"Vedanta Limited's Q2 FY'22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Vedanta Limited's Q2 FY'22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Varun Kapoor from Vedanta Limited. Thank you and over to you, sir.

Varun Kapoor: Thank you, operator and good evening, everyone. This is Varun Kapoor and it's my pleasure to welcome you to the Vedanta Limited Earnings Call for Q2 FY'22. So, we have with us today the management team, led by Mr. Sunil Duggal, who is our Group CEO; Mr. Ajay Goel, Group Acting CFO; Mr. Arun Mishra, CEO, Hindustan Zinc; Mr. Prachur Shah, Deputy CEO, Oil and Gas; Mr. Rahul Sharma, Deputy CEO, Aluminum and Mr. Sauvick Mazumdar, CEO, Iron & Steel. So, with that I would like to hand it over to Mr. Duggal to take us through the presentation.

Sunil Duggal: Good evening, ladies and gentlemen and welcome to the Vedanta Limited's Second Quarter Earning Conference Call. This quarter witnessed a recovery in Indian economy backed by increased mobility, declining new COVID cases and scaled up vaccination. Domestic demand for base metal gain stand firm robust, CAPEX spending by the government, progressive policies of government will provide further impetus to demand for metals like steel, aluminum, copper, zinc and lead. We expect economic conditions to improve further during festive season this quarter.

Commodity prices continue to surge due to widening demand and supply imbalances, strong recovery in advance economy supported by elevated household consumption, public spending and acceleration in mechanized trade, along with persistent energy crisis is likely to keep metal and oil and gas market buoyant in Q3.

Vedanta continued its strong growth momentum this quarter, reporting its highest quarterly and half yearly revenue and EBITDA. We witnessed steady volume performance across business segments and sustain margin benefiting from strong commodity prices despite a challenging cost environment. The focus on prudent capital allocation and deleveraging continues to ensure the robust balance sheet and strong liquidity position.

We continued with the track record of rewarding shareholders with an interim dividend of Rs.6,855 crores, amongst the largest in corporate sector. Vedanta is uniquely positioned to benefit from strong commodity prices, to deliver long-term sustainable value basis, our diversified world-class natural resource portfolio, supported by compelling cost leadership, long lived assets with exploration upside and strong management team with track record of delivering growth. Our competitive positioning in India and global markets leaves us well placed to benefit from growing Indian economy and favorable regulatory environment. We are committed to delivering consistent growth through capacity expansion, unlocking operational efficiencies through technology and digitization and targeted acquisition.

We are very proud to announce our renewed ESG transformation program in this call. Over the last decade, Vedanta has been working steadily to improve its performance on various sustainability and ESG metrics. The journey has seen us achieve a ranking of 12 out of 75 in Dow Jones Sustainability Index. While not leaders yet, these efforts have brought us within line of sight of top global performers. We now aspire to be among the best performers.

In the last few months, we have seen working very hard to develop a comprehensive strategy on ESG. For this, we have brought onboard various experts to guide the process. We have also created ESG advisory board, mentored by expert with many years of deep ESG experiences, working with the global natural resource majors. We have corrected a dedicated ESG structure to ensure this transformation is sustainable. This includes constituting a board level ESG committee, multiple ESG forum at group and BU level for decision-making and committees of practice at the SBU level to drive implementation. We are building world-class enablers to help move the needle now. These include an ESG academy train our leaders. This is a globally unique initiative, discussing creation of an ESG venture fund to harness external innovation, discussing diversification opportunities through green business, build program and creating an ESG center of excellence for regular monitoring and continual improvement. The culmination of all these efforts is to develop our new ESG strategy. This strategy follows the purpose-driven approach that Vedanta has always aspired.

Staying close to our roots, we have taken our organization tag line, transforming elements and modified it to transforming for good. This is the purpose statement for the entire organization, ensuring that ESG is henceforth embedded in the way, we do our business. Supporting our purpose, we have created three pillars, transforming communities, transforming planets, transforming the workplace. These pillars are further indicative of Vedanta's steadfast commitment to become the best-in-class company and at the same time ensure that our communities and larger society benefit from our existence. These pillars are supported by nine aims, that will serve as guidepost and milestone in our journey. These aims have specific, quantifiable targets, that will keep us track on our progress.

These aims are important and I would like to go over each one of them. Aim 1, 2 and 3 under transforming community, commit us to keep community welfare at the core of our business decisions, empowering over 2.5 million families with enhanced skill sets, uplifting over 100 million women and children through education, nutrition, healthcare and welfare.

Aim 4, 5 and 6 under transforming the planet commit to us, net carbon neutrality by 2050 or sooner, this is a big commitment and I will talk about in the next few slides.

Achieving net water positivity by 2030 has already become 2.41x water positive, now we want to ensure the rest of the businesses does so soon.

Innovating for a greener business model, this encompasses our previous ambition of zero waste, zero discharge and embraces additional concept such as circular economy, green business diversification like renewable power or hydrogen, aim 7, 8 and 9 under transforming the workplace commit us to prioritizing safety and health of all our employees, this is our commitment to zero harm, promote gender parity, diversity and inclusivity and adhere to global business standards of corporate governance. This includes ensuring our senior leadership have KPIs, that incorporate ESG performance, participation of the board in ESG discussion.

