"Vedanta Limited Q2 FY21 Earnings Conference Call"

November 06, 2020

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Moderator: Ladies and gentlemen, good day, and welcome to Vedanta Limited Q2 FY'21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. James Cartwright from Vedanta Limited. Thank you, and over to you, sir.

James Cartwright: Thank you very much, operator. Good evening, everybody, and thank you very much for joining Vedanta's Second Quarter Results. On the call today, we have Sunil Duggal -- our Group Chief Executive Officer; Arun Kumar -- our Group Chief Financial Officer; and Ajay Kapur -- our Chief Executive Officer in Aluminum and Power.

With that, I would like to pass over to Sunil to start today's presentation.

Sunil Duggal: Thank you, James. Good evening, ladies and gentlemen. Let me first focus on the big picture. Let me start by passing on my deep gratitude and thanks to all our employees, who have worked tirelessly to deliver another strong operating quarter for our company.

Through a challenging environment over the last six months, we have continued focus on cost discipline, and efficiency has allowed Vedanta to emerge stronger and more efficient than ever. Thank you, my friends.

As ever, "Through adversity also comes opportunity." These numbers confirm Vedanta is on track to deliver the acceleration in its results and resource base over the coming quarters. We have confidence in being able to deliver the best from our assets and people whilst always being committed to our core values around safety, environment and social responsibility.

Now turning to "Some Key Takeaways from our Second Quarter Results." Resilience and efficiency despite turbulent macro environment and volatile commodity market, we posted a solid operating performance with improvement across our key verticals. In fact, Q2 EBITDA is the highest operating results achieved for more than two years now. Even more so, this has been achieved in what can still be seen as a challenging environment.

This quarter saw accomplishing record production volumes in multiple segments with Hindustan Zinc, touching the milestone of highest ever ore production and record quarterly silver production, while achieving the lowest cost levels since transitioning to underground mining.

Our aluminum business continued with exemplary performance with Q2 FY'21 cost of production down 30% YoY at $1,288. Both our smelters in Jharsuguda and Balco are in the first quartile of the cost curve for YTD calendar year 2020.

The alumina production at Lanjigarh for the quarter stood at 462 KT, up 13% year-on-year, with Lanjigarh cost at $227 per ton, down 23% year-on-year.

Our Zinc International business saw a 33% increase in production QoQ with production ramping up in Gamsberg. I am happy to share that, we recorded highest ever production in Gamsberg in October at 17.1 kt as we are inching towards the design capacity now.

In our Oil & Gas business, our continued focus on operational excellence has enabled us to deliver operating cost at $7 per barrel, while the gross oil & gas production for the quarter was 165,000 bpd as compared to 159,000 bpd in Q1.

In our Steel business, we have had a sharp rise in margins quarter-on-quarter with October margin moving up to triple-digit at more than $100 per ton. Our key growth projects are back on track. And as ever, the expansion is being delivered through strict capital allocation and balance sheet focus, aimed at creating value for our stakeholders.

On our "Financials", we achieved an EBITDA of Rs.6,531 crore, with robust margin of 36%. As I have said, this is the highest quarterly EBITDA result for more than two years and is testament to the strength and resilience of our business. Attributable pre-exceptional, pre-dividend PAT is Rs.1,979 crore, up 75% QoQ. Our balance sheet continues to be strong with net debt-to-EBITDA at ~1.2. We will talk more about business performance and financials in the upcoming slides.

But before we do, I would also like to highlight some of the new initiatives we have been implementing across the group since my appointment, much of which involves the digitization and use of technology to drive operational performance, accountability and growth.

Vedanta Spark is a global open innovation platform that was launched very recently. It aims to partner with a wide variety of niche global startup to address opportunity across 16-business teams and 75-plus innovation challenges. The focus is on leveraging startup innovation to drive higher operational efficiency as well as using technological solutions to benefit everything we do across health, safety, environment and sustainability.

"Asset Optimization and Asset Performance Management." Vedanta is now deploying predictive analytics in its critical asset across mining, smelting, oil and gas operations. Through the use of Big Data, these tools help predict the end asset expected performance ahead of time, allowing improved maintenance schedules and uptime, set optimization continues to be standard technology deployment across the group with the aim of having real-time visibility to track and improve group asset optimization KPIs. The impact is far reaching from production optimization to sustainability and waste management.

"Digital Commerce for Metals." Vedanta has recently gone live with an eCommerce platform for zinc business and is now embarking on moving to a fully online sales platform for all its metals. This will bring transparency, reduce cost and greatly enhance our offering across our different customer segments.

We, at Vedanta, have always believed in the transformational approach to improving our performance. We have restructured our marketing and commercial contents into an integrated structure, enabling us to simplify the buying and selling organization, creating four category expertise and unlocking greater efficiencies. The integrated function will act as a captive center in charge of all buying across commodities, spares and services and will be responsible for marketing and market development, while bringing in best practices in contracting, operations planning and supply chain, digitization and eCommerce. With this transformational, we look forward to unlocking significant value for the group under the leadership of Mr. Sharad Gargiya, our Group Chief Commercial Officer.

These are just some of the measures we are implementing. All of these are aimed in better positioning ourselves to leverage our scale and synergy with cutting edge technology, asset performance, integrity and safety, as we embark on this next phase of growth.

Now, I come to “Macroeconomic Environment.” Before we move on to the performance in detail, a quick glance at the macro environment. Since end March 2020, we have been passing through an unprecedented period due to the COVID-19 pandemic. Some months later, I am pleased to say that better management protocols for disease and preventive measures have enabled us to operate at full capacity again. This coupled with government policy measures have helped contribute to the resilience we have seen in much of the Indian economy.

I thought it worth highlighting a few points here: Manufacturing PMI recorded fresh 8-year high in September ‘20 at 56.8% from the low of 27.4% in April ‘20. Passenger vehicle sales in July to September registered 17% growth. Steel production has grown every month-on-month since May. Export also bounced back to pre-COVID levels in September, narrowing the trade deficit.

