

## MANAGEMENT DISCUSSION AND ANALYSIS



# FINANCE REVIEW

### EXECUTIVE SUMMARY

We had a strong operational and financial performance in FY2020 despite of the challenging operating environment of low commodity prices and some impact on production on account of lockdown to combat COVID-19. The company continues to focus on controllable factors such as resetting cost base through diverse cost optimisation initiatives, disciplined capital investments, working capital initiatives, marketing initiatives & volume with strong control measures to ensure safe operations across businesses within framed government and corporate guidelines in view of COVID-19.

In FY2020, we recorded an EBITDA of ₹21,061 crore, 12% lower y-o-y and robust adjusted EBITDA margin of 29%. (FY2019: ₹24,012 crore, margin 30%).

Lower production volumes resulted in decrease in EBITDA by ₹102 crore, driven by lower production volumes at Zinc India (includes COVID impact) and Oil & Gas business. However, this was partially offset by higher sales volume at Iron ore of Karnataka & Steel business, additional volume from Gamsberg operations and increase in volumes at Aluminium business.

Market factors resulted in decrease in EBITDA by ₹3,672 crore compared to FY2019. This was primarily driven by downturn in the commodity prices across businesses partially offset by input

commodity deflation (mostly in alumina, thermal coal and carbon prices) and rupee depreciation. Gross debt as on 31 March 2020 was ₹59,187 crore, decreased by ₹7,038 crore since 31 March 2019 (FY19: ₹66,225 crore), primarily driven by repayment of debt at Vedanta Standalone, TSPL and temporary borrowing at Zinc India partially offset by increase in borrowing at Oil & Gas.

Net debt as on 31 March 2020 was ₹21,273 crore, decreased by ₹ 5,683 crore since 31 March 2019 (FY19: ₹26,956 crore), primarily driven by repayment of debt partially offset by working capital blockage due to Covid-19 and dividend payment during the year.

The balance sheet of Vedanta Limited continues to remain strong with cash & cash equivalents, of ₹37,914 crore and Net Debt to EBITDA ratio at 1.0x, which is the lowest among Indian peers.

### CONSOLIDATED EBITDA

EBITDA decreased by 12% in FY2020 to ₹21,061 crore. This was mainly driven by downturn in commodity prices, lower volume and higher cost at Zinc India & Oil & Gas business partially offset by additional volumes from Gamsberg operations and higher sales at Iron Ore Karnataka & Steel business, higher volume at Aluminium business, easing out of input commodity inflation, improved cost of production at Aluminium business, past exploration cost recovery at Oil & Gas business and rupee depreciation.

### CONSOLIDATED EBITDA

(₹ crore, unless stated)

Consolidated EBITDA	FY2020	FY2019	% change
Zinc	9,094	11,298	(20)
-India	8,714	10,600	(18)
-International	380	698	(46)
Oil & Gas	7,271	7,656	(5)
Aluminium	1,998	2,202	(9)
Power	1,649	1,527	8
Iron Ore	878	584	50
Steel	588	791	(26)
Copper India	(300)	(235)	28
Others	(118)	189	(28)
<b>Total EBITDA</b>	<b>21,061</b>	<b>24,012</b>	<b>(12)</b>

## CONSOLIDATED EBITDA BRIDGE

(₹ crore, unless stated)

EBITDA for FY2019		24,012
<b>Market and regulatory: ₹ (3,660) crore</b>		
a) Prices, premium / discount		(7,839)
b) Direct raw material inflation		3,576
c) Foreign exchange movement		592
d) Profit petroleum to GOI at Oil & Gas		169
e) Regulatory changes		(158)
<b>Operational: ₹ 708 crore</b>		
a) Volume		(102)
b) Cost and marketing		422
c) Others		388
EBITDA for FY2020		21,061

### A) PRICES, PREMIUM/DISCOUNT

Commodity price fluctuations have a significant impact on the Group's business. During FY2020, we saw a net negative impact of ₹7,839 crores on EBITDA due to commodity price fluctuations.

