"Vedanta Limited Q2 FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Vedanta Q2 FY'20 Earnings Conference Call. As a reminder, all participants' 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. Arun Kumar – Group CFO, Vedanta Limited. Thank you and over to you, sir.

Arun Kumar: Good day, everyone and very warm welcome to all the callers into this call. I am delighted to introduce our new IR Head, Mr. James Cartwright and will be present in all the earnings call and available for all query resolutions. And with this I hand over to James to introduce himself and run the call.

James Cartwright: Thank you very much, Arun and good evening, everybody. So, after 25-years working in global capital markets, most recently as the Managing Director at Morgan Stanley, I am very much looking forward to being part of the Vedanta team. This is a very exciting time for the company, to India and the broader region. To all our current and prospective stakeholders, equity, ESG and credit analysts, I am very much looking to further engagement with you all in the coming quarters. With that, I will turn the call back to our CEO Venkat to address the Results.

S. Venkatakrishnan: Thank you, James for a very positive start. Good Evening, Ladies and gentlemen and Welcome to Vedanta Limited Second Quarter FY'2020 Earnings Conference Call. I think it is quite important in these conference calls to start with a big picture rather than sort of diving straight into the slides. So, I am going to take a few minutes to walk you through some of the big picture aspects which are quite important to cover before we go into the quarter's numbers.

Let me start by emphasizing what an important period it is for company. Vedanta is at an exciting transition, a transition that will see the company accelerate in the expansion of its reserves and resource base over the coming quarter. You will recall at the last year-end results call; we did say that this was going to be one of our guiding principles. So we are pleased that progress is being made here. This expansion is being delivered through strict capital allocation and balance sheet focus, aimed at creating value for all of our stakeholders. We have confidence in being able to deliver the best from our assets and people whilst always being committed to our core values around safety, environment, ethics, governance and social accountability.

This exciting period for us is augmented by our strong presence in India. Whilst recent market conditions that have tended to focus on slowing economic growth, one should take comfort that India still continues to grow at multiples of world average. Vedanta's combination of inherent expansion with enormous economic growth potential of the country and the wider subcontinent sets us apart from the rest of the sector. Vedanta is the only gateway for prospective investment in this vast, unexplored subcontinent providing us the opportunity to capture market share and lead by way of an example. Attractiveness of India as a growth engine, drives increasing focus from foreign investment. Nowhere is this more prevalent than in the oil and gas sector where we have seen increased interest from international oil majors, the National Oil Companies in expanding their position in the region. This shift reflects that Indian oil and gas reserves are some of the most undervalued globally as well as recognition of the energy transition in this country. We expect this trend to continue.

We are confident that the commodity cycle which is generally in the order of gold, followed by silver, followed by oil and then base metals, would pick up given that gold touched its three year high recently. This combined with the expected delivery of our growth projects that come into play in the third and fourth quarter of this fiscal year and into next year will drive our top line profitability across our key verticals. Likewise, with the unique low cost positioning across zinc, oil and gas that sets us to deliver sector-leading EBITDA margins and cash generation and very soon it will be augmented by the reduction in cost in the aluminum sector that you are seeing.

Now, looking at the overall vision for the group, we are gearing up to deliver 1.5 million tons of integrated metal every year from Zinc India business and another 500-650 kt of integrated metal from the African business, largely led by our Gamsberg expansion. We are already one of the lowest cost producers in the world and that too is without taking sizeable silver credits. In our silver portfolio which gave us an EBITDA of greater than $300 million last year we are at #9 now globally and we are set to outgrow expectations by delivering 1,400 tons which will make us one of the biggest producers of silver in the world. In oil and gas, our vision is to contribute half of total oil and gas produced in India. Vedanta's upstream position is unrivaled in the country through a diverse spectrum of world class resources. The acceleration in development drilling seen over the past will continue to drive volumes while significant additions to our reserve base will come from our existing field expansion and our OALP blocks.

In the aluminum vertical, while there are temporary volatilities which we have flagged will happen in the journey in this particular sector, we continue to move towards achieving our target cost of $1,500 a ton. We are significantly ramping up our production from alumina year-on-year and we are set to further improve our self-sufficiency in bauxite and potentially improve also more of that later. We are continuously improving in operations in our steel business with a vision of making it a 2.5-3 mt per annum plant in its first phase.

Iron ore business in Karnataka is also achieving new milestones in terms of production and we are working closely with the communities and government to ensure that we get the benefits of the new regulations and policy soon.

In Goa, we are in continuous engagement with our communities and state and central government regarding the restart of the operations there.

Now, turning to a brief look on the commodity markets. As I highlighted in the last quarter, the expected seasonal weakness through July and September played out. This was coupled with volatile markets and price headwinds. Turning to our commodity basket on oil, the global economic indicators continued to decline last quarter, contributing to volatility and we saw a 10% drop in Brent prices quarter-on-quarter.