Prices of metal like zinc, aluminum, copper, lead and silver rallied surpassing pre-COVID levels, backed by massive fiscal and monetary measures adopted by developed countries like US, EU and Japan. Oil prices have rallied back to about $40 per barrel although structural supply/demand concerns keep prices subdued for longer duration. Likewise, we run our business assuming downside risk continue. Prudence means price should come back on the pressure with the resurgence of coronavirus cases and additional lockdown measured in Europe and elsewhere in the world. Counterbalancing that we highlight the general resilience being seen in global emerging markets. We note the strong performance in China’s GDP, which registered 4.9% in Q3 2020. The steady growth in industrial production in China is also expected to augment commodity demand.

Now coming to “Safety, Environment and Sustainability.” Starting with to “Health and Safety Management.” Throughout the COVID-19 pandemic, our focus has been to maintain business continuity while ensuring employees, business partners and communities remain safe. Following all government guidelines, we have also deployed an internal business task force to closely monitor the situation on the ground. We have recently launched a dashboard for live tracking of the number of COVID cases across the group. We have also completed internal and external benchmarking to ensure we are following the best-in-class COVID mitigation norm and continuously meeting or exceeding the government requirements.

We began this fiscal year with a strong commitment to improve our safety performance journey, while there have been significant gains made across our businesses, and all our businesses are implementing continuous improvement program to achieve our vision of zero harm. We are deeply saddened by the loss of three lives in this quarter. We have completed the in-depth incident investigation for these fatalities. The learning from the incident are being reviewed with all our employees and business partners for implementation across all our BUs. The closer or the actions from lesson learned will be tracked and monitored at our exco level.

Now coming to "Environmental Sustainability Management," On environment management, our focus remains on tailing dam risk assessment, monsoon preparedness of our tailing and waste management facilities and monitoring high risk non-compliances. These aspects are being continuously monitored at group and BU exco.

On Carbon, FY'2020 was the end of cycle of our GHG emission intensity, reducing target, we have been managed to reduce our GHG emission intensity by nearly 14%. Since then, we have further reduced our GHG emission intensity, and the number now stands at 16.65%. This reduction is equivalent to 10 mt in avoided GHG emissions. We are currently in discussion to set up long-term GHG emission reduction target in FY'2030 for the business. The carbon forum, which is apex body on setting up the carbon agenda is deliberating the optimal target that are in keeping with the global expectation and business reality. In cognizance of the importance of this subject for the company, we have appointed a Director, Carbon and Social Performance, who will drive this agenda. I would also like to highlight the release of our "12th Annual Sustainability Report", that is now available on our website for all to read.

Now come to our "Business Verticals -- Hindustan Zinc's Lead and Silver." During the quarter, our mined metal production was up 9% from a year ago to 238 kt on account of higher ore production. Sequentially, mined metal production grew by 18% supported by higher ore production resulting from better mine planning, effective targeting with increased use of technology. However, this was partly offset by decline in metal grades and lesser ore treatment. Integrated metal production was 237 kt, up 13% from a year ago and 18% sequentially in line with availability of mined metal with zinc at 180 kt and lead at 57 kt. Salable silver production was 203 tons, soaring 51% YoY and 73% sequentially due to increased operation of biolead smelters, better grades at our SK mine and higher concentrate inventory.

Turning to Zinc International, we witnessed increased production in the Gamsberg mine at 35 kt in Q2, up 38% QoQ with recovery on an upward trend, increasing by 9% from Q1. Initiatives are in place to increase plant efficiency and output. BMM produced 15.6 KT MIC in Q2, an increase of 30% QoQ, supported by efficient COVID management and production initiatives. Significant production improvement initiative like old ore recovery, Swartberg lower ore body recovery and broader efficiency initiatives are being carried out to increase H2 production.

Coming to "Oil and Gas," gross oil and gas production for the quarter was 165,000 bpd as compared to 159,000 bpd in Q1 FY '21. Our continued focus on operational excellence has enabled us to deliver operating cost at $7 per barrel. We have completed the Ravva drilling work program. This program added gross volume of over 10,000 barrels per day. The new gas terminal is ready, and the gas has been introduced in the terminal now. We expect sales to commence from December. The commissioning of this gas terminal which has increased our gas production from around 135 million scuff per day to 240 million scuff per day.

In Aishwariya Barmer Hill, surface facility construction as well as well hookup shall get completed in Q3, and this shall increase our production from current 7,000 bpd to 15,000 bpd. We shall also complete the polymer injection Bhagyam & Aishwariya, leading to full field polymer injection to increase recovery rates. Mangala processing terminal upgradation project has also get completed during the quarter leading to incremental volume handling capacity by 30%.

In other blocks, we have completed FTG, Tata acquisition in Assam and Cambay. Our current efforts are focused in Rajasthan block under OLAP, provide early monetization opportunity. Hence, based on Tata in prospect, we are commencing drilling of wells in Rajasthan in Q3. This shall be followed by drilling in Assam and Cambay in Q4.

Now coming to "Aluminum." In our Aluminum business, we saw a strong quarter in terms of our alumina and aluminum production cost. The COVID-19 business impact has started to subside now. Likewise, we are in regular conversation with our suppliers and customers, all of which also see similar positive trends in market. Through continued team effort, we continue to run our supply chains well and expect supportive trends to continue.

Our Aluminum sales performance for Q2 stood at 469 kt. We dynamically altered our production mix during the Q2 exactly meet our customer requirements. Q2 saw lower cost of production at Lanjigarh at $2.27 due to benefit from improved plant operating parameters and improved conversion costs.

On Aluminum, our Q2 hot metal cost of production is one of our best performance; standing at $1,288, 30% lower year-on-year. For our long-term raw material security, Vedanta bid and won the Radhikapur ore block in the recently held 11-tranche ore mines e-auction under the coal mines at 2015. We won this with a bit of 21% revenue sharing. The Radhikapur ore mine is in the State of Orissa, Talcher coal field, fully explored and has total reserves, crude plus indicative of approximately 312 mt and 6 mtpa capacity. This has the potential to meet our coal requirement for the group, especially for power generation at aluminum smelter, and in addition to presenting commercial sales opportunity. Our power cost saw significant reduction as Cool India reduced auction coal prices. This was aided by improved input commodity prices as well as power regulatory costs. We have refocused our entire aluminum operations for manufacturing and commercial excellence through a dedicated program, project "Vijay Path" that target our cost and margins as a KPI.

