“Vedanta Q3 FY'21 Earnings Declaration Conference Call”

January 29, 2021

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Moderator: Ladies and gentlemen, good day, and welcome to the Vedanta Q3 FY'21 Earnings Declaration 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 now hand the conference over to Mr. Arun Kumar -- Chief Financial Officer of Vedanta Limited. Thank you, and over to you, sir.

Arun Kumar: Thank you, operator. Good evening and good morning all the participants in today's call. A very warm welcome to the Q3 Earnings Call of Vedanta. It's my pleasure to introduce Mr. Varun Kapoor, who has joined us as the IR Head of Vedanta. I now hand over the call to Mr. Kapoor to introduce himself and conduct the rest of the proceedings. Thank you.

Varun Kapoor: Thank you, Arun and good evening everyone. I am Varun Kapoor and I have an overall experience of about 18-years primarily in oil and gas and earlier in equity research. I've been with the Vedanta group for about 12-years now. I look forward to a fruitful engagement with all stakeholders in the coming quarters as the company is well positioned to deliver growth through the cycle.

So with that, I will request our "CEO -- Mr. Sunil Duggal to Present the Results." Over to you Mr. Sunil.

Sunil Duggal: Thank you, Varun. Good evening, ladies and gentlemen and welcome to Vedanta Limited Third Quarter FY'21 Earning Conference Call. Before we commence detail update on Q3 performance, I would like to provide overall broader perspective. India is entering into a golden era with projected growth at 11% to 12% with commensurate higher commodity growth and it finds Vedanta in a sweet spot being a diversified portfolio with production ramping up across our assets.

Some of the top achievements of the business in the quarter are, EBITDA at Rs.7,695 crores, up 18% YoY, highest quarterly performance for the last more than two years, industry leading EBITDA margin of 39%, highest in the past four years. Aluminum sustained lower cost of production and highest EBITDA margin of 28%.

Hindustan Zinc, highest ever quarterly ore production of 4 mt, ever lowest underground cost of production in current year. Hindustan Zinc ranked "First" in Asia Pacific Dow Jones Sustainability Index in Metal and Mining sector for the Third Year in a row. This is best feat achieved by any Indian company.

Zinc International -- Gamsberg highest ever production of 43 kt. Electrosteel -- Ever highest hot metal production of 372 kt. Pig Iron -- ever highest margin of $129 per ton, A landmark achievement -- 2,000 Nand Ghar became operational.

Q4 looks more robust with high focus on pulling all levers to drive value for stakeholders. Aluminum poised to deliver ever highest production. March exit could be 2.2 mt and sustaining the cost trajectory. Hindustan Zinc inching towards 1.2 mt run rate at $900 per ton, silver beating guidance. Gamsberg ramping up to achieve full potential in Q4. Cairn, new gas facility commissioned. Production ramped up by 15,000 barrels per day. Surface facility and liquid handling facility to add 12,000 barrels per day. Polymer injection ramp up going on.

Capitalizing opportunities in iron ore Goa. Pig Iron margin improvement through efficiency and enhancing projects in our largest blast furnace.

Electrosteel -- Maximization of value added product, EBITDA contribution. FACOR, our newly acquired business -- 3x EBITDA contribution in Q4.

I would like to express my deep gratitude to all our employees who have worked hard to deliver yet another strong operating quarter.

This year has been incredibly challenging and has uniquely tested the strength of the business and our ability to adopt and work together in extraordinary circumstances. This is a testament to the resilience and dedication that Vedanta has safety maneuvered. These unchartered conditions and emerged out stronger. We have confidence in being able to deliver our best by relying on our exemplary talent pool and asset base.

Continued focus on cost discipline and efficiencies. Commitment to our core values around safety, environment and social responsibility.

Vedanta is at an exciting transition, a transition that would see the company accelerate in the expansion of its reserves and resources base over coming quarters. This exciting period for us is augmented by a strong presence in India.

Commodity prices, particularly the base metal and silver, extended their gains in Q3, touching multi-year highs on the back of strengthening Chinese economy, ample cheap liquidity and buoyant sentiment across about vaccines.

Crude oil prices also made handsome gains from the start of November on the back of voluntary production cuts by OPEC plus. To balance market fundamentals, prices of iron ore and steel in India remains extremely bullish. Festive season brought a cheer to the industrial sector.
Passenger vehicle sales continued to grow in October and November. Finished steel consumption of coal offtake, electricity generation, all registered positive growth in Q3. The recovery during the rest of the financial year is likely to be fueled by the government final consumption expenditure, which is likely to grow 17% YoY in H2 vis-à-vis 3.9% in H1 of this fiscal.

A progressive and forward-looking union budget is likely to focus on infrastructure spending and incentivizing industrial production, would augur well for base metal and energy commodities.

Now, let us turn to the "Key Highlights of the Quarter." Our aluminum business continued with its strong performance in Q3 with hot metal cost of production down 18% YoY at $1,387 per ton and the aluminum cost at $249, down 7% YoY with a sustained high EBITDA margin of 28%.