Prices of zinc also dropped but seem to be on an increasing trend recently on account of lower global metal stocks and plant closures in China. Lead remains range-bound although has seen the strongest increase of late.

In aluminum, the price continued to fall in the second straight quarter mainly due to demand contraction in the various sectors such as automotive and construction, but we start to see the very recent pick up in terms of aluminum prices during the last 1015-days.

Iron ore is expected to remain stable due to supply disruption in other mines in Karnataka. We expect the second half of the year to be positive as it might see some easing of the economy specifically India and its auto sector picking up. And also bear in mind, the second half of the year in particular the fourth quarter tends to be the strongest for Vedanta in this regard.

Now, turning to the Q2 Results, looking at the Highlights:

In Zinc India, ore production went up by 3% year-on-year at 3.6 mt, demonstrating excellence at Rampura Agucha mine. In Zawar, we have delivered exceptionally well with ore production up almost 25% with better grades. The steady ramp up of our mines significantly derisks our future growth potential.

Zinc International produce record volumes with significantly lower cost. Although we have faced some delays, our confidence in Gamsberg ramp up remains unchanged which would lead to significant growth in the coming quarters.

Oil and gas, we exit in the quarter with 166 wells drilled and 63 wells hooked up and we expect another 120+ wells to be on line, giving us confidence in our growth plans. Our RDG bridge has ramped up from 35 to 50 million scuffs per day.

We are commencing full field polymer injection in the Bhagyam and Aishwariya fields, following on from our success in the Mangala EOR polymer injection phase.

As far as aluminum is concerned, in our commitment towards achieving lower cost starting with alumina, our Lanjigarh production was up 18% year-on-year with a similar 18% drop in our cost.

On the power side, you would have noticed that Vedanta has emerged as a successful bidder for the Jamkhani coal block in Odisha. This along with our Chotia mine will improve our coal security for this business.

We are pleased to announce that we have significantly ramped up volumes in the iron ore Karnataka business as you would see from the numbers.

Turning to Electrosteel:

sales were at 283 kt, up 6% year-on-year and with the positive outlook on Indian growth due to government policy easing, we expect our sales to grow. The benefits of the above volume increases, and cost performance were somewhat dampened by a fall in the commodity prices. Our EBITDA of Rs.4,496 crores, represented a margin of 25%. I know this is theoretical but if you were to assume the same metal LME and oil Brent prices as a year ago, this number would have been Rs.1,700 crores higher.

Our attributable profit after tax increased 61% year-on-year. Our balance sheet remains strong with the net debt-to-EBITDA ratio of around 0.9x, and more of this in Arun's presentation.

As another feather in the cap, I am proud to announce that Vedanta was bestowed with the coveted "Golden Peacock Global Award for Excellence in Corporate Governance 2019" reinforcing our commitment towards corporate excellence.

Now, turning to Safety Environment and Sustainability: We began this fiscal year with strong focus on improving our safety performance. After more than two months of safe operations at all of our locations, I am deeply saddened to report the loss of one life in our aluminum business which is tragic. We have completed the incident investigations and have also instituted "Rail Safety Committee" in response to the fatality that involve shunting operations. Our focus on sustainability is drawing international recognition as you are aware of.

I am incredibly proud to announce that Hindustan Zinc have been ranked #5 globally, #1 in the Asia Pacific region amongst 62 metals and mining companies in the prestigious Dow Jones Sustainability Index.

Vedanta Limited also improved its overall score in global rankings by moving up to the 20th position, up from last year's 24. In Asia Pacific region, we were ranked #7, ahead of some of our leading peer companies.

Considering the recent tailing dam failure elsewhere in the globe, the company has continued to focus on improving the management of its dams. On request from investors through a process run by the Church of England Pensions Fund and the Swedish Council on Ethics for National Pension Funds, we have recently published details about the status and management practices at each of our tailing's facilities. This document can be accessed from our website

At our flagship "Nand Ghar Program", we crossed 1,000 Nand Ghar mark and we are rapidly moving towards reaching 4,000 Nand Ghars. These child day centers support some 41,000 children and 31,000 women currently and that is expected to grow significantly.

Our sustainability initiatives positively impact several million lives in the areas where we operate. With nearly 190 initiatives spanning healthcare, education, community infrastructure, drinking water, sanitation, sports, women's empowerment, environmental protection, restoration, livelihood and skills development, Vedanta is a force for good in the communities and the impact we have assessed reaches over 3 million people.