Now coming to "Iron Ore and Electrosteel." Turning to iron ore, first, our sales in Karnataka were at 1.3 mt, significantly up YoY, while our pig iron production went up 6% to 186 kt. In Goa, we have continuously engaged with state and central government with the support of people adversely impacted by the Supreme Court statewide ban for the resumption of Goa mine.

Our Electrosteel plant saw lower production, down 3% in Q2 QoQ, primarily due to COVID, but the EBITDA margin improved significantly due to stronger steel prices and high focus on VAT which was 71% versus 44% QoQ, amidst domestic demand opening up. During the quarter, we achieved lower ever cost of $349/ton supported by lower input commodity prices.

Now coming to "Strategy to Enhance Long-Term Value." Before I hand over to Arun, let me reiterate our strategic priorities to drive long-term value for all stakeholders: One, ethics, health and safety and our social license to operate. Two, expanding our reserves and resource base in a sustainable manner. Three, continued track record of delivering value adding growth in all our businesses: Four, strict capital allocation and balance sheet focus: Five, delivering the best from our assets and people.

Now I hand over to my friend, Arun, for his presentation.

Arun Kumar GR: Yes, thanks, Sunil, and good evening, good morning, everyone. I am on the first page, "Financial Snapshot." As you observed so far, these numbers represent a good come back amidst stressed operating environment, both in terms of the mix, global economic demand trajectory as well as the supply chain impact given the pandemic. The operational performance, both year-on-year as well as quarter-on-quarter shows a significant growth in bottom line driven by significant structural cost improvement as well as moderate volume pickup. Hindustan Zinc demonstrated improved production and cost record silver recoveries. Aluminum, as you can see, is the third consecutive quarter where the costs are around or below the 1,300 mark per ton of hot metal. Gamsberg ramped up at a design capacity as we exit Q2. In fact, October month production was in excess of 17,000 tons. Oil & Gas is again slated to deliver a better H2 just like zinc, aluminum as the projects come online.

The guidance for FY '21 is given for the first time this year in the annexure.

The headline numbers, our EBITDA at Rs.6,331 crores, highest in 10 quarters, up 45% year-on-year and 63% sequentially. Margins above 35%, again, highest in last 10-quarters. Net debt-to-EBITDA continues to be robust at 1.0 to 1.25 range on a consolidated Vedanta limited basis. Attributable fee exceptional pre-dividend tax PAT at Rs.1,979 crores is up 75% year-on-year. The detail income statement is available in the appendix.

Everything along the expect lines with a few key points that I would like to highlight as below. Depreciation reduced year-on-year, majorly due to the impairment of oil and gas in Q4 FY'20 saw a lower base. Quarterly depreciation for H2 is likely to be around these levels, maybe marginally upward bias given the higher projected production in Hindustan Zinc, Gamsberg and oil. The finance cost reduced marginally, again in line with the softening trend of the interest rate environment. H2 quarterly trend is likely to be marginally higher. Investment income declined year-on-year as well as quarter-on-quarter due to significant mark-to-mark positive movement in both those quarters. This particular quarter, the interest rate movement has been fairly flat… the yield curve in India. The underlying earnings are around 6% pretax on the investment surplus. That should continue for the rest of the year. During the quarter, on the tax line, there was a one-time tax charge of about Rs.1,200 crores, primarily due to the dividend income offset against the carried forward tax losses, thus releasing some of the deferred tax assets from the balance sheet. So pretty much I would say deferred tax accounting. It is book entry. The normalized ETR is 29% excluding the stack that we spoke about. And the full year guidance is also around 29%, 30%, has been fairly consistent even last year around the same level. So that is the guidance on below the EBITDA lines as usual.

Now I will move on to the next page, EBITDA bridge year-on-year. As you can see, the price of its currency and its cost story all the way as we held and improved volumes marginally. The structural strength in aluminum business was well over Rs.1,000 crores of operational cost improvement along the benefits of input commodity deflation, notably coal comes through prominently on this stage. Margin improvements in iron and steel, lower cost in oil and gas, all show up.

Moving on to the next page on the "Sequential EBITDA Bridge." Again, self-explanatory, as the price recovery was quite sharp this quarter. But more importantly, volumes were back at normal. The share of domestic sales went up reflecting on the realizations and yet cost stayed where they were with the aluminum business squeezing out some more costs this quarter. This is a good and strong comeback that I referred to at the start of the briefing.

Turning over to the "Net Debt" walk page. Net debt-to-EBITDA was maintained at a low level of around 1.2, again on a consolidated Vedanta limited basis. And net debt as an absolute number remained flat quarter-on-quarter around Rs.27,000 crores. Strong cash flow from operations were driven by high absolute level of EBITDA and a controlled low CAPEX spend. On working capital, inventory liquidation was offset by supply obligations arising out of our prepaids, basically what I would say, timing differences and should plug back typically in Q4 when new contracts come in, in the new calendar year.

The FACOR acquisition, a small synergistic one to our steel business as part of the IBC process has now been completed. And it involved an upfront payment of Rs.56 crores and the debt of about Rs.280 crores represented by zero coupon debentures redeemable in four equal installments starting from March 2021. We hope to make a success out of these acquisitions just like Electrosteel.

On the intercompany loan, a further Rs.1,562 crores or $200 million were extended during the quarter. And more post the quarter end, which brings to the total outstanding capped amount on date to $956 million with an average maturity of 2.2-years, and hence lower than the 1.05 billion facility reported at the end of Q1. Our repayment schedule is further enclosed in the annexure. The loans were extended primarily as part of cash management activities of the overseas treasury, returning better rates and to preserve the group liquidity. The next $207 million will be repaid by June 2021 as the annexure page says, as originally committed in the Q1 release, referred 301 was the total outstanding. And the balance will essentially be about $300 million repayment every year.