In our zinc business, we remain on track to become the world's largest integrated zinc, lead, silver producer, while maintaining our cost leadership with a strong operational performance from Hindustan Zinc and increased volume from Zinc International. We witnessed highest ever ore production of 4 mt in Zinc India, supported by record mine development of 27 kilometers in the quarter.

We are at the lowest nine-month cost of production at $958 since transition to underground. Our silver production at 183 tons is soaring 23% YoY on account of higher lead production.

We are also very happy to share that we achieved the highest ever production of 43 kt, up 39% YoY at Gamsberg in our Zinc International business.

In our oil & gas business, we are pleased to announce that the new gas terminal is online, ramping up the gas production by 15,000 bpd. We have made considerable progress in our iron ore business with its EBITDA increasing significantly this quarter. We have capitalized the opportunity to increase Goa sales by 3x YoY. Our pig iron margins have increased sharply from $24 per ton in Q3 to $129 per ton, supported by global prices.

We achieved the highest ever quarterly hot metal production of 372 kt since acquisition of our Electrosteel business, with a robust margin of $111 per ton, supported by increase in value added product mix from 71%, 85% QoQ. Our key growth projects are back on track and the expansion is being delivered through strict capital allocation and balance sheet focus, aimed at creating value for our stakeholders.

Continuing with the trend started in Q2, our Q3 EBITDA is at Rs.7,695 crores, up 18% plus QoQ, highest in more than two years and with a robust EBITDA margin of 39%, highest in last four years.

It is worth highlighting that this has been achieved in what can still be seen as a challenging environment.

Attributable PAT at Rs.3,017 crores, up 51% QoQ. Net debt at Rs.35,357 crores with net debt-EBITDA ratio of 1.5, maintained at low level indicating its strong balance sheet. Liquidity position with total cash and liquid cash investment of Rs.27,055 crores.

Before we start with the operational and financial details, I would like to give an "Overview of our Health, Safety and Environment." Our environment management, our focus remains on meeting the vision of zero waste, zero discharge. In this regard we have undertaken a group environment risk assessment study and have initiated an environment dashboard for improved governance of concerning parameters. We have implemented plastic-free protocols across three businesses. The improvement in Dow Jones Sustainability Index ranking certainly encourages us to take further steps in the right direction. We are proud to announce that 2,000 Nand Ghar as a part of Vedanta's flagship CSR project has touched a new milestone in transforming lives of India's women and children.

A group of carbon forum has been initiated. Vedanta has signed the Carbon Neutrality Pledge along with 24 other private companies. We are leading the India CEO Forum for climate change, which is designed to chart a roadmap and share challenges for companies and government bodies. We are committed to reduce GHG emissions intensity by 25% by FY'25 and substantially decarbonize operations by 2050. We are in the process of developing low carbon solutions and piloting projects that focuses on saving more energy and fuel.

Now, if you come to Slide #2, throughout the COVID-19 pandemic, our foremost priority has been to ensure safety of our employees, business partners, communities, along with maintaining business continuity. Vedanta has conducted COVID vaccination program for our health worker staff in partnership with district health administration. We are deeply saddened by the loss of three lives at our Gamsberg and TSPL operations. Our business has taken further measures to ensure safety. We aspire to have strong zero harm vision and are taking steps to achieve this goal.

During the last quarter, we launched a critical risk management pilot initiative at our aluminum business. We have initiated a group wide ICAM training for better learning from the fatalities. In line with improving the design adequacy, we are doing a group wide review of LOTO and permit to work.

We have initiated a safety dashboard for tracking safety actions closer, and cross business safety audits. We are having significant gains in implementation of our safety programs and aim to further fine-tune our safety roadmap to carry out best-in-class practices.

Now, if you refer Slide #3, and turning to the "Business Verticals", first on Aluminum. In our Aluminum business, we yet again saw a good quarter in terms of our aluminum production and cost. LME Aluminum looked up for most part of Q3 with an average of $1,916 per ton, up 12% quarter-on-quarter. To continue team efforts, we will continue to run our supply chains and operations well and expect supportive trends to continue. Our aluminum hot metal production for Q3FY '21 stood at 503 kilo tons, including trial run, up 6% quarter-on-quarter with a record nine months cost of production at $1,315 per ton, down 26% YoY, and lowest in the last five years. Consequently, we also witnessed stronger EBITDA margin of $565 per ton in last five years with the completion of the quarter. The alumina production is at 407 kt, 12% down sequentially. Due to equipment availability issues, the cost of production at $249 per ton.

Now, if you refer to Slide #4, the aluminum segment made significant progress in its structural cost reduction journey across its strategic key levers. In the past few quarters, we have brought down our hot metal costs in the range of $1,300 to $1,350 per ton, primarily driven by our lower Lanjigarh cost of production through operational excellence, optimized local and global bauxite source mix and regulatory changes like reduction of renewable power obligation.

We benefited from commodity tailwinds across lower alumina and carbon prices and lower e-auction coal premiums. For long-term coal security, Vedanta had bid for and won the Radhikapur West Coal Block recently. We have now signed the Coal Mine Development and Production Agreement with the Government of India for this block. The operationalization of our captive and commercial coal block at Jamkhani and Radhikapur respectively will be one of our key focus areas and key levers.