**Zinc, lead and silver:** Average zinc LME prices during FY2020 dropped to US\$2,402 per tonne, down 12% y-o-y; lead LME prices decreased to US\$1,958 per tonne, down 8% y-o-y; and silver prices increased to US\$16.5 per ounce, up 7% y-o-y. The cumulative impact of these price fluctuations lowered EBITDA by ₹2,153 crore.

**Aluminium:** Average aluminium LME prices decreased to US\$1,749 per tonne in FY2020, down 14% y-o-y, this had a negative impact of ₹3,954 crore on EBITDA.

**Oil & Gas:** The average Brent price for the year was US\$60.9 per barrel, lower by 13% compared with US\$70.4 per barrel during FY2019, this was further reduced by a higher discount to Brent during the year (FY2020: 7.1%; FY2019: 6.1%). This had negative impact on EBITDA by ₹1,026 crore.

### B) DIRECT RAW MATERIAL INFLATION

Prices of key raw materials such as imported alumina, thermal coal, carbon and caustic have reduced significantly in FY2020, improving EBITDA by ₹3,576 crore mainly at Aluminium and Zinc India business.

### C) FOREIGN EXCHANGE FLUCTUATION

INR and SA Rand depreciated against the US dollar during FY2020. Stronger dollar is favourable to the Group's

EBITDA, given the local cost base and predominantly US dollar-linked pricing. The favourable currency movements positively impacted EBITDA by ₹592 crore.

Key exchange rates against the US dollar:

	Average year ended 31 March 2020	Average year ended 31 March 2019	% change	As at 31 March 2020	As at 31 March 2019
Indian rupee	70.86	69.89	1.4%	74.81	69.17
South African rand	14.78	13.76	7.41%	17.89	14.48



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## FINANCE REVIEW CONTINUED...

### D) PROFIT PETROLEUM TO GOI AT OIL & GAS

The profit petroleum outflow to the Government of India (GOI), as per the production sharing contract (PSC), reduced by ₹169 crore. The reduction was primarily due to the higher recovery of capital expenditure incurred over the previous year.

### E) REGULATORY

During FY2020, changes in regulatory levies such as electricity duty, GST credits, Renewable Power Obligation etc. had a cumulative negative impact on the Group EBITDA of ₹158 crore.

### F) VOLUMES

Lower volume led to decrease in EBITDA by ₹102 crore by following businesses:

#### Zinc India (negative ₹628 crore)

The integrated metal sales stood at 860 kt, lower by 4%, and silver sales of 586 tonnes, lower by 13%. This had a cumulative negative impact on EBITDA of ₹628 crore.

#### Oil & Gas (negative ₹638 crore)

Oil & Gas business achieved WI sales of 40.27 mmmboe, down by 8% y-o-y. This had negative impact on EBITDA of ₹638 crore

#### Iron ore of Karnataka (positive ₹531 crore)

Iron ore of Karnataka achieved sales of 5.78 mn tonnes, up 125% y-o-y. This sales volume increase had a positive impact on EBITDA of ₹531 crore.

#### Zinc International (positive ₹396 crore)

Increased volumes at Gamsberg from 15 kt in FY2019 to 109kt in FY2020, mainly because of full year operation in FY2020. This has positively impacted EBITDA by ₹ 396 crore.

#### Steel business (positive ₹125 crore)

ESL achieved metal sales of 1,179 KT, up 15% y-o-y. This sales volume increase had a positive impact on EBITDA of ₹125 crore.

#### Aluminium (positive ₹70 crore)

In FY2020, the Aluminium business achieved metal sales of 1.92 million tonnes, up 3.6% y-o-y. This volume increase had a positive impact on EBITDA of ₹70 crore.

### G) COST AND MARKETING

Improved costs resulted in an increase in EBITDA by ₹422 crore over FY2020, primarily due to improved cost at Aluminium business driven by globally falling input raw material indices (alumina, carbon, caustic etc.), lower power cost on account of materialization of linkage coal supply and higher production of captive alumina at Lanjigarh and Steel business driven by falling input raw material indices and operational efficiencies. This was partially offset by higher cost at Zinc India due to

volume led absorption & Oil & gas business due to higher maintenance cost and production enhancement initiatives during FY2020.