Moving on to the next page on "Balance Sheet." Our key focus on the balance sheet management was to refinance maturities while also extending the maturity profile. And we expect to close the calendar 2020 with close to about 3.8-years average maturity, we are already at about 3.5. Broadly, as you see the bar above, FY '21 is largely all clear. Credit rating at 'AA- 'level stable. And we hope that with the improving operations profile, we can reengage agencies to get back into the upgrade triggers. The interest cost and investment income rates are in line.

The last page on "CAPEX Guidance." We continue to allocate capital wisely. And the focus this year has been on preserving capital, while we complete ongoing projects in oil and gas. Full year guidance will be $0.6 billion, lowest in the last five years with an optionality of an additional $1.1 billion around the alumina refinery. Future growth plans around Hindustan Zinc beyond 1.2 MTPA, Gamsberg Phase-II or refinery in Skorpion, completion of the steel capacity, alumina refinery, oil ASP and exploration will all be updated in Q4, depending on the feasibility and progress if any in each of those projects.

The objective of this year will be to deliver significant cash, strengthen the balance sheet, take care of debt maturities and invest wisely in growth capital that can increase profitable volumes across business verticals.

Thank you. And back to Sunil for his final comment.

Sunil Duggal: Thanks, Arun. Let me take this opportunity to state again that Vedanta is uniquely positioned as one of the largest diversified natural resource business in the world. Our businesses benefit from the abundant mineral resources that India and Africa have to offer.

On the balance sheet, we stay focused on debt management. We continue to manage the maturity profile proactively as well as staying ahead of the regulatory and market changes.

Now "Key Investment Highlights." We believe the opportunity ahead for Vedanta remains incredibly exciting. Our large-scale diversified portfolio with attractive cost positions in the core businesses, position us well to deliver strong margins and cash flows through the commodity cycle. India is Vedanta's core market and one which has huge growth potential. We are strongly and uniquely positioned to benefit from this growth. With our earlier investment, driving our cash flow, we have a strong pipeline of self-funded, high return growth projects to further solidify our leading positions across our portfolio. We are consistently striving to improve our operations, integrate our businesses through the value chain and optimize our performance through operational efficiencies and innovative technology solutions.

Before we wrap up, a quick summary on the guidance for the year which can be referred to in our presentation. "Zinc India." We have already guided our MIC and finished metal production at 925 to 950 kt and silver at 650 tons this year, at a COP of less than $1,000 per ton.

"Zinc International." We expect Gamsberg production at 150 kt to 160 kt at a cost of $1,200 per ton, while BMM is anticipated to clock around 65 kt this year.

"Oil & Gas." Gross volume is estimated to be 170,000 bpd to 180,000 bpd for the year at a cost of $7.50/barrel. Exit rate production is expected at 190,000 bpd to 195,000 bpd. Aluminum metal production is expected to be around 1.9 mt to 1.95 mt for the year as a whole, while the alumina volume is estimated to be between 1.8 mt to 1.9 mt. We expect our hot metal COP to be between $1300 to $1350. Iron ore volume at Karnataka is expected to be around 4.8 mt. Steel, hot metal volume at ESL is expected to be around 1.3 mt.

With that, I would like to thank everyone for joining this call and open the call for question-and-answer.

Moderator: Thank you very much, sir. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: I have a couple of questions; the first one is on intercompany loan. So far it is $956 million. I mean, are you in a position to confirm that it will remain at $956 million or is there a chance of it increasing further as a part of your cash management activities?

Arun Kumar GR: Yes, it will remain at $956 million, and it will keep coming down as per the repayment schedule.

Amit Dixit: The second question is on the impairment charge that you took in oil and gas in Q4. Now, with things recovering, your own production has also recovered, the production uptick and realization has also gone up. So, do you envisage the reversal of this impairment? If so, when can we expect that?

Arun Kumar: If you look at the Q4 as well as the annual report, the details would be given there, in the sense that the oil prices that we have assumed for this year and the next year and the long-term average is probably around 52 to 54 range, right. So, these prices were the main reason why the impairment was taken. And once we have consensus reports which are well and above that price range, and perhaps it is still some time away to get to that level. It is not because oil went down to 30 on a particular day that the impairment was taken. So, all those detail assumptions we have shared there. And our own sense is that it will all depend on the consensus price estimates. Of course, having said that, you would have noticed in Sunil's briefing that he talked about certain capital that could potentially go into Rajasthan exploration also. And, in one of the charts, the OALP exploration is also covered. So, any success from Rajasthan exploration increasing the reserves can theoretically lead to a write-back including on the gas side which we hope with the surface facilities, whether the wells itself can produce more and get the reserves, will all be future events to take note of. Having said that, in the past, probably FY '18, we also had impairment reversal. Technically, it is possible, but it depends on all the assumptions, reserve position and the price position in the future.

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

Sumangal Nevatia: Sir, first question is continuing with the previous question on ICD. I just want to ensure beyond what levels one would require shareholder approval. And secondly, what sort of security of collateral have we sought from VRL for the protection of Vedanta minority given the high leverage and high risk at VRL?

Arun Kumar GR: I think two things; one is the intercompany loan that has already been extended, is from the overseas oil subsidiary which is CIHL. And all the regulatory conditions have been completely adhered to there and did not need shareholder approval nor the board approval of Vedanta Limited. It did have the independent board approval of CIHL. And as I mentioned in the previous answer, it is now limited to $956 million and will start coming down from here as per the repayment schedule. And hence the limit will not go up nor will the loan not go up. In terms of security, as again disclosed in annexure also in the Q1 results, this is unsecured in nature. There is no security that was felt required in this transaction, which is why it carries an attractive coupon of 7%, and hence, can be earnings-accretive to Vedanta Limited as a legal entity or at a consolidated level.

Sumangal Nevatia: Next question is on the dividend. Considering our policy on passing on Hindustan Zinc dividend, we have so far passed on approximately one-third of what we have received in the last two dividend. So, is it possible to share what is the plan for future dividend payout, do you want to stick to a policy?

