"Vedanta Limited Q3 FY20 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Vedanta Limited Q3 FY20 Earnings Conference Call. As a reminder, all participants 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference call is being recorded. I now hand the conference over to Mr. James Cartwright from Vedanta Limited. Thank you and over to you, sir.

James Cartwright: Thank you very much, operator. And good evening, everybody. Thank you for joining Vedanta's third quarter results conference call. May I start by drawing your attention to Page 2 of the presentation for all our disclaimers and comments on forward-looking statements. We have the full team with us today. Both, Venkat and Arun are here. We are also joined by the CEOs of all our individual businesses as well.

With that, let me pass the call over to Venkat to present our results and operational update.

S. Venkatakrishnan: Thank you, James. Good evening, ladies and gentlemen. I am very pleased to welcome you to our third quarter results and business updates. If I can start off by distilling four core messages we want to stress in today's presentation. First, our enviable project pipeline across all of our key businesses will benefit, in our view, from strong signals of resumption of the accelerated growth in India, aided through pro-growth and pro-business government policy changes. Secondly, we remain on track to become the world's largest integrated zinc-led silver producer in two years, whilst maintaining our cost leadership with strong sequential volume growth from Hindustan Zinc and also rising volumes which we are seeing from Zinc International, more of it later.

Our balance sheet remains strong. It is supported by healthy free cash generation from our businesses, and that has resulted in a net debt-to-EBITDA ratio at 1x, which as you all know, is industry leading. The final message, we have had a strong exit in December within the third quarter, and importantly, we are seeing an impressive start to the fourth quarter as well. If I can give you some examples. Gamsberg's volumes are at record levels in January and expected to close around 13,000 tonnes. Additionally, Hindustan Zinc continues its strong production streak with the highest monthly production for the year being hit this month at around 88,000 tonnes of mined metal and almost 80,000 tonnes of finished metal.

Noteworthy, our aluminum business continues to benefit from improved integration and our interventions currently witnessing costs comfortably below $1,600 a tonne in January. And if you recall, that is a reduction of around $600 a tonne within just over a year. Likewise, steel business margins have increased significantly and currently are at $110 a tonne, almost double the level seen last quarter. So we are confident of achieving strong volumes in the fourth quarter on the back of solid operating performance.

Now turning to the big picture in India scenario. We believe India is the most exciting economy in the world today. It is a nation teaming with opportunity and potential as the country looks to modernize, expand and accommodate the rising aspirations of a growing population. Against this backdrop, the progressive steps that have been adopted by the central government like corporate tax cuts, improving support for the real-estate sector, national infrastructure pipeline initiatives and growth in government expenditure will boost the investment scenario and demand for commodities in India. Evidence of economic recovery are already appearing in the Rs. 1 trillion-plus GST collection for the last two consecutive months. And in December 2019, as you would have seen, manufacturing PMI reached 52.7. It was the highest since March 2019.

Despite very recent developments, we believe that global economic growth is likely to be stronger in 2020 with the alleviation of trade tensions and improved financial market sentiments. Growth of emerging economies are likely to be fueled by improved investor confidence, low inflation, gradual easing of lending and rebound in the domestic demands, although some downside risks still persist. The current geopolitical scenario in the Middle East can create uncertainty, which may drive up prices for commodities like crude oil, gold and silver. This backdrop, augmented by strong underlying fundamentals, is expected to boost the price of aluminum, copper, zinc, lead, iron ore and steel. And we are, therefore, perfectly positioned to benefit from these trends.

With that, let me take you through some key highlights for our third quarter performance. Hindustan Zinc delivered solid performance with impressive sequential volume improvement. Our MIC was up 7% quarter-on-quarter at 235,000 tonnes on account of higher ore production and improved grades. While integrated silver production was 149 tonnes, up 11% quarter-on-quarter. The ramp-up of our mines is in its final phases and will significantly de-risk our future growth potential for the next few years. Our Zinc International operations produced record volumes with significantly lower costs. The Gamsberg plant is beginning to stabilize and has started delivering near-to-design volumes. Collectively, as I said, we are on course to become the world's largest long-life, low-cost zinc-lead silver producer in a two year period.

Turning to Cairn Oil & Gas. Work continues to deliver the expansion volumes we have communicated historically. Capacity upgrading projects are close to finalization. We exited the quarter with 193 wells drilled and 72 wells hooked up. Another 48 plus wells be online before the year end, giving us confidence in our growth plan, whilst the early gas production ramped up to the design capacity of 90 million scuffs per day.

Turning to our aluminum sector. In our journey towards achieving our cost target, we achieved 9% quarter-on-quarter reduction in our production cost. With respect to alumina, our Lanjigarh production was up 16% quarter-on-quarter with costs down 8%, with the local bauxite meeting more than 50% of our requirement. As mentioned previously on the power side, we have 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.

In respect of iron ore, we are pleased to announce the highest ever sales of 1.5 million tonnes at our Karnataka operations. In Electrosteel, sales at 317,000 tonnes was up 9% year-on-year, with margins improving from $25 a tonne to $55 a tonne on account of operational efficiencies and favorable input commodity prices.

As I am sure you have seen today, we announced the acquisition of Ferro Alloys Corporation Limited, which is in the business of producing ferro alloys. This acquisition will complement and strengthen our existing steel business. The vertical integration of FACOR's manufacturing capabilities has the potential to generate significant efficiencies for us, given that 10% to 20% of its production will be used at our ESL operations. More details are available in the earlier release.

