"Vedanta Limited Q4 and Full Year FY20 Results Conference Call"

June 8, 2020

MANAGEMENT: **MR. SUNIL DUGGAL – GROUP CHIEF EXECUTIVE OFFICER, VEDANTA**
MR. ARUN KUMAR – GROUP CHIEF FINANCIAL OFFICER, VEDANTA
MR. AJAY KAPUR – CHIEF EXECUTIVE OFFICER, ALUMINUM, VEDANTA LIMITED
MR. JAMES CARTWRIGHT – HEAD INVESTOR RELATION, VEDANTA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Vedanta Limited Full Year FY20 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. James Cartwright from Vedanta Limited. Thank you and over to you, sir.

James Cartwright: Thank you. Good evening and thank you everybody for joining Vedanta Limited's Fourth Quarter and Full Year Results Call. On the call today, we have Sunil Duggal – our Group CEO; Arun Kumar – our Group CFO; as well as Ajay Kapur – our Aluminum CEO.

At the start, may I point you all towards our 'Results' 'Press Release' and 'Presentation' on our website including the disclaimer on 'Page #2 of the Presentation.'

Likewise, the primary purpose of this call is to discuss "Earnings and Operational Performance." But all questions surrounding delisting proposal, I would like to refer you to the frequently asked questions posted on our Vedanta Limited website and also the presentation under the Vedanta Resources website that goes into further details of the delisting plan. Myself and the rest of the IR team would be happy to engage in further questions around the delisting post the call.

With that, let me turn the call over to Sunil to start today's presentation.

Sunil Duggal: Thank you, James. Good evening, ladies and gentlemen and welcome to Vedanta Fourth Quarter FY'2020 Earning Conference Call. This is my first set of results ever accepting the role of Group CEO of Vedanta Limited and I am honored to be leading the company which I have been proudly part of for the last 10-years.

I must begin by acknowledging Mr. Srinivasan Venkatakrishnan for his leadership to our company for the last two years. Under his guidance, we further strengthened our foundation that will benefit our organization long after his departure. We are grateful for his service.

Now coming and starting with the year gone by, to describe FY'2020 as a dynamic year is an understatement. The macro environment has been extremely challenging with impact of COVID-19 pandemic during the final quarter. The virus outbreak which saw lockdown across geographies has become one of the biggest threats to the global economy, disrupting businesses and supply chains world over. During these testing times, our priority is to ensure the health and safety of our employees, contractors and stakeholders, while ensuring the business continuity to the extent possible. I will talk more about the direct impact of COVID pandemic, but our responsibility to the communities we work in, remain paramount to what we do. With that, amongst other measures, Vedanta set up dedicated Rs.201 crores fund catering to three specific areas -- Livelihood of the Daily Wage Workers Across the Nation; Preventive Healthcare, Support to All our Employees and Contract Partners across our Plant Location as part of its endeavor to join ranks with the Government of India to Combat the widespread Outbreak of COVID-19. Multiple relief measures were taken across the country through initiatives like providing meals to 10 lakhs daily wage earners and feeding over 50,000 stray animals daily on an entire month to name a few.

We also leveraged our existing community programs like Sakhi, Khushi, etc., to create grass root capabilities at village to make interventions sustainable and locally owned.

In a move aimed at supporting frontline health workers, doctors during COVID-19 times, Vedanta Limited has enabled mass production of Personal Protective Equipment in Gurugram. The company has imported 23 PPE machines recently in collaboration with the Ministry of Textiles and has teamed up with authorized apparel manufacturers to rollout over 5,000 PPEs per day. During these difficult times, our efforts are aligned to the singular vision of making our communities, the state and nation self-reliant and self-sufficient. We are committed to extending all help possible to help alleviate the pain which pandemic has caused. We are closely working with the government alongside our people and partners to emerge from these trying times stronger and better.

So, now moving on to the "Operational Performance", the COVID pandemic has hit the world hard and us in the last quarter of the year. We have taken proactive approach to keep our assets and people safe while ensuring optimal operations during these difficult times.

With respect to our "Operations", our Zinc India operations were halted from March 22nd and most employees were encouraged to work from home, barring some employees who attended the call for duty to keep production assets safe, including critical care and maintenance. The operational work restarted on the 8th of April and April itself we ramped up all our mines and smelters to 40% to 80% of capacity respectively.

In our Zinc International business, operations started safely on 17th April with strict compliance to government regulations and SOPs. Our BMM plant and mining and Gamsberg plant is operational supported by ore stockpile.

In our Oil and Natural Gas business, we have managed to continue our operations at all our three producing blocks with minimum manpower. Oil production had minimal impact as we continue to supply to our domestic crude oil buyers. Gas sales was impacted by around 50 million scuff due to lower demand during lockdown which has been normalized now.

Our growth projects which were the drivers to our near-term volume addition faced some temporary impact. However, our surface facilities contractors for enhancing liquid handling capacity at MPT and constructing new gas terminals have started ramping up manpower now and activity levels while maintaining adequate safety measures.

In our Aluminum business, all our facilities have been categorized as essential services and continuous process industries by government authorities and continue to operate at current production levels while largely maintaining flattish volume YoY.

In Iron Ore, all our plants and mines operation requiring continuous process and in essential services were working with limited operations and currently we are operating at about 75% capacity.