Now spending some time in each of our business verticals, starting with the Zinc segment; the near-to-medium-term growth outlook looks promising. The refined market remains in deficit mainly driven by the subdued Chinese smelter production due to environmental regulations there. In September, global metal stocks were as low as to four days global consumption. This supportive backdrop combined with our volumes from growth projects is expected to deliver a stronger performance in the coming quarters. Zinc, lead, silver remains a key pillar of our business, and we are entering the second half with the important expansion of our projects getting completed aimed at enabling 1.2 mtpa capacity. Our investment in automation and digitization are steadily delivering results and will support cost optimization goals. This quarter saw an increase in ore production that was slightly offset by temporary geo tech issues and other ones-off factors giving way to a stable second half year performance across metal-in concentrate and metal volumes and costs. We look to a stronger year ahead on the back of these growth projects. These include at the Rampura Agucha mine; the shaft projects is on track and expected to be completed during this quarter. At the SK mine, the shaft is commissioned and is being integrated with the mine. It is expected to ramp up and support the operations in the latter half of the year. The second paste fill plant was also commissioned in June, leading to faster filling and higher production.

At the Zawar mine, in addition to the dry tailing stacking plant commissioned in the current month, two paste fill plants are on track for completion during the third quarter which will allow additional mining to take place. This year, as I said previously, there is an increased focus to ratchet up our reserve base by upgrading resources at Zawar and the Rampura Agucha mine which includes the Galena lens and enhancing reserves and resources at the Kayad mine lease, new ore body at Balmia Kalan near our SK mine and a new ore body below the existing SK deposit. We are leveraging advanced surface and geophysical technologies to achieve these new targets.

Turning to Zinc International:

We witnessed increased production and cost supported by the newly commissioned Gamsberg mine. At Gamsberg, we witnessed ore production of greater than 500,000 tons in September. The mining operations are running at their designed capacity to deliver ore at 330 kt per month with available stockpile in excess of 1.6 MT. Our exit mill throughput was at 450 tons per hour and progressing to reach their design rate in Q3. Continuous focus on grade, throughput and recovery optimization should help us deliver our targeted 250,000 tons p.a. design run rate.

Production at Black Mountain mine was at 18,000 tons, up 26% year-on-year. Production at Skorpion was 23,000 tons, again up 50%. The remedial activities post slope failure in May'19 has been substantially completed, and we are now taking a planned shutdown of the refinery in Q3 and Q4.

Zinc International due to Gamsberg coming onstream saw over a 100% increase in production to 63,000 tons at a cost of production of $1,584 a ton.

Turning to Oil and Gas:

We have a clear set of capital investment channels in both PSC block and the OALP blocks. In the PSC blocks, we are investing around $3.2 billion to monetize over 400 million barrels. These comprise of enhanced oil recovery, tight oil and exploration and appraisal prospects. In OALP for our 51 blocks secured in the first three rounds, our capital commitment is around $800 million spread over four years. In the PSC blocks, a large part of the development CAPEX projects, except MBA, ASP are nearing completion in the second half. In terms of the impact of these projects on production, there are three key elements -- Firstly, we are increasing the capacity of our facilities to handle both liquid and gas. Our liquid handling capacity shall increase by around 15% in the last quarter of the current fiscal year. In terms of gas, the additional early production facility with a planned capacity of 90 million scuffs per day has been ramped up to more than 50%, taking our overall gas production to 100 million scuffs per day average in September.

Our new gas terminal construction is progressing well for completion, and this shall add incremental capacity of 90 million scuffs per day, taking total gas capacity to 240 million scuffs per day.

Secondly, our drilling plan across projects is progressing well. We intend to drill an additional 84 wells and hook up 87 wells. This shall increase the total drilled wells to 250 and hooked up wells to 150.

Thirdly, we are commencing full field polymer injection in the Bhagyam and Aishwariya fields following on from our success in the Mangala EOR polymer injection phase.

Turning to the OALP and Exploration Program Update:

In the PSC blocks, we have commenced the drilling for tight oil appraisal fields. The drilling program for offshore Ravva block is on track, due to commence in the third quarter on an overall basis we intend to exit the current financial year at a production rate of around 225,000 bopd. In the OALP block, we have commenced our seismic and other geophysical studies as part of our exploration work program.

We have commenced Gradiometric survey, the state-of-the-art airborne technology for early screening opportunity of hydrocarbon prospectively across 8 OALP blocks in Assam in the last week in September.

Now moving on to the “Aluminium Business”:

We continue to move our unit cost reduction in this quarter with cost at $1,852/ton, down 10% year-on-year. We saw alumina production at Lanjigarh at 410 kt in Q2, up 18% year-on-year. This was very well supported by higher local bauxite supply, meeting over 58% of our bauxite requirement for the half year versus 53% in Q4 of last year. Also, our EGA bauxite supply started from Guinea, strengthening our supply security. Consequently, we are maintaining a sub-$300/ton cost of production at our Lanjigarh refinery, an improvement of 18% year-on-year.