On the financials, our EBITDA of Rs. 6,531 crores, including one-offs, represents a margin of 34%. It is about 27% once you exclude those one-off items. Our attributable profit after tax increased 49% year-on-year. Our balance sheet remains steady, with net debt-to-EBITDA ratio at 1x. More of these in Arun's presentation.

Turning to safety, environment and sustainability. We began this fiscal year with a strong commitment to improve our safety performance. While there have been significant gains being made across our businesses, we are deeply saddened by the loss of one life in our BALCO aluminum business this quarter. A life lost is one too many, and we have redoubled our efforts in this regard. We have completed the incident investigations and are taking measures to ensure repeats do not occur and learning are implemented across our other businesses. Earlier this year, I talked about the renewed focus by the leadership team to improve our safety performance and help us improve our journey to zero harm. As you can see through this slide, we have made significant and steady progress in all of these areas across our businesses.

On the equally important front of environment, our businesses are implementing improvements from the review conducted by third-party experts in the previous year. In addition, we have updated our tailings dam performance standards and guidance notes that our businesses must adhere to when managing their tailings facilities. In order to de-risk our tailings dam facilities, the company has embarked on a program to dewater our tailings and store the dry tailings moving forward. Lanjigarh red mud pond has long followed this approach and Hindustan Zinc's Zawar location has commenced operations with this approach starting in the second quarter. Studies to make this change are also underway at our operations in Dariba and Rampura Agucha locations. We also proactively disclosed details about the status and management practices of each of our tailings facilities, which can be accessed on our website. We are on track with our energy and water conservation targets. As of December 2019, we have met 69% of our energy conservation target and 75% of our water conservation target.

2020 also is the end of cycle for our greenhouse gas emissions intensity reduction target. As of December 2019, we have managed to reduce our GHG emissions by 13%. It is likely we will see similar numbers at the end of this fiscal year. This is slightly below our targeted 16% reduction from a 2012 baseline, an indicator of the stretch targets that we have taken. This 13% reduction, which is equivalent to 6 million tonnes in avoided GHG emissions. We recognize we have more to do here, and we will be communicating our next targets around our year-end numbers.

Finally, our flagship Nand Ghar program opened its 1250th center this quarter, and we are rapidly moving towards reaching 4,000 Nand Ghars across the country. These child day care centers currently support around 41,000 children and 31,000 women.

Now moving to our business verticals. Hindustan Zinc, our zinc-led silver business are our key pillars to the business. The ongoing mining expansion is in its final space and on track to achieve the capacity of 1.2 million tonnes per annum. At Rampura Agucha, the underground shaft has been commissioned, and the ore hauling is expected to start in February 2020. This will allow Rampura Agucha to achieve 4.5 million tonnes production along with an opportunity to explore the rich Galena zone. Smelter debottlenecking to 1.13 million tonnes per annum has been completed, thus enabling fully integrated operations.

On the operational side, the quarter saw a 5% higher ore production sequentially with Rampura Agucha mines surpassing a run rate of 4 million tonnes per annum and 16% increase in the mine metal production in SK mine quarter-on-quarter. The mine metal production for the quarter was 235,000 tonnes, up 7% progressively on account of higher ore production and better overall grades.

Integrated metal production of 219,000 tonnes for the quarter, was up 4% sequentially, driven by an increase in zinc production, while lead production declined by 7% to 41,000 tonnes. The decline in integrated lead production was due to temporary issue at our DSC lead smelter. Integrated silver production was 149 tonnes, up 11% sequentially on account of higher silver grade at our SK mine.

Zinc cost of production before royalty during the quarter was $1,077 a tonne, higher by 3% quarter-on-quarter, primarily driven by higher mine development and one-time repair and maintenance costs. As already discussed, on the HZL cost, we expect new efficiency improvements to drive cost lower in the coming quarters.

Turning to Zinc International. We witnessed stable production overall with the Gamsberg mine ramping up, despite the closure in Skorpion due to the slope failure back in May 2019. At Gamsberg, we witnessed ore production of over 1 million tonnes in this quarter, with 1.8 million tonnes of healthy ore stockpile built ahead of the plant. The crusher has been consistently running on higher than design throughput of 700 tonnes per hour.

Our milling output has increased with our mills running at an average of 459 tonnes per hour. The feed ore grade has improved 6.9% versus 5.8% in the beginning of the year, continuous focus on grade, throughput, recovery optimization and stabilization should help us deliver the 250,000 tonnes per annum design run rate.

Production at our Black Mountain mine was at 18,000 tonnes, up 12.5% quarter-on-quarter. Skorpion Zinc produced 11,000 tonnes of metal in the third quarter due to the impact of slope failure earlier in May. The slope failure was safely and successfully mined out in November. Given the necessity to rebuild old buffers, waste mining was prioritized in the quarter. And in parallel, targeted maintenance work in key plant areas was performed to ensure plant reliability upon start-up.

The refinery is expected to restart in early February, once sufficient ore inventories have been reestablished and maintenance has been completed. Given safety is our first value, we continue to monitor the pit and have seen some further small, more controlled failures take place. We continue to enhance our geotechnical models to ensure that the mine and the rest of the pit shell can be mined safely.

