again, pertains to bauxite. I am sorry, but I didn't get the 3 million tons bauxite number that you said we are sourcing for Lanjigarh.

Ajay Dixit: That is from the Orissa mines where we have the linkage with Orissa. So, if you remember, Venkat said 250,000 tons.

Ashish Jain: Sir, I thought that would replace the existing bauxite that we are using. So, that remains plus 3 plus 4 is how we should see eventually when we touch 4 million tons or what?

Ajay Dixit: Yes, as we ramp up, you see, our priority of using the bauxite is, first usage is Orissa. So, the question is the security. So, if you will say how do I secure 12, that is the number which adds up to 12. But as we get 3, since as long as the project ramp-up doesn't go through to the complete commissioning stage, we can always substitute the current one with just whatever we are having. So, there are flexibility on the different bauxite source agreements where we can pull up and down. So, therefore, I said that if you look at only the number 12, our ability to source 5 now, 3 from Orissa, 4 from EGA, it totals up to this. We are expecting more bauxite mines and linkages coming also additionally from Orissa. So, our positive side for having more Orissa, that would fructify as the auctioning happens and as they come up for auctioning. But we are not only, let's say, waiting for that and not taking any other parallel action to cut down the risk of resources. We have agreements in place and with flexibilities which we can plug in and out.

Moderator: Thank you. The next question is from the line of Sanjay Jain from Motilal Oswal Securities.

Sanjay Jain: I have two questions. My first question is on aluminum scrap. Could you give us some sense what is happening in the aluminum scrap market? I mean, a couple of years back this market was pretty tight. But suddenly like in the last 1 - 1.5 years, the scrap become oversupplied, especially in the western hemisphere. If you have any thoughts on this, it will be really great.

Srinivasan Venkatakrishnan: I think there are two things happening here. It's Venkat here, I will pick it up and then pass it across to Samir. First, obviously, with the trade war that are taking place between the US and China takes that into account. So, people are looking for dumping ground in terms of scrap in terms of aluminum. And certainly, when you look at the duty structure, it is very low on scrap aluminum imports. So, when you take the combination of these two, no wonder that the scrap imports have actually been going up in India. And Samir can perhaps comment on this further. But those are the two major things which have changed. And unless we actually have a shift in the duty, you are going to see the domestic producers being impacted. Samir?

Samir Cairae: Yes, thanks, Venkat. So, I think there are two parts to the answer. One is what is happening in India, and which Venkat has covered that primarily the trade wars and the imposition of 25% duty by China. And primarily the scrap coming from US and that scrap has to find its way into India, either directly or through whichever routes. B is we can say okay globally why is the delta between, let's say, primary and scrap, as you say why suddenly more scrap is becoming available and the delta is decreasing. I think scrap, like primary, is a cyclical market. And to understand that we will have to look into the supply and demand of scrap in the developed markets of EU and US, and realize that as the delta increases the prices rise, it becomes more economical to collect and to increase the supply of scrap, which in turn increases the supply and again depresses the market, and that is a cycle. And that is the cycle globally has been followed by the scrap, which might be different from actually the primary metal cycle. But to understand in detail you will have to look at the American and the EU scrap market. But for India, for sure, it can be what Venkat said. On the other part, I agree with you, that is happening. Now what are the exact causes? It is actually simple, but the details you will have to look into those markets and understand.

Sanjay Jain: Okay. The second question is on Gamsberg. First part of the question is, when are we looking forward to the commercial production? You did give guidance, but I don't know if the 75 kt will come in fourth quarter or commercial production start sometime during the third quarter. And secondly, it is a repetition of question that we had asked about a year back when we had the Zinc Day in Udaipur regarding the grade of the ore. Now we are more close to the market and you would have checked the final output, what kind of discounts to LME or the premium that you are looking forward to?

Srinivasan Venkatakrishnan: Let me just kick off by saying, certainly we are expecting commercial productions to start towards the end of this month. So, you will start to see production come through in this quarter with the chunk coming through in Q4. In terms of grade, again, let me pass it across to Deshnee. Deshnee, do you want to comment on the two questions?

Deshnee Naidoo: Yes, thank you, Venkat. Firstly, in terms of tonnage, yes, we will be ramping up from now. So, commercial production, in fact, it has started now. And what I am measuring the team on is not necessarily metal in concentrate, it is how much of ore we can push to the front end. So, if you look at 4 million tons run of mine to give us 240,000 tons of metal in concentrate, I will be looking at how quickly we can ramp up to that 300 - 330 mark level. By next quarter, quarter four of this year we should be touching the 300 ton level. So, that is on ramp-up. And in terms of metal, which together with your question on grade, will give us the guidance 75,000 tons that we have guided for the year. That is actually a much better ramp-up than we had anticipated in a couple of months back. And that is simply because with the slight delay that we have had on start up, we have managed, as Venkat said earlier, to build both, an ore stockpile as well as a crushed ore stockpile. So, that is why we are confident. Now that we have constructed the plant, commissioned it, we have proven that it can work. And we will be able to accelerate the ops ramp-up that we had originally forecast. On grade, I am seeing grades on the ground of over 5% as a start, which was the original plan. So, we had guided 6% to 6.5% of an average grade over the life of mine. We are already in almost now 1 million tons sitting on ground, seeing an average grade of about 5.5%. But the bigger question, I suppose you were asking there is, what are we seeing about the manganese? And in the areas that we have already exposed ore, the manganese grade is still what we had planned in ore. But what I am quite liking, and I hope this trend continues, that we are seeing good concentrate grades in zinc over that 44% to 48% and the manganese for now is behaving the way it was predicted. So, we are cautiously optimistic that the plants will deliver the grades that we had anticipated. So, for now, no discount. We are not anticipating any discounts to LME on the metal in concentrate.

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

Rashmi Mohanty: Thank you, operator . As always, the IR team is available if you have any further questions on the financials or any other information you would like about the company. Thank you very much for joining us today.

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