### H) OTHERS

This primarily includes the past exploration cost recovery at Oil & Gas business during the FY2020 partially offset by lower power EBITDA, inventory valuation at Aluminium business and lower EBITDA at Avanstrate Inc. (ASI) with a net positive impact on EBITDA of ₹388 crore.

### INCOME STATEMENT

(₹ crore, unless stated)

Particulars	FY2020	FY2019	% change
Net Sales/Income from Operations	83,545	90,901	(8)
Other Operating Income	902	1,147	(21)
EBITDA	21,061	24,012	(12)
EBITDA margin <sup>1</sup> (%)	29%	30%	-
Finance Cost	4,977	5,689	(13)
Investment Income	2,443	3,618	(32)
Exchange Gain /(Loss)	(306)	(509)	(40)
Profit before Depreciation and Taxes	18,220	21,432	(15)
Depreciation and Amortisation	9,093	8,192	11
Profit before Exceptional items	9,127	13,240	(31)
Exceptional items <sup>2</sup> : credit/(expense)	(17,386)	320	-
Taxes <sup>3</sup>	(3,516)	3,862	-
Profit after taxes	(4,743)	9,698	-
Profit after taxes (before Exceptional Items)	6,122	9,490	36
Minority interest	1,920	2,633	27
Attributable PAT after exceptional items	(6,664)	7,065	(42)
Attributable PAT (before exceptional items)	3,995	6,857	38
Basic earnings per share (₹/share)	(18.00)	19.07	(42)
Basic EPS before exceptional items (₹/share)	10.79	18.50	38
Exchange Rate (₹/US\$) – Average	70.86	69.89	1
Exchange Rate (₹/US\$) – Closing	74.81	69.17	8

1. Excludes custom smelting at Copper India and Zinc India Operations.

2. Exceptional Items gross of tax

3. Tax includes tax gain on exceptional items of ₹6,521 crore on special items in FY2020 (FY2019: charge of ₹112 crore)

4. Previous period figures have been regrouped/rearranged wherever necessary to conform to current period presentation.

## REVENUE

Revenue for the year was ₹83,545 crore, 8% lower y-o-y. This was driven by subdued commodity prices, lower volume at Zinc India, lower volume at Oil & Gas business and lower power sales at TSPL partially offset by higher volume at Aluminium business, additional volumes from Gamsberg operations and higher sales at Iron Ore Karnataka & Steel business and rupee depreciation.

## EBITDA AND EBITDA MARGIN

EBITDA for the year was ₹21,061 crore, 12% lower y-o-y. This was mainly on account of subdued commodity prices, lower volume and higher cost at Zinc India and Oil & Gas business partially offset by higher volume at Aluminium business, additional volumes from Gamsberg operations and higher sales at Iron Ore Karnataka & Steel business, easing out of input commodity inflation, improved cost of production at Aluminium business, past exploration cost recovery at Oil & Gas business and rupee depreciation. We maintained a robust adjusted EBITDA margin<sup>1</sup> of 29% for the year (FY2019: 30%)

## DEPRECIATION & AMORTIZATIONS

Depreciation for the year was ₹9,093 crore compared to ₹8,192 crore in FY2019, higher by 11%, primarily on account of higher charge at Oil & Gas business due to capitalisation of new wells partially offset by lower production; higher depreciation charge at Zinc India on account of higher ore production, additional capitalisation and increase in amortization rate due to increase in cost; higher charge at Zinc international due to increased production from Gamsberg and acquisitions of Steel business in June'2018.

## NET INTEREST

The The blended cost of borrowings was 7.9% for FY2020 compared to with 8.1% in FY2019. Finance cost for FY2020 was ₹4,977 crore, 13% lower y-o-y compared to ₹5,689 crore in FY2019 mainly on account of decrease in average borrowing due to repayment of debt at Vedanta Standalone, TSPL, BALCO and temporary borrowings at Zinc India, repayment of preference shares at CIHL in FY2019 and lower average borrowing cost in line with market trends.