Turning to oil and gas. Progress to deliver the expansion in our volumes continue. Let me begin with the growth projects for our PSC blocks. The CAPEX work program primarily comprises of drilling and hooking up wells and surface facilities. We have, till date, drilled 193 new wells and hooked up 72 wells. All the 126 wells planned for Mangala Infill, Bhagyam and Aishwariya Polymer and Aishwariya Barmer Hill have been drilled and are being progressively hooked up. Drilling is currently ongoing for Ragheswari Deep Gas, satellite field and tight oil appraisal.

In terms of surface facilities, the early gas production facility has ramped up to design capacity of 90 million scuffs of gas per day. The addition of the facility takes our current gas processing capacity to around 150 million scuffs of gas per day. The ongoing construction of the new gas terminal shall enhance the processing capacity up to around 250 million scuffs per day.

The liquid handling upgrading project is progressing well to enhance our capacity by around 30%. We have a planned shutdown at the Mangala processing terminal in February. This shut shall enable us to tie in the key surface facilities, carry out activities to enhance asset integrity and reliability and deliver our volume ramp-up into the year-end. The overall impact of the shutdown will be the equivalent of around 7 to 10 days of production.

In our offshore Ravva block, we have commenced development drilling program post the extension of our PSC terms for 10 years. We are targeting to exit the current financial year at a production rate of 225,000 barrels of oil a day, based on these two projects, which I referred to coming online.

I can't underplay the exciting potential we have in our OALP blocks. We have recently awarded seismic contracts for Assam, Rajasthan and Cambay Basins. We have completed the FTG gradiometric survey in Assam and common seismic survey in the basin. The survey is currently underway in the Kutch basin and shall extend to Rajasthan and Cambay Basin in the current quarter. We will update on the progress of this new exciting new part of our oil business in the coming quarters.

Now turning to our aluminum sector. A strong result this quarter as we made significant cost improvement with cost at around $1,691 a tonne, down 9% quarter-on-quarter, primarily due to our improving coal performance and substantially lower by 18% year-on-year.

Our December COP, in particular, was $1,576 a tonne. We saw alumina production at Lanjigarh at 476,000 tonnes in the second quarter, up 16% due to minor debottlenecking projects being carried out in the refinery. This was very well supported by higher local bauxite supply, meeting over half our bauxite requirements for the nine months of this year. Consequently, we recorded a $269 a tonne cost of production at our Lanjigarh refinery, an improvement of 8% quarter-on-quarter.

In terms of alumina availability, the recent Supreme Court judgment allows us to bid for NALCO alumina, and this has the potential to increase our domestic sourcing of bauxite. We welcome this judgment.

On the coal side, the materialization has improved due to better coal availability post monsoons. Our captive Chotia mine at BALCO is on track to achieve its full capacity of around 1 million tonnes per annum this year with the third quarter production at 278,000 tonnes.

We have now signed the Coal Mines and Development and Production agreement with the government of India in respect to the Jamkhani Coal Block in Odisha. Steps are now being taken towards operationalizing this block. This has potential to reduce our power costs by 10% to 15%. With our plans to increase coal linkages through participation in future options, enhancing bauxite sourcing to exploration of new resources, captive alumina capacity ramp-up and other cost reduction initiatives across the value chain, we are inching closer to our target COP of $1,500 a tonne.

Turning to our iron ore and steel business. We achieved the highest ever sales in Karnataka at 1.5 million tonnes, and our pig iron production went up 2% to around 179,000 tonnes. In Goa, we are continuously engaged with the state and central governments with the support of the people adversely impacted by the Supreme Court state-wide ban for the resumption of mining in Goa. We are cautiously optimistic of a favorable reception in mining for the larger good of the country and Goa, given the stronger stakeholder support that we are seeing.

Our Electrosteel plant saw an increased production, which increased to around 317,000 tonnes, up 18% quarter-on-quarter, with the EBITDA margin improving sequentially by around 120%, owing to improved operational efficiencies and favorable commodity prices.

With regard to our smelter in Tuticorin, the Madras High Court has heard the case and the judgment is awaited. Our stakeholder outreach and CSR programs continue unabated.

Before I hand over to Arun, let me conclude by reiterating our strategic priorities to drive long-term value for our stakeholders. Number one is around ethics, governance and our social partnership to operate, that needless to say, include safety as our number one value. Two, expanding our reserves and resource base, more of it when we announce our year-end results. Three, continued track record of delivering value-added growth in all of our businesses, as you will see quarter-on-quarter. Four, strict capital allocation and balance sheet focus. And five, we can't do any of this without the right people and the right assets, therefore, delivering the best from our assets and people.

With those comments, over to Arun.

Arun Kumar GR: Thanks, Venkat and good evening, everyone. As outlined by Venkat, the overall performance on volume, and especially the costs are better for our expectations and as we have briefed you all earlier in the year. Highlights our aluminum costs, zinc and Gamsberg volume uptick, which I will cover in some detail in the EBITDA walk page.

With improving performance trajectory, we are confident of achieving a stronger performance in Q4, in line with our briefings in the last few earnings calls. Some key highlights for the quarter: EBITDA at about Rs. 6,500 crores, with an underlying margin of 27%. At constant prices, this represents an improvement of 400 basis points over either Q2 or last year Q3. Of course, the reported margin is much higher this quarter at about 34%.