With respect to the Steel business, ESL has been operating at two-third of the capacity. In order to ensure volume support, ESL tapped the export market largely due to constraints in domestic market.

Now moving on to the "Key Operational Highlights for the Year", Zinc India MIC production was marginally down 2% and metal production down 3% for the year. Major developments to take capacity to 1.2 mtpa now is in place.

Zinc International overall production was up 63% YoY. Gamsberg production ramped up to 108 kt. Oil & Gas gross production at 174 kboepd. RDG early gas production ramped up to 90 mmscfd. Aluminum production at 1.9 mtpa. Aluminum cost was $1,690, down 14%. Record production at Lanjigarh 1.8 mt, up 21%. Lanjigarh cost $275/ton, down 15%. Electrosteel record production of 1,231 kt, up 3%. Sales 1,179 kt almost flat.

In "Iron Ore" business, our sales from Karnataka were up 125% YoY at 5.8 mt. Nand Ghar, our flagship CSR initiative has crossed 1,000 Anganwadi mark and is currently standing at a count of 1,250 plus. Continuous improvement as per Golder recommendation is under implementation across all tailing dams.

Now coming to our "Safety Records", we began this fiscal year with a strong commitment to improve our safety performance. While there have been significant gains made across all our businesses, I am deeply saddened by the loss of two lives in the fourth quarter of the year, bringing the total loss of lives to seven in this year. Our LTIFR stands at 0.66 in FY'2020. We have completed the incident investigation for every accident and are taking measure to ensure repeats do not occur. Learning from all incidents are being implemented across our businesses. Occupational health and safety are non-negotiable factor for us and we are determined to achieve absolute "zero harm" in our operations. As discussed above, the last quarter of FY'2020 has been a time of global crisis as a result of COVID-19 spread. We are fully committed to the safety of our employees.

Our strategy has been threefold -- Practice Physical Distancing for all Essential Work Streams, Rely on Early Diagnosis for our Workforce to Prevent an Outbreak and Share Knowledge and Best Practices across our Businesses to Ensure Safe Work Places.

While the average footfall at our plants has been reduced significantly, our employees are actively involved in building home-ground solutions to the challenges created by COVID-19. For example, we now have one touch-based hand washing system which was built by our employees. Additional safety measures in terms of sanitizer fogging, social distancing through on-ground marking, etc., are also in place to ensure minimum contact.

We have also launched "Healthcare Helpline" for our employees in partnership with Apollo Hospital through which they can teleconsult with a general physician or a psychologist.

Now turning to "Sustainability." Our unwavering focus on operating a sustainable and responsible business continue to deliver results in FY'2020 as well as affirm by third-party experts. Work on improving the stability and the management of our tailing dams continues. Business units are implementing the recommendations from the audit conducted by Golder Associates in the previous year.

In addition, we have updated the tailing dam performance standard and have added a detail set of guidance note that all our business units must adhere to when managing their tailing facilities. 2020 also is the end of our cycle for GHG emissions, intensity and reduction target. We have managed to reduce our GHG emissions intensity by 13.81%. This is below our target of 16% from 2012 baseline and indicative of the stretch target we had taken. This reduction is equivalent to 9 million CO2. We have begun work on setting our next set of long-term GHG reduction target and we will be disclosing those numbers in coming quarters. Our highlights for us in 2020 include 7 million meter cube of water saving over the past three years as well as more than 100% fly ash utilization for second year running.

Now, coming to "Contribution to the Communities", with nearly 190 initiatives spanning healthcare, education, community infrastructure, drinking water, sanitation, sports, women's empowerment, environmental protection, restoration, livelihood, skill development, Vedanta is a force for good in the communities where we impact more than 3.2 million people across 868 villages.

At our flagship Nand Ghar program, we crossed the 1,250th Nand Ghar mark and we are rapidly moving forward reaching 4,000 Nand Ghar which is our target.

Now coming to "Business Unit Reviews," first, on Zinc India, mined metal production for the quarter was up 2% YoY to 249 kt despite operation shutdown from March 22nd onwards in compliance with lockdown to combat COVID-19. Mined metal was higher YoY on account of higher ore production and better overall grades. Sequentially, mined metal production was up 6% on account of continued improvement in ore grades across the mines. For the full year, mined metal production was 917 kt, down 2% YoY primarily on account of fewer days of production in March due to lockdown related COVID-19 and lower grades at Sindesar Khurd during H1 you may remember and Kayad mine.

Integrated metal production was 221 kt for the quarter, down 3% YoY and up 1% sequentially due to lock down in March. Integrated zinc production was 172 kt, down 2% YoY and 4% sequentially. Integrated lead production was 49 kt, down 7% YoY while it was up 20% sequentially as Dariba lead smelter resumed normal operations during this quarter. Integrated silver production was 168 ton, down 12% from a year ago due to lower lead production partly offset by better SK silver grades and improving silver recovery rate while it was 12% up sequentially on account of higher lead production, better grades and higher silver recovery. For the full year, metal production was down 3% to 870 kt and silver production was lower by 10% to 610 tons on account of a fewer days of production in March due to lockdown, lower lead production in Q2 and Q3 due to temporary operational issues and lower silver grade. Going forward, we do expect a volume growth at HZL given the completion of 1.2 mtpa mining infrastructure.