Lastly, I want to talk about our plan around climate change. With COP 26 round the corner and the entire world talking about it, it is an opportune time to announce these commitments. Climate change is a real threat to humanity. Every year we see an increasing number of natural disasters, wipe out and describe the lives of thousands of people. The impact on the larger, natural world is equally devastating and no longer be ignored. Scientists tell us that we have to limit global warming, between 1.5 to 2 Deg. C for the planet to stand a chance to exist. And we want to achieve this in the next 30-years. In this context, large business houses such as ours, have not just fiduciary responsibility but a moral responsibility to act. I believe our climate commitment to do so and a step in the right direction.

Vedanta has ten commitments to stop our impact on the climate. These are one, net zero carbon by 2050 or sooner. Two, use 2.5 GW round the clock RE and reduce absolute emission by 25% by 2030 from 2021 base line. Pledging US$5 billion over the next 10-years to accelerate transition to net zero. This is a big and significant commitment.

No addition to coal-based thermal power plant in our portfolio. And we will use coal-based power only till the end of our current power assets.

Decarbonize 100% of our light motor vehicle by 2030 and 75% of our mining fleet by 2035. Accelerate adoption of hydrogen as fuel and seek to diversity into hydrogen fuel or related businesses.

Account for scope-3 emission of our businesses by 2025. These are emissions that lie outside our boundary with our business partners, logistic providers, business travelers, etc.,

Work with our supply chain and long-term tier-1 suppliers to submit their ESG reduction strategies by 2025 and in line with our commitment by 2030.

Disclose our performance in alignment with the requirement of the Task Force on Climate-related Financial Disclosure, (TCFD), a requirement by the investor community. We have already released our first TCFD report in March 2021. Help communities adapt to the impact of climate change through our social impact and CSR programs.

Gentlemen and Ladies, these are bold commitments and will transform the company, unlock many business opportunities and prevent the planet from warming to catastrophic levels. You would be hearing a lot more on this subject in the coming days and look forward to acting engagement with all of you on this.

Now, coming to our HSES performance for Q2, it is sadness that I inform you that three employees of our business partners lost their lives while they were at work in ESL location for service-related activities. A detail investigation using ICAM methodology has been carried out and we are strengthening control to ensure similar incident are not repeated at any of our sites. In the past, I have spoken about multiple programs and intervention that we have put in place to ensure that we improve our safety performance. To ensure these programs realize their goals, we are expanding our leadership relationship with DuPont Sustainable Solution to help transform the safety culture at ESL and aluminum and power business. We are also engaging with global expert to strengthen our critical risk management system.

Now, coming back to our business performance business verticals, first, on aluminum. We have yet again witnessed a record performing quarter with the highest quarterly alumina and aluminum production. Alumina production was at 11%, up YoY, 6% QoQ. Aluminum was up 21% YoY and 4% QoQ. Aluminum cost of production was impacted by higher input commodity prices and power cost. But despite these headwinds, we have achieved high EBITDA margins of $1,100-plus, supported by favorable LME prices. In line with the changing market scenario and input cost inflation, we are revising the core guidance from $1,675 to $1,775 per ton. However, we are confident that $150 to $200 cost saving will come post completion of expansion at Lanjigarh and aluminum smelter which will move us closer to our game of becoming one of the top global leaders in sustainable tier-1 cost structure. For the Lanjigarh refinery expansion from 2 million tons to 4 million tons per annum, we have received environment clearance now for 6 million tons and site mobilization is on track and project progress is also on track.

Turning to Zinc India, this quarter achieved highest MIC production since underground transition, backed by higher ore treatment and improved recovery, partially offset by slight dip in grid.

Metal production in Q2 was down due to plant maintenance shutdown, but ensure smelter readiness to deliver higher volumes in coming quarters. Integrated silver production was down 5% QoQ, in line with lead production.

With focused dynamic, planning, technology assisted mine plant to improve grades and equipment reliability, we are fully confident of achieving the set targets for the year.

COP was at $1,124/ton in Q2, impacted by higher input commodity prices and mine development. Considering higher input cost, we are revising our COP guidance upward to below $1,075/ton.

Zinc International business is well positioned for long-term value creation. This quarter, Gamsberg produced 39 kt of MIC, up 10% YoY, but down 17% QoQ, due to challenges in plant equipment. Completion of ongoing projects in October for debottlenecking our concentrator, will ensure that plant capacity ramp up and improving mill reliability. Projects of recovery enhancement by 5% and MIC improvement in December will start delivering results from Q3 onwards. And therefore, we are confident of achieving the set target for the year.

COP in Gamsberg showed a 10% rise YoY due to lower production volumes and commodity prices. Basis the changing business scenario, we are revising our COP guidance to $1,200-$1,300 per ton.

At Oil and Gas, gross production for H1 was maintained at 165 kboepd flat. The volumes were impacted by natural reservoir decline in the fields, offset by increase in volume from new wells, brought on line, continued injunction of polymer and gas ramp up, we achieved gas sales of 140 million scuffs per day in Q2, 17% up QoQ. OPEX cost in the current quarter was $9.1 per barrel, a rise of 9% due to increase in polymer prices, owing to oil price rally. However, crude oil prices further rallied during Q2 and touched high of $79 per barrel which reported our margins. In H2, we will focus on infill well drilling to maximize near-term volumes. In our OALP blocks, 15 wells drilling program is ongoing with six wells drilled till date. We have notified a success in MA block, Jaya-1 discovery in this quarter which is being evaluated.

In line with commodity headwinds, we are revising our OPEX cost guidelines to $9 per barrel, considering the natural reservoir decline, revising guidance of volume to 165 to 175 kboepd for FY22

Three key projects, ASP, for enhanced oil recovery, exploration and shale will be driving production volume growth, mid to long term and various initiatives are going on in each of these. For ASP, modernized approach is being adopted to accelerate injection and first oil, while undertaking end-to-end contracting for overall execution.

