# "Vedanta Limited Q2 FY18 Results Conference Call"

# November 02, 2017

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**Moderator**: Ladies and gentlemen, good day and welcome to Vedanta Limited Q2 FY'18 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, you may press '*' and '0' on your touchtone telephone. I would now like to hand the conference over to Mr. Ashwin Bajaj from Vedanta Limited. Thank you and over to you, sir.

**Ashwin Bajaj**: Thank you, operator, and very good evening, ladies and gentlemen. This is Ashwin Bajaj, Head of Group Investor Relations for Vedanta. Thanks for joining us today to discuss our results for the second quarter of FY 2018. We will be referring to the presentation that is available on our website today.

From our management team we have with us our CEO, Mr. Kuldip Kaura and our CFO, Arun Kumar. We also have several of our business leaders with us; we have Sudhir Mathur from Oil & Gas; Amitabh Gupta from Hindustan Zinc; Deshnee Naidoo from Zinc International; Samir Cairae, Ajay Dixit and Abhijit Pati from Aluminum and Power; Kishore Kumar from Iron Ore.

So with that, let me hand it over to Mr. Kaura.

**Kuldip Kaura**: Thank you, Ashwin. Good Evening, Ladies and Gentlemen. I am very happy to be doing this call as CEO of Vedanta Limited. I have had the pleasure of interacting with some of you when I was the CEO of the Group earlier. It feels kind of like home-coming of sorts. I have been working very closely with our Chairman-Emeritus, Mr. Anil Agarwal for the past year in the Chairman's office and have had the opportunity of an inside view of the group though it is kind of hitting the road running.

Now moving to the Operations: We have had a very strong quarter with the EBITDA up 24% and PAT up 41% compared to last year. Consistent with our strategy to maintain a strong balance sheet, we also reduced debt by over Rs.11,000 crores since the start of this fiscal year. In the commodity markets side, both Zinc and Aluminum, LME have had a strong performing quarter. For Zinc, global tightness in concentrate supplies coupled with supply cuts in China have been driving the price rally. In the case of aluminum, successful implementation of Chinese reform to restrict excess capacities combined with improved demand outlook are helping prices. We expect this momentum to continue for H2 of FY'18 as China implements the production cuts. Like we said in the past, we expect that FY'2018 will be both, a supply and demand-driven story in our sector. China's growth recovery and environmental reforms to curb pollution will be major drivers of commodity prices.

With that, let me take you through our "Q2 Performance:" I will start with Safety and Sustainability which is of paramount importance to us. Management is committed to delivering zero harm, zero waste, zero discharge and this will continue to be our way of life at Vedanta. I am regrettably and deeply saddened to state that we have had two fatalities during Q2 from two unfortunate incidents – one at our iron ore business and other at our Skorpion zinc facility. Fatalities are a setback to our collective hard work to deliver on zero harm. We are working to ensure better isolation protocols to avoid such incidents in future. This has also been discussed at length in our executive committee and we are collectively working to improve the HSE environment in every business through leadership, demonstrated visible leadership, risk management as well as positive assurance measures in each of our businesses. We have also had an incident regarding Ash Dyke breach. We had the incident at Jharsuguda where the wall of one of the Ash Dykes was breached, spilling ash on adjacent land. Most of the land where the spillage occurred belongs to the company and there were no injuries from this incident. We have completed a thorough investigation with the help of agencies like Golder Associates, IIT Roorkee and WAPCOS and immediate remedial actions have been taken.

On the positive side, our efforts on sustainability have been recognized and Vedanta has been ranked 15th in the Dow Jones Sustainability Index globally while Hindustan Zinc has been ranked 3rd in the Environment category and $11^{th}$ overall in the Industry Group of Mining and Metal.

Moving on to the next slide: On Operations, we delivered a strong volume with record production in many of our segments and continue with the production ramp up across our portfolio with production guidance for financial year 2018 unchanged. We had high lead, zinc production and record silver volumes at Zinc India. The Gamsberg Zinc project is on track for its first production in mid-calendar year ’18. At aluminum, we had a record quarterly production and exited with the stabilized production run rates of 1.6 mtpa. TSPL, our power plant in Punjab is back in full swing and running at nearly 90% PLF level.

Talking about the Financial Highlights: I am happy to report that Q2 EBITDA was nearly Rs.5,800 crores and PAT was Rs.2,036 crores. We have had a strong free cash flows of nearly Rs.3,300 crores during this quarter. Vedanta is one of the largest contributors to the Indian exchequer and our contribution to exchequer in the first half of this year was Rs.13,000 crores.

Before we deep dive into results, I would like to remind everyone about the strong investment case of Vedanta. Vedanta has a large diversified low cost asset base geared towards base metals and oil & gas which has the highest global demand in the coming years among all commodities. Nearly 90% of our commodities are expected to have the strongest demand growth for the next 15-years. Our production growth from our well-invested assets give us a clear edge compared to our industry peers. We have the strongest balance sheet as compared to our Indian peers and among the strongest as compared to the global peers with net debt-EBITDA ratio of 0.6 and gearing at 16%.

Moving to the Next Page: Just to reiterate our capital allocation policy, which is underpinned by our world-class assets and operational excellence. This becomes more important as our assets ramp up and drives a healthy cash flow and gives us what like to call a good problem to have on deciding how to deploy it. Shareholder returns continues to be a clear focus area of the management and the board. In terms of balance sheet management, our focus will continue on improving our credit rating by a notch up at Vedanta Limited from the current AA rating while continue to pare down gross debt. We will only invest in attractive return projects in our existing businesses at very conservative commodity price consumption.

I will now hand over to Arun who will take you through the "Financials."