Now coming to "Zinc International." In our Zinc International business, the total production for the year stood at 240 kt, 63% higher YoY primarily due to ramp up of first phase of Gamsberg expansion plan. The cost of production was $1,665/ton, down 13% YoY. Gamsberg production volume increased from 17 kt in FY19 to 108 kt in FY'2020 at a COP of $1,445/ton. We are working towards improving volumes at Gamsberg with more consistent field grades and recovery percentage. Work is on full earnest there. The operation at Skorpion mine has been suspended on safety grounds and the mine has been put under care and maintenance.

With respect to demand, the key market for zinc and lead concentrate, that is Korea, China is ramping up now post initial COVID-19 setback in February and March. Major smelting groups like Korea Zinc, Nyrstar and Glencore plan to continue normal production at respective facilities in Australia and Europe.

Coming to "Oil & Gas", in pursuit of our vision to contribute to 50% of India's domestic crude oil production, we have increased our block acreage by acquiring 51 blocks in Open Acreage Licensing Policy, (OALP) and two blocks in Discovered Small Fields. Acquisition has established us as one of the largest private acreage holder in the country with a ten-fold jump in acreage from 6,000 sq.kms. in August 2018 to 65,000 sq.kms. The PSC block offers a rich project portfolio comprising of enhanced oil recovery, tight oil, tight gas, facility upgradation and exploration and appraisal prospects. These projects are being executed under an integrated development strategy involving leading global oil field services companies and are on track to deliver near-term additional volumes. During the year, 235 wells were drilled and 45 wells were hooked up. Early gas production facility has been commissioned to design capacity of 90 mmscfd. Project execution is the key to focus and bringing some of the gas facilities, EOR and additional wells related projects into fruition will be our key focus and attempting to deliver net of decline volume increase on schedule. We had a planned shutdown at the Mangala Processing Terminal in February as announced in the last quarter call, which has enabled us to tie in the key surface facilities and carry out activities to enhance the asset integrity.

In October 2018, Rajasthan Production Sharing Contract was granted extension of 10-years w.e.f. 15th May 2020, subject to certain conditions pursuant to Government of India policy on PSC extension. One of the conditions for PSC extension related to audit exception issued as part of routine audit in 2018. The condition stated that if the audit exception results into creation of liability, the same needs to be settled prior to expiry of EAC. These audit exceptions have been replied as per the provisions contained in the PSC and stand disputed now. These were again notified for payment in May 2020 to the tune of US$364 million relating to the group share, total amount was $522 million. Since the audit exception got disputed, they do not result into creation of liability. As per EAC provision, we have invoked dispute resolution as per PSC in November 2019 and now initiated arbitration to resolve this.

Due to extenuating circumstances surrounding COVID, MoPNG has permitted continuation of petroleum operations in the RJ block with effect from 15th May 2020 until extension addendum is signed for or three months whichever is earlier. In OALP blocks, our objective is to reduce the cycle time from exploration to production. We have implemented the largest onshore full tensor gravity gradiometry airborne survey in India to optimize time and cost-intensive seismic data acquisition to fast track drilling. The seismic acquisition program has been initiated in Assam and the mobilization of the crew is underway in Rajasthan.

Now coming to the "Aluminum Business," we saw record aluminum production from Lanjigarh refinery at 1,811 kt, up 21% YoY. Through continued debottlenecking, Q4 FY'2020 saw one of the lowest cost of production at Lanjigarh at $258/ton due to benefits from increase in locally sourced bauxite, continued debottlenecking, improved plant operating parameters and rupee depreciation. On aluminum hot metal production, we have already achieved earlier production announced target of $1,500/ton with Q4 FY'2020 cost of production at $1451/ton, 20% lower YoY. We expect the cost to be even lower in Q1 and going forward given stable OMC bauxite supply and lower alumina and coal cost and the business will make reasonable cash margin even at $1,500 level.

In wake of COVID-19 concerns, the outlook for the initial months of FY'2021 was volatile with some aluminum consumers either reducing or shutting production, a trend seen across geographies and LME taking an all drive. Now, however, we see announcements by many industries to resume production in some form at the earliest. The global primary aluminum market is currently at surplus, but we also see LME looking upwards at $1,500/ton plus in the last few days. We continue to actively monitor the market and will dynamically adopt our product and geography mix to cater to changing market requirement.

The Coal Block Allocation Amendment Rule 2020 was notified by the government in line with measures announced to free up coal market over the past few months to auction 50 coal blocks in finance minister speech and parliament passing the Mineral Law Bill 2020 to remove captive and use eligibility for coal mining by private companies. The government is also introducing revenue sharing base bidding model with no technical or financial eligibility criteria. Being one of the largest captive coal consumers in India for power in our aluminum smelter, we see this as a very welcome move in freeing up coal market. This will reduce our dependency on Coal India and improve the competitiveness of coal suppliers in addition to transparency. We will actively evaluate all opportunities that these amendments will present to improve our coal security and power cost performance of our aluminum operations.

Coming to "Iron Ore Business", sales at Karnataka at 5.8 mt for the year, up 125% YoY due to an increase in production and stock liquidation at Karnataka. Production of pig iron was marginally down by 1% to 681 kt in FY'2020. On Goa, we continue to engage with the government and local communities to restart our operations.