Line 6 of Jharsuguda, smelter 2 is also undergoing ramp up currently, and about 150 ktpa additional run rate has already been achieved. The volumes will show up in coming quarter as we stabilize the production. We are focusing to expand Lanjigarh from approximately 2 mtpa to 5 mtpa and similarly ramp up further volume at Jharsuguda, both subject to obtaining required government approvals.

The improving vertical integration will help us in our sustainable cost reduction journey. As a strategy, we are focusing to increase our captive alumina mix and local bauxite mix, operationalize our coal blocks and target to significantly reduce our costs to $1,200 per ton over the next two to three years.

Now, if you turn to Slide #5 and coming to our lead, zinc and silver business, which is one of our key pillars of Vedanta, Zinc India is delivering consistently on volumes despite the challenging time, and has achieved a few milestones this quarter. Our MIC production was 244 kt, up 4% YoY while the metal production was 7% up YoY at 235 kt. We are on track to achieve the guided metal volume of 925 kt to 950 kt as well as expect to keep off well below $1,000 as indicated towards the end of first quarter of FY'21. Our nine months to-date cost is at $958, down 10% YoY. It is at the lowest level since transitioning to underground in 2018, and we further aim for the near-term target of $900 per ton. We plan to leverage volume and efficiencies to maintain first decile CoP by structural initiatives on digital transformation in all of our underground mines, energy basket optimization, minor metal extraction, among other levers of efficiency and productivity.

Our current production run rate gives us confidence to deliver 1.2 mt from near-term fiscal and projects to eventually reach to 1.5 mt. We are focusing not only on increasing production from our existing resources and enhancing recoveries via technology, labor, disciplined operations, but also on working towards setting new mining zones and partnerships.

Now, if you turn to Slide #6, in addition to being a global leader in the zinc and lead business, we are soon to get a similar position in our silver business. We expect to be among top three silver producers and the largest integrated silver producer globally in the next two to three years.

The volumes have more than doubled in the last five years, and at completion of this quarter, we recorded highest ever nine months silver production of 503 tons. We are likely to achieve the target of 650 tons this year and are planning towards the production of 800 tons in near future, with medium-term goal of 1,000 tons, driven by higher mining rate and silver recovery initiatives.

Turn to Slide #7, and moving to Zinc International. The performance at Gamsberg mine has been very encouraging. We recorded the highest ever production of 43 kt, up 39% YoY and 23% QoQ with the cost of production at $1,267 per ton down 10% YoY. In Q3 several best demonstrated monthly performances were achieved, including mill throughput, recovery and plant availability.

Production at the Gamsberg mine was suspended due to geotechnical failure, but mining was re-commenced in early January, after a comprehensive risk assessment. Steps are being taken to avoid occurrences of such incidents in the future.

We continue to ramp up the Gamsberg site, which is on track to reach its design capacity soon. We aim to exit Q4 with an average daily production of 600 tons, and target recovery of 82%-plus, supported by identified debottlenecking opportunities, which will improve the reliability and sustainability of the plant.

Black Mountain mine produced 16 kt MIC in Q3, an increase of 1% QoQ. Skorpion Zinc mine and refinery remains under care and maintenance following geotechnical instability in the open pit. Overall, cost of production at $1,317 per ton, down 17% YoY due to better recoveries, cost control measures, offset by exchange rate appreciation.

Significant production improvement initiatives like blending of transition ore, Swartberg lower ore body recovery. Recovery improvement initiatives are underway along with continuous focus to reduce costs.

Turn to Slide #8, on Oil & Gas business now. We are happy to share that the new gas terminal is online, and CHL commenced in Q4 ramping up the gas production by 15,000 bpd. Gross oil production for the quarter was 160,000 bpd as compared to 165,000 bpd in Q2. This is mainly due to the delay in execution of growth projects and natural reservoir decline in the field. This is partially supported by new wells drilled as part of growth projects. 249 wells were drilled and 131 are hooked up. The operating costs are at $7.6 per barrel versus $7 per barrel in Q2 FY'21. This increase is due to increase in work over activities.

MBA Infill and Polymer Project. All 87 wells are drilled and are online as we speak. Polymer injection in Bhagyam and Aishwariya is being ramped up gradually. All wells in Aishwariya, Barmer Hills are drilled. The surface facility work shall complete in the current quarter, leading to an increase in volume from 8,000 bpd currently to 15,000 bpd. Liquid handling upgradation project is expected to be completed during the current quarter, leading to an increase in volume by 5,000 bpd. We plan to exit the next quarter with a gross production of 185,000 bpd and

FY'2022 with a gross production of 220 bpd. The volume growth shall be driven by two factors -- increasing recovery and new exploration targets.

One of the key enablers for increasing recovery shall be early adoption of digital opportunity, digital transformation with modern analytics platform and powering data-driven decision can bring significant improvement and recoveries. It can enable focus on preventive maintenance, and management of integrity of our wealth and facility.