**Arun Kumar GR:** Thanks, Mr. Kaura. Good evening, everyone. We have continued to deliver yet another overall good quarter of growth with further progress on our financial, operational and strategic goals. The quarter sequentially while stronger on volumes also had tailwinds from a strong commodity price environment. Zinc touched a 10-year high, aluminum a 5-year high and Brent just crossed $60, a 2-year high. This resulted in better realizations but at the same time we also see input commodity inflationary headwinds especially alumina and some in coal. Sequentially, EBITDA was up 16% to about Rs.5,776 crores with margins continuing to be robust at 35%. This was driven by higher volume from zinc, recovery in the power business post disruption, continued ramp up of capacities at aluminum. Attributable PAT before exceptional items was at Rs.2036 crores, up 41% YoY and 34% up on a sequential basis. While our net debt-EBITDA ratio as you all know continues to be robust at 0.6 on last 12-months basis, the focus hence is on gross debt reduction. Since March '17, we have reduced gross debt by around Rs.11,500 crores. Of course including Zinc India Rs.7,300 crores temporary borrowing repayment, the number of Rs.19,000 crores approx. in the last six months. Net debt reduced by about Rs.3,400 crores driven by strong free cash flow generation during the quarter. Improved EBITDA and lower net debt further of course put our net debt to EBITDA ratio at 0.6 as I mentioned earlier, perhaps the lowest amongst Indian corporate and global peers, best-in-class balance sheet one can safely conclude. Of course, needless to reiterate, the same disciplined approach to capital allocation will continue and growth CAPEX investments which have just picked up pace will be expected to generate handsome return over and above our hurdle rates. Shareholders returns will continue to be an important objective too and all this can be well managed as they always say thanks to the strong operational focus and cash flows, so pretty much the same thing that Mr. Kaura alluded to just before I started my section.

Moving on to the next page on the EBITDA Bridge: During the quarter, all our businesses delivered strong operational performance. We had record quarterly copper cathode production, highest quarterly production at Black Mountain at Zinc International in the last four years, record silver production at Zinc India, Zinc India of course as you are aware, delivered 50% up on integrated metal and 30% up on silver volumes in H1 and record aluminum production benefiting from the continued ramp up. TSPL availability at above 85% for the quarter reflecting the fact that it fully recovered following a fire incident in Q1. Iron Ore as is normal in Q2, did not export due to monsoon season. The Oil & Gas business too did well to strengthen its EOR programs helping mitigate the natural declines in its wells quite strongly. This strong volume growth contributed additional Rs.620 crores to the EBITDA. The cost stayed constant. A bit of a wash between volume-led efficiencies and cost saving programs on one side and cost mix on the other hand. While LME, Brent and Premia contributed about Rs.700 crores, yet uncontrollables in the form of market and regulatory matters like higher input commodity prices, CT pitch, CP coke, coal prices had adverse impact of Rs.200 crores, so net was about Rs.500 crores on the noncontrollable side. Together the EBITDA increased to about Rs.5800 crores as I had mentioned earlier. The impact of temporary one-off issues like import of power due to supply chain issues, aluminum pot revival cost, contributed to Rs.(-270) crores approx. hopefully should be mitigated around now.

Over to the next page on Income Statement: As always, the page is self-explanatory. Some of the headline numbers have been covered in my earlier commentary of the two pages. On the finance cost side, it reduced sequentially as a result of repayment of high cost borrowings and reduction in credit spreads with an improving credit profile. The blended rate of borrowings continues to be well under 8% a target which was mentioned by me two quarters ago in our calls. I mentioned we will get to it around the mid of this year, happy to report that we are below 8%. The blended rate of return on investment portfolio for the quarter was around 6.7% same as Q1, reflecting the interest rate curve as well as lower mark-to-market gains on the bonds with the flattish yield curve that was in Q2. Depreciation and amortization cost was marginally higher sequentially. FY'18 depreciation is likely to be marginally lower than FY'17, pretty much the same guidance. Tax rates will be mid-20s to 30 range, again very similar to what I articulated earlier on the previous calls still holds. Attributable PAT as a percentage of total PAT, just crossed 70% as you note. Thanks to the strong overall performance across all businesses in our portfolio.

Our guidance on the volumes largely remain the same as given during May '17 results. Cost is expected to be a bit higher in aluminum and Zinc India against the earlier guidance, mostly driven by input commodity inflation, though price helps more than offset the same.

On the Next Page on Net Debt: Again, a very simple page. With the ramp up of capacities and the higher production volumes we generated strong free cash flow post CAPEX nearly Rs.3300 crores, a healthy 57% of our EBITDA conversion you could say. CAPEX programs are progressing well which I will cover on the next page. We maintained our working capital position as well while continuing to work for opportunities all the time to lean it.

With that maybe a few more details on CAPEX, I will move on to the next page: During the first half, the total project CAPEX spend was about 0.3 billion, $300 million. The spend pace will pick up in H2 though the overall CAPEX guidance is marginally revised to a full year number of $1.1 billion, about Rs.7000 crores, compared to the $1.2 billion which we had given earlier, it is just a question of little timing here and there. CAPEX program at Oil & Gas is to start with full swing in H2 and is expected to have a positive impact on volume towards the end of the fiscal, continuing into the next year. We will talk about that more on the Oil & Gas pages to follow where Sudhir will cover that. Our earlier guidance of optionality in CAPEX spends for the 400 ktpa copper smelter and the Lanjigarh refinery expansion continues. We have made further progress on the 400ktpa copper expansion project at Tuticorin and it is currently under final evaluation stage. Lanjigarh refinery expansion is also under advanced stages of evaluation. Zinc India continues to spend on track to its guidance to hit the 1.2 mt by FY'2020. Gamsberg is progressing well and first production expected from mid-calendar 2018.

Moving on to the next page: The company continues to manage its debt book with the twin objectives of de-levering gross debt and reducing the cost of borrowing. Continuing with our focus on gross debt reduction, the company during this fiscal has till date repaid around Rs.11,500 crores as I mentioned earlier, mainly higher cost-term loans thereby also reducing the interest burden on the Company. We will continue to de-lever our balance sheet during the year and at the same time we will evaluate opportunities to part refinance our outstanding debt portfolio for longer tenors to extend the maturity profile but at competitive interest rates. At this point of time, the maturity profile looks just fine to me. Liquidity for the group remains strong with Rs.40,200 crores of cash. The improving balance sheet and credit profile will further support our ratings from the rating agencies. Just a couple of days ago, India Ratings changed the company's outlook on its long-term AA from 'Stable' to 'Positive' again in the right direction.