On exploration, the focus is on drilling across our OALP and PSC blocks and look for early monetization. For shale, we have empaneled global partners to study and execute pilots to establish our shale potential.

Now coming to iron ore business, Karnataka saw highest half year production of 2.7 mt, supported by key operational projects, increase in NSR despite trade barriers in Karnataka, we saw highest quarterly and half year hot metal production and value added business through productivity improvement initiatives, where Q2 margin was up 50% YoY, but down 32% QoQ due to higher coking coal prices and iron ore prices.

We are happy to announce the start of commercial production in our recently acquired Gujarat Sesa Coke plant. We expect ramp up to full capacity by early Q4 current year.

In steel business, that is Electrosteel, the hot metal production was up 11% YoY and 1% QoQ. Saleable production was 293 kt for Q2, up 12% YoY and 1% QoQ due to improvement of furnaces post-shutdown. The margin was down due to higher raw material prices, mainly iron ore and change in VAB mix. The VAB mix was at 67% in Q2, compared to 74% in Q1. Recently, as you may know, we have won two iron ore mines in Odisha, which will increase our raw material security and price stability. In H2 improvement in hot metal production is expected post-completion of debottlenecking of blast furnace-III. We are also upgrading our facility through automation and digitalization and various other productivity and effective health measures.

Now coming to FACOR, FACOR is continuing its turnaround story and saw highest EBITDA margins in Q2 and H1. It achieved record ferrochrome production of 19 kt in Q2, in line with plant productivity enhancement by 10%. We also saw the record half year ore production through continuous operation of both the mines. However, Q2 ore production was down due to monsoon. FACOR is reviving its project for another furnace to increase production by 60 ktpa. This was a half done furnace. At the end now, I would like to reiterate Vedanta's unique position to deliver long-term sustainable value, to continue to focus on our strategic priorities and diversified asset base.

I'm confident that with our renewed ESG journey, we'll be able to usher in a new era of sustainability leadership and be among the world's most respectable, responsible and renowned resource companies.

With this, I would like to hand over to our CFO, Mr. Ajay Goel for the financial performance. Over to you, Ajay.

Ajay Goel: Thank you, Sunil, and good evening, everyone. We continued the momentum to better our quarterly best ever performance. And this is a third quarter in a row. This quarter has been our all-time high, revenue and profitability quarter with the lowest net debt-to EBITDA ratio of 0.5x in recent few years. Operationally, aluminum division has witnessed highest ever quarterly aluminum production, in line with the pot ramp up at Jharsuguda. Lanjigarh also delivered record alumina production. We delivered highest ever pig iron production in VAB and ferrochrome at FACOR. Zinc and oil and gas volumes has been though relatively muted. This quarter, we also rewarded shareholders very well with a dividend of Rs.18.5 per share, totaling to Rs.6,855 crores.

Some of the key highlights of the quarter are, highest ever quarterly EBITDA of Rs.10,582 crores, up 62% YoY with an underlying margin of 40% being an industry-leading margin. PAT attributable before exceptional items stands at Rs.4,644 crores depicting a very strong financial performance (ROCE), return on capital employed at 26%. This is up 345 basis points versus last quarter QoQ. Gross debt stands at about Rs.51,000 crores and with cash and cash equivalents of about Rs.30,650 crores, showed a strong liquidity position on the balance sheet. Our net debt of Rs.20,389 crores is down by 26% YoY, which is almost Rs.7,230 crores, and with annualized net debt-to-EBITDA ratio of 0.5x, we continue to be lowest amongst Indian peers. Finally, robust total shareholder return without 6% dividend yield, plus stock appreciation in the previous quarter.

We have the detailed income statement in the appendix. I want to decode a couple of items from that statement for you. Depreciation charge for second quarter was about Rs.2,118 crores, higher by 9% YoY. Primarily it is due to project capitalization at couple of businesses and higher ore production at zinc business. Quarter-on-quarter depreciation charge remains flat. The finance cost for the quarter was about 1,066 crores, down 19% YoY and down 10% QoQ, majorly due to lower average borrowings and gain on ASI bonds buyback. The average cost for the quarter stood at about 8.2%. Income from investments for the quarter was Rs.579 crores, down 5% YoY, majorly on account of mark-to-market movement and the change in mix of investments and down by almost 20% quarter-on-quarter, again due to market to market movement and one-time gains that we recorded in the previous quarter. The average investment income for the quarter stood at about 4.8% pretax on current portfolio. The normalized ETR stands at about 26% which is same as the previous quarter and is in line with our guidance. Normalized ETR, as you know, excludes any tax on exceptional items.

I'll now move to EBITDA bridge YoY versus last year. So, as you can see on the chart, in summary, the significant portion of EBITDA increase of almost Rs.4,000 crores from Rs.6,500 crores last year to about Rs.10,580-odd crores this year has been market or pricing driven, along with higher volumes at our aluminum business. However, this has been partly offset by higher cost and overall lower volumes primarily at our zinc business.

In summary, the absolute EBITDA is almost a 1.6x of the last year, same quarter. If you look at our EBITDA bridge sequentially vis-à-vis the previous quarter, EBITDA for the quarter is higher by 5% quarter-on-quarter. As evident from the bridge, the market or the LME and various regulatory factors having positively impacted our EBITDA by almost Rs.1,600 crores. This is partly offset by input commodity inflation majorly at aluminum, ESL and IOB businesses.