Moving on to exploration in OLAP, we have drilled the first well in Rajasthan now. The discovery has been notified and we are further evaluating the results to establish the potential, which we will bring online with a modular concept. Drilling of wells in Assam and Cambay is expected to begin during the quarter. In respect of audit exception, the arbitration tribunal has granted interim indenture. Tribunal directed the Government of India not to take cohesive action to recover the disputed amount of audit exceptions, which is the subject matter of arbitration. The Government of India has challenged the said entry model before the Delhi High Court. The challenge is now listed on 12, February, 2021.

Move on to Slide #9, and moving to Iron Ore Business. Our Iron Ore business performed very well with its EBITDA increasing significantly from Rs.256 crores to Rs.570 crores this quarter. In Goa, we clocked sales of 0.6 mt taking the YTD sales to 1.3 mt and it was well supported by rising global prices. The increase in sales was an effect of mobilization of 1.1 mt stock post-Supreme Court judgment and beneficiation of low grade ore through our facilities.

We also strategically sourced 0.5 mt in 24th DMV auction in November ‘20. Further, for the resumption of mining in Goa, we are continuously engaging with state and central government, with the support of people adversely impacted by Supreme Court statewide ban.

The Pig Iron production was 145 kt because of the temporary shutdown taken for maintenance and efficiency improvement.

We hope to elevate the margins by $10 to $15 in the near-term once these enhancement activities are through. Our value-added segment greatly benefited by domestic steel prices and international coal prices. It has achieved highest ever margin of $129 per ton, up 53% QoQ compared to $84 per ton in Q2 FY'21. Mainly, it was greatly aided by strategic procurement of iron ore through e-auction and third-party and captive consumption of Karnataka iron ore. Karnataka production is at 1.4 mt, up 21% YoY, though the sales were down 21% YoY at 1.2 mt, 10% down sequentially due to temporary logistic issues. The margin was supported by ever highest domestic iron ore prices in Karnataka.

Turn to Slide #10. Our Electrosteel business recorded highest ever quarterly hot metal production of 372 kt since acquisition with a robust margin of 22% at $111 per ton, highest in FY'21 on account of improving macro factors and steel prices. The business has achieved design run rate of 1.5 mt hot metal production this quarter. The sales were at 333 kt for the quarter, up

5% YoY and 23% QoQ with higher deliveries of value-added products by 47% this quarter, the VAP mix increased to 85% in Q3 versus 71% in Q2.

FACOR was acquired by Vedanta in September '20. At the time of acquisition, FACOR had a presence in the business of producing ferroalloys and owned a ferrochrome plant. The acquisition complemented Vedanta's existing steel business, as the vertical integration of ferro manufacturing capabilities has the potential to generate significant efficiencies and is helping Vedanta increase its portfolio in steel business. Since acquisition, we have operationalized and enhanced the production at both the mines. The production has increased by 38% with margin improvement of 145%, around 2.5x post-acquisition. We are now currently using 100% of the captive ore as compared to 50% utilization at the time of acquisition. The domestic market share has increased to 75% in Q3 post acquisition as compared to 35% in H1.

We also introduced e-auction of ferrochrome resulting in the NSR improvement of 20%. We have currently reduced cost by 5% with the near-term possibility to reduce it by 20%. The near-term focus is on 100% integrated production, cost optimization and discovery of price rises to improve NSR to leverage the medium term opportunity and tap true potential.

The Integrated Function, if you turn to Slide 11, we at Vedanta have always believed in the transformational approach to improve our performance. With a strong focus to further strengthen the contributing pillars of our business, we are bolstering our function with a game-changing initiative. One of the major shifts have been evolving our marketing and commercial function into an integrated structure, enabling us to simplify the buying and selling organizations, creating ore category expertise and unlocking greater efficiency. We have a vision of unlocking potential saving of $1 billion through this restructuring. The integrated function will act as a group captive center in charge of all buying across commodities, spares and services, and will be responsible for marketing and market development, while bringing the best practices in contracting, operational planning, and supply chain, digitization and eCommerce. It will be single phase for selling of key commodities and consolidated buying for majority spend across businesses, bringing in economies of scale and value-driven buying in line with the globally benchmarked best practices. The function will be strongly focused on strategic buying by bringing best-in-class partners and technologies, featuring aspects like process automation, through digitalization and touchless processes, eCommerce sales for connecting with SME and MSMEs. The group synergies will further help in optimizing our working capital, increasing our cross-selling opportunities with improved opportunity with new product development and market growth.

Now, you turn to Slide 12. We have always been a leading adopter of new technologies and we have now reaffirmed our priorities by launching a group wide digital transformation program called "Project Pratham" with a vision of transforming Vedanta Group into a truly digitized first organization and embedding digital in our DNA. The digital function cut across the Vedanta Group from manufacturing, that is mining, power, coal, oil and gas, etc., Commercial functions, procurement, marketing, logistics, etc., HS, SCQ, HSC, security, quality to other enabling functions like HR, Finance, ER, etc., The objective is to deliver a combination of tangible value in the form of driving volume, cost impact and other intangible gains such as zero harm to enhance safety and security, zero waste, zero theft, better governance, compliance, visibility across value chain, predictive capability and improved employee experience and productivity.

To bring about this transformation, focused digital roadmap has been created, supported by an organization design, focusing on augmenting capabilities in the area of digital, analytics and automation.