The reported attributable PAT at about Rs. 2,350 crores is about 49% higher year-on-year, yes, as driven by a couple of one-offs as well. We continue to have strong cash and liquidity at around Rs. 35,200 crores. And needless to say, the net debt EBITDA continues to be lowest among the Indian peers at right about 1.0.

We have a detailed income statement in the appendix. I am sure you have glanced through it, but some key updates from the income statement. The quarterly depreciation charge continues at levels guided at the beginning of the year. No surprises there. The absolute finance cost is lower, 9% year-on-year, primarily due to repayment of high-cost debt and fall in interest rates in line with market trend. The average cost for the year continues to be in the range of 8% to 8.2% as guided earlier.

Investment income at about Rs. 628 crores, lower 40% year-on-year, lower sequentially as well. This, as you know, is primarily an accounting difference on mark-to-mark, depending on how the general G-Sec moves. As guided, investment income should continue at the current level of around underlying 7.5% pretax of course, subject to the mark-to-market, again, in line with the guidance at the beginning of the year. Tax rate for the quarter at 30%. And for the full year at 30% plus/minus 2%, exactly as per guidance again at the beginning of the year.

You would have noticed in the EBITDA bridge page, which is the next page, that we do have a significant one-off item in the oil and gas, as also explained in our regulation 33 release. This pertains to a very progressive order issued by the Government- Ministry of Petroleum and Natural Gas, clarifying that the past exploration costs that we incurred between 2015 and 2019, including the unsuccessful ones can be cost recovered. This is a result of that clarificatory order which came in the month of November. This, of course, encourages investment and exploration in general, which is in the larger interest of the nation. This will be a onetime item for the quarter.

Moving on to the page itself on the bridge. The EBITDA was 45% higher, as I mentioned, including the one-offs. We did have some tailwind in terms of commodity deflation, about Rs. 200 crores, mostly alumina. And a weaker exchange, which you are aware helps in our kind of a business. However, the highlight here is a Rs. 420 crores operational improvements in volume and cost, which are slated to get better, even better in quarter four and going forward.

Some key highlights there are the aluminum COP. It is lower by about $160 per tonne quarter-on-quarter. And further, another $100 per tonne lower in January month as we are speaking with better coal materialization. More importantly, Lanjigarh working to the full volume capacity that it is meant to. Currently, the hot metal is tracking below $1,600 per tonne, a level that we last saw in 2017, as we exited the quarter and in the month of January, hence, an important structural win for the sector.

Further with Jamkhani, which Venkat alluded to in his speech, which will take shape in terms of production from the block say in 12 months' time. Further, the cost will come down on a structural basis. Perhaps, we are well set for a refinery expansion. But we will deal with it in the year-end guidance when we are ready to move ahead there.

On Gamsberg, the volumes in January have improved to a run rate of nearly 425 per day, indicating that we could touch around 13,000 tonnes in the month of January, which is a 35% increase over the quarter three run rate, which by itself was about 10% higher than quarter two and also contributed in quarter three. The point being in quarter four, it will contribute even more.

Steel margins were better for us over sequential quarter despite lower prices, also contributing to higher EBITDA. When the price is starting to look up in December and now in January, our steel margins are now comfortably in the triple-digit level. Hence, as you can see, we seem to have operational momentum as we head into Q4, which is exactly the direction we had painted in the earlier earnings calls.

Moving on to the next page, on debt. The reported net debt on December 31 was about Rs. 23,400 crores. While higher by about Rs. 3,000 crores on the sequential, which was pointed out by us in the second quarter when we said some of the working capital will unwind. But quarter four, going forward, should be positive cash, as always, has been our trend. Hence, the net debt from here should go down as we exit quarter four, whereas compared to the beginning of the year, we are down by about Rs. 3,500 crores in net debt. Our Capex for the year will be in line with the earlier guided number.

And moving on to the next page on the balance sheet. Liquidity of the group remains strong with cash and cash investments of about Rs. 35,000 crores. The company has been focused on tapping new sources of capital markets like insurance, new bank loan tie-ups and have significantly reduced the short-term commercial paper book by nearly 35% as compared to the beginning of the year. The highlight, of course, at the end, is a strong net debt-to-EBITDA at 1.0, lowest amongst the Indian peers by long margin.

To sum up, despite a low price situation, operating performance strengthened, setting up a good foundation for quarter four and beyond. With this, I hand it to James for the Q&A session.

James Cartwright: Thanks very much, Arun. With that, operator, back to you, and please open up the Q&A, please.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Amit Dixit from Edelweiss.

Amit Dixit: I have a couple of questions. The first one is on the exceptional items. I mean, not exceptional, I should say, but one-off items, Rs. 1,276 crores. Is it possible to throw some more light on that, whether we can expect some more of the one-off in future? And of course, on the RPO, that is Renewable Purchase Obligation, the nature of this and can we expect something more like this in the future? That is the first question.

S. Venkatakrishnan: Why don't you give us all the questions, and we can cover it that way, if you don't mind?

Amit Dixit: Yes, sure. And the second question is on oil and gas. In your last presentation, when I look at it, the key drivers of production ramp-up, you showed that H2 FY20 exit would be 250 wells filled and 150 wells hooked up. While this time around, the figure appears to have gone slightly down, but you are sticking to your target of 225 kboepd, so just wanted to understand a bit how will it be achieved.