Coming on "Steel", our steel business saw healthy margins for the quarter at $127/ton, up 132% QoQ. The full year production was up 3% YoY at 1,231 kt. With the domestic market showing positive response, we plan to resume our full scale facilities with more focus on value-added product in our product portfolio and continuously work towards reducing costs.

Coming on "Outlook", we are deferring guidance for FY21 to the end of Q1 after studying the overall situation and when there is a better clarity we will come back. Our current focus remains around efficient operations, active management of cost and capital conservation.

As we conclude, I would like to emphasize that this call is to discuss the results of the year gone by and we will not be taking questions on the recently announced offer from Vedanta Resources to take the company private in this call.

The proposed delisting process will be fair and transparent process in accordance with SEBI regulations. The details and respective timings around the postal ballot up on our website as are all the releases relating to the transaction. Our investor relations team will be able to help with any further questions you may have in this regard.

Now, I would like to hand over to Arun for the "Financials."

Arun Kumar: Thanks, Sunil, and good evening, everyone. I am on the "Q4 FY'20 Financial Highlights Page." In the current situation, as Sunil pointed out, we stay focused on getting the best out of what we influence with a volume cost efficiency and claw back as much as possible of the lower LME or Brent. That explains some of the strong performance on cost and efficiency with sequential quarter or versus previous years. Again FY20 over FY19 on a constant price basis has been the best performance in the last five years in terms of EBITDA growth obviously driven by cost and volume. More details in the coming pages.

The other key focus is on cash preservation or liquidity, curtail capital spend to high return projects thus generating positive and substantial free cash flow. This is similar to 2016 where the low price scenario brought out the best free cash flow post CAPEX in the company in the last decade. On this page you see us maintaining a robust EBITDA margin, thanks to the cost improvements. ROCE is still in double-digits and exiting the year with significant cash reserves which has served us well in the current quarter as well. The EBITDA at Rs.4,800 crores was better than Q3 on a comparable basis though on an absolute basis is lower. ROCE has followed the past trend. The liquidity of Rs.38,000 crores has helped in the current quarter in choppy money market especially and as a consequence our net debt stands at roughly around Rs.21,000 crores, down 21% year-on-year with the annualized net debt-EBITDA continuing at 1.0x.

As usual, we have a detailed income statement in the appendix, page #24 and #25; however, some "Key Updates on the Income Statement." On below EBITDA line items, be it depreciation, interest cost, interest income, all are as per expectation and guidance which was reiterated in Q3 as well as well as during the whole year in the earnings calls. On top of it, the tax charge or the ETR for the year is also at 32% which is broadly in line with guidance of 30-32% that we have been giving right from the beginning of the year. However, I would like to help you understand the tax line a bit more. There are three things on the tax line which matter this quarter. I will go in that order: #1, as per accounting standard, Rs.1,700 crores tax charge on the dividend income or potential dividend income from Hindustan Zinc has been created given the fact that any income from there creates a deferred tax liability for the recipient of the dividend given that it is knocked off against the brought forward or carried forward tax losses as they call during the normal tax computation. And the accounting standards suggest that one has to estimate and hence the charge is Rs.1,700 crores and you have a better visibility to it given the actual dividend declared by Hindustan Zinc for the year end.

Item #2, in Q2 of this year FY20 if you recollect, we had a deferred tax liability write-back of Rs.2,500 crores driven by changes introduced in the tax regime wherein as per the future earnings model, deferred tax liability would have been released due to the lower rate of tax consequent to shifting to a new tax regime down the line post exhaustion of the current benefits of MAT assets. Several other corporates have taken similar write-backs. This deferred tax liability largely pertains to the tax versus stat carrying value of the fixed assets if I may remind you all.

Now based on the trued up model in Q4 which was actually driven by the newly introduced Finance Act 2000 and primarily the way the future dividend streams get taxed, the trued up reversal amount for the year stands at Rs.1,800 crores, still a significantly large sum. However, the Q4 impact would hence have a charge of Rs.700 crores. Removing the impact of these two items, the underlying tax is around Rs.700 crores to Rs.800 crores for the quarter though from a full year perspective both of these offset each other.

The item #3, which is anyways available as a separate line, tax credit on the impairment charge taken of Rs.6,500 crores is the third item which is clearly classified as exceptional as well. Both the impairment related deferred tax reversal as well as dividend related tax are shown as separate line items in the Reg. 33 format in any case. As you know, these were accounting complexities of deferred tax.

On the investment income for Q4 FY20, only point is that versus last year Q4, it is lower given the one-time income we had last year. Hence, the whole portfolio earns around 7% pre-tax income. As guided earlier, no surprises there as well. The same trend would be noticed on a full year basis on that line.

Now coming to the impairment, we have added an extra page as you can see, Page #25, I guess. The net of tax charge is about Rs.10,800 crores. There are two broad components -- First is pertaining to the oil and gas which is Rs.9,700 crores and is primarily driven by price assumptions and some owing to exploration-related write off. The policy approach of standard operating procedure for price assumptions and the variety of other assumptions, price is largely consensus driven is completely unchanged as compared to the earlier years. The impact of the IND AS account will be higher than IFRS which will come out later given the lower yearly depreciation charge and the difference in depreciation standards of the two accounting standards.