On the operational sense, lower volumes at zinc and iron businesses offset partially by aluminum, along with higher cost, has negatively impacted EBITDA by Rs.820 crores. Overall for EBITDA, the higher metal prices and input inflation remains overall themes, both QoQ and YoY though with different managements, which at overall net margin level remains positive and bottom line accretive.

Now, I move to next page on net debt bridge. Net debt as on September 30th stands at about Rs.20,389 crores. If you see the chart, our operations are very well positioned and generating healthy cash flows from internal accruals. In spite of payment of dividend in the previous quarter, by almost Rs.6,855 crores, the net debt quarter-on-quarter remains almost flat. And as I mentioned earlier, we have deleveraged by almost a $1 billion by Rs.7,230 crores YoY September-to-September last year.

Moving on to the next page on the balance sheet, we remain focused on managing the balance sheet efficiently with a strong position of cash and cash equivalents of Rs.30,650 crores. The average maturity of term debt is about 3.5-years and with average borrowing costs of 8.2% for the quarter.

I'm very happy to report that CRISIL has revised our outlook from Stable to Positive with AA-minus rating. This is again a very welcome uptick. With net debt-to-EBITDA of 0.56, we are lowest amongst Indian peers by a long margin.

Now on CAPEX side, we continue to focus on organic growth across business portfolio. We reiterate our CAPEX guidance of $1.1 billion for the full fiscal, where we are focusing on expanding capacities at Lanjigarh and BALCO and completion of various growth projects at oil and gas. These are key for volume growth in near future. So far as H1 is concerned, we spent about $0.3 billion, and we remain within our guidance range for the full fiscal FY22.

Overall, second quarter has been excellent quarter on performance, and also on structural improvements. We delivered both profitability and deleveraging, rewarding shareholders very well, and with a rating outlook augmentation, will leave a stronger balance sheet for the quarter. This sets us very well as we usher in the second half of the full fiscal. Thank you very much.

And with that, I hand over to operator for Q&A.

Moderator: Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: First question is on your ESG initiative. Pretty impressed by your target to reduce emissions, that too from 2021 baseline, not many companies in the world have done that. Just wanted to ask three quick points over here. One is that what about your aluminum power which is basically powered from thermal and this is basically the highest kind of coal I would say carbon footprint that you have and there is no alternative that you have inside at present. How are you going to reduce that? Second is about bauxite red mud. What about that? And fatalities we have seen that they have been higher than the peers. So, what are you going to do on that front? Then, you talked about USD5 billion of spend which is a huge spend. Are you expecting some government support over there?

Sunil Duggal: I will go by reverse. So, we have made our commitment of $5 billion investment. So, it will come in the various forms. So, one of the examples I would say is that we may like to hive off a company or a standalone group company, we will definitely work out a structure where we want to go about it. But the intention is that we would like to create a separate vertical which could focus really on the renewables, and they could also arrange their own funding, but as we speak, we are in the process of evaluating the different businesses and the models and how shall we be able to feed power, depending on where we will be able to set up this facility. So, for setting up the facility also, there are various options like of course the solar wind, but along with that the hydro pump or the battery storage. So that technical study is going on. We have created a group task force who will be running this assignment and the discussions are on with the various businesses that which model, what, where and this also answers your aluminum question that how we have to feed power to the aluminum and in what format, through what grid and what are the regulatory charges. So that scheme is being built. As we will be closer to the reality of the scheme which will come in the next few months and start establishing our facility, we will come back and report to you that what we are doing. We agree that the fatality record may not be so good but over the years we have improved our home record. Like that, the thought also is to whether we would like to put some facility or do some work in the commercialization of the hydrogen as a fuel, which entity is this fuel could be used. Coming to our fatalities, I think we have improved over the years but so also happens that when we acquire new asset, the governance mechanism, the behavioral aspects and even the infrastructure facilities in those companies are not so good. So, we have learnt from what we have experienced in the last couple of years. So, learning from that, we are partnering now with the global majors like DuPont Sustainable Solution. We engage DuPont for Hindustan Zinc over the long five years where they were responsible for transformation of the culture and bringing a zero harm culture. This is how we became almost two years fatality free and now we are using (DSS), DuPont Sustainable Solution for our ESL in aluminum and power business. So, with that, we also want to bring a new framework whenever the new entities acquired, we complete deep dive and the audit to map the risk on all fronts, be it safety, environment, sustainability, governance or whatever the risks are there and take proactive measure so that we do not get such kind of shocks. This is what it is. And then I think finally, you are asking on the red mud and the other waste. So, we have put up a center of excellence and where we have brought some R&D experts, we are partnering with the research institutes, partnering with the universities and the global research institute where we want to partner with them. That's how the sustainable solution for these waste could be brought, but in the meantime, let me also tell you that the solution which we have found in the interim is that to partner with the cement industry where they can use red mud as a replacement of bauxite which is used as a flux in the cement industry. And we have tied up some quantity with a couple of companies; one is Wonder Cement and one more is there wherein some quantity has been tied up. But some of our bulk waste have reached the utilization up to almost about 100%. Like another example in Hindustan Zinc is where the 100% Jarosite which we used to dump in the dam is being utilized by the cement industry as a replacement of gypsum. So, we are doing all that, mapping all our waste and making a comprehensive plan that each aspect of ESG how we have to address going forward.

Amit Dixit: The second question is essentially on the transfer of Rs.12,587 crores to retained earnings. So why it has been done? Can we expect some more rewards for shareholders on this account?