Arun Kumar GR: Yes, the dividend policy was framed in 2015. Same is absolutely available on our website and I would encourage another download and a reread of the same. The dividend policy would clarify that there are various scenarios where a normal dividend pass-through would not necessarily occur in scenarios where there are prolonged strikes, lock outs, natural calamities, when prices fall sharply of the LME and other such situations are listed out there. And finally, of course, it is also commonly known, it is a matter of the board decision as to the pass-through, as well as what we term a special dividend also, is a decision of the board on a case-to-case basis. So, with that, I would defer it to the wisdom and advice of the board in terms of passing on the dividends in the future. But yes, the past trend has been that the board has taken those decisions to pass-through. So, it will vary from year-to-year depending on the need liquidity and the circumstances.

Sumangal Nevatia: Just a follow-up. In case we do not pass-through, we will have a tax liability on that, is that the right understanding?

Sunil Duggal: As per the tax rules around dividend, there are two things that happen. On a book basis, dividend suffer minimum alternative tax liability if you are on the MAT regime, and Vedanta so far has had a tax shield even on the MAT. In terms of the normal tax computation, which is the non-book tax, it gets a set off versus the pass-through based on Sec. 80M. So, at any point of time, we also optimize to see that there is no tax suffering and so far, this year we would have achieved that at this point of time. But yes, theoretically, any dividend received will be subject to MAT as long as you are in the MAT tax regime.

Moderator: Thank you. The next question is from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: Two questions from my side; first, on aluminum business. The guidance of 1,300 to 1,350 COP for the full year implies about $100/ton higher COP for the second half. So which head do you think that the cost could go up, and what are you going to mitigate this?

Sunil Duggal: So, if I may come up, see, the cost is more like dynamic in nature and there is some hedging cost involved also. So, if the commodity prices look up, we have taken a margin that this could happen because of that. And secondly, although we have been able to secure the coal up to Q3 and going forward also, some coal for Q4 is also being secured, internally, we are hopeful that we should be able to control the cost at the current level. But just as abundant precaution, we have given the guidance, and our actual cost could be much within this cost.

Ajay Kapur: I think more or less, what you said is I agree fully. And for the guidance purpose, we are always more conservative. Having said that, some part of our cost is the imported alumina, whereas LME goes up, the alumina generally tends to follow the API, there could be some cost escalation there besides, of course, the exchange rate. Other than that, I think operationally we are more or less in the right trajectory, and I am very confident we should be able to maintain it.

Indrajit Agarwal: Second question again, on the capital allocation. I just want to understand, is there any restriction or clauses which restricts us to upstream the cash at CIHL to the Vedanta Limited entity here in India? The reason I ask is could you have used this cash to release the pledge on its shares or any other debt repayment at Vedanta Limited level?

Arun Kumar GR: So technically, the way to upstream the cash from CIHL to Vedanta Limited, the dividends or buyback of shares by CIHL. And if you refer to FY ‘20, we have done it during the year FY ‘20. So, the best use of the cash pools or the treasury cash pools at various legal entities, would depend on the need as well as the attractiveness at various points of time. And since you mentioned about the Hindustan Zinc share pledge, it is not a share pledge loan just to clarify, it is not a margin loan, it is absolutely regular loan which is secured by the normal fixed asset cover which anybody else has. Since the negotiation happened during the peak of the pandemic time, you could say that slightly different terms were negotiated and perhaps expected. And it is our pleasure to do business with State Bank of India, the country’s biggest and most prestigious bank and a fantastic set of teams there who have been very supportive during the crisis to Vedanta. And hence it is an additional security given only. So, I would say that it also has prepayment conditions. So, with this kind of performance, we are confident that perhaps the pledge can be reversed in the future.

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

Ritesh Shah: Sir, my first question is, how should one look at the debt maturity at VRL level? And on the basis of that, you did indicate probably the intercompany loans do not exceed $956 million. But, can you help us provide more comfort on the debt maturity and cash flow at VRL level which does help us better understand that I see treasuries would not increase going forward?

Arun Kumar GR: Broadly without going into too many details of VRL, it is a VEDL call broadly, you would notice from all our public disclosures that things have sorted out till the end of this year at VRL. And in future, the financing for the next 12-months after that, would be a combination of refinancing and repayment because we do have enough operational cash flows as well as a good amount of treasury balance as you can see. And there is enough time to work out the specific course of action going forward. Again, as I reiterated earlier, the intercompany loans have been capped that amount with the fixed repayment schedule. And if it is of any comfort, there is also a difference in the way we approach the approvals going forward. All the subsidiaries, intercompany loan transaction will also come to the Vedanta Limited book. So, it has additional oversight for your comfort.

Ritesh Shah: Sir, correct me if I am wrong. The debt repayment number for the next 21-months which I pulled from the last bond document is $6.6 billion, including $2.2 billion at the company level. So, this was a pretty steep number. And so, what are the additional cash flows besides the upstreaming of dividends that we have from Vedanta to VRL? Are we having alternate avenues, any other plans on asset divestment at the promoter level which gives us confidence that this is something if you reach out at $956 million?

Arun Kumar GR: I think I would like to have some clarity on the numbers that were quoted. I think maybe we can handle it offline because the numbers are a little different and lower than what was quoted. So maybe we can help you with that offline. But having said that, in a generic way, one of the two avenues or three avenues for us would be definitely our cash flows, as you see, looking almost $1 billion per quarter run rate. Second, refinancing, which I already mentioned, we continue to have excellent relationship with all the banks as well as a very good relationship with all the bondholders to go back for any capital market transaction despite the level at which the yields are for the parent bonds. And last but not the least, yes, the management will certainly look at all options, including asset disposals or any other strategic options if the need arises.

Ritesh Shah: Sir, secondly, post RBB failure, though the management at Vedanta level be open to creating equation or potentially an open offer given valuations are quite a discount to where it should be, so sir, what is the thought process over here?

Arun Kumar GR: My sincere apologies, we will be unable to comment on market related activities as it will be largely speculative in nature. If and when thought process emerges, then whatever are the processes of announcements, we follow it at that point of time. So, answering questions on this bucket would not be possible because they are speculative as I said.