On oil, for consensus assumed in FY20, '21 and '22 at the end of FY18 when the last true-up was done were all in the mid-to-late 60s in terms of Brent. The current assumptions all indicate about $20 lower on an average on the next three years and the medium-term it used to be 70s as per our earlier FY18 true up is now down to the 50s. This is what the consensus estimates are. VAT is almost same, slightly upward bias. OPEX assumptions are lower because we have seen better OPEX and certain potential lower NPV given the project delays and the delayed realization on the benefits and some of the litigation items. The lower depreciation of the last few years versus the IFRS-based are the contributors to this impairment.

On the second item, nearly 70% of the carrying value of the work-in progress of the copper expansion, four LTP expansion has been taken at about Rs.470 crores after an assessment of the asset recoverability test. These are the two fundamental items. There are a couple of other minor items as well there.

And finally, on this page and the detail income statement, the PSC extension and DDH demand are part of Reg. 33 notes and have been very well covered in Sunil's update that you just heard now.

With that, if I move on to the next page dealing with the sequential quarter EBITDA bridge. As can be seen from the bridge, if you remove the LME impact and the base quarter impact of both together around 2,250 crores, (750 crores plus 1,500 crores), then the EBITDA will actually be up around 10%. One could conclude it is largely driven by the aluminum sector which if you recollect we had highlighted even during the Q3 earnings call is that Q4 costs were tracking lower. We believe this cost performance in aluminum will sustain during the current year as Sunil highlighted.

Again on volume, while it shows a flat, it does not have the impact or rather it has suffered from the impact of the lockdown in March month. Of course, the lockdown was in the second half of the month, but majority of the March sales also happened in the second half of this month. It also confirms that we did exit with higher inventories across which is now being liquidated in Q1.

Moving on to the next page on EBITDA bridge versus the previous year's fourth quarter. Fairly similar story. Excluding the price impact, EBITDA is again higher. And in the appendix there is a full year EBITDA bridge as well, probably Slide #29. EBITDA for FY20 as a whole as I mentioned earlier was around Rs.21,000 crores, lower 12% year-on-year driven by lower commodity prices which contributed to Rs.(-8,000) crores. But more than 50% of the drop in price was recouped to improve cost albeit some of them are cost deflation as well. Of course, volume lines could have been better but for the lockdown in the month of March as I just alluded to a little while ago.

Moving on to the next page on "Net Debt." During the year, net debt reduced by Rs.5,600 crores reflecting our long-term trend of positive free cash flow post CAPEX. Some of the full year sales contracts and customer advances, typically a 4Q phenomenon did not materialize given the market disruption in March as well as the financial market segment and is a negative on the full year working capital. These are expected to be a timing issue should set itself right during the H1 of the current year.

Briefly on the CAPEX page. Two pages down the line. The numbers are well within the guidance as well. We plan to conserve capital as I articulated earlier to the formal guidance that we share during Q1 call.

Moving on to the next page on "Balance Sheet", again a fairly self-explanatory page. The liquidity for the group remains strong with cash and cash equivalents of nearly Rs.3,800 crores, albeit the tightness in the domestic capital markets in March due to the wake of tightening liquidity, the company used its internal cash accrual during Q1 to meet some of the short-term debt obligations, primarily around commercial paper comfortably. We also opted for some selective loan moratorium as applicable given the preference to conserve liquidity and timing. This will confirm and help the rating level in this scenario which is comforting. Our focus on improving the term debt maturity profile and we believe we will make meaningful progress this quarter given various discussions in advanced stages with banks and financial sector. Else, the fundamental Vedanta Limited consolidated balance sheet looks fine with net debt-EBITDA maintained at 1. Our investment portfolio is being monitored closely in this scenario. We do not have any new risks during the quarter. It continues to be CRISIL tier-1 rated largely.

Vedanta had indeed declared interim dividend of Rs.3.90 per share earlier in the year. Given the need to preserve and build liquidity around operations in this price scenario, final dividend for FY20 was not on the agenda of the board meeting. The board will evaluate further during FY'21 as the scenario unfolds. Overall, we continue to focus on cost and efficiencies, cash and liquidity in this scenario. Formal volume and cost guidance can be expected in the next earnings call for us.

As we conclude, I would like to emphasize again that this call is to discuss the results of operations. We will not be taking questions on the recently announced offer from Vedanta Resources to take the company private. As Sunil articulated, the details of the process, FAQs, timings around postal ballot are all on the website and our investor relations team will be more than happy to help with any further questions you have in this regard which will be taken offline.

With this, I hand it over to James for the Q&A session.

James Cartwright: Thanks very much, Arun. Operator, over to you to start Q&A. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: Couple of questions from my side: One, you said that you will again evaluate the dividend distribution for FY21. We had a dividend distribution policy earlier that whatever dividend we get from Hindustan Zinc will be upstream. Is there a change in that dividend policy or is it still effective?

Arun Kumar: As far as the dividend policy is concerned, there is no change in the dividend policy. The dividend policy states that minimum payouts when profit is available for both the companies as well as pass-through of Zinc dividend as long as it is not a special dividend. So, to that extent, the policy will be maintained in FY21. As I mentioned earlier, it will of course be subject to liquidity situations and what the board decides finally.