Project Disha is an integrated group wide Cloud-based data platform for predictive analytics and accelerated data-driven decision-making.

We also have ongoing project around smart manufacturing, advanced process control, integrated data and decision platform, unified HSE and HR platform, digital logistic control towers and quality automation.

In addition, we have also launched "Vedanta Spark" incubating global startups across our businesses. Our Vedanta Spark global startup platform and innovation cafes, we have created across all our businesses, which is helping, transform mindset and drive cultural change across our businesses. This initiative will increase cross-pollination opportunities in other businesses and all locations. The function aims to provide governance on complex initiatives at the center to debottleneck constraints and unlock value at a fast track.

Now, I would like to hand over to my friend, "Arun for the Financials."

Arun Kumar: Yeah, thank you, Sunil and good morning, everyone again. On the page "Financial" snapshot, you'll see, last quarter we talked about a good come back amidst a tough operating environment. Q3 has been all about sustaining that performance and predictability in both volumes and structural cost reductions, and of course, reaping the benefits of the favorable price scenario globally. We are now near normal as our most businesses in India and globally. Aluminum continued at its hot metal cost of around 1,300 per ton. Volumes on the six line in Jharsuguda also started to grow as we start commissioning that pot line.

Zinc volumes grew. And more importantly, development rates increased sharply. Gamsberg moved to higher production levels and nearing its capacity as we speak. Iron ore business making significant EBITDA contribution including from Goa. Steel business doing well. And more than tripling a margin at FACOR in the short period post takeover. Last, but not the least, all the oil growth projects are nearing completion in Q4. Collectively, we delivered about Rs.7,700 crores EBITDA, which is the highest in the last 11-quarters. The next 12-months or the near future as you would have noticed from the business section is all about gradual volume growth sustaining the cost structures and driving organic growth while allocating capital responsibly. This should help weather cycles and reap the benefits of the current upcycle. At Rs.7,700 crores EBITDA, it's up 18% both quarter-on-quarter and year-on-year. Margins at 39% again close to all-time highs. ROC at 13% continues to be in healthy double-digits. Attributable PAT before exceptional items and tax on dividend at about Rs.3,000 crores is 51% higher quarter-on-quarter and 35% higher versus last year.

No change in any of our guidance around the operating parameters. We believe Q4 will be a volume theme as the guidance numbers would suggest a 10% increase in volumes compared to the last nine months average.

As usual, we have a detail income statement in the appendix. However, some key updates on the income statement are as below: Depreciation lower year-on-year, majorly due to the impairment of oil and gas in the last quarter of last year. Again, as guided earlier, depreciation for Q4 will be marginally higher due to volume ramp-ups expected in zinc, Gamsberg and oil.

Finance cost is slashed quarter-on-quarter, average borrowing costs for the quarter are about 7.8%, not much change in that.

Investment income increased quarter-on-quarter as well as year-on-year primarily due to some one-time interest income from recovery of par debtors and tax refunds. Underlying earnings around 6% pretax to continue into next quarter as well, broadly in line with guidance.

Normalized (ETR), effective tax rate is about 27%. This is excluding the tax on dividend. Compared to the 29% last quarter and that will be sort of the guided number, but that's changed due to the change in the consolidated PBT mix with higher contribution from aluminum and zinc, the ETR is starting to tend down, so 27% can be more like guidance for the year as against the earlier 29%.

On the intercompany loan, there are details on the annexure page. The only update is that there has been a reset in the interest rate based on the external arm's length study. And technically, some fair value accounting entries have been passed including credit loss estimates. I refer to notes as part of the Reg.33 release. So two takeaways from an investor point of view is A), there is no more audit qualification; and B), the interest rate has been reset in sort of low double-digit level compared to the current 7% that we had based on the external study, which augurs well for Vedanta.

Moving on to the EBITDA bridge here on your page. It's self-explanatory. Better volumes, improved costs and we also read the benefits of deflation, depreciating currency and of course, the favorable price. The others bar is just the one half of the oil business revenue of booking of the past exploration that we did in the same quarter of last year. So it's a base year effect. In fact, excluding that number, the EBITDA growth is nearly 50%.

On the next page, we have the sequential EBITDA bridge. Again, very simple. It's a continuity of the last quarter. And it's fundamentally banking better LME while continuing to keep the costs well under control as well as continuing to deliver on the volumes.

Moving on to the net debt walk. The reported net debt on December 31st was about Rs.35,000 crores higher by about Rs.8,000 crores compared to the last quarter. While we made a positive free cash flow of Rs.1,550 crores increases due to the outflow of dividend as well as the intercompany loan, which we had already shared the updated number including October month during the last earnings call. So to be clear, there is no change or increase from the $956 million.

With tighter gross working capital including collections from par debtors, tax, likely to sign fresh prepays export advance at this time of the year, and in general, driving excellence through our working capital program management. Q4 should be typically a significant quarter with an expected free cash flow of anywhere from $750 million to a billion dollar in the quarter. So the net debt is expected to come down by at least Rs.5,000 crores, and the net debt-to-EBITDA back to around 1.0x is a level that we've held consistently for several years. The YTD growth CAPEX number is also about 350 million. Full year will be significantly lower than the guidance of 600 million that we had shared at the time of Q2 results. Again, that demonstrates tight allocation, though not at the cost of any volume growth, which I had mentioned earlier, should be close to 10% volume growth in Q4 versus the first nine months which if one goes by the guided numbers, and no change in that.