With that I will move on to the last page in a section. Let me finish the "Financial Update" by summarizing our financial priorities which largely continue to be consistent and very much focused. The company will continue to drive free cash flow generation across all businesses through volume ramp ups, tight control on costs and efficiencies. It will allocate capital wisely to growth projects while ensuring strong shareholder return. With the well-managed balance sheet, strong set of financials, unique positioning as global India based emerging leader in the natural resources sector, the company remains a compelling investment proposition. Thank you for all the investor and analyst support over the last six months. We continue to have a high quality share register.

Thank you all and back to Mr. Kaura for the Business Section.

**Kuldip Kaura:** Thank you, Arun. Moving on to Zinc India: In Zinc India, we achieved mined metal production of 219,000 tons and refined zinc, lead production of 230,000 tons in the quarter which also happens to be the highest number. Refined silver production was at a record high of 140 tons in line with the higher feed of the mines. Our cost of production for the quarter was $984/ton which was impacted by high input commodity prices. Looking at the strong LME, we have partially hedged about a quarter of Zinc India's annual production. On our projects, we are on way to achieve 1.2 mt of mined metal capacity in financial year 2020. Underground mining will contribute about 80% to the current year's mining production before we completely move to underground mining in financial year 2019. Rampura Agucha underground mine ramp up is progressing well. The main shaft service winder was commissioned during the quarter and we expect to start ore production from the shafts to start in Q3 FY'19 in line with our plan. At SK mine, third mill of 1.5 mt capacity is scheduled for commissioning by Q2 FY'19 and it will take the total milling capacity at SK mine to 5.8 mtpa, matching the ore production ramp up. Zawar mill debottlenecking has been completed and the upgraded capacity of 2.7 mt was commissioned during the last quarter. We maintain our guidance of FY'2018; Refined zinc, lead, metal production of 950,000 tons. Silver production will be over 500 tons and the cost of production based on the significant increase in input commodity prices as compared to the last year. Our CoP for FY'18 is likely to be in the range of $900-950/ton.

Moving to Zinc International: We had highest quarterly production volumes at BMM in the last four years. Skorpion has strong production enabled by mobilization of mine outsourcing at Skorpion and better grades and high recoveries at BMM. Cost of production was $1470/ton, lower than last quarter. At Skorpion, the pit extension project which will extend life of mine to three years and increase reserves by 3 mt is progressing well. Waste mining that started in April has been at record levels in Q2 and has fully ramped up. We expect ore extraction from Q4 FY'18 onwards. Our financial year 2018 production and cost of production guidance remains unchanged with production of around 160,000 tons and cost of production at $1500/ton. The Gamsberg project is on budget and on target for first production by middle of calendar year '18 with ramp up to its full mining capacity in the next 9-12-months.

We have made significant progress during the quarter by completing excavation of about 50% of waste rock of total pre-stripping requirement till date in Gamsberg.

I will now request Sudhir Mathur to speak about Oil & Gas.

**Sudhir Mathur**: Thank you, Mr. Kaura. Good Evening to you all. In the Oil & Gas segment, I would like to cover three elements which form the integral part of our growth journey. Firstly, we are looking to rejuvenate our exploration portfolio through exploration and appraisal of our assets in the prolific Barmer and KG offshore basins and participation in open acreage licensing rounds. Secondly, we are embarking on execution of development projects with entail gross investments of about US$1 billion with expected ultimate recovery of over 200 million boe. Lastly, our core operations continue to provide stable volumes, low operating cost and robust free cash flows and even post the planned CAPEX investments.

Now, let me begin with our "Operational Performance" during the quarter and then move on to the growth projects: Our core fields continue to deliver along expected lines with gross production across assets for the quarter at 181,000 boepd. Rajasthan production was at 153,000 boepd. Drilling of 15 infill wells at the prolific Mangala field commenced during the quarter and four wells are already on line. Aishwariya Barmer Hill Phase-1 has been approved and the production from existing wells also has commenced during the quarter. Gas production from RDG averaged 34 million scuffs per day in the second quarter of the fiscal 2018. Rajasthan asset recorded an excellent uptime of over 99% during the quarter. The offshore assets produced 280,000 boepd with Ravva contributing 17,000 and Cambay 18,000 barrels. Effective reservoir management practices and production optimization measures have contained the natural decline. The offshore assets also recorded an excellent uptime of over 99%. We have successfully kept the operating cost at the lower end even among our global peers. Rajasthan water flood OPEX was in line with previous quarter at $4.4/barrel. Blended operating cost for Rajasthan was also in line with the previous quarters at $6.3.

Moving on to Slide #2: Exploration holds the key to ensure sustainable growth through additions to our prospective and contingent resources. Rajasthan block provides us with the unique proposition of similar access to the full Barmer Hill basin. In this basin, we have established discoveries at multiple plays in the reservoir system with low hydrocarbons in place of over 6.2

billion boe. In order to fully unlock the potential of the block, we have engaged global partners to establish prospective resources to the tune of 1.5 billion boe. Tendering is underway for an integrated exploration and appraisal drilling campaign from the first half of the calendar year 2018. At KG Offshore, seismic interpretation has resulted in identification of prospects and leads over different play types. We shall be commencing a two-well exploration program from the fourth quarter of the current fiscal with the target to add 300 billion barrels of contingent resources.

Moving on to Development Projects: We have a rich set of opportunities in our portfolio. These range from EOR tight oil, tight gas and facility upgradation projects. As mentioned in the past, our projects generate an INR in excess of 20% at oil price of $40/barrel and add incremental volume of around 80,000-100,000 boepd.