Indrajit Agarwal: In case this dividend from Hindustan which is not distributed, the deferred tax of Rs.1,700 crores, does that mean excess cash outflow or it can still be adjusted against the other group income?

Arun Kumar: No, it has nothing to do with whether the dividend gets distributed or not, simply because any dividend income is offset with the tax change carried forward post which APM comes into play after all that gets exhausted. So till such time, this is the normal accounting.

Indrajit Agarwal: Second question on your CAPEX on Slide #26 of your presentation the $1.25 billion Cairn CAPEX. So how much CAPEX do we have to actually incur to maintain production YoY and how much of this can be avoided to preserve liquidity?

Sunil Duggal: In the current context, it is very clear that the CAPEX discipline has to be maintained. Whatever the volume which will be delivered in the near-term, only those CAPEX will be taken up and whatever the CAPEX which are in the pipeline, like three, four projects are there -- tight gas, tight oil, the liquid handling facility, the polymer feeding facility -- so these are four, five CAPEX which are in pipeline along with Ravva. So these CAPEX only are getting completed and the other CAPEX are being reevaluated in the current context of Brent prices and other liabilities.

Arun Kumar: And if I may just add a line broadly, the unspent you see on Page #26, the biggest project, as Sunil said, we will evaluate it in the course of time and we will take it up only if it is absolutely feasible and making a lot of return at low oil prices.

Sunil Duggal: Just five projects are in pipeline -- gas, liquid handing facility, tight oil, offshore Ravva and MBA infill and polymer.

Indrajit Agarwal: Last question is on Slide #35, your aluminum profitability. The power cost over there has dropped sharply by about $140/ton QoQ. So if you can shed some more light in terms of what was the coal cost, how much of this reduction is sustainable?

Sunil Duggal: So Ajay will give you the detail, but, of course, the drop in cost is the basic realization of the linkage coals and better availability of the mix. So, these are the basic reasons. But Ajay, you may like to add.

Ajay Kapur: Thank you, Sunil. So basically we have had a good mix of both coal. What Sunil was mentioning the coal availability was better and is a lower cost also. So that gave us about $55-$60. Additional to that performance, technical parameters including the PLF of the plants, that also gave additional about $25-$30 and the remaining came from RPO where earlier we had a much higher percentage, but after Ministry Power notification, so now the RPO for Odisha was pegged at 3% and Chhattisgarh at 7.5%. So that also gave additional $30-$35. And most of it, the RPO, the technical parameters are sustainable. Coal impact in Q1 we are actually seeing the benefit of even lower procurement prices, which I think also Arun mentioned and Sunil also mentioned, we believe that will help us in a much better cost of production going forward in Q1 and beyond.

Moderator: Thank you. The next 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 impairment in oil & gas division. While Arun explained in detail what led to the impairment, just wanted to understand because it is quite peculiar that none of the global players have taken such kind of impairment including BHP in their latest production report, they have not indicated anything, in fact, they have said that price outlook will get better as we go ahead. So the question is that how much of this impairment related to price and is there any chance of this getting reversed in subsequent quarters if the outlook improves?

Arun Kumar: Amit, thanks for the question. So fundamentally, let me make a few distinctions -- One, global players, there could be multiple assets and multiple head rooms there. Here it is broadly the Rajasthan asset as you know which has the maximum value, of course there are a few other assets like Cambay and Ravva. And second is that in a language that you would appreciate, it is almost mark-to-market in a manner of speaking, simply because this is the fourth time in the last six years that you have taken an impairment. Twice, you have taken impairment charge and one we have taken impairment reversal. And hence any sharp movement in price or reserve, you would have higher likelihood of impairment in Cairn rather than probably other companies which may not be strictly comparable, at least at the asset level, it might be comparable. Now your second sub-question there, how much of it is really price? You realize that the $20 number that I gave you is a lower price assumption on an average compared to the earlier one when stood up in March 2018 as pertains to FY21, ‘22, ‘23 which is a go-forward period and of course into the future. Simply a three-year impact on $20 would itself give you a number of $700 million, $800 million. With that you add the NPV, you add the exploration bit, etc., you almost arrive at your number. So, an overwhelming majority of it is price-driven as a point I was trying to make as I explained the impairment. And the third sub-question that you had here. Of course, the possibility of a write-back is very well there, but obviously in our accounting world as you know, the threshold for write-back is far higher than a threshold for a write-down and as is the common language, they call it ‘conservative’. And to take you back the memory lane a couple of years ago, there was a write-back but that was very, very clearly led by addition of reserves, physical reserves got added, thanks to the EOR programs and the other CAPEX which are related to the CAPEX question that was raised by Indrajit. All those CAPEX items created reserves. So we wrote it back actually. It is otherwise possible but thresholds are definitely normally higher. I hope that helped answer the question.

Amit Dixit: The second question is on oil & gas production itself. Despite investing close to $1 billion in last two years, we have seen that oil production has come down from 200 kbpd to 160 kbpd. Of course, this quarter there could be one-off because you had shutdown at Rajasthan block. However, in the last presentation, you had given guidance of 225 kbpd of exit capacity and the number of wells booked at the end of H2 were 90; however, we see just 75 at the end of H2. So how do you think will it take for us to achieve this 225 kbpd that we guided at FY20 exit?