Ajay Goel: See, this entire intent of our capital restructuring is nothing but a reflection of the movement in the corporate loss which are evolving with the time. As you would know, on the balance sheet will have multiple reserves, be it a general reserve or something called a retained earnings which is nothing but profit and loss account. We intend to unwind our general reserve into retained earnings. Amount being 12,500 crude. I mean how it helps? Typically, a general reserve will have some limitation in terms of end use. But once we unwind the balance into profit and loss account, in that case company, management and the board will have higher flexibility in future. It is an enabling act in that sense. Now, the current companies act does not require of transferring any amount into general reserve. And if you do a bit of research, many companies, notable ones have done the same in the last few years. The entire process takes about eight, 10 months of multiple approvals including stock exchange and NCLT. This step will give us as I mentioned more flexibility and it is beneficial to all shareholders including minority.

Amit Dixit: If you can just illustrate on flexibility that would be helpful, in what areas does it serve flexibility?

Ajay Goel: Multiple I can quote and one example, in case somebody intend to pay dividend, in that case that one can do only from retained earnings. So, if you don't have sufficient balances, one may get maxed out in terms of ceiling, but once we unwind the balance of general reserve into the profit and loss account, in that case your headroom will increase. And there can be muliple more examples.

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

Sumangal Nevatia: First question is with respect to the aluminum business. If you could just share some more details on what is the coal situation there and what is the inventory we have and the cost inflation we expect? Looking at your cost in 2Q versus your full year guidance, it appears that we are not expecting a very significant cost inflation only to the tune of $50-100 per ton. So, if you can just share some more details on this?

Sunil Duggal: I will go for this and then I will ask my colleague, Rahul, also to add. So as far as coal situation is there, this has been a global event, everybody knows the global coal crisis came where the 20 mines got submerged in China and their coal production stopped and they started importing coal from all over the world. In India the events took place not only rain, the power demand going up, then the crisis coming up and the government diverting the total coal to the ICPs but the good situation is and the good news is that we have been only to maintain our operation in the current context. It was not about the cost of the coal in this scenario, it was about sustaining our operation, number one, number two, this commodity prices we did not want to lose our opportunity, but we are able to maintain our operation but the coal stock from where we were and to where we have also gone up and the situation is much better. But Rahul, over to you for further comments.

Rahul Sharma: Just to add further, going forward, one is that if you see our Q2 result, I think we have had a fairly good performance in terms of over volume, cost and also containing our overall cost. And going forward, I can say the good part is that we have the 100% coal security for the Q3 which is through the linkage and auction, and we are working closely with the Coal India to materialization. That is the other side of it. And second, you must have seen that things are improving at the Coal India because the situation at IPP stock level has gone up from the 7 million to 9 million plus and now the non-regulated sector especially aluminum is getting that kind of momentum and we see that should not be the challenge. And as of now, we have a stock of two to three days but we are managing and we see that whatever we have the security for 100%, we have to materialize and that's our objective going forward.

Sumangal Nevatia: Just to clarify, our cost of production is close to $1,650 in 2Q and our full year guidance has slightly increased from $1,675 to $1,775. So given the current situation of coal, where we don't have any inventory or anything for the fourth quarter and also the alumina prices, we still expect the cost inflation to be around $100 from here on, not more than that. Is that the right understanding?

Sunil Duggal: Actually, $100 means we are giving the average cost for the year. So, if it is average cost per year, if we consider the same volume in H2, I think it gives us a headroom of $200 per ton. So, you can see that the cost had gone up in Q2 compared to Q1 by say around 8%. And although the situation was very bad in September, which since has improved as Rahul also explained that the number of days or the coal stock have become better and along with that the coal security is also there, we are hopeful that this was only a one-off situation which was there for one, one and a half months' time and the situation will ease out as we will go forward. As far as the alumina prices are concerned, we know the alumina price of late have gone very high, but you also know that we have a bauxite security from the domestic Kodingamali mine and we are also hoping that the government may give permission for the additional capacity, one permission also given for 7 lakh tons, with that the differential between the domestic alumina production and the imported alumina production is higher at this point of time, but having some security up to around 45% from our domestic production, we feel that we should be able to contain cost but the situation is more dynamic, let us see what happens going forward.

Sumangal Nevatia: Second question is with respect to Zinc International. As per media report, there appears to be an evaluation of restructuring the business under ZIL to bring all the zinc business under one entity. So, if you can just share what would be the thought process, timeline and if at all any transaction in case such a restructuring were to happen?

Sunil Duggal: This is a matter actually between two boards. So, what discussion takes place in the board I may not be able to divulge any information at this point of time, but broadly I can tell you that this is a natural situation where both the companies can complement and one plus one becomes 11, not two. So, this is what I can comment at this point of time.

Sumangal Nevatia: Just one last clarification. This exercise of converting general reserve to retained earnings, it will take eight to ten months for approvals, etc., and only then we can have some more flexibility. Is that the right understanding?

Sunil Duggal: That is right, I mean, it requires multiple approvals including NCLT shareholders, of course the board today has blessed it and also by SEBI, it takes about eight, ten months. In the interim, we don't see any challenges. And as you may have seen our balance for the profit and loss account is about Rs.12,000-odd crores and as we generate profitability quarter-on-quarter, our balance is sufficient for our need for next couple of years.

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

Ritesh Shah: Sir, I have three questions: First is would it be possible for you to qualify how much is VRL level net debt? And how much is the debt maturity for FY'22 and FY'23? Just a related question over here, what I am trying to understand is what could be the dividend payout? If you can help me with the additional data point on the incremental leeway that we have to procure money from Oaktree Capital?