So that takes us to the last page in the section, “Balance Sheet.” Just a summary is that the key focus continues to convert short-term to long-term maturities, refinancing well in advance for any upcoming maturities not only at Vedanta Limited, but also Vedanta Resources that you would have seen in the quarter that just went by and use the cash to reduce the gross debt. Our focus this quarter will be to continue the engagement with the credit rating agencies to rerate upwards on the back of robust operations, improved group structure, thanks to the peeping done by the parent, as well as the strong price environment. As you notice, at least S&P at the parent level have changed the outlook to positive a few days ago. And given that the Indian rating agencies consider the whole group debt and structure, I'm sure we'll have fruitful engagement in this direction in the next couple of months.

To sum up, we have delivered a steady and predictable quarter and sustained all operational gains while benefiting from the market prices. This really sets up a good foundation for a strong finish in Q4, and given the volume growth I talked about, one can easily call the direction of the EBITDA. Not only that, we will have FY'22 guidance during the Q4 earnings and we do hope to see the momentum continuing into the next fiscal year as well. Thank you.

With this, I hand it over to “Sunil again for his Final Wrap Up Comments.”

Sunil Duggal: Thank you, Arun. Before we open the floor for question-and-answer, I would like to reiterate our strategic priorities that will drive long-term value for all stakeholders. One, ethics, health and safety and our social license to operate. Two, expanding our reserve and resource base in a sustainable manner. Three, delivering the best from our assets and people with a focus on cost leadership. Four, continued track record of delivering value-added growth in all of our businesses. Five, strict capital allocation and balance sheet focus.

Now I declare the floor open for question-and-answer. Over to operator.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: A couple of questions from my side. First on aluminum cost of production. It has increased by about 8% to 9% on a sequential basis. So what is our outlook from here on, how should we look at the elements in fourth quarter and heading into FY'22?

Sunil Duggal: Thank you for the question. I have my colleague Ajay also on the call, but before that, the cost has gone up slightly and it is a factor of the aluminum LME also. As you know that we import the alumina and the API index drives this cost. And apart from that, it depends on the coal costs, depending on our linkage materialization and the auction coal. But going forward, as we said in the call, that we have the structural measures in the pipeline where we are securing local bauxite from Odisha, but also as we said that Jamkhani coal block and Radhikapur coal block and we are also participating in the coal auctions, by way of which we feel that we will be able to drive the cost in a structural manner. And we will have the sustainable cost curve going forward, but over to you, Ajay, whatever you want to add.

Ajay Kapur: Yes, thank you Mr. Duggal. I think more or less you've added the main elements. I will just reiterate. Structurally, our power plant operations have also undergone improvements. And we continue to work with the best-in-class business partners, which was also mentioned by Mr. Duggal in his opening, that itself gives us some advantage in the costs. On top of it, our coal cost for the next quarter, most of the auctions have already been purchased in this quarter. So, I don't see major headwinds coming on the coal side. Yes, because of higher aluminum, the imported alumina has gone up. That's the reason you see that cost increase. We are also working in improving the local bauxite mix. And that on top of other measures I mentioned on the power plants, I'm confident our cost and EBITDA per ton trajectory should more or less be in the positive direction.

Indrajit Agarwal: The sense I got from the call is, we are embarking on most of our next phase of growth projects, be it aluminum or zinc. So I understand you will not give a guidance specific now. But next year's project CAPEX or growth CAPEX is significantly higher than this year?

Arun Kumar: Let me give a overall color on that. As you see, Zinc sector has reached the end of its CAPEX cycle. So it's all about delivering and realizing the 1.2 million at Zinc India and Gamsberg really performing to peak as this year was a ramp up to the peak as we speak now. And oil again, all these projects are coming to fruition. So we can expect much next year unless the ASP project is one that needs to be launched which has huge volume potential. And apart from that aluminum is so well placed, that line six or something that we talked about earlier, delivering volume which is a very small thing. And we've always maintained that the right time for refinery expansion in Lanjigarh will come when the EBITDA is good and clear visibility on bauxite. So let's look forward to this space in the near future. And apart from that we will give the guidance at the end of the Q4 results. And we've always had a range in terms of CAPEX. So we will come up with that number. And the better part is whatever guidance we give at the beginning of the year in the last five years we've always delivered in a very disciplined way below guidance.

Sunil Duggal: Just to add, we are on a drawing board evaluating different opportunities than what could be the near-term opportunities especially through digitization, efficiency improvement, APCs, debottlenecking of furnaces, unfinished projects where the marginal CAPEX could be spent, maybe the aluminum parts which have done, so how we can spend a little CAPEX to ramp it up. So various opportunities we are trying to evaluate. And based on the quick IRR or the quick return or maybe the volume addition opportunities next year, we are evaluating that. But as Arun said that we will come back by the end of the quarter and let you know as to how we are going ahead in the next year.