Sunil Duggal: The lesser production was a combination of the decline and the new projects and the liquid facility which was to be upgraded. So, as the water cut goes up, you have to feed more water and polymer. So if the liquid facility is limited, so that means you have to cut down the production. So until the new facility is hooked up, you will see the decline faster. But, as I said that there are five projects which are coming up which are almost nearing completion now and by this time some of the projects might have already got completed if the COVID would not have happened and the labor would not have run away from there and some of the equipments which were held up in Italy, China, those would have come in time. But there was a bit of a delay. Some of the projects which were to get completed last year got delayed for some reason or the other. Now, we are in the process of getting these projects completed. So gas, from where we got the early supply of gas which is contributing to 20K barrel per day. When this project will get commissioned in Q2, this will contribute additional 20K barrel. Liquid handling facility, as I just said that how this will add. This will add to a volume of around 10K barrel. So, this will also get completed in Q2. Tight oil, another project which is getting hooked up, will get completed in Q2. This will add around 10K barrel again. Offshore Ravva, this project is about to get completed in a month or two. This will add 5K barrel. And MBA infill and polymer facility which is being done by Halliburton where all wells are done and the surface facility is about to get completed, this will get completed in the next two to three months time, again, early Q2 and this will also give you 10K barrel. And all this addition including the base volume we are confident that the exit volume this time should be definitely between 220K to 240K barrel.

Amit Dixit: That means for Q2 and we should see a tangible increase in oil production. This is what you are trying to say, right?

Sunil Duggal: So from Q3 you will see the tangible increase in production because the project completion will happen in Q2 in stages from month-on-month and then the ramping up of the facility has to happen and stabilization of the facility. But definitely, this volume will start ramping up from Q3 onwards. Some indications will also come in Q2 also.

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

Amit Murarka: I just wanted to understand aluminum cost reduction. So, can you help break up the cost reduction in terms of how much is coming from the fuel cost, how much is from the lower cost of alumina, just to understand basically what has led to the commodity price deflation and how much is a structural reduction?

Sunil Duggal: So you are right. The cost reduction is a combination of alumina which is how much of sourcing from local Odisha or the contribution of the Lanjigarh or the purchase of alumina and power also. As Ajay said that there are various factors in the carbon, but Ajay, would you like to give the detail?

Ajay Kapur: Yes, sure. Mr. Duggal has already mentioned. So essentially, on one hand as Mr. Duggal mentioned in the beginning, Lanjigarh achieved its lowest cost of production in the last quarter, close to 258. So that is somewhat one reduction. Second, of course, alumina index along with the LME which you have also seen, so both added together give us a good alumina cost. Coal and power, I have already handled, I think the answer remains same where there are three levers, RPO was one which is structural. Coal also I would say structural in the mid-term because a lot of good coal and excess coal is available now. And third, of course, plant reliability also was much better in the last quarter which I think will continue. On top of it, the commodity prices, things like CP coke, CT pitch, they were also on the lower side, so that also helped us. I believe that should also remain more or less in the same range-bound. That collectively and we are also running commercial and manufacturing excellence programs which I also spoke last time. They are also yielding very good results.

Sunil Duggal: Just to clarify one thing that the plant availability reduces the power import which also makes a lot of difference.

Amit Murarka: On the Rajasthan block, so the three months extension has been given now or in operations now. But how does it resolve itself like let us say if further PSC extension signing is not done at the end of these three months, so will you continue to get this extension until the time the extension happens, will your production sharing and the investment multiple with the government remain the same as it was in the earlier PSC?

Sunil Duggal: So as we told you that the addendum is to be signed. When the PSC extension was given, there was a principal agreement which was reached between us and the government that this extension of PSC will continue and there will not be any strings attached to this, whether the earlier demand has to be settled. So, we have principally agreed and based on that they have taken up the approval. And now this is lying with the law ministry. We may get approval from law ministry any day and my own belief is that in the next one, two, three, four weeks, this should be signed.

Amit Murarka: The production sharing is going up to 60% as part of the extension or that is still under discussion?

Sunil Duggal: We are signing the PSC as per new policy which is 50% and the investment multiple recovery remains same as earlier, but that is a separate thing that we are disputing with them that it should remain at 40%.

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

Ritesh Shah: My first question is for Arun. Sir, how should we look at the debt maturity profile and the cash flows into FY21? I understand on one of the slides, we have given Rs.9,100 crores. Sir, how much is the outstanding commercial paper? And how should one look at cash flows for this year? Looks like it is walking on a tight rope.

Arun Kumar: Not really because I think outstanding commercial paper is probably down to about 3,000 crores, 4,000 crores at this point of time… very, very manageable levels. Even otherwise, the credit supports are higher level. And secondly, in terms of refinancing, broadly, we believe with some luck in 30 days, if not 60-70 days, we should be done with a majority of the refinancing for the year. So, we are comfortable of this. And as I alluded to in my talk track, we are in advanced discussions with some of our key banking partners.

Ritesh Shah: So basically we are looking at refinancing of nearly Rs.12,500 crores this year, that is something which is comforting for us despite the tightness in the credit markets. Is there a fair way to understand that or should one look at a significantly lower CAPEX? I understand we are not giving guidance, but some color over here would be quite useful.