Ajay Goel: So, the total VRL external debt is about 8.75 billion including the ICL outstanding of about 750 million. Almost 2.2 billion is debt maturity for next one year. And almost similar I would say for F'23 the year next as well. You may have seen announcement by the VRL a couple of months ago that VRL has deleveraged by almost 0.3 billion in the first half and they also intend to further deleverage by 0.5 or so. So, almost 0.8-odd billion is deleveraging plan for Vedanta Resources. Coming to the point of payment of dividend, you already have seen in the last month or so, we paid Rs.18.5 per share, total about 8,000 crores. In terms of further plan, as you would appreciate, it will not be right to comment as of now. This is a matter of board discretion. From Hindustan Zinc side, typically, we pay dividend in the first half and I think it will not be unreasonable to expect something in the near future, but we have to wait and watch for a couple of more months.

Ritesh Shah: You said $2.2 billion for FY'22 and $2.2 billion for FY'23, is that right?

Ajay Goel: $2.2 billion is the debt maturity due over the next 12-months and something similar thereafter.

Ritesh Shah: Sir, my second question is on the zinc business. Sir, you indicated one plus one is 11. I don't have much understanding of the Zinc International business. But I think it seems like a forced marriage if I have to look at it from outside given the quality of assets that one looks at Hindustan Zinc, be it zinc, lead or silver, so how should one understand this? And secondly, I think the timing of any potential transaction if it is, we are looking at zinc prices again pretty high? And why not to prioritize for work with the government on Hindustan Zinc divestment, the arbitration that we had spoken about earlier, I think that would do more good to the minority rather than trying to marry Zinc International with Hindustan Zinc?

Sunil Duggal: As far as zinc is concerned, I think there are very rare commodities like zinc in the world. And it will be very difficult to find the new zinc assets. So, it's a very precious thing to have zinc in the portfolio. You see the R&R of both the companies is almost same. And with the same R&D, Hindustan Zinc having a capacity of 1.2 and they have a capacity of 300kt, but there also the project is on the drawing board and we are evaluating how the growth will come through putting up the additional concentrator and we are also evaluating whether the Scorpion refinery could be converted to the sulphide for treatment of the sulphide ore. As far as the divestment of Hindustan Zinc is concerned, you must be knowing that the final hearing in the Supreme Court in the court of Chandrachud has just been concluded and he has reserved the order. And you may also be aware that we had given in writing to the government and the court that we are happy with the open auction of the shares. So, I think when the order will come which is reserved now any day, the court will give no objection and will give a go ahead to the government. And when this will be auctioned, it is anybody's guess that who wants to participate and who doesn't want to participate. But I will still reiterate that any zinc asset in this world are precious and this marriage is very natural and very precious.

Ritesh Shah: Last question on capital allocation. Just your quick thoughts on one, where are we on the Gujarat copper smelter? Secondly, fertilizer plant in Rajasthan. Third, we had earlier indicated on aluminum downstream asset. And fourth on BPCL refining assets basically, is there any thought process or how should one understand it?

Sunil Duggal: As far as BPCL is concerned, last year the EOI was invited and you know that we participated to more PE funds participated. So, this was just the expression of interest. We are doing the due diligence. SK has not been finalized as yet and then the RFP will be called. And then the decision will be taken through. This is where we are at this point of time and I hope government may like to conclude this before March. Who gets what? But we want to create a separate fund for this. As far as copper smelter is concerned, we are evaluating and we had given a EOI to different state governments and we are at an evaluation stage as to where we could prefer but this is at a very initial stage of evaluation. Arun Mishra is there. I request Arun if you can reply on fertilizer and Rahul if you can reply on the aluminum part.

Arun Mishra: On the fertilizer question, we are ready with the business case and we are now going through the process of filing for environmental clearances. There are certain issues between the current existing at Chanderia smelter and the fertilizer plant. Also, we are in the process of recruiting CEO who would be the business leader for the fertilizer process. I think work on the ground will start in full swing somewhere in January for this fertilizer plant.

Ritesh Shah: Sir, aluminum downstream?

Sunil Duggal: Last time I think we have talked on the Balco 414 billet project. And as you know that this project has already been approved by our board and we are going ahead with that, but we are expecting the environment clearance in the Q3, then this downstream billet project of 420 will kick off.

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

Indrajit: A couple of questions from my side. First, on the Hindustan Zinc and Zinc International marriage that you have discussed. Do we need any kind of government approval for Hindustan Zinc to go ahead with the transaction or simple board majority approval will do?

Sunil Duggal: I don't want to comment much on this marriage because the parents are different. So, on one side, Hindustan Zinc board is there and on the other side Vedanta board is there. So, this is a very initial stage of the discussion which might have taken place, but it will be very difficult for me to divulge any information on this. But all that process will be followed if anything happens. One is this is a board matter because we are in a relative business. This is not a new line of business. It does not require a specific government approval as such. But ultimately after the board approval, it will require the shareholder approval.

Indrajit: Which of course is open to us, that is expanding in the Hindustan Zinc from 1.2 to 1.5 and also the opportunity of getting Zinc International, which one will be a priority in terms of our capital allocation for our process and policy?

Sunil Duggal: No, these are two different initiatives if they are, I mean, one is to capitalize the given assets and make this marriage work where I said that it will become one plus one, 11. The other is the evaluation and debottlenecking which does not require much of the CAPEX.

Indrajit: Can you help us with how much ore we are getting from our captive sources currently, the mines that we have and also what was the coal mix for Q2 between say auction linkage, imported and captive?

Sunil Duggal: Rahul, these are specific information if you have ready in your hand, can you give that?

Rahul Sharma: No, I think I have answered in the previous question. Today, our mines has not been operationalized and this is purely what we are looking through the Coal India which is linkage and auction. And we have the 100% coal security for Q3 which I have already said.