Moving on to Individual Projects: Raageshwari Deep Gas provides an opportunity to substantially increase our gas volume. The expected ultimate recovery has further increased by 22% to 105 million boe. Phase-1 is on track to ramp up the gas production to 45 million scuffs per day and Phase-2 is expected to increase the overall gas production to over 150 million cusps per day and condensate production to about 5000 barrels. Tight oil Aishwariya Barmer Hill, provides an estimated recovery of 32 million barrels. Stage-I production from appraisal wells has already commenced from the second quarter. The integrated contract for RDG and Aishwariya Barmer Hill Phase-2 will be in place shortly. In our core MBA fields**,** we are focused on increasing recovery through infill wells at Mangala and enhanced oil recovery project at Bhagyam and Aishwariya. The integrated contract for Mangala infill, Bhagyam and Aishwariya EOR will be in place shortly. We are also working on building a facility at Mangala processing terminal in a phased manner to handle the increased crude oil production. We will continue to identify opportunities to increase production from our offshore blocks. In Cambay, we are commencing a three-well infill drilling program from the fourth quarter of the current fiscal. For the fiscal year 2018, we expect to have steady production volume from Rajasthan at 165,000 bpd with the potential upside from the execution of growth projects in the second half of current fiscal. The net CAPEX is estimated at $250 million.

With that over to you, Mr. Kaura.

**Kuldip Kaura:** So we will come to Aluminum. We achieved record quarterly production of 400,000 tons during the quarter. The production exit run rate for the quarter was thereby 1.6 mt. We expect to exit FY’18 at a run rate of 2 mtpa. At 500,000 tons in Jharsuguda-1 smelter, we will achieve full ramp up by Q3 FY’18 post the April outage. On the Jharsuguda-II, while the second line has been fully ramped up, the first line should be fully ramped up by the end of the current quarter and we expect full ramp up of line-3 by Q4’18 due to slight delay caused by the Ash Dyke incident.

We maintain our production guidance of 1.5-1.6 mt of aluminum excluding trial run production in FY’18. We expect FY’18 alumina production in the range of 1.3-1.4 mt, a little lower compared to our previous guidance mainly due to expected lower mined bauxite. On allocation of bauxite, we continue to work with Odisha state government.

Moving to Realization: We benefited from higher aluminum prices during the quarter. Our realized premiums were however lower than last quarter in line with the decline in headline premium. On the hot metal cost, we benefited from lower alumina cost even as alumina API has moved from $303 in June to $385 in September due to the benefit from the two months inventory that we hold of imported alumina. Other input commodities like caustic was up 6% and CP Coke up 12% compared to the Q1. On power cost, we have been impacted on multiple fronts. Low availability of domestic coal due to diversion of coal supply to IPP power plants by Coal India, at least four times during the first quarter. The quality of coal provided by our linkage has been low affecting cost per GCV. Finally, the brief shutdown of our power plant at Jharsuguda due to the Ash Dyke incident required us to import power for intervening two weeks. The power import cost was largely one-off, not expected to recur going forward. As we had reported earlier, three of the five power plants that were shut down due to this incident have restarted. Inspection by the pollution board for the remaining two units are scheduled for this month and we expect to be able to restart that soon.

It may be noted that around $28/ton of the Q2 COP increase over Q1 pertains to the pot revival cost, combined with $40/ton of outage related cost that we reported in Q1. The total revival cost is of the order of $68/t, a one-off cost which we should get rid of as soon as the pots are recommissioned most likely by end of Q3. We expect the challenges relating to coal and other input cost especially alumina and carbon will remain in Q3 hence revise our COP guidance for Q3 in the range of $1850-1900/ton. We expect Q4 cost of production to be lower, aided by the completion of pot ramp up, Lanjigarh refinery scale up and improvement in coal situation and our aluminum team is extremely focused on bringing costs back to normal levels.

Staying on the topic of coal and moving to the next slide. Obviously, this is the situation that has been a key focus area for the aluminum management team. We are engaging with the concerned coal mines and government agencies. We expect the coal situation to improve in the current quarter as coal production ramps up post monsoon and demand softens. In the meanwhile, we are importing coal to address the current shortfall. The third tranche of coal linkage auction are also in progress.

Moving on to our IPP Units: Our 1.9 GWTSPL power plant post the restart in June end has ramped up well and is running at high availability of nearly 90%. We had a record EBITDA of Rs.342 crores at TSPL this quarter and are targeting availability of c. 75% for the full year. Coal cost being a pass-through for this plant, it did not suffer from the elevated domestic coal prices. The coal situation however adversely impacted our IPPs at BALCO, and Jharsuguda leading to low PLFs.

Iron Ore: We have sales of 0.7 mt and production of 1.2 mt. Lower volumes were on account of the monsoons. Going forward, on volumes, in Karnataka will achieve its 2.3 mt cap in Q3. In Goa, we have been busy during this monsoon season, working on an upgraded product. We will be beneficiating our ore and are targeting higher realizations and margins in H2. We expect to sell c. 3 mt in H2 from Goa. Realizations in Karnataka have been steady at $24/ton. We are however working towards better realization in this market. We continue to engage with the respective state governments for increased mining allocation in both states.

Copper India: Copper India production was a record 106,000 tons of cathodes in Q2. Production was higher primarily due to operational efficiencies, post the maintenance shutdown in Q1. Our global concentrate supply has recovered. The affected mines have begun to ramp up production. Many smelters in Chile, Philippines, China and Japan are also under maintenance shutdown in Q2 and Q3. Our net cost to conversion is lower QoQ mainly on account of higher volume. We are expected to produce about 400,000 tons of cathode during fiscal year 2018. We are in the final stages of evaluating the expansion of Tuticorin smelter by further 400,000 tons per year and we should be able to provide further updates on this shortly.

Let me close with our "Strategic Priority" slide to reiterate the company's focus areas for financial year 2018: We aim to generate increasing free cash flow via continued production ramp ups. We are committed to maintaining a strong balance sheet and prudent capital allocation. We are committed to achieving zero harm and creating sustainable value for all our stakeholders. We have intensified our exploration efforts to maintain long resource life and harness the resource potential of our assets.

With that, let me summarize by stating that our operations in all segments are progressing well and we are on track for the respective ramp ups which will lead to higher volumes. Commodity markets remain robust. I would like to reiterate that our philosophy of low cost at all of our assets remains strong and with the highest input commodity prices we are working relentlessly towards this end. All these factors combined should help us deliver a stronger performance in the second half of this financial year.

Before I conclude, let me share that we are hosting a Capital Markets Day in London on November 10$^{th}$ with the Vedanta Plc Results. This event will be available on webcast and also conference call.