S. Venkatakrishnan: Okay. If I can pick up the second question first and then hand it over to you on the first question. You are right, in terms of the hookup rate, they may be slightly lower. But as I said in the presentation, really, it is these two projects coming on stream in terms of getting an uptick in our glass volume and also in terms of our liquid handling capacity, we are still targeting around 220, 225 exit in the month of March and that's why we have actually maintained that guidance. And Ajay Dixit is welcome to come in. Ajay, anything you want to add from your side.

Ajay Dixit: Not so very much. But I would say, when we say total wells, some are injector wells and some are producing well. So we don't have a reduction in producing wells. So that is not going to be significant on this issue.

S. Venkatakrishnan: Good. And on the first question, Arun will pick it up.

Arun Kumar GR: Yes. As I covered in my talk track, as far as Cairn's Rs. 1,276 crores is concerned, we had spent a lot of money in exploration over the years. And as you know, exploration includes unsuccessful and successful. And recently, I think, in November the government has clarified that contractors will be allowed to charge the unsuccessful as well. And as you know, for us, it is a three way profit petroleum between us, ONGC and government. So as the contractors, ONGC and our share will be credited back through the revenue line as is the PSC modality. It is applicable for all exploration. It is just that unsuccessful also got cleared. So this is a onetime revenue. It will not repeat itself in future.

As far as the RPO is concerned, I will probably invite Ajay Kapur, our Aluminum CEO, to talk about it, a lot of good work done there. But fundamentally, the renewable power obligation rates were capped at 2016 levels, based on certain litigation that was in process. So all our excess provisions were written back. There is no cash flow impact, but definitely, cost per tonne going forward comes down. And quarter three is well representative of that since we kept the past period as a onetime item showing it separately. Ajay, any comments on that RPO?

Ajay Kapur: Yes, Arun. So while I would like to just brief, Amit, is that about a year back Ministry of Power released a notification towards reducing the RO. In line with that, Uttar Pradesh was one of the first state to implement it. The state of Odisha followed the suit in December, and they issued a new order. This effectively brings down the RPO obligation from 11% to 3% of generation, capping it for the year 2015- 2016. This has been very welcome news for us. And in line with that, our power cost has been reduced and we have reversed some provisions. On a sustainable basis, this reduces our power cost by roughly $30 to $40 per tonne structurally. And for the prior year, it is about Rs. 420 crores and the remaining is for the current year, the one-time which you have seen.

Amit Dixit: Okay. So the exceptional item what you have put is for the prior year, and in the EBITDA, the adjusted EBITDA that you have put for the current year in total?

Ajay Kapur: Absolutely.

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

Sumangal Nevatia: Sir, first question is with respect to the Gamsberg mine. Just wanted to have a better understanding of the ramp-up issues there because first nine months, we are at almost 80 kt, and mid-range guidance is around 140, which requires an ask of around 70 kt in the fourth quarter. Clearly, even at 13 kt we are much lower than the ask. So what are the issues we are facing there? And the second is even the cost remains quite stubborn at around $1,600 versus our guidance of around $1,200. So if we can have a better understanding of this, sir.

S. Venkatakrishnan: Thank you for that, Sumangal. Actually on Gamsberg, as I said previously, the key here was getting stability of the plant, which we are starting to see here, our crusher rates have improved. Our, actually, mill throughput rates and production rates have also improved. We have got Deshnee on the call. Deshnee can actually answer both aspects of your question.

Deshnee Naidoo: Right. Sorry, I am actually in a building where we have got test evacuation. So hopefully, you could not hear the background noise. Very quickly in terms of year-to-date, we have had 78,000 tonnes. In terms of how to look at Gamsberg ramp up against the original guidance, we can mine the tonnes, we have demonstrated that. We have been able to put 1 million tonnes on the stockpile in the last quarter. And if you look at my treatment tonnes in the last quarter, it was around 750,000 tonnes.

So, in terms of front end, it is all working to the design effect, as Venkat mentioned earlier, better than planned. We have had some challenges on the recovery side. If you look at my previous quarter, which is below 58%. Last quarter, just about 64%. I think why we are talking about January month because the recovery was just about 70%. Why that has happened is a couple of reasons, I think it is getting the blend right in terms of what happens in the bench scale versus in the product itself. And we have seen some spikes in the carbon, etc. So that's the reason why the recovery hasn't come.

The focus, however, I think in any plant, when you are ramping up, is how do you rethink the challenges to downstream. And that's where we are right now. So yes, as you rightly pointed, 78,000 tonnes to date. Are we still going to keep guidance? No. I think I am now looking at Gamsberg more across 120,000 tonnes to 130,000 tonnes, which is still a stretch and a step-up in the last quarter. I still believe, given the performance we have seen at the tail end of December and this month, and with all of the focus initiatives in terms of increasing recovery and to help them try to get better grade that the team and I are confident that we can see that the 40-plus thousand tonnes in the quarter, okay? So that's how you can look at the ramp-up.

In terms of the original guidance, given the fact that this is a greenfield mine and greenfield plant, we did guide that it will take us anything between 9 to 12 months to potentially ramp up. We were optimistic about a year ago in terms of how in parallel to try and get the ramp-up done faster. But given the technology, etc., we have had in place, we have also been cautious not to do this without all of the technology in place. So that's what it is looking like.