On the Coal side, our captive Chotia mine is on track to achieve its full capacity of 1 mtpa this year with Q2 FY'20 production at around 200,000 tons for a particular quarter.

With our plan to increase coal linkages through participation in future auctions and of course the addition of the new coal block, enhancing bauxite sourcing through exploration of new resources, captive alumina ramp-up production initiatives, we are edging closer to our target cost of production of $1,500/ton.

Turning quickly to "Iron Ore." Our sales in Karnataka more than tripled year-on-year to 1.54 mt and our pig iron production went up 2% to 176,000 tons.

In Goa, we are continuously engaged with the state and central governments with support of the people adversely impacted by the Supreme Court state wide ban for the resumption of mining in Goa.

Our Electrosteel plant saw stable production and increased sales to 283 kt, up 6% year-on-year, but understandably EBITDA margins slowed owing to a weaker market demand outlook which we see rectifying pretty soon.

Finally, before handing over to Arun, if I can summarize and re-conclude on our strategic priorities to drive long-term value for all of our stakeholders.

#1 is ethics, governance and our social license to operate, absolutely critical, it is the foundation on which the entire business is built, including the larger purpose of giving back to the country and giving back to the community.

#2, as a resource business, we need to have a strong reserve and resource pipeline, and that is the second building block in terms of our strategy

#3, continued track record of delivering value-added growth across our businesses.

#4, that growth will be achieved with strict capital allocation and balance sheet focus.

And finally, we are an asset-based business run by very capable people and our objective here is delivering and getting the best out of our assets and our people.

On that positive note, let me hand you over to Arun.

Arun Kumar: Thanks, Venkat. Good day to everyone again. As you heard from Venkat, the overall performance on volume and cost was better than the same quarter last year. Likewise, the first half as a whole, it reflects the same trend vis-à-vis the previous year. The first half summary across our collective businesses is one of improving volumes and reducing costs; however, as we have already discussed, weaker LME and Brent resulted in the absolute EBITDA being lower despite a better operating performance.

The second half results should be bolstered through the delivery of growth projects in oil, shaft commissioning in zinc, continuing mine ramp up at Gamsberg. Likewise, the continuing structural improvements in aluminum cost in H2 should reinforce the positive operational performance trajectory.

Some Key Highlights for the Quarter:

EBITDA at Rs.4,497 crores with EBITDA margin of 25% in a subdued commodity price scenario. Net debt at about Rs.20,000 crores, lower by Rs.7,000 crores in the first half. Good part of it is permanent in nature. Gross debt reduction in first half as well of about Rs.10,000 crores. Annualized net debt-EBITDA ratio of 0.9 that Venkat alluded to earlier, continues to be strong and best-in-class. We have a detail income statement in the appendix; however, I will cover some key updates on the income statement as below.

As guided earlier, the depreciation charge at these levels is around the Q4 2019 levels as consistent with the guidance given at the beginning of the year, the trend will continue for the rest of the year. The absolute finance cost is lower by 9%, primarily due to reduction in gross borrowings and interest capitalization. The average cost of borrowing in the quarter or half year continues to be in the range of 8%-8.2%, in fact, slightly lower than our guidance of 8.2%-8.5% range given at the beginning of the year. Investment income at Rs.832 crores is higher by about 42% year-on-year. This was primarily on account of mark-to-market gain on investments following the softening of interest rates and the G-Sec. As guided, investment income should continue at the current levels of around 7.5% return pre-tax, pre-mark-to-mark on the entire portfolio. This is again absolutely in line with guidance.

Given the recent tax rate change as announced by the government, we are well aware that various corporates in the Q2 results have been remeasuring deferred tax balances as per the prevailing accounting rules. Similarly, we have gone through the same exercise and this has led to a one-time tax credit of about Rs.2,500 crores primarily on the deferred tax liability balances in the balance sheet.

Normalized tax rate for the quarter is 32%, and for the first half is about 30%. The FY'20 guidance as given at the beginning of the year was 30% (+/-2%) and we expect this to be the annual tax rate for the year as well, again no change in guidance. The contribution to exchequer for the half year was Rs.15,600 crores continues to be one of the highest in India and it is trending towards the plus 33,000, - 35,000 range that we reported last year.

On the next page on EBITDA Bridge, as it can be seen on this page, EBITDA for the quarter was lower by 15% year-on-year. The walk is self-explanatory and talks to my earlier commentary on the favorable operating performance as seen on the right side of the chart as per the favorable tailwinds on the commodity input cost primarily alumina; however, this has been more than offset by lower LME and Brent, and hence on a like-to-like basis excluding the 1,700 impact on the price drop, the EBITDA would have actually been 17% higher.