**Ashwin Bajaj**: So thank you, Mr. Kaura. Operator, we are ready to take questions now.

**Moderator**: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Pinakin Parekh from JP Morgan.

**Pinakin Parekh**: My first question is on oil. The guidance for oil for FY'18 is 165,000 barrels versus the first half of 156,000 which implies the second half run rate of 177. Now how should we look in the exit for Q4 – will it be materially higher than 177 given the growth projects or that is still something which is more of an FY'20 volume growth story for oil?

**Kuldip Kaura:** If I may just broadly cover and Sudhir can supplement, I think this year second half effort will be more in the nature of debottlenecking and some initiatives which can give a small delta, but the growth projects really will start contributing towards the latter part of FY'19. So Sudhir, do you like to supplement please?

**Sudhir Mathur:** Thank you, Mr. Kaura. As Mr. Kaura mentioned, the bottlenecking through the infill well program at Mangala is something I talked about as well as a little bit of debottlenecking at MPT, which increases our crude handling capacity, you will see an uptick in production on that account. But really the growth projects that he mentioned, we are almost close to contracting that now, and by the time, they get mobilized at our site which is the two-odd month process subsequent to contracting, we should be in a position, you would begin to see a serious uptick in production from the next fiscal onwards.

**Pinakin Parekh:** Two more follow on questions; one is where we are on the PSC? Secondly, in aluminum, the company has been evaluating the Lanjigarh refinery expansion for some time now and the bauxite sourcing issue obviously is a key hindrance. However, given what seems to be likely a structural change across the aluminum change in China, would the company believe that the conditions now justify the expansion of the refinery even without the bauxite securities given that it is now 2-2.5 mt short of alumina?

**Sudhir Mathur:** As you are aware that earlier on in the year, the government came out with the guideline for extension of PSC which includes the Rajasthan block. There were two key elements to it -- One was that we needed to apply two years prior to existing PSC contract term which ends in 2020 and the second was they wanted to increase in the profit petroleum by about 10% over and above what would be the applicable rate at the PSC. In terms of the PSE extension where we are at is we are working closely with the ONGC, our partner, in the Rajasthan block to get all the FDPs in place, we are in advanced stage of closure there with them and we would have the application ready approved by both the partners, we as the operator, to be submitted well in time. Second on the increase in the profit petroleum, we continue to work with the government. There are various forms of the government, MoPNG, DDH besides our partners to make sure that this 10% is quite onerous and is certainly not in line with the efforts that the government is making to reduce imports by 10% as it is increasing the cost of production. So we would be ready in time for the PSC extension and the PSC extension as you are aware of adds 250 million barrels of reserve to our book and the CAPEX that we are incurring that we spoke about right through the call is really in line with the increasing production and we have the security of 20% already.

**Kuldip Kaura:** So just responding to your question on the Alumina refinery, as you are aware, we have 2.3 mt aluminum smelting facility and you will appreciate that integrated nature of this facility with the alumina and power being captive to us, is the most efficient way of producing low cost aluminum and looking at the long-term economics, so it will be better to have a fully integrated facility. That is the view we hold. As regards bauxite, we are engaging with the government for the additional supply of bauxite and making good progress on that.

**Pinakin Parekh:** Sir, just to clarify, would the company put on hold the refinery expansion till there is bauxite clarity visibility?

**Kuldip Kaura:** Right now, our refinery is producing or its capacity is around 2 mtpa and decision to expand is being evaluated and we will revert and inform you as and when we make those decisions.

**Moderator:** Thank you. We take the next question from the line of Rajesh Lachhani from HSBC. Please go ahead.

**Rajesh Lachhani:** Sir, if I look at the bottom chart regarding why the cost of production has increased for aluminum, so one-offs are around $75 USD per ton, so if you remove it then the cost in Q3 FY'18 would be around $1,775. So is it due to the lag in the alumina cost that we have given a guidance of 1850-1900?

**Kuldip Kaura:** I think our guidance towards the slightly higher number is basically the continued uncertainty in the coal supply situation and the coal pricing. However, we see some signs of improvement in the coal supply from the last week of October, but we need to watch it over a longer period of time. The other part is obviously the way the API for the alumina is moving today and that can have impact. Arun, you would like to supplement?

**Arun Kumar GR:** I think it is really the coal and the alumina inflation that one needs to keep an eye on, and we will keep giving the guidance as we have more information at the end of next quarter.

**Rajesh Lachhani:** Sir, we have cut our alumina guidance by close to 200 kt. So what is the reason for that?

**Kuldip Kaura:** Samir, would you like to respond please?

**Samir Cairae:** Thank you, Mr. Kaura. I think reduction of the guidance for the alumina from our Lanjigarh refinery is not due to the plant expected capable of producing 2 mt, but we ran into some problems of the quality of the bauxite, which we are getting from Chhattisgarh. So that one was the same that affected the production. But otherwise, we have confidence of maintaining the run rate of 2 mt especially in Q4 as the other sources of bauxite which we are working on, fructify towards the end of this financial year. So that was a very temporary technical issue due to the quality of bauxite we see.

**Rajesh Lachhani:** Going forward, we do not see this quality issue appearing again in…?

**Samir Cairae:** No, because you have to remember that this refinery was made for a specific bauxite which was bauxite has come from Odisha. So as that bauxite quantity is increasing, this problem we are not facing, and also what we have taken steps is to have a mining plan which is more robust and it blends different kind of bauxite and hence there won't be any difficulty. So of course there is stock which is getting depleted, that is why I am saying the guidance for the run rate of Q4 remains 2 mt alumina production from the refinery. However, for the full year, the average is coming off 2 mt.

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

**Amit Dixit:** My question is with respect to Slide #11 wherein you have mentioned that Rs.80 crores of impact was due to regulatory issues. Can you just brief what those regulatory issues might be?

**Arun Kumar GR:** On entry tax, there were some judgments which said that on imports they are applicable, etc., though that is a small little adjustment and some duty wage also change here and there a bit. So it is nothing very significant, but end of the day they are regulatory in nature.

**Amit Dixit:** There was a write-off of Rs.109 crores in oil & gas business, exploratory assets largely. Can we expect further write-off like this or this is like a done case?