In terms of cost, the larger factor being actually on the TC/RC. So we are currently running at about $300 per tonne TC/RC. The flagship TC/RC quarter-on-quarter, I increased production by over 28%, and my cost has come down by about 20%. I am getting the benefit, but as you all know right now, the markets are pretty anomalous and that's what leading to the incredibly high TC we are seeing right now.

S. Venkatakrishnan: Sumangal, in terms of big picture, really, where we look at Gamsberg is, it is an important catalyst for us in terms of EBITDA and free cash flow next year, volumes going up and cost coming down.

Sumangal Nevatia: Yes, I understand, sir. Can we expect sometime in 1Q to hit the 20 kt per month run rate, which is like the design capacity?

S. Venkatakrishnan: I think the important part here is stabilizing it. And we are targeting March. But having said that, if there is a slight slippage there, it is not something we will lose sleep over. The important thing is stabilizing it for the longer term.

Arun Kumar GR: And to add, the costs automatically track the volumes, so it should come down significantly with this volume pickup in Q4.

Sumangal Nevatia: Understood. Next question is with respect to the copper plant, just want to get a sense when do we expect the verdict? And if you could share your view, I mean, does it end here or eventually get settled in Supreme Court, I mean, whichever way the judgment is?

S. Venkatakrishnan: Okay. Let me respond to the first part of it. In terms of the hearing, as you know, the Court has actually heard the arguments from both sides. The judgment is due sometime in the month of February, that's what we have been told. That's aspect number one. And second area is in terms of whether it will be settled at the Madras High Court or does it need to go to the Supreme Court is something which we wouldn't actually comment upon. It is a legal process. I would rather wait and see the outcome of the judgment in that regard.

The most important aspect here is that we are doing a lot of good work on the ground, notwithstanding the delay. I think we want to ensure that there is, I don't like the word social license to operate, it needs to be a social partnership to operate. So from that perspective, we are actually building a lot of goodwill. Very good community work, CSR work currently taking place. And you have seen the tide actually of sentiment change in favor. And I think that's the most important aspect where we are using this time readily invested to get goodwill and the support of the public in Tuticorin.

Sumangal Nevatia: Yes, I understand. Just one small clarification, bookkeeping question. What is the buyers' credit as on December 31?

Arun Kumar GR: Yes, Sumangal, I think it is the same number as beginning of the year, same number as September. I can't recollect the exact number. It should be about Rs. 5,000 crores approximately.

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

Pinakin Parekh: My first question is on aluminum. If I look at Slide 31, which is basically the working of the cost structure of aluminum. If I remove the RPO credit of $132, on a Q-on-Q basis, the underlying cost improvement is just only $30 per tonne. I am just trying to understand that if captive bauxite or if bauxite availability has improved and coal availability from Coal India has improved, why are we not seeing a larger cost reduction in the aluminum segment? Because ex-RPO, there does not seem to be much of a cost decline on a Q-on-Q basis?

Arun Kumar GR: Pinakin, I think I will leave the larger picture to Ajay and Venkat, but it is about $120 or so is the margin you noted on that page. And as I mentioned earlier, December and January are even tracking lower than the quarter average as the cost are sinking as we speak. So Venkat and Ajay.

S. Venkatakrishnan: In fact, I have actually covered that in my presentation, Pinak, in terms of what our December cost on aluminum has been, that's around $1,576 a tonne. And it is actually tracking in that range or lower potentially going into January. Ajay can add any comments you have. Ajay?

Ajay Kapur: Yes, Venkat, thank you. So essentially, when we look at the cost from quarter three 2020 versus quarter two, there has been a substantial reduction. I mean, we have reduced in power, alumina, carbon, I think, more in alumina and power and another $26 in carbon. And as we tread towards January, as Venkat rightly mentioned, we are actually going more towards our design cost. So my fingers are crossed, but I know we are going more towards the design cost.

In terms of initiatives, we have seen a lot has come out of alumina, where we have ramped up the production at Lanjigarh to 476 kt, which is 65 kt higher. There has been an improvement on COP by about $25 to $269. Logistics has been optimized by about 5%. And then when I look at coal, our coal basket has also reduced by about 7% to 8%. There has been an improvement in power plant parameters, especially our SCC, which has been also improved by about 3% and auxillary power has also been further improved by 15%. And then, of course, on top of it, non-coal cost, which has come down due to the RPO impact. And the reliability of the power plant operations have also been much better.

Pinakin Parekh: Sure. My second question is on the oil and gas. I mean, we understand that the company is maintaining its production exit guidance for the March quarter. I mean, earlier, there used to be a cost per barrel number which used to be given out, but we now don't have that number anymore. Can we get a sense of where the cost of production is in the Cairn asset and how this will trend once the expansion is in place and given all the EOR activities that are going around?

Ajay Kapur: Yes. We are around $7.50 per barrel. And as all the ramp-up happens with the surface facility in wells getting hooked up, we should be in the range of about $6 to $6.50. It will go down.

Pinakin Parekh: It will go down over the next one year or should it happen once we hit that March exit number?

Ajay Kapur: It will happen once we hit the March number because then it continues.

S. Venkatakrishnan: And Pinakin, just for the record, quarter three over quarter two, the aluminum cost, all the good work that Ajay Kapur mentioned as a number of $152 per tonne, if you look at Page 31. And you can further read between the lines when you are seeing the December run rate is better than the average, and January is better than December. So I will leave it at that. Just the bottom line is more than $150 improvement in one quarter without any RPO one-off.