Investment income for FY2019 stood at ₹2,443 crore, 32% lower y-o-y compared to ₹3,618 crore in FY2019. This was mainly due to mark to market loss on a treasury investment made by Vedanta's overseas subsidiary through a purchase of an economic interest in a structured investment in Anglo American Plc from its ultimate parent, Volcan Investments Limited and one-time reclassification from other comprehensive income to profit and loss account at Zinc India during FY2019 which was partially offset by Mark to Market gain on other investment during the year.

## EXCEPTIONAL ITEMS

The exceptional items for FY2020 was at ₹17,386 crore, mainly on account of impairment charge of ₹17,636 crore relating to property, plant and equipment and exploration assets and claims & receivables at Oil & Gas of ₹15,907 crore, Copper ₹721 crore, Iron ore business (IOB) of ₹349 crore, Avanstarte Inc. (ASI) of ₹504 crore and Fujairah Gold (FG) ₹151 crore partially offset by RPO liability reversal of ₹168 crore at aluminium pertaining to previous years based on revision of liability pursuant to Odisha Electricity Regulatory Commission notification and interest accrued on power debtors at TSPL ₹82 crore in line with positive Supreme court order of prior periods.

(For more information, refer note (33) set out in P&L notes of the financial statement on exceptional items).

## TAXATION

Tax credit for FY2020 stood at ₹ 3,516 crore (FY19: charge of ₹3,862 crore). However, normalised effective tax rate (excluding tax on undistributed reserves from Zinc India , dividend from CIHL and impact of new tax regime) for FY2020 stood at 34%, compared to 28% in FY2019 due to profit mix within entities and primarily on account of increase in weightage of Cairn Energy Hydrocarbon (CEHC) which is taxable at higher rate of 43.68%.

## ATTRIBUTABLE PROFIT AFTER TAX (BEFORE EXCEPTIONAL ITEMS AND DDT)

Attributable PAT before exceptional items was ₹3,995 crore in FY2020 compared to ₹6,857 in FY2019 (lower 42% y-o-y).

## EARNINGS PER SHARE

Earnings per share before exceptional items for FY2020 were ₹10.79 per share as compared to ₹18.50 per share in FY2019.

## DIVIDEND

Board has declared interim dividend of ₹3.90 per share during the year.

## SHAREHOLDERS FUND

Total shareholders fund as on 31 March 2020 aggregated to ₹54,635 crore as compared to ₹62,297 crore as at 31 March 2019. This was primarily net profit attributable to equity holders earned during the year partially offset by dividend paid during the year.

## NET FIXED ASSETS

The net fixed assets as on 31 March 2020 were ₹107,489 crore. This comprises of ₹16,837 crore as capital work-in-progress as on 31 March 2020.

## BALANCE SHEET

Our financial position remains strong with cash and liquid investments of ₹37,914 crore.

The Company follows a Board approved investment policy and invests in high quality debt instruments with mutual funds, bonds and fixed deposits with banks. The portfolio is rated by CRISIL which has assigned a rating of "Tier I" (meaning highest safety) to our portfolio Further, the Company has undrawn fund based committed facilities of c.₹5,300 crore as on 31 March 2020.

Gross debt as on 31 March 2020 was ₹59,187 crore, a decrease of ₹7,038 crore since March 31, 2019. This was mainly due to the repayment of debt at Vedanta Standalone, TSPL and temporary borrowing at Zinc India partially offset by increase in borrowing at Oil & Gas business.

Gross Debt comprises term debt of c.₹46,600 crore and short-term working capital loans of c.₹12,600 crore. The loan in INR currency is 87% and balance 13% in foreign currency. Average debt maturity is of term debt is c.3.2 years as at 31 March 2020.

Crisil and India Ratings revised the outlook on Vedanta's Rating from AA/Positive to AA/Negative.