**Arun Kumar GR:** This is Arun here, but I will request Sudhir to also come in. End of the day, we have to realize that Oil & Gas business as Sudhir will explain is a significant investment business, there will be a lot of investment, lot of exploration and there will be growth in that business. So these are extremely small immaterial things in the scheme of things overall. Sudhir, any comments?

**Sudhir Mathur:** Yes, Arun, at Palar,we knew we were taking more a wild cat kind of a decision to invest there, we thought we knew it along with our partners, in Palar, we have partners with Tata as well as ONGC and it was a small amount of capital, it was worth taking the exploration risk, and therefore we drill the well which had turned out to be dry, so our own prudent accounting policy and very conservative person that Arun is, we have taken a write-off on that account.

**Arun Kumar GR:** You see the bigger picture here is whenever Oil & Gas project is evaluated as Sudhir keeps repeating, we have (+20%) IRR at even 40 Brent and we are looking at really some exciting growth projects in the pipeline as he articulated earlier. All of them take into account a certain risk already in the project evaluation. So that is the nature of the industry and that is how you got to run the business and it is a very-very immaterial amount, not really worth bothering about here.

**Amit Dixit:** Is there any targeted deleveraging that you have in mind for FY'18 because you have been continuously deleveraging. So is there a deleveraging target for FY2018 or is it as the free cash flow builds up, how is it ?

**Arun Kumar GR:** As I articulated earlier in the last few calls if you observe Amit, the questions that have been raised to us is how much more leveraging are you going to do given that you are already at below one, net debt-to-EBITDA and all you have to do is to go on to Bloomberg and Reuters and take the data out, you will find the strongest ratio amongst the Indian conglomerates or the global peers. So the question is really about how much cash you want to use to reduce the gross debt. That is really a very tactical decision to reduce your cost of borrowing and we will be very opportunistic about it at the end of the day. But the bigger picture here for your consumption is 0.6 net debt-to-EBITDA and how many conglomerates of our size have a sub-one ratio in a capital-intensive mining sector or this kind of sector that one is in. That is where I leave it. The debt management is in safe hands and if you notice the cost of debt has come down, our treasury team has done a wonderful job. I told you six months ago that we will bring it down below 8%

and we are about 7.75%, that is hardly 100 basis points above G-Sec. So what more do we want from the company?

**Amit Dixit:** Is there any targeted net debt-to-EBITDA that you have in mind?

**Arun Kumar GR:** I like that question that you ask. I go back to the chart that Mr. Kaura, our CEO, had talked about. It is all about capital allocation. At the end of the day, fundamentally good operations generating such healthy cash flows, you saw Rs.3,400 crores in a quarter, this kind of EBITDA Rs.6,000 crores and still on a trajectory up, given the volume ramp ups, very few balance sheets will have this kind of resources. So when you have the focus on operations and the cash flows, then you manage the multiple objectives of growth CAPEX, delever if you want more and ensure that fair returns are given to the investors. So it is a question of ensuring a good balance between all the three objectives that we have been pursuing and more markedly so in the last 2-3 years that you have been observing how we are balancing these objectives and as you know we have also invested more in growth CAPEX this year. So with that perhaps it answers your question.

**Moderator:** Thank you. We have the next question from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

**Abhijit Mitra:** My first question is on Zinc. The divergence that we are seeing in the COP between domestic zinc and zinc international operations, is it only because of domestic coal availability or how to look at it because both from a year wise status as well as on QoQ movement, the gap just keeps on increasing, which to a large extent the domestic zinc operations concall explained as a commodity related move, but the same move is not observed in the international operations, so just curious is it purely domestic coal related move? The second question which I had on Zinc International is can you kindly refresh our memories on the progress of pit-112 extension? I think the last update which we had was that it was supposed to get commissioned in FY'20 and it was supposed to be one of the key levers along with Gamsberg to increase the concentrate capacity or the mined metal capacity rather to around 440-460kt and with the refinery conversion project would be completed by that time or would we have to sell concentrate outside in FY'20?

**Kuldip Kaura:** Abhijit, I will try to answer your first question which is comparison of Zinc India and Zinc International operations. I think it is fair on your part to look at these two that way. But as you will appreciate that the costs are dependent upon the value chain and the type of mines which each operation have because the costs are dependent upon the mining, the strip ratios and various other factors plus the value chain in Zinc India is mining and smelting whereas in the Zinc International it is more like a refinery, a type of operation which are very different kind of a whole chemistry. So having said that we have also Deshnee Naidoo who is CEO of Zinc International, I think she can put a little bit more color on this plus also your question on the Pit-112 position and going forward how do we see that?

**Deshnee Naidoo:** Thank you, Mr. Kaura and thank you for the question, Abhijit. I think on cost, Mr. Kaura has touched on it, these are very different businesses. Zinc international is a combination of Black Mountain which is 90,000 tons from a capacity point of view of metal in concentrate and then on the Skorpion side, we do produce final metal, HSG but through a refinery. Further, these operations are extremely aided. In fact, with Anglo-American, they would have already come to the end both in an extension of life phase, saying that the current Black Mountain mining is at extremely low grade, in fact, our zinc grade is just sub-2% but because it is a poly-metallic ore body, we are mining an overall grade of between 6.5% to 7% but at a depth of just close on to 2 Kms. The zinc is very low grade and we can talk about productivity, etc., but under those conditions, I think we still get competitive on the cost structure on the BMM side. On the Skorpion side, again, this would have come to end in 2014, 2015 as you rightly said, we then took the decision to do a further push back on what you call the Pit-112. So Skorpion is also coming to the end of its life on the current pit shell, also extremely low grade, the plant itself was designed between (+7.5%), we are now putting sub-6%-6.5% material to this plant and because the push back decision was deferred and prices picked up, we then decide to progress with this project, we are now experiencing an ore gap which we are supplementing to either external oxide and also treating some of the marginal ore. So outside of the increasing commodity prices, we are seeing in terms of price pressures. Structurally, these businesses are at a very different stage in the life cycle of the assets. So that is what is driving the cost. Leaving that, off to around Pit-112, we have started Pit-112, in fact, if you look at Skorpion kind of quarter-on-quarter, stripping is at an all-time high. We already at a run rate of over 3.3 mt, we will hit ore, and I think Mr. Kaura mentioned it earlier in the fourth quarter of this year, but the bulk of the ore would only come in the following year. Just to remind everyone in terms of the scope of Pit-112, it will extend the current life to just (+3.5)years, we are mining about 80 mt of waste to give us just over 2 mt of ore, to produce 200,000 tons of zinc metal. So that will help, but that will only come out in the next 18-months or so. In terms of the refinery conversion, so we did complete the project as we discussed to feasibility. This is over a year ago. But given the fact that we are again now in the Pit-112, it always makes sense to treat Skorpion ore through Skorpion. So we defer the project and so we can actually press the button once we finish the current 112 project.