Moving on to the next page on the net debt:

The reported net debt as of 30th September was Rs.20,081 crores, as I mentioned earlier, lower by Rs.7,000 crores in the first half, and gross debt similarly was lower by Rs.10,000 crores. This is due to healthy operating free cash flow during the quarter. I am also glad to report that the focus on "Working Capital Excellence", a program we launched which I updated in the latter half of the last year, continues to yield results with nearly Rs.3,000 crores of operational permanent reduction with the added spotlight on the collection of old power due from our Talwandi business, consequent to favorable resolution of the tariff disputes. Also, some good inventory reduction which is permanent, approximately Rs.700 crores to Rs.1,000 crores, the rest of the Rs.3,500 crores movement in working capital is largely timing, offsetting some of the negative effect of Q1 as I had highlighted then. On the capital expenditure, it is well monitored and well spent. More details two pages down the line.

Moving on to the next page on "Balance Sheet":

The liquidity at a group level is nearly Rs.36,000 crores in cash balances, with further undrawn lines. The rest of the parameters on interest cost, investment income, maturity profile or the net debt-EBITDA ratio continue to be constant or better. Conservative investment management policy of the surplus cash, maintaining liquidity and proactive refinancing as required continue to be our focus.

Finally, on the last page on growth CAPEX:

On a full year guidance if you notice, it is revised down to $1.2 billion. Essentially, the optionality of $0.2 billion that we had flagged over the beginning of the year is likely to spill into the next fiscal. The CAPEX, as you can see, is focused on oil and gas and zinc sector as has been the theme in the last few years. The key point here to refit is that these are funded from operating cash flows, and the fact that the return well above our cost of capital even under conservative LME scenarios.

With this, I hand it back to Venkat for the summary.

S Venkatakrishnan: Thank you, Arun. And before we pass it on to Q&A, we have all of our CEOs of the various businesses on the call who will help you clarify some of the questions you have.

Just in terms of a key takeaway summary, we are at an exciting inflection point where we are accelerating volume growth to delivery of our unique resource base. We are achieving this within the growth potential of India and the wider subcontinent, which sets us apart from the rest of the sector. The expected recovery in the commodity cycle, combined with the delivery of our growth projects that come into play over the coming quarters, will help us drive our top line profitability across our key verticals. Importantly, our unique low cost, long life assets positioned across zinc, oil and gas and very soon aluminum sets us to deliver leading EBITDA margins and cash generation.

With that, happy to open it up for any questions. Richard, over to you.

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

Indrajit Agarwal: A couple of questions from my side. First on aluminum. We have seen the cost of power in aluminum business spike up significantly. So, how do you see that trending over the next couple of quarters?

S Venkatakrishnan: If I can just make an opening comment here. As we said, the trajectory towards 1,500 still intact and I did say there will be volatility every now and again in the quarter, and Ajay will explain the reason for the spike and what the outlook is.

Ajay Kapur: Hi! This is Ajay Kapur here. Trajectory wise, we have been moving down including the power cost and the overall cost as you have seen from the highs of 2000- 2100, we are now sub-1800, and last quarter went up slightly higher. We had a very heavy monsoon. And as a result, the mines from MCL, and FECL also produced much lower coal in the last quarter. That was primarily the reason why power cost went up. As we go into Q3 and Q4, on one hand, the production is expected to go up, on the other hand, our linkage materialization is also expected to be better. And as Venkat also said in the beginning, with the new successful bidding of Jamkhani coal block, going forward, I think it should only get better.

Indrajit Agarwal: How much was the linkage materialization in this quarter versus last quarter?

Ajay Kapur: This is too specific, we can take it offline, but it was much lower. We had gone into with very good, what you call, inventory at both the sites, both Balco as well as Jharsuguda, but because of very severe monsoons, lot of mines were flooded, we are seeing from other players as well, this was a big issue.

Indrajit Agarwal: Thanks. Second on the Gamsberg mine, we have not seen a very significant ramp up in this quarter as well. So what should be the trajectory, when do you look to achieve the 250 kt kind of run rate materializing?

S Venkatakrishnan: I think Deshnee is on the call. Deshnee, if you can pick up that question?

Deshnee Naidoo: Yes, Venkat. Thank you. So the way we look at Gamsberg is in Q4, we did have a longer tail on the commissioning. But, coming into Q1 of this year lot of our challenges around run time in terms of pressure run time, volume run time. I think we could say that we are running at about 85% run time across the plant. That is the reason in Q1, we achieved 25,000 tons. Now in Q2, after getting the run time right and after getting at around 400, 420 tons per hour, design rate is 508 tons per hour. We had higher rate than we expected on the sag mill liner We even had to do some maintenance. During that time we estimate to manage get a site, etc., we actually toppled back the production. When we guided Gamsberg, we did say 9-months to 12-months ramp-up to achieve the most throughput and we will be achieving that. So, if I have to give any comfort, I think from a ramp-up point of view, we now have the more run time or the run time behind us, we are now achieving a throughput rate, we have about 430- 440 tons per hour across the circuit. We are now into the phase of optimizing our recovered implication in the circuit, would be very natural in the commissioning of these plants. So the last two quarters for different reasons around 25,000 tons, and looking at over 30,000 tons even higher for this coming quarter, and I have seen very promising results for the last month and a half. And all of that comes together if I can stabilize this plant at the end of December, then I want to try and put a little bit more to the plants next quarter and I am therefore guiding around 140,000 to 150,000 tons for the full year against my 50,000 tons for the first half.