Ritesh Shah: Any clarity on PSC extension, there is point #4 in notes to accounts, which is there, but I think there was another case on Ravva block as well which worked in our favor. So, if you could provide some finer details on PSC as well as Ravva block, that will be quite useful?

Sunil Duggal: So on PSC extension, as you know that government has given the extension in 2018 itself for 10-years, but subject to the condition that the Condition-G would be met, Condition-G is that there were certain audit demands. So, it actually means that when the PSC is to be given, there should not be any due. But by that time, they had raised some audit demand which was a cost allocation and the pipeline cost which we believe that is not tenable and not payable at this point of time. And as per the agreement, we were to go to the sole arbitrator but then with the mutual consent, we went to the arbitrator, and now as we stand the cases there with the arbitrator, but in the meantime, the government has expressed the opinion that they want to securitize the amount. But we are talking to the government. Government is inclined to actually file a consent to the court or the arbitrator where we can easily say that once the arbitration is settled, then they can recover the amount from us. But till such time, the amount is not established, they will not have the right to recover the amount from us. So, I think that alignment is going on. But in the meantime, they have given the extension to us for the next three months' time. And we are in touch with them, and they have said that we will be very excited to resolve it within the next few days' time so that the ESC could be signed. And the government itself is very, very exciting. And they have given the assurance that since our projects are going on and we also have the plan to put up the ESP facility there to improve the R&R and to improve the production from there. So, we are in an alignment with each other. You will hear in the next few days that we will be able to sign the PSC.

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

Pinakin Parekh: Sir, my first question relates to the capital allocation. Till a few quarters back, we used to hear a lot about potential growth projects at Vedanta, which included oil expansion, which included the Lanjigarh alumina refinery expansion. But it seems that those projects have been put in cold storage. There are no updates on that. So, just trying to understand the reasons why these projects are not being aggressively pursued. Is lack of capital availability is constraint?

Sunil Duggal: No, it is not a constraint as such I would say. As the commodity prices have changed, so we have evaluated all the projects. The different projects we have categorized in different categories like oil and gas, you are saying, some of the projects which are coming up and expected to deliver the volume this quarter itself, we continue to go with those projects. But some of the projects like ESP projects which you are saying, it was very capital-intensive, and the fruits of that was also supposed to come in the next two to three years' time. And breakeven crude prices up, that project is around $50 plus. But then we went back to the government and said that it is not tenable, and this project cannot be viable. And it is also very important to build the energy security for the country. So, government is looking at offer some incentives for enhanced oil recovery. So, they are formulating a policy, which is an approval stake, and they are putting it up for the cabinet for the approval. And that is why we are holding on this. Like other products you are saying, I mean, we are very excited, we want to go about it. But in the current context, we want to optimize the cost. We are negotiating with the different parties as to what could be the innovative ways of executing the projects. But we definitely will want to go ahead with the alumina project and some of the other products like in pot line VI, some of the pots we already started. But we have devised the innovative way of funding in which the deferred payments will be there. So, in the current environment, it is very important for us to be careful and to be able to evaluate the project so that it makes actual sense for us.

Pinakin Parekh: Sir, my second question is when I go to 'Slide #17 of the Presentation' on the term debt maturities of Vedanta Limited between FY'22 and '23, there is nearly Rs.24,000 crores of term debt maturities. Now, sir, given where the situation is, how does the company look at this maturities, would it be rolled over, how is the interest cost, should it trend higher or will it stay at these levels when this debt is rolled over or repaid?

Arun Kumar GR: Pinakin thanks for the question. I think what we like to focus on is on the bottom bar that you see where we can clearly see that in the last three, four years, these are maturity profile at the time of that particular quarter. So, despite the passage of time, we have improved that maturity profile. And that is exactly where we will continue to focus on. There is a need to refinancing arises. Having said that aside, as you heard the story from aluminum, and even oil and gas at $40, $45 level, and hopefully, when the copper thing comes back perhaps end of the year or early next year, as Sunil briefed earlier, there is enough cash flows at Vedanta limited that we may not need to refinance a large part of this debt, be it at the subsidiary level which they take care of themselves and at the standalone level. So, I would say with this kind of cost profile and earnings generation, a part of this will come up for refinancing, and we do not believe that is an issue because if you look at our past history, we have been extremely strong in the way we refinanced and done it proactively. We are now improving the maturity profile and having done a lot of long-term financing even in the last six months where admittedly the COVID environment and the sort of the risk of environment in the financial and the banking sector was there to a certain extent, mainly because of our deep relationship with all the banks, like I mentioned, the example of State Bank of India earlier. So, I would say it would be a combination of that, you would start relying more and more on the cash flows as you see the business come up.

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

Raashi Chopra: So, I wanted two clarifications please; one is on the dividend policy. Is the policy that the dividend received from Hindustan Zinc has got to be upstream, is it still in place? And if so, what is the time horizon within which it needs to be upstream? Second is, in case of upstream of any loans to Vedanta Resources, is there a cutoff up to where you need or beyond which you need shareholder approval?

Arun Kumar GR: So, the first question is on the dividend policy. As I mentioned earlier, there is no change in the dividend policy, and we have not made any edits to it since it was posted and approved in 2015. The dividend policy talks about a minimum payout of 30% from Hindustan Zinc. And for

Vedanta, minimum payout of 30%, excluding the Hindustan Zinc profits plus the pass-through of the Hindustan Zinc dividend with decision points on special large dividends resting with the board. And in addition, the policy will also say it is, as would be normal with any company, it will be the prerogative with the board, given the fact that they have to take the environment into account, like if the company does not have any profits or whether there are prolonged natural calamities, COVID is very, very clear example of that as well as it specifically says that the prices of the commodities, etc., crash, which is also a very clear situation in the first half of the year, impacting the future profit substantially or where the liquidity needs to be protected. So, there are various things laid out in the dividend policy. And the board in its wisdom takes all of it into account while deciding to pass-through. In the past, we have passed through those dividends largely within the same financial year primarily to optimize on the BDT credit as you would remember in the old regime. And in the current regime, we are still tax efficient in the current situation despite not having passed on for legitimate reasons as decided by the board. I hope that addresses the first question. And the second one, in terms of loans to VRL, yes, there are very clear limits laid out under the Companies Act, and they all require board and shareholder approval, largely. And as I mentioned earlier, these are from the overseas entity which is not under the framework of the Indian Companies Act, the LODR and there is a certain level of flexibility and a degree of freedom seen from there. But as I had also mentioned, 956 is the cap and it will start coming down as per the repayment schedule as I would like to reiterate. Thank you.