Indrajit Agarwal: Lastly, on the Videocon acquisition, will it be on our books or on the parent books, and if so, what kind of investments or new CAPEX can we look forward for that?

Arun Kumar: See, the Videocon acquisition right now is done by the parent at the promoter level. So if there is any update or any involvement of any Vedanta group company in future then we will update at that time. Right now we don't have any updates on it or any information.

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

Sumangal Nevatia: The first question is on the capital allocation and dividend. This year we've passed on almost one-third of the dividend we received from our subsidiary, Hindustan Zinc. Any thoughts on passing the remaining two-third? And a follow up to this is, till when do we have the tax shield of the double dividend tax avoidance in case we choose to defer to next year?

Arun Kumar: This question has been raised in the earlier earnings call. I would defer to it as a board decision in terms of how much dividend to declare or not to declare for Vedanta Limited. And, as a reminder, the dividend policy is very comfortable dividend policy, yet, at the same time it gives enough flexibility to retain the sums of money as required by Vedanta Limited. In the last five years of trend, the Vedanta Limited has been one of the highest dividend declaring companies in the corporate sector with a dividend yield of around 9% on an average. In terms of the tax, the way it works is that the ability to offset it against the carried forward business losses or depreciation is available. And we have adequately used it in a very tax-efficient manner for this year. And in future for FY'22 we will certainly update at that point of time, what are the losses available and how we are utilizing them or optimizing on the tax outflows.

Sumangal Nevatia: The next question is with respect to our fundraising and balance sheet, as you shared, we are generating good free cash and our net debt-to-EBITDA is also reducing, I just wanted to understand the rationale as to why we have raised that around Rs.10,000-odd crores from SBI and beside strong balance sheet, had to measure Hindustan Zinc stake, so I just wanted to understand the rationale and where have we used the total?

Arun Kumar: Again, I think we did address it in the first quarter earnings call. I think, strong balance sheet is absolutely true, while at the same time as is typically called, there will always be certain asset-liability mismatches. If you recollect early in the fiscal year, the COVID impact with the downcycle in the metals, as well as inability to access the capital markets, especially where there was a lot of short term exposure is what led to that long-term loans. Those were the conditions negotiated at that point of time. And as the need was there, I doubt if any such conditions would be required. In fact, as I mentioned earlier, we do plan to reduce the net debt by about Rs.5,000 crores in the coming quarter. I hope that answered your question.

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

Amit Dixit: I have two questions. The first one, if you can clarify a bit more on note #7 in which there is expected credit loss also. Is there a possibility of except credit loss, if so, why because we are giving it to our parent this money?

Arun Kumar: So, the expected credit loss accounting is absolutely a very technical accounting. And something that we also kind of learned it is akin to a general provision created by a bank or an NBFC when you lend to a group of people. So, apparently thousands of transactions have been collated and some financial model and this kind of provision has been necessary. However, as and when the parent keeps repaying it, I see that this entry should get reversed. By the way, when we reset the interest rate in January, the entire reserve accounting will move away. So it has no impact on EPS per se at this point of time other than very small impact or on the profitability, the net movement on the interest line for the last six months is about Rs.30 crores, Rs.40 crores positive, if at all in terms of the additional interest more than offsetting the ECL. So for a moment, I'll park it as very technical accounting. There is no real loss. As most of you are from the banking and NBFC background, you would understand that these are apparently statistical provisions being created.

Amit Dixit: The second question is essentially on the free cash flow guidance that we have given for Q4. Given that we are going to have a fairly robust cash flow and our CAPEX is also quite well rounded at this point in time, so how do you intend to use this cash flow and possibly for the next year -- will it be towards repaying your debt or we can expect some money back to shareholders?

Arun Kumar: As I mentioned, as is true with every Q4, if you look at our pattern, I did mention that we would have a very good chance of generating $750 million to a billion dollar free cash flow just in that quarter as you also rightly observed. And at the bottom end of the spectrum $750 million broadly translates into Rs.5,000 crores plus, which is why I mentioned that we would try and repay a minimum of Rs.5,000 crores of net debt. And if there are any dividend decisions at that point of time, it will be a board-driven decision. And hence, it's very difficult to guide on the dividends call at this point of time.

Moderator: Thank you. The next question is from the line of Vishal Chandak from Emkay Global. Please go ahead.

Vishal Chandak: My question was with respect to the change or resetting the interest rate for the loans given to the promoters. So what is the basis of the loan reset and how it is going to happen going forward and what is the current rate of interest?

Arun Kumar: I think the interest reset has happened through an external study as well as certified by the auditors as arm's length, which is exactly why their qualification which existed in Q1 and Q2 now doesn't exist anymore. And as I mentioned earlier, in our earlier presentations, you would have noticed, 7% it is now in low double-digits. And for commercial reasons we don't want to give the exact number. And there will be again a reset in the fourth quarter as agreed with the auditors. And as you're all quite aware, the comparable loans at the Vedanta Resources that it borrows from third-party is already at single-digit yields than what you have seen in Q1 and Q2, signifying a huge favorable trend there as well as strength of the balance sheet, and operations starting to reflect across the group. And hence, when we fix that number, during Q4, it will be lower than the current low double-digits that I mentioned. And when we have the exact number, we will certainly share it in the next earnings call. We've had a situation like this in the past where Vedanta Limited has only gained in terms of interest earnings. So just a quick reminder that the opportunity earnings was about 1% to what it's earning is more than 10x what the other available opportunity.