S Venkatakrishnan: Indrajit, just one point to add. As I said in the previous quarters, we are less worried about what the quarterly movements are. Importantly, to get the plants stabilized and the mines stabilized so that once it is stabilized, you have got a steady run rate of 250 ktpa. I think that is why it's quite important to fix it for the medium-to-longer term.

Deshnee Naidoo: Absolutely. And Venkat, that is a very important point because the plant was both with a lot of automation and technology and our job right now is to make sure this plant can ramp up with all of its technology in place.

Indrajit Agarwal: My last question is to Arun. Thank you for the P&L, tax rate guidance for the year. What do you think should be the cash tax guidance for this year?

Arun Kumar: We normally do not give a tax rate guidance, but if it is of any consolation, you will be happy to know that we estimate about Rs.300 crores to Rs.400 crores of cash tax saving for the year, thanks to the lower MAT.

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

Pinakin Parekh: I have three quick questions; my first is in the notes-to-accounts, there is Rs.612 crores advance given to KCM. Now can we get to know when was this advance made given that our smelter has been closed for some time? Just as a follow-up what are the latest outstandings to any other group company that there might be there in any other form?

Arun Kumar: This is Arun here. Pinakin, while the smelter is closed, important to note that we have copper refinery at two other places other than Tuticorin; one is Silvassa and the other is at the Middle East, Fujairah as you are aware. Fujairah additionally of course just has a gold refinery as well, along with the copper smelter capacity. So this has been in the normal course of business a rolling advance that has been given for purchase of anodes to convert into cathodes which is what refining does. So it is in a normal course of business. In the normal course of business, it could be small purchase of aluminum sheets or purchase of some spares here and there. It is nothing of importance to even share. I would not even know the number. Otherwise, there is no other related party transaction if that is what you are alluding to.

Pinakin Parekh: My second question is that if we look at the F'20 guidance given earlier in the year and reiterated at the end of first quarter, there is a meaningful cut both on the volume trajectory in the India zinc, international zinc, oil and also costs have been moved forward. Especially relating to oil, we are just trying to understand that over the last four to six quarters, we have consistently seen oil being pushed out, guidance being cut. So, what exactly has happened for which there has been such a meaningful drop in guidance? And is this exit rate is what steady state would be going forward or next year can it move higher, can it move lower, how should we look at the oil business?

Ajay Dixit: Dixit here. So, in the oil business, our guidance has been based on the development projects which we have been giving. In the past few months, we had a couple of topics coming up simultaneously -- One was a very significant power failure from the single line, power supply which was coming. Besides normal decline, we also had certain failures on the assets. Because once the total supply goes the entire reservoir sinks then it takes time to recover. The other topic is the CAPEX which projects are happening, they are slightly delayed. Net result is while there has been a flattish production, it will start rising once the surface facility and the liquid handling capacity comes up in the last quarter and more wells, they start getting hook to do to the surface facility. So, therefore, as Venkat said, our exit rate would be in the range of about 225 and it will steadily go beyond that in the next year. You will see start increasing from January onwards when the commissioning of the surface facilities starts coming up and more wells start getting hooked to the surface facility.

Pinakin Parekh: Just on oil, if I remember correctly, given the Cairn's oil grades there were some kind of linkages to fuel oil, and fuel oil cracks over the last months have been -$20 a barrel to Brent. So, going forward, really because of IMO and discount of heavy crudes, should we expect the realization that Vedanta gets on the Cairn oil to increase substantially given what is happening with fuel oil cracks?

Ajay Dixit: There is a formula in which we also have a component of low sulphur content. So, while their indexes are slipping far too higher, in case of Cairn the impact gets a little bit cushioned because of the low content of the sulphur.

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

Amit Dixit: I have two questions; the first one is on the impairment charge taken on AvanStrate. Now this investment was made less than two years back, and we have already taken impairment charge on half of the investment. So, #1, wanted to understand what led to this impairment charge, and whether there is a scope of further impairment in near future?

Arun Kumar: Amit, good question. I wish to clarify that the investment was much higher. It is probably around 15%-20% of the total investment amount, and it is a normal thing in that business, in the sense that the price, it is a commoditized business, but the good news there is that lot of interesting new product pipeline is being launched there and as well as some new technologies are being acquired there. So, we do believe that the business outlook will improve and it is not a guidance, but maybe one can even improve on and reverse the impairment because as you know impairment is sometimes driven by conservative accounting positions given the way the accounting standards are developed over the last couple of years, it may not really reflect the underlying confidence we have in the business, and the potential that we see in the near-term what has been conservative from an accounting point of view. So, watch this space and let us have more discussion on this in the future.