Moderator: Thank you. The next 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 Gamsberg. There were some news flows that you were doing environmental assessment for smelter in Gamsberg mine. So what is your view on that, especially now that TC/RC margins are at the decadal highs?

S. Venkatakrishnan: I can pick that up here and then Deshnee can come in. This is part of our long-term vision in terms of Gamsberg, in terms of getting it up to around 600,000 tonnes per annum and further. So it is part of that exercise of actually doing the environment study and basically get everything in ready. At the right opportune moment, we can actually look at the options that are available here. So that's just continuation and work in progress. Deshnee, anything to add?

Deshnee Naidoo: Nothing to add, Venkat. It is just part of the process. And coming back to the point of TC/RC, this is why it makes sense to be an integrated metal producer so that you do have the effect of the

TC/RC. So I think the group philosophy is what we want to unlock in South Africa. And again, why we are excited about it is because we want to repeat the model Hindustan Zinc here.

Indrajit Agarwal: No CAPEX on this over the next 6, 12 months?

Arun Kumar GR: I think we will come back when we have a real correct feasibility here, and you should look forward to our April release for the annual guidance on CAPEX.

Indrajit Agarwal: Sure. Second question from my side. If we look at your gross debt breakup that you gave for entity wise gross debt, we have seen gross debt increasing for both Cairn and Zinc India. I understand that the net debt has not increased, but what is the reason for raising debt in these two entities? Because from what we understand, the EBITDA generated from there, will be more than sufficient to address the CAPEX.

Arun Kumar GR: That's right. This is just sort of treasury at play in the sense that zinc you have a positive arbitrage, helps you earn a few bucks extra. If you see, we did it even last year around the same time. And as far as Cairn is concerned, it is just financing the projects in advance through a loan, while we preserve the cash at the Vedanta Limited, simply because of foreign currency loan, and you have the future foreign currency cash flows to service it. So it is really purely treasury planning. Otherwise, as you rightly observed, the net debt is not impacted. On the contrary, the net debt has come down this financial year by nearly Rs. 3,500 crores so far. And as I alluded to quarter four being a positive cash flow, you can expect more of that. But, yes, more important point being the net debt-to-EBITDA will continue to be below one.

Indrajit Agarwal: Sure, that's helpful. And last, on power, we have seen Talwandi Sabo generation declined this quarter. Any specific reason for that? Or this should bounce back sharply in the fourth quarter?

Ajay Kapur: This is basically seasonality. And as you know, Talwandi Sabo is directly linked with the requirement of State of Punjab. Our availability was very high, but PLF, obviously, is dependent upon what the government pulls. But as far as financials are concerned, we get paid for our availability.

Moderator: Thank you. The next question is from the line of Tejas Pradhan from Citigroup. Please go ahead.

Raashi Chopra: This is Raashi here. Just a few questions from me. One is, on the aluminum cost of production you have explained quite clearly how it is come down from $1,850 to $1,690. So I just wanted to check the next $100 decline that we have seen, where is the bulk of that coming from? That's one. Second is, you mentioned, I just wanted to reconfirm this, that the Skorpion refinery should restart in February. And the third is that the Capex target for this year is $1.2 billion, if that's correct, then how much has been spent in the first 9 months?

S. Venkatakrishnan: Okay. Three parts on that. One, you mentioned about the aluminum cost of production as to where the further $90 reduction is going to come from. It is going to be a continuation of what we have done, and we have been at this, but Ajay can provide more details. The Skorpion refinery restart, that's absolutely right. But as we said, we will be watching the performance of the pit as well, given the slope failures that we are actually seeing. And finally, the third question was, if you can repeat that again?

Arun Kumar GR: Guidance. Yes, just about $1 billion or a shade less. So we will be well within our guidance as we are committed.

S. Venkatakrishnan: Ajay, anything you want to say on aluminum on the last $90 of cost reduction coming through?

Ajay Kapur: Yes, Venkat. So essentially efforts on coal-linkage materialization, optimization of logistics from mine to the plant. A loss on quality, which is something which you can manage, which we are doing well now, further work on carbon and logistics for processing cost. And I think overall improvement of plant parameters and general manufacturing excellence program, which we have carried on is now really showing returns. So basically, we have about 25 project managers across our factories, and these guys are running a program on manufacturing excellence, which I think is now showing much higher asset availability, much more productivity and much, much better utilization of resources. And this will continue. And it won't stop at $1,500, I think it will go below that.

S. Venkatakrishnan: Absolutely right, Ajay. And we are also getting tailwinds in terms of the input costs coming down, alumina cost is coming down as well, and we are starting to see benefits from some of the input costs. So it will actually help us get below $1,500 a tonne and progressively reduce the cost further.

Raashi Chopra: I am not sure some of the CAPEX you said, $1 billion is done for nine months?

Arun Kumar GR: A shade under $1 billion is done. So we will be under $1.2 billion.

Moderator: Thank you. The next question is from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.

Ashish Kejriwal: I have three questions. One, this is on Vedanta Resources. Is it possible to share when can there be an interest payment scheduled for Vedanta Resources? That's number one. And secondly, are you hearing anything or are you in touch with the government for any possible stake sale in Hindustan Zinc? And thirdly, despite nothing happening on Talwandi Sabo, we have seen the net debt increasing by around Rs. 900 crores quarter-on-quarter. So is it because of a sharp increase in debtors, and we are facing some issues over there?