Raashi Chopra: Just one question. You had mentioned how much of this 956 was in the second quarter, I missed that figure and then how much was it post the quarter, just if you could give me that please?

Arun Kumar GR: As per the first quarter disclosure, the facility was 1050, 1.05 you would have noticed in our late results declared albeit first week of October for first quarter and that has now been reduced to 956. And of that, 207 gets repaid by June 2021 and thereafter 300 every year.

Moderator: Thank you. The next question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.

Amit Murarka: So, my question is again on the oil and gas business. On the production kind of a level, so we have been seeing production stagnating from marginally declining actually versus the guidance of rampup. So, what is the visibility on ramp up being achieved let us say in the next 6 to 12 months given that actually some of the growth projects are getting postponed?

Sunil Duggal: So, it is not getting postponed as such. You see there was a COVID impact and virtually, some stoppage of the projects has taken place. So there were 7-8 projects which were going on starting from ASP project in which my friend said that which has been put on hold now because of the oil prices, but there are 6-7 projects which are on track now, getting commissioned in the current quarter and this will get ramped up in the next quarter and that is why we said that the current quarter exit rate could be around 180,000 barrels and the FY21 exit rate could be around 195 or so, 1000 exit rate. What are the current projects? So, one is the gas project. We are making around 25,000 barrels per day equivalent gas from the existing resources, but the wells are drilled. The wells have been fracked also. And the surface facility that the Petrofac plant is completed, the first gas has already happened, and the plant is getting commissioned. So maybe later in this month, we will start producing and then the ramp-up will start. This will double the gas volume in the next 2 to 3 months' time from existing 20-25 to 40-45 in the next 2-3 months' time. Apart from that, we are also enhancing the liquid handling facility by 30% because as the decline happens, we require some more polymer and water into the wells to suck more oil and this facility is also getting commissioned. The 80% of the commissioning activity has already happened and part of the facility also giving the result now. And the oil production from the MBA is looking up. Apart from that, there is another project polymer injection enhancement project where the additional wells, injection wells, production wells are also drilled, and the surface feasibility is getting commissioned. So that is being put up by the Halliburton. The liquid handling facility being done by L&T, then Petrofac is doing the gas project, but apart from that, the tight oil project is also getting commissioned. So, the commissioning is going on as we are speaking. And then Rava project is almost completed. So all these projects will be able to deliver the volume as I told you earlier, but apart from that, as I told you that some of the early monetizing facilities we are trying to encash in Cambay in Northeast Assam and in Rajasthan. So, we have prioritized those facilities where the success rate could be very high, and the volume addition could become very quickly. So, the drilling is about to start in all our blocks in Rajasthan. In the next month or so, the drilling may also start in Assam and then followed by Cambay. So, all these 3 places what we are trying to do is that we are trying to make a modular concept. We are drilling the exploration cum production well, not the exploration well, exploration cum production well. And as soon as the well is drilled, we start pumping the oil and there is a self-funding process by which the success from that well proves that there is oil around and the multiplication of the wells will take place. So that gives out an opportunity that with these wells, although there are not many months left, we are still thinking that 5000 to 6000 barrels of the additional opportunity would come depending of course on the success rate, but the chances of success is very high and this could add around 5000 to 6000 barrels, but this will open up large opportunity to add the volume next year, maybe to the extent of 25,000 to 30,000 barrels. But apart from that, ESP project we are trying to redesign and make a modular concept where a big success facility. We will not put up at a very high cost and we want to make it sustainable and payable at the current oil prices, so redesign is going on. But apart from that, there are some satellite fields, where some drilling has been done. Some geotech issues we face there, but we are trying to redesign with our partner, Halliburton and this project will also restart. But all in all, out of the total projects, 70% projects are on track which will add on the volume from this quarter to the next quarter to the next year.

Amit Murarka: Thank you for your elaborate answer. Also, on the PSC contention, are you disputing just $364 million that the demand is there or also the additional profit share which the company is asking us per the renewal policy?

Sunil Duggal: So, there are two aspects of that. One is that $356 million which you are saying that government is demanding which is a cost allocation Mangala and Aishwarya from DA-1 to DA-2. So, there is a cost recovery issue from which resort we had to recover through the profit petroleum. This was actually approved by the government. It was done and dusted, previously audited and much later some other auditors came and made the audit of objection and then government could not negate it and they had to make a demand from us. We have disputed that demand because it is all approved from ONGC, all approved from DTH, Ministry, audit was done, and it was closed. So, from our viewpoint, the demand is not tenable. Government also directly-indirectly agreed, but this has to pass through a certain process and that is why the government want to securitize this amount as a condition of the PSC extension because the condition of the PSC extension is that there should not be any demand at the time of renewal of PSC. So, we are trying to file a consent order in the court wherein we will align with the government that this could be recovered if after arbitration, the demand is established. So, this is what where we are, and I think we will be able to resolve this in the next few days' time. The current extension they have given up to 30 crores January 2021. This is where we are and second question, you said about.

Amit Murarka: The additional profit petroleum of 10%.

Sunil Duggal: As per the new policy, the additional profit petroleum of 10% that means going up from 40% to 50%. So there, we have a dispute and we have gone to the court and court has given us a stay and court has also given the direction to the government that do not recover additional 10% till such time we conclude this case. So, there is a stay, and they are also not recovering from us. Our rationale behind this is that in the earlier contract which was there for 25 years, it is written that if you produce the gas from the existing resource, you will be given the extension for another 10 years at the same terms and conditions and that is why we have been able to get the stay from the court.