Sunil Duggal: Just to add, we are in the process of operationalization of the mines because the situation which we have faced last quarter or last month and the current quarter, we want to make our business more predictable. As we speak, we are taking fast track action on the Jamkhani coal block and other two mines also we are making and building a strategy. Our own vision is that we want to operationalize Jamkhani coal block in next say one year and rest, Radhikapur and Kuraloi mine block in the next two years' time so that we have a structural reduction in the cost which has a delta of say around $200 per ton from the current level, but we want to insulate and make our business more predictable one. Another good news is that we have got permission for converting one of our 600 MW unit at Jharsuguda to CPP which will become applicable from 1st January 2022, which will also help us to contain the power cost.

Moderator: The next question is from the line of Vishal Chandak from DAM Capital. Please go ahead.

Vishal Chandak: Sir, my first question was with regard to your ten commitments on net zero. One of the things that you mentioned is you will become less water positive. So, if you could just elaborate on how do you intend to become net water positive because you mentioned that Hindustan Zinc is already at 2.4x and given that your power plants in fact all of them are all thermal, so how do you intend to become net positive on water? Related to that is on EV adoption, you mentioned about decarbonizing 100% of your LMV. So, how do you plan to do that if you could just lay out a roadmap on that?

Sunil Duggal: First on water positive. So, you rightly said that we are at 2.41x water positive in Hindustan Zinc and Arun has made his strategy to go to 5x water positive. So, you might be knowing that we have replaced the fresh water through the dams which we have given to the community with the sewage treatment plant, water which we took from Udaipur sewage. So, we put up the plant and as we speak we have a capacity of taking 60MLD of water per day to feed to our couple of locations. So, this is one. So, this is a good model. When we evaluated our other entity, we found that cane is also water positive as we speak. So, these two entities are located in the state which are water deficit. And the similar models we want to replicate in our other businesses. So, as we speak, we are on a drawing board, building the strategy because we have the internal benchmarks available with us and best practices available with us. So, replicating all these best practices, the initial calculation which is coming is that it is very much possible to become water positive in the next 10-years. So that is why we have made a public commitment that we want to be water-positive. And by doing this commitment, we want to put a pressure on ourselves to deliver. So, when we have made a commitment to the larger world that we want to be water positive, we want to come back to all of you to showcase that we have honored our commitment. To your second question, we have declared that we want to convert all our LMV fleet to the EV fleet and to decarbonize and mining fleet also to EV fleet. The converting LMV fleet to EV is not a very difficult proposition as of now. And we were doing our own math which says that the lifetime cost per kilometer is 50% of the current cost where we use diesel or petrol. So, it makes all the economical sense. Only thing is that we have to take action and we have to become more disciplined. So, it is very much possible to tie up with the partners today. We are in discussion with various partners who can partner with us to decarbonize our LMV operation. As far as decarbonization of the mining fleet is concerned, Arun has signed this MoU with the major OEMs like Normet, Sandvik, Epiroc that he wants to partner with them in Hindustan Zinc to make some pilots underground in some areas which could be replicated in other areas of the mine. And all of us know that these mining equipment supply OEMs have already commercialized lot of their machines. So, it is something like new concept which we will have to try. Some mines in the world are already using it. And with the focused effort of Arun, I am sure after the pilot becomes successful, he will be able to convert the entire mining fleet of Hindustan Zinc and the learning of which could be replicated in our other entities and other operations.

Vishal Chandak: My next question was with regard to possible sale of Zinc International assets to Hindustan Zinc. You mentioned in that case one plus one would become 11. So as of now, practically speaking, both these two entities are under the management of Vedanta, how would change of control within one subsidiary to another subsidiary improvise things because I understand this practices would even be shared today itself and a related party transaction, etc., are being taken care of. So, how would that now translate into a multiple level of savings or improvement in economics by just transferring one asset into another subsidiary?

Sunil Duggal: Actually, this is at a very initial stage if it is. And as I said, this is a board matter. And I don't want to speak much on this because this is also more like a compliance issue at this point of time. So, I will keep my comments more reserved and not divulge much of my own thoughts and don't want to speak anything which will not be in the best interest of our governance which is also one of our pillars of ESG.

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

Pinakin: Sir, my first question is if we just take a step back and look at it, we have lifetime high commodity prices in many of the base metals but at the same time parent entity is very-very leverage. That's always the risk for the minority shareholders of Vedanta Limited. Operationally also, some of the businesses have not shown great results. So, wouldn't the company at these prices want to hedge some of the commodity exposure and bring in cash flow visibility and stability, not fully 100% but some kind of hedging given where aluminum, zinc and oil prices are?

Sunil Duggal: As a policy, we don't hedge, but we evaluate the options depending on the situation from time-to-time. So as of now, we have not decided. The situation is quite volatile. I cannot comment you which direction we will go but as a policy we do not hedge.

Pinakin: Second question is on the oil business. We have yet again reduced the production guidance. And consistently, oil has disappointed over the last few quarters, not delivering the volume growth, our cost is rising. And if you look at this quarter in terms of Brent price at roughly $75 a barrel, there was an EBITDA of Rs.1,300 crores. There will be CAPEX EUR CAPEX and cost... What is the strategy in terms of turning around the oil business or is this something where the volume growth is looking increasingly difficult to achieve?