Arun Kumar: On CAPEX of course we have not given guidance, but all I can point you out to the trend chart that we normally play which shows what is the guidance at the beginning of the year and where did we land up. If you see, we are always much below our budgets. We absolutely conserve and would like to deploy it only when there is an immediate link to the volumes as Sunil articulated earlier. And broadly if you see, zinc spending program is almost done for the 1.2 and it is really only these five or six projects in oil which are at advanced stages as Sunil said and anything new we would have to look at and evaluate sharply even though all our projects we have said earlier even at 40 Brent and assuming higher profit petroleum share are still producing well above 30% from an IRR perspective which as you can appreciate are much higher than our cost of capital. So from that aspect, you may be short of a number of guidance in this call, but I think we have enough comfort in terms of understanding our mines like it will rationed and it will be absolutely closely monitored.

Ritesh Shah: Sir, honestly given your commentary, it looks like we are in a comfortable position. And as a minority, definitely at Vedanta level, one would be looking at a dividend payout at least what has transpired through HZL to the parent. Is it something that one can expect during the year going forward, any commentary over here or is it something one will have to look at it at a later stage based on cash flows?

Arun Kumar: Feedback is quite valuable and we will definitely share it in general with the board when we meet.

Ritesh Shah: Sir, my second question is for Mr. Duggal. Sir, any update on the Hindustan Zinc second call option? I understand the CBI file is still pending. Any particular reason over here for the delay and are there any timelines that one should look at?

Sunil Duggal: While I would not comment on anything which is going on, but one thing I would like to clarify at this point of time that the closure report has been filed by CBI and it has been handed over to the court.

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

Rajesh Lachhani: Sir, my question is with regards to employee cost. We have seen in this quarter, the employee cost has reduced substantially compared to prior year as well as sequentially. Just want to understand the reason, is this the new norm or should we see employee cost rising from the next quarter?

Arun Kumar: That is sort of a very technical financial question. Let me quickly address it. We do always true up certain performance bonuses related simply because we do know the numbers by the time. So you could say it broadly relates to that because a lot of the components is variable in nature. So with performance comes bonus. With this low price environment you can understand that some of them may have been deferred.

Sunil Duggal: But just to build on what Arun has said, in the current context actually we have risen to the occasion and we are proud of what we are doing in terms of how we are liquidating our stock, how our capacity utilization has gone up. We are almost operating at 80%, 90%, 100% of volume. But on cost, I may tell you that we have redesigned ourselves and we have divided the total cost in seven, eight buckets. And we have made the MANCOM in each organization where three, four, five people are there who are the key decision-makers who meet on a daily basis to make the decisions. But on the cost, we have divided this into eight, nine buckets and we have given the ownership of that cost bucket to each senior individual in each company and all these costs are reviewed in the war rooms on a daily basis and I am very proud to tell you that we have decided ourselves that we will try an endeavor to protect our margin what was there in Q4 and Q3 last year even in this low cycle of commodity prices.

Rajesh Lachhani: Sir, my question to Arun would be on Slide #21, we have mentioned ROCE of 11%. So just want to understand, this 11% is after the impairment, right?

Arun Kumar: That is right and this would be an average capital employed for the year.

Rajesh Lachhani: Arun, if we remove Hindustan Zinc from this, can you let me know what is the ROCE for the remaining businesses?

Arun Kumar: I do not have the split ready hand, but we can definitely work it out and give it to you. The good news there really is that aluminum business as you saw in the appendix at EBIT post tax as a percentage of capital employed is starting to turn nice positive for us. So if that sustains as we believe it will, that should help pull the ROCE upwards even in a low price scenario. Of course, as we speak, the prices are looking up. That is a different matter altogether. But I think there is some good tail winds out there one should expect especially in light of the commentary that Sunil gave in terms of protecting the margins and pulling the cost down in this scenario.

Rajesh Lachhani: Arun, but my question was more about a structural thing. So, we have been talking about considering only those projects which have high IRR, we talked about 20% and if we remove Hindustan Zinc, then the ROCEs for the remaining business, even in the years when the commodity prices were relatively much better, the ROCEs for the remaining business has been much lower. So, just wanted to understand, is there some issue with the capital allocation previously as well as should that not be a review of the capital allocation strategy going forward?

Arun Kumar: I think it is a good question, but a lot of it is history as we mentioned. If you look at the last three, five years scenario and take the CAPEX point from an allocation perspective, it has gone into sectors and areas and projects where the IRR is much more than your cost of capital at that point of time. It is a different matter that prior to that we may not have got the returns we desired or got the returns a little later than what was planned. So that is broadly where if you look at all the projects of oil which will come into fruition this year, the IRR will be above the cost of capital. Zinc, as you know, is always even at a low zinc price, it is about (+30%). And we have not spent anything in aluminum in the last five years and such. So it has been a story of making structural corrections to enhance the incremental ROCE or incremental yearly ROCE so that the overall value goes up. So that has been sort of the efforts in the three big sectors and then of course if copper comes back and Goa reopens your numbers will automatically start looking up.

Moderator: Thank you.

James Cartwright: Thank you, everybody. On behalf of the entire Vedanta team, thank you for dialing in today and we just like to say any further questions, please do not hesitate to contact myself and the rest of the Investor Relations team.

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