Amit Murarka: Sure, but like if I have to go back to 2011 when you acquired the assets from Cairn India, actually that as per the PSC, you are not required to pay any royalty, it has been paid by ONGC, but that was agreed upon that you will be paying it as part of the acquisition. So, in this case when the renewal is coming up, could the same thing not hold up like the additional 10% share?

Sunil Duggal: No, I do not think so because at that time whatever they were to negotiate, they negotiated it and that was closed. But they continued up with the PSC for years beyond our acquisition and after that, the new conditions cannot be applied on the contract which is already valid, that is our interpretation and that is why we are saying that since it was written in the contract that if you will be able to produce the gas, the contract could be extended on the same terms and conditions.

Moderator: Thank you. We take the question from the line of Vishal Chandak from Emkay Global. Please go ahead.

Vishal Chandak: Sir, if I look at your finance cost that you have mentioned on the presentation, it is at 7.8% while as part of the cash management services, you have loan debt to the promoters at 7% unsecured where we do not know what kind of cash flows would support. So how do you kind of reconcile these two?

Arun Kumar GR: I think one is the foreign currency loan, right and the 7.8% we are talking about a blended cost of foreign currency and domestic loans. So, it would be reasonable to assume that all foreign currency debt would be the lower rate and the local currency would be the higher rate given the small proportion of the foreign debt that we have. And in any case of 7% is the investment, the alternative for that entity is probably 1% or less.

Vishal Chandak: So, second, there is a small note on KCM loan as well. So, if I look at in the last quarter, this loan stood at about 437 crores. Out of which, net of the provision of 203 crores, but this quarter this has come down to 429 crores while the provisioning has gone up. At the same time, we are maintaining that this amount is still recoverable. So, are we increasing the provisioning somewhere on a quarterly basis or just wanted to understand some more color on this?

Arun Kumar GR: To the best of my knowledge, we have not changed the provision. It is perhaps the exchange rate difference. We can have our team look back; the IR team can get back to you separately on that. The amount on the books we hold as recoverable and these will be evaluated from a quarter-to-quarter basis. So, if we do take a decision based on the circumstances, based on the audit, based on the progress of the legal entity, as a legal case is going on there. If the conclusion of the reasonable judgment is to either further take a provision or write it off, then we will be the first to do that. But right now, that threshold has not been reached both from an audit and an accounting and a reasonable judgment perspective.

Vishal Chandak: And if I may squeeze in, just last question. Even if you mentioned that oil and gas impairment, at that point in time the threshold for oil business, you have taken at $52.

Arun Kumar GR: I am saying that I recollect that in our disclosure, it is probably around that amount. Probably somewhere between 50 and 55, we have taken as the long-term oil average. I may not be able to exactly pick the dollar number between that range, but it should be fairly close.

Vishal Chandak: But if we are still making money at even $42, why still writing off at $62 also or maybe 55, whatever will be that number, what would be the rationale now or again we are still making money at $41-$42?

Arun Kumar GR: If I have to spend a minute more on this, broadly what we do on the price, we do not assume anything at all ourselves. We go by the consensus estimates. If I recollect, it is probably the metal bulletin oil consensus we have been following probably for the last 7-8 years that I can recollect. And when I say long-term average of 52, it would be year one would be probably 40-45 range, year two will be X, year three will be Y. And typically when the price levels dip down to this kind of a level that we have witnessed in the last 6 months whatever be the reason pandemic or otherwise, then all the consensus estimates over the various time points especially the next 5 to 8 years start to get more conservative. And since we do not, as a matter of policy, put our own thought because then probably we would either get conservative or we would either get too optimistic, so it is better to follow a set approach what we call as an SOP, that is agreed with the auditors, and which is why I earlier explained that perhaps with the recovering global economy and some of the demand coming back, there could be more optimism into the future as people looked at it and when you have a series of data points and it starts going above the long-term average as I mentioned, then perhaps there is a chance for writing back some of the impairment, but again, one of the caveats, I would always say is that in the accounting world, impairments happen faster, write-backs of impairments, typically a little bit more conservative because you need to be having a higher level of confidence around it, that is really the color of conservatism in accounting and this way our company has been fairly conservative in its accounting policies and fairly compliant with high quality auditors who audit our books. So I will probably leave it there and there are more absolutely lots of details on the annual report of FY20 with detailed assumptions there and it will be our pleasure to engage with you offline to dwell deeper into the subject.

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

Rahul Jain: Now the delisting proposal has not passed through, so can we launch the proposal again at a suitable time and if so, what is the timeline? And also, there is a high debt at the parent, we cannot really solve this problem through ICDs and this kind of some cash measures. So, do we have any solid proposal or roadmap or how do we tackle the situation because it is really working against the interest of minority shareholders?

Arun Kumar GR: Thanks for your questions and observations. Firstly on delisting, as I have clarified earlier, it will be speculative to comment on it and the only other response I would like to add to that further is the delisting is in fact the Vedanta Resources topic on top of the fact that this is Vedanta Limited earnings call. So, maybe to that extent, we are not even qualified to comment on it in any case. On the second one on the debt of the parent, yes, there is a significant amount of debt as you observe and we have laid out the generic roadmap which could be a combination of abstaining from a handsome cash flow. We will have to depend on refinancing to a certain extent and further, the management would be absolutely open to looking at asset sales and noncore disposals or any other strategic initiatives. At this point of time, even if one assumes that VRL management is working out various options, it will announce if there is anything that is announce-able on this, but having said that, we take your input and sentiment that one should deal with it and one should try and come out with what is specific action item around with it. Thanks for that.

Rahul Jain: In Balco, Q-on-Q EBITDA has come down from 4.9 billion to 4.3 billion, so just wondering?

Arun Kumar GR: Maybe, my small request would be to take it with the IR team. That level of detail that I may not be completely clued on to.

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

James Cartwright: Thank you very much operator. To conclude, thank you all again for taking the time to join in this evening. So, if should you have any further questions, please do not hesitate to contact myself or the rest of the IR team here. I would also like to wish everybody a very good evening and I will pass back to the operator to take the call.

Arun Kumar GR: Thank you everyone.

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