Sunil Duggal: I get you what are you saying. The volume is more muted. I will take help my colleague, Prachur to also add on, but let me tell you that the last quarter along with the decline, the major contribution has to come from gas and tight oil. The desired reserves were not to the level of our initial plan. So, we could not get the full advantage which we conceived at some point of time, but now to build the reserves, some of the drilling projects have initiated and Prachur can give more detail on that but let me also tell you that we are partnering with the government and asking for their support and four key things government has given the assurance that they may like to help us. Number one, long-term visibility of the PSC agreement. Number two, our levies are at 70% compared to 30%-40% with the other oil and gas producing countries and government is quite favorably inclined to look at it. We have also convinced the government that this kind of business requires a marketing freedom. And then it is a very regulated sector where you require the approval from DGH or ONGC as a partner whereas in Hindustan Zinc although government has a share of 30%, we only meet in the board rooms. So, the government is quite favorably disposed for all these and we are evaluating all those options like enhanced oil recovery or shale oil to see that whatever the potential is there in our sets and beyond in OALP, how we can capitalize on each one of them and grow the production. Prachur, anything you want to add from what I said?

Prachur Shah: You covered most of it. I just want to highlight one point here is if you look at the Q1 and Q2 volumes, being at 165, the first positive part I would like to talk about is in our MDA field which are oil fields. Traditionally, these are mature fields and overt the last seven years, these were the first two quarters there were no declines in these fields. So, from an oil perspective, the decline was managed through the polymer. Our main geological supplies came in the gas business where due to the subsurface performance, some of the wealth did not come as we expected; however, we have taken a project to add more wells in gas to recover that production. As Mr. Duggal mentioned, I think from a government support there are two projects that potentially has a large upside that we are working on is the tertiary oil recovery of further improving the polymer flooding in Mangala, in our MDA fields and secondly from the perspectivity of sharing in our Barmer block and the success that we had in overseas in the Gambia, we want to further monetize in the coming months. So that would be my commentary on the volume.

Pinakin: So just to dig deeper, do you think that Vedanta needs a foreign partner to better explore the oil opportunity given that there have been series of disappointments and there are more and more difficult fields?

Sunil Duggal: We are already partnering with the global major no. Who is who in the oil and gas sector is already working with us. So Prachur, you also explained that how many experts we are engaging and depending on where we have to add reserves and where the potential is there, all these experts we want to bring on board, but let me tell you the likes of Baker Hughes, Halliburton, Schlumberger and everyone, whosoever is there in the world, they already work with us. But we are trying to change the contracting and partnership model, so which Prachur you can just explain.

Prachur Shah: As you mentioned, all these projects that are going through, they have been done through these international majors itself. Secondly, for the forthcoming projects, the way we are working with these partners is where they take a larger level of responsibility from end-to-end, starting from the technical design till execution of the project. And they're heavily incentivized upon success. So that model, we believe, will further bring them into the picture, right. And secondly, on the expert side, just for your information, six months ago, we had the CEO for BP as now a technical advisor, who's full time, who's working with us now on these projects to define how we can make the success. So, from an expertise point of view, I think in my view, that's not where the bottleneck lies. The bottleneck lies now is to make this recovery shale and exploration programs and success to add the reserves that will be production, because the prospective resources are there. And to make this projects viable, that's what Duggal ji was mentioning. We have a significantly increased support now from the government to make this projects viable, which in the current legislature may not have been, but now with that support, we'll go ahead with these projects.

Sunil Duggal: Let me assure you, we are totally committed to produce 300,000 barrels in the mid-term and we are evaluating all those opportunities. So, the excitement and the motivation within our team is extremely high and we are really committed and with the support of the government and the motivation of the prime minister, which he has recently assured in one of the meeting he had with the CEOs, that each and every support will be given because the country also wants the energy security. So, in that direction, the shale oil, the enhanced oil recovery, marginal fields, OALP, optimization of recovery, giving the approvals, giving the liberty to us to act without approval of the authorities and take some more risk, all that we want to do because the oil prices are such that it enabled us to take some more risk. But you know that until the risks are taken, the delivery will not be there, but these are some of the assets where the reserves are already lying. Like you see the enhanced oil recovery and some of the other assets like offshore also. But if the pilot becomes successful for shale oil, we will take a quick jump and we will take some big leaps going forward.

Moderator: Thank you. We take the last question from the line of Raashi Chopra from Citi Group. Please go ahead.

Raashi Chopra: I just wanted to clarify on coal. You indicated that there's 100% coal security for the next quarter. But we have about two to three days of inventory. So just to understand what you mean by that coal security?

Sunil Duggal: Coal security means the coal is tied up, either through the linkage or the auction, the total coal is tied up, that is called the security for the quarter.

Raashi Chopra: There is no need to panic with this two to three days of inventory what was my question?

Sunil Duggal: We could manage with one day stock now with two to three days to four days it is going. I think we are much better there compared to where we were. And now the coal stocks at the IPPs are going up and becoming better. And the government is also committed that the holiday which they had given to us, or the coal block supplies which they had locked to us, it is being released steadily.

Raashi Chopra: Just to reconfirm the number, the debt at Vedanta Resources is $8.75 billion, right?

Ajay Goel: That's correct, Raashi.

Moderator: Well, that was the last question for today. I would now like to hand the conference over to Mr. Varun Kapoor for closing comments. Over to you, sir.

Varun Kapoor: Thank you, Janice. In closing, thank you all for taking the time to join us this evening. If you have any further questions, feel free to contact either me or the rest of the investor relations team. So, here's wishing everybody a very good evening. And with that, I'll pass it back to the operator.

Moderator: Thank you very much. On behalf of Vedanta Limited, this concludes this conference. Thank you all for joining. You may now disconnect your lines.