S Venkatakrishnan: Certainly not expecting any further impairments at this stage to answer your question.

Amit Dixit: Great. The second question is on sharp uptick in copper revenue that we saw in this quarter. Now, the production is quite static, and in fact, EBITDA level loss has only gone up. So just wanted to understand because underlying copper prices have also gone down QoQ but revenue has shot up almost 2x. So, just wanted a little bit more clarity on that.

Arun Kumar: I think the copper is a very simple thing, Amit, because we are in the business of trying to serve our customers and see that they get the right quality of copper. So, while the smelter is shut, the refining business still open. So, we are trying to get blisters, anodes and convert into cathodes and ensure that the customer base is well serviced. That is really how we look at it as a company, customer focus. So the refining volumes have been going up. Plus, we had stopped the concentrate which we sold during the quarter as well. So, that would have also added to the top line from an accounting perspective. I hope that answers the question.

Amit Dixit: Not fully, but I will take it offline, no problem.

Moderator: Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: Post the recovery, Currently, what is the outstanding receivables in TSPL if you can highlight?

Ajay Kapur: We have further disputed outstandings to the tune of another Rs.1,300 crores roundabout.

Abhijit Mitra: The second question is on this net debt bridge that you have shown, now we can understand the inventory liquidation which is largely I think concentrate sales that you have done from the copper business. What is this creditors customer advance of Rs.3,500 crores that you have shown, how to sort of read this?

Arun Kumar: I think two things if you refer my talk track; one is what stays permanently is what you have observed, which is power debtors, metal debtors and inventory liquidation, it is not just concentrate, in fact, the good part of it is actually the aluminum inventory. Some of the sales of course of last year got deferred into the current year, so that is where it will stay. And the rest of it is really timing. If you recollect the earlier calls in the earlier years, I have always said that the time for signing contracts for advances is typically the half year and the full year. So you will always see uptick in the second and the fourth quarter, and the servicing happens between first quarter and third quarter will look at a dip which is why I referred to in my talk track is roughly half of it is permanent, the other half is really timing. But the good news is the timing stops at the negative in first quarter. I hope that clarifies.

Abhijit Mitra: Last question is on this copper smelter. Now there is this hearing on November 27th which you have mentioned in your press release where you are challenging the withdrawal of consent to operate by TNPCB. This outcome, does it change anything or the sort of long list of subsequent outcome which we need to sort of look out for?

S Venkatakrishnan: I think the fundamental case is being adjudicated as I understand it towards the first fortnight in December, where ruling is expected by the Madras High Court. We have actually made our submissions. The court has heard both sides. I do not want to effectively try and predict what the outcome would be. But needless to say, couple of data points -- One, you know what the NGT ruling was in terms of what has actually happened both from a committee point of view and their ruling. The second aspect also is you have seen that there is far greater positive momentum on the ground wanting to have the smelter reopened. I think that is quite important both from the Tuticorin area and the wider Tamil Nadu area. And also the impact is having on the Indian economy in terms of the copper production being shut and having to rely on more imported copper and so on. So, we are cautiously optimistic, but obviously respecting the court process, but we are expecting decision in the first fortnight in December.

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

Sumangal Nevatia: The first question is with respect to this write-off of Rs.500 crores in AvanStrate. Now can you basically remind what is the total investment we have made and who is the JV partner, and also, when can we expect some cash flows coming from that investment?

Arun Kumar: As I mentioned earlier, it was roughly 20%. So, Rs.2,500 crores was the original investment made about two years ago. And it is a very exciting phase also, raw material a manner of speaking. And it is always a bit of a sunrise sector and we see huge potential in that. And we should see positive cash flows coming from there, accounting impairment, etc., is a rearview mirror event if I may say so, and hence we look forward to the business potential there which is vast.

Sumangal Nevatia: Arun, who is the JV partner, or do we own the entire business?

Arun Kumar: Yes, there is a partner called Hoya. It is a Japanese firm. They have been in this business for some time. So very valuable and worthy partner.

Sumangal Nevatia: Second question is with respect to the CAPEX in the aluminum business. There were few new articles which said that we plan to get into sheets and also increase our smelting capacity closer to 3 mt. So, is it possible to share some more details on this in the medium-term, what are our plans?