**Kuldip Kaura:** Abhijit, actually, you asked a good question in the sense that irrespective of our cost, customers pay at the same price. So we are also asking Deshnee to actually match up her cost to the Zinc India level. So I think we will strive to work towards that.

**Abhijit Mitra:** One addition to that, the extent of commodity inflation which is hitting the international cost structure, is it being largely made up by the efficiency improvements that has been carried out there, how should one look at it, just some color on that?

**Deshnee Naidoo:** Abhijit, on the Black Mountain side, absolutely, we are focusing on changing our bulk mining methods to more open stoping, so that is definitely helping and we are increasing our drilling activity. So we are actually getting better grade in addition to that we actually had an all-time high on recovery. So despite the grade that we are currently processing, we are almost achieving (+4%) on our recoveries today. So that operation improvement is definitely offsetting some of the cost pressures we are seeing. At Skorpion, it is still going to be tough because the volumes are not there and there we are really focusing on getting more zinc into the front-end and we are looking at how we can high grade some of the low-grade stock piles that we discarded over the years, try and put it to our plant. So those are some of the initiatives. Like Mr. Kaura said, right now, keeping on the lowest end of the cost curve, keeping our productivity up is where we are focusing.

**Moderator:** Thank you. We have the next question from the line Bhavin Chheda from Enam Holdings. Please go ahead.

**Bhavin Chheda:** A couple of questions; one on the iron ore, if you can update on the Supreme Court looking at increasing the mining capacity in Karnataka for Category-A and B mines from 30-35 mt. So if that happens, can Karnataka produce from 3-6 mt which we were earlier doing or it would be proportionately increased in line with the Supreme Court?

**Arun Kumar GR:** May be I think let me step in the place of, I think Kishore's line is not okay. I think the Supreme Court process is on, we do see some favorable submissions and recommendations. But as you all know, it is lesser we comment the better in the sense that it is a court process, so we do expect to hear something this fiscal year.

**Kuldip Kaura:** Then of course if the limits are increased, then we get our share out of it.

**Bhavin Chheda:** Regarding the Goa thing, how that mining goes up, what is the process there and any regulatory updates there?

**Arun Kumar GR:** As far as the Goa is concerned, again, the bright spot in Goa as you know last year also in Q4 given the fact that the mining from the other peers was a little slower and additional tonnage of 3 mt was allocated to Vedanta. So we will have to wait and watch how it plays out this Q4. We do not include that in our guidance, but I would not rule out those chances, but, of course, the larger question of the mining cap is at the court as you rightly observed earlier and that process also we hope should be a favorable outcome during this fiscal year. So either way you look at it, it is probably an upside from the guidance if things turn out, but at this point of time for your modeling you should stick to the guidance given by us.

**Bhavin Chheda:** Sir, one more question on the coal side, the presentation shows that we have close to 8 mt of linkages. But we have not received full quantities, maybe because it was diverted to other IPPs, PSU power plants. So what is the run rate now in October, November, are we getting those quantities or still we are falling short of them?

**Kuldip Kaura:** Yes, we are falling short, too early to comment how the suppliers will build up, but obviously we are hoping for a positive trend.

**Moderator:** Thank you. We have the next question from the line of Ritesh Shah from Investec. Please go ahead.

**Ritesh Shah:** Sir, my first question is for Hindustan Zinc, we had a change in strategy wherein now we are actually doing some hedging. So just wanted to understand what is the thought process on the aluminum side specifically given alumina's percentage of LME is moving up, so if you could provide some outlook on why not for aluminum and some outlook on aluminum prices as well would be helpful?

**Arun Kumar GR:** As far as hedging is concerned, the group philosophy is very simple. We normally do not hedge, we believe in sales price of the day, the exchange of the day, the cost of the day. Focus is always to be on the lowest quartile so that you ride all the way. So there is no fundamental change in any philosophy, thought process, but yes, from time-to-time when the situation offers a certain unique chance, when you are facing a price which is highest in the last 10-years, as I articulated earlier, one did deliberate and the Board of Hindustan Zinc decided to take the call and went ahead to hedge a small quantity, probably about 20%-25% of the annual volume and pretty decent price around $3,100 or so that we have hedged. Now, it is not a policy that will be executed across all sectors, aluminum price is certainly strong, at the same time, there are enough cost levers and we continue to stay focused on our philosophy of ensuring efficiency, volume rather than focus on hedging. In the event, we decided to take a call like that, definitely, we will come out with a disclosure and let you all know, but very clear that is not the policy nor are we getting into a hedging company here.

**Ritesh Shah:** Sir, would you like to provide some color on locally the stressed assets that we have on the steel side and there have been news flow for us striking a MoU in Jharkhand state, so how are we looking at the scenario specifically you get a detail about our balance sheet target, so how should one approach this?