S. Venkatakrishnan: Sorry, with regard to Hindustan Zinc, we welcome the news from the government in terms of actually them looking at meeting some of their fiscal targets by the divestment of Hindustan Zinc. So that process, hopefully, would commence. And we are yet to receive the details, and we will review it at that stage. That's the response in terms of Hindustan Zinc, but we certainly welcome that. Because I think this goes into the fundamental objective, which our Chairman has been articulating, which is government shouldn't be in the business of business, and I think this is a very good opportunity, and it opens up the market for more public shareholders to buy in to this excellent growth story. And I think that's how one should look at it. Then with regard to the other two questions, the resources one, Arun, do you pick it up?

Arun Kumar GR: Yes. On the net debt quarter-to-quarter, as I covered in my talk track, it is sort of unwind that we had seen forecasted in quarter two itself. The larger picture is what I painted in quarter two, where working capital excellence project has delivered very well for us with some permanent reduction in inventory levels. The power data collection at Punjab, Talwandi as well as some old tax collections. So the whole project is starting to pay dividends for us as well as tight capital control leading to positive cash free cash flow, which is what we have indicated for the whole year as well. As far as VRL is concerned, we don't publish an interest schedule, but it is sort of during the year, there is no lumpy payment, if that's what you alluded to, but probably on another call. Thanks.

Ashish Kejriwal: Is it fair to assume that this year Vedanta Resources will not have any lumpy interest payment?

Arun Kumar GR: It is very fair to assume. Vedanta Resource doesn't have any lumpy repayments still mid-2021. It is just a normal interest service.

Ashish Kejriwal: Okay. Sir, I was looking at the more of an interest payment only rather than repayment schedule or something.

Arun Kumar GR: Thanks, but it is getting lumpy.

Ashish Kejriwal: And sir, lastly, on net debt number only. Although we are comparing our net debt, including Hindustan Zinc's cash, but if we exclude Hindustan Zinc's cash, our net debt still remains almost high at around Rs. 43,000 crores, which is almost the same which we have seen in the last one year. So what I am trying to look at is, do we have free cash flow, excluding Hindustan Zinc, to pay dividend on a higher side or is there something which you are missing?

Arun Kumar GR: I think we don't have the numbers nor we disclose the numbers in terms of the stand-alone. But the point really there is that with the Aluminum business looking up at both Venkat and Ajay covered quite well, it is starting to make some really good positive cash flow there. And combine it with the oil and gas, which has always been positive cash generator post the CAPEX requirements of that sector, one should assume that excluding Hindustan Zinc is a very strong entity with the positive cash flows as well as to the exact division of the dividends, that will be best left to be Board at the right time.

James Cartwright: Operator, I think we have got time for one more question, please.

Moderator: Sure, sir. We will take the last question from the line of Amit Murarka from Motilal Oswal. Please go ahead.

Amit Murarka: Just a couple of questions on the oil and gas business. One, on the one-off benefit that has been recorded, I mean, the notes records mentioned that it is not applicable to the joint venture partner. So what does it exactly mean? I mean, the reversal has been fully booked by you and not shared with the joint venture partner. Is that correct?

S. Venkatakrishnan: No. What it basically means is that there could be more to come in the next few years, which is fundamentally the government share of profit petroleum, which has not yet been booked as a reversal, pending a few clarifications that govern. But otherwise, the joint venture partners are all there.

Amit Murarka: Okay. And the second question is, again, on the oil and gas business. So the PSC extension comes into play this year. As part of the PSC extension, I believe the government share of profit petroleum is rising to 60%, is that correct?

S. Venkatakrishnan: I think this is still a matter for discussion and negotiations with the government. I would rather have those discussions first before we actually comment on that. But certainly, we have got the conditional extension in principal approach.

Amit Murarka: But by when will the clarity be achieved on this, given that now that we are just like, three, four months away from that date?

S. Venkatakrishnan: Ajay can come in. But certainly, we are working with the government, and we expect the clarification to come through relatively quickly, but Ajay can actually clarify.

Ajay Kapur: Yes. I would say nothing more to add. We are giving the draft for signing. And then as a part of the process, it will be clarified.

S. Venkatakrishnan: Yes. And it is just a normal extension, like how we got it in offshore. So I don't see any aspects or delays in this regard, it is just the process that we have to go through.

Amit Murarka: Extension is not the question; it is about the profit petroleum. I mean, if it goes to 60%, that could impact the EBITDA from the oil and gas business.

Arun Kumar GR: I think what Venkat and Ajay clarified is that as per the terms of the PSC, it is an automatic extension with no increase. However, there is a matter which will be sorted out with the government. And as we have alluded to in the previous calls, all our investments are done very conservatively with high IRRs of an average of 35% at 40 Brent, taking into account even an extra 10%. So we are very, very well hedged in terms of the investments of oil.

James Cartwright: Great. Thank you very much, everybody, for dialing in today. I would also like to thank all our CEOs and business heads dialing in from around the world as well. With anyone with any further questions, please contact us at Vedanta Investor Relations. Our details are on the last page of the release. I will stop there and pass it back to the operator to close the call. Thank you.

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.