Ajay Kapur: Ajay here again. What we have heard in the public space is our vision, and part of the vision as of today as I speak to you we have 2.3 million capacity to produce aluminum, of which two already at the run rate. On Lanjigarh, at our refinery you have seen we have been posting a sizable gain YoY, also this quarter, we had increased it almost 20%, 18% to be precise. With that kind of run rate, we would want to improve our backward integration link with bauxite availability which are also improving. So, I think immediate planning would be to look at expanding the refinery in phases from two to four, and then look at further growth. This would let us say the medium-term would be next two to three years.

Arun Kumar: End of the year, we will give the guidance for next year, and I am sure more information will come at that point of time.

Sumangal Nevatia: Has the power situation and the coal availability improved at the aluminum division from 3Q onwards?

Ajay Kapur: Yes, With the monsoon playing really havoc in Eastern India this time, you are aware of that, in fact, many parts of west also continue to have monsoon right up to Diwali. But I believe now things are in better shape. The rate availabilities have improved, the coal availability at both our smelters have also improved substantially. So, we are very confident that Q3, Q4, we should get back to getting all the old backlogs also cleared through the collieries.

S Venkatakrishnan: I think again focusing on the big picture here in aluminum, compared to where we were a year ago if you look at it, the costs have come down by $500/ton, quite significant. In addition to that, we have ramped up our bauxite security and ramping up our coal security with aluminum going up to around 2-2.3 mt an eventual expansion, this could be a very good cash spinner down the line with a little bit of help from the aluminum prices as well. And certainly as a commodity it is certainly we are quite bullish in terms of aluminum in the longer-term, given its increased application now in the industries. So, we should not lose sight of it.

Sumangal Nevatia: When do we expect the coal block to start Jamkhani and what is the cost saving do we expect there?

Ajay Kapur: Jamkhani is 2.6 mtpa coal block. The geological reserves are close to 222. The reserves which can be mined as per the information we had when we bid was 114. We would expect that after the date of getting the letter, it should be about a year within which we should be able to start since it is mostly open cast mining. At 2.6, it should give us security of about 20%; however, there could be a potential upside on the amount which we can mine per year. Depending that it can even go higher than 30%.

Moderator: Thank you. We will take the last question from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: My first question is on the oil production this quarter and the guidance that we have reduced. We had on this "Capital Markets Day" the plant that we had hosted. I think the reason at that point of time were also cited project related delays and we were given a lot of confidence that is something which is behind us. So, is it possible if you could provide some more color on the reason for the guidance being taken down? And if you could also provide some more color on specifically power failures and something of the sort can be avoided in the future?

Ajay Dixit: As far as the power failure is concerned, we have a single source line from the state electricity board. So we are going to construct another parallel line from another source which should be taking a normal period of about eight to nine months. As far as the guidance and the projects is concerned, we said that important is the surface facility and wells. On surface facility, we are well on track, but there has been delay in well because once you start drilling, you also encounter sometimes surprises in the geology which have to be taken care of, and therefore then comes the additional fracking to be done plus spudding the well and also hooking it up. So, we have had some delay in the wells. If you see from the previous guidance, the number of wells which we were planning to do, we are down in the number of wells which is actually the source of oil to the surface facility. So, as I already told in my earlier statement, we expect exit rate of about 225, and this is the main reason of the gap.

Ritesh Shah: My second question is on Zinc International. I understand for Gamsberg the holding pattern is like Exxaro is holding around 24.4%, Vedanta has around 69.6%, and ESOP is at around 6%. Please correct me if I am factually incorrect over here. Is there any reason for Exxaro to still continue to hold 24.4% given I understand that Vedanta itself is BW compliant, can one expect any transaction over here to take let us say 100%, how should one look at this?

S Venkatakrishnan: I think we cannot comment on what Exxaro's intentions are, but as you know there is a black empowerment requirement in South Africa. So, we obviously have no plans on increasing our stake. What Exxaro chooses to do with regard to its stake, it is a question which should be directed to Exxaro. Deshnee, do you have anything else to add on this?

Deshnee Naidoo: No, Venkat, that is a fair answer, but I think it is not just about compliance, it is even going beyond that given our presence and commitment to South Africa, we do want to stay and empower their business for the long haul.

S Venkatakrishnan: Absolutely, right. Well done.

Ritesh Shah: Lastly, on the impending merger with Electrosteel, I think that was due by December or something, please correct me if I am wrong. So what are the timelines over here and a potential outlook?

Arun Kumar: I think it is in the final stage that NCLT blessing the merger. So, we do hope that we can finish it by December, but it is all a function of the process there, we have much less to do with it, but broadly, we should assume that by the fiscal we should be done. Otherwise, it was a very good transaction, and as you are aware Electrosteel business has been turned around. Of course, steel prices are a little soft now, but we have done a decent job of turning around that business, and it is tracking its business case at this point of time with more potential for the future.

James Cartwright: Thank you very much, everybody for joining the call this evening. For anyone who has further questions, please contact the IR team here. We will be more than happy to help you. Operator, please close the call.

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.