**Arun Kumar GR:** At the end of the day, we will look at what are the allied opportunities in and around our main mines and metal sectors. Every opportunity will be evaluated on its merits and we will strictly fall under the capital allocation guidance and the policy of the group. Having said that, one must realize that we have a huge list of Brownfield projects and very exciting growth plans at this point of time. Look at Hindustan Zinc. 1.2 million tons is on its way, FY'20 the management already talked about 1.5 million ton vision during the Zinc Day two months ago, many of you were there. So when the management is talking about it, I am sure it is starting to make certain road maps to get there. Sudhir articulated the 300 kp opd vision and we certainly want to see how we can be at least 50% of India's oil producer. So Oil & Gas is actually working on several projects in EOR, infill, surface facility, ASP, hi-tech projects. So there is exciting list of Brownfield growth. ZI again, Gamsberg is there and we all know Gamsberg is Phase-1, the reserve body is much bigger, this probably is a Swartberg. We have been articulating that as well in the Zinc Day. Definitely invited to the Capital Markets Day that Ashwin mentioned earlier, I am sure we can discuss more in detail on our exciting growth plans. So all these things again will be a combination of what opportunity comes up at what point of time, but fundamentally put your head down and focus on what you have on hand which is Brownfield and ensure that you generate excellent free cash flow that we mentioned earlier.

**Moderator:** Thank you. We have the next question from the line of Sumangal Nevatia from Macquarie. Please go ahead.

**Sumangal Nevatia:** First question is with respect to the aluminum division. If you could just share what is the spot carbon, caustic and alumina prices and what has been considered in the 3Q guidance of 1850-1900? Also, when you say 4Q should be significantly lower, what amount of cost deflation in these three raw material has been considered?

**Kuldip Kaura:** First of all, the CTP coke prices of course are on the run, but they are not very significant part of the overall cost. So the real differentiator will be the cost of power which is dependent on the coal and also the cost of alumina where the mix and what is the API on the imported Alumina run. However, if you are looking for information on this one, I am sure our team can give you separately and tell you that.

**Sumangal Nevatia:** Second, on the coal availability issue, is there any penalty been charged to Coal India below any threshold level of supply given we have linkage? Also, the shortage, has it been reflected in higher premiums in the tranche-3 and e-auction prices?

**Kuldip Kaura:** The shortage is fundamentally of materialization of your linkage levels, because that is the cheapest coal you have, so your materialization of the linkage levels reduces and you buy and supplement that with the auction and also to some extent imported coal and both those are at the overall burden of the cost.

**Sumangal Nevatia:** Is there any penalty been charged to Coal India if they supply below the threshold?

**Kuldip Kaura:** I think you can check it out, but I am not very clear on this one, but Samir, if you have any inputs on that?

**Samir Cairae:** Yes, below 70%, but actually, there is a backlog and what we want from Coal India is to clear that backlog, because as you rightly mentioned the e-auction and the import costs have higher than the linkage costs which we have. So instead of getting small penalty, what we are doing is we are working with them to clear the backlog of those linkages so that we get those quantities in the balance of the year.

**Kuldip Kaura:** That is a better approach.

**Sumangal Nevatia:** **At last, one book-keeping question** - There is Rs.900 crores disputable receivable under TSPL. Can you share some details, what is that regarding?

**Arun Kumar GR:** I think the disputable receivables if at all, we call them 'Disputable' because they are under some tariff commission process. So pretty much there are some various deductions which is to be expected in the sector that we operate in the power side at least, where there are some differences to you and what is claimable and what is not claimable. As far as the investors and the others are concerned, we assure that these are contingent liabilities. So the auditors and all of us always look at in detail. It is very clear that if it were a probable situation that have been provided for and it is not probable, hence it is a question of timing when you get it, not if you get it.

**Moderator:** Thank you. We have the next question from the line of Abhishek Poddar from Kotak Securities. Please go ahead.

**Abhishek Poddar:** First question is regarding the bauxite mine. Could you give same color on what is the progress with the state government – which are the deposits that are relevant to us and any indication on the timelines?

**Ajay Dixit:** First of all, for sourcing the bauxite, yes, we are pursuing with the government, but we are not leaving other actions also left out because obviously that is one source which is cost wise most viable and the government is also exploring certain options in which they would go for, I would say also with the latest policy which has come up that even the mines and even the linkages would be auctioned and we are waiting for this to happen. We are very hopeful because more and more mines are getting cleared, being ready for being auctioned and we will soon see a positive result on that side.

**Abhishek Poddar:** Sir, any indication of what quantity could come and any indicative timeline whether it can take a one year or two years or it could be early?

**Ajay Dixit:** The process will take its own time. I would say this is a question which would not be right on my part to answer as these things have to go through a process and clearances which have to be there in the government.

**Abhishek Poddar:** Second question is regarding the alumina market. As you said that, API is very high today at about 22% of LME and the margins for non-integrated names are really getting sweet. So how do you read this external market and how do you see alumina index behaving in the future and how does that affect you in terms of alumina costing meaning what will be the alumina cost in 3Q and 4Q and here I would mean what is impact of inventory that you are carrying right now?

**Kuldip Kaura:** I think we have given some guidance on the aluminum cost and this question was asked earlier also that why they are slightly higher. The reason was anticipated cost in terms of both coal and alumina. If you are looking for what is our anticipation on the alumina prices… Ajay, do you have anything more to add?

**Ajay Dixit:** Yes, what we have studied quite a lot basically the API index shot up because of the Chinese situation, and as we go and we know what are the additional mines getting opened and additional smelters high efficiency getting commissioned, it will ease up on the quarter of January to March and we would see the reversal happening at that point of time.

**Abhishek Poddar:** You mentioned that because of the production ramp up, there will be some cost decline in aluminum in fourth quarter. Could you quantify how much cost we can see?

**Kuldip Kaura:** Fundamentally, ramp up will take place and we should reach our full capacity in the Q4 and our cost in the Q4 basically should reflect the softening of the cost of alumina as well as the larger or increased availability of coal and cost thereof. That is what will drive the overall cost down because volume to fixed cost kind of a arbitrage is not very significant.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

**Kuldip Kaura:** As I mentioned earlier that all our operations in the various business segments are progressing well and we are on track for the ramp up of our volume and commodity prices remain robust and we believe that we should be the lowest cost producers in each of the businesses we are and we continue to work on our cost. So with these factors in mind, we hope to deliver a stronger performance in the second half of this year. So with that thank you very much for being with us.

**Ashwin Bajaj:** Thank you, Mr. Kaura and thank you all for joining us. Please contact us at IR if you have any other questions. Thank you.

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