Vishal Chandak: So, the second question was with respect to the aluminum cost of production. Now with the hardening of the input costs also, because both coal and alumina are rising, so do we expect a structural increase in the input costs or we plan to offset the same through the methods that you mentioned like optimization, digitalization and the cost of production for aluminum should be flattish going forward, how should we look at it?

Sunil Duggal: Now, you can see that. We have already said what we wanted to say, but we can reiterate that. I mean, the aluminum cost is a factor of the LME also, because the API index and the alumina cost plays a role in that. As far as the coal is concerned, we are secured for this quarter and H1 also we have secured quite a lot. But going forward, we have the opportunity to address this cost more structurally and that is why we said that with the new coal blocks which we have in our hand, how to operationalize these blocks as soon as possible and get one or two more blocks, which are in the offing as soon as possible. So this will address our structural coal costs or the power costs going forward. And as Ajay also said that, we are contracting in such a manner that the efficiency and productivity and the heat rate and the auxiliary power consumption is in the scope of our partners and that bring the competence for that. Similarly, on the bauxite and the alumina costs, we said that we are eyeing and looking at increasing the capacity of Lanjigarh plant from 2 mt to 5 mt and sourcing the local bauxite. And you must have also seen that in MMDR Amendment also, the government said that they want to tag bauxite and coal auction together and probably they may be coming for this auction in the near future.

Vishal Chandak: Regarding the Radhikapur coal block, so what are the expected timelines for commissioning this block?

Ajay Kapur: I'll only add one more thing on the cost side. Most of the costs especially the biggest driver is imported alumina, which is linked to LME. And generally when LME goes up, the alumina cost goes up. But we are also restructuring the local operations and by increasing domestic alumina, domestic bauxite, we have upside, and then it also reflects in better margin. So I'll pause on that. On Radhikapur, government has allowed us 60-months time. But Vedanta, we will obviously try and expedite. I will not be in a position to give you exact timeline, but I can tell you we will do far better than 60 months and as I speak to you in active evaluation of various options about how to bring it in the fastest time. If you have seen in our guidance, we have already mentioned that as one of the initiatives to bring the cost down.

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

Ritesh Shah: I have a couple of questions. First was on capital allocation. I understand you might not give CAPEX numbers. I just wanted to have some thought process on the fertilizer plant, specifically for Hindustan Zinc, Gujarat smelter. And lastly, you did indicate about Videocon assets. What I understand is that the technology flooders. But would it have any bearing on the listed entity going forward?

Sunil Duggal: So Arun, you can take that question, but broadly, I would say that, as far as the Gujarat smelter and the fertilizer project, we are in the process of getting clearances and doing the feasibility, and as we will complete our feasibility and other primary factors, we will come back and report to you that how and when we are going about this. But Arun on Videocon?

Arun Kumar: Yes, thanks. So I think on Videocon if ever Vedanta Group of Companies are coming into play or have come into play, then we will certainly announce it ASAP. But at this point of time, I have no information or update on that one. It is outside of the Vedanta Group.

Ritesh Shah: My second question is for Duggal sir. Any update on Hindustan Zinc arbitration? It has been lingering for quite some time. And any update on PSC?

Sunil Duggal: So on the Hindustan Zinc case, I think the Supreme Court vacated the stay in the last hearing and I think in the next week itself, the final hearing is coming for that. Let us wait and let us see that in all probability the government may release and say to the government that they can disinvest their balance shares. But it is for the government to decide which way they want to go. As far as ESC is concerned, as I said in my commentary that, the arbitrator has given a stay on the coercive action, and they have directed the government that they should not insist on the recovery of the dues, because these are not established as yet. Secondly, on the 10% profit petroleum, we have a very strong case. Yesterday and today, the hearing was there, the detailed hearing has taken place, and some data court has asked, probably Monday also, again the hearing is there. The way the hearing has gone and the way our case is because you know the reason why we feel that 10% additional profit petroleum is not tabled. In the earlier PSC it was written that if we produce gas, we will get the PSC at the same terms. The condition which we have complied and we have been producing gas, and as we speak, I also said that we are ramping up our gas volume and there are near-term opportunities also. But the government stand is that they have revised the policy, but it is more like a retrospective revision of the policy. The court will have to evaluate what is the merit, what they are saying, but we feel that we have a strong case.

Ritesh Shah: Sir, on the arbitration thing, you indicated that disinvest the balance shares, does this mean that there is no Metals Corporation Act as a hurdle given we have the full control of the assets as per the shareholders agreement?

Sunil Duggal: That stay is vacated. And the government is going for the final hearing.

Ritesh Shah: Arun sir, if one looks at Vedanta’s holding, 50% is encumbered, 5% is pledged and also there was a prior question about pledges at Hindustan Zinc level. Given there is a solid cash flow generation, how should one look at these variables both at Vedanta level as well as Hindustan Zinc level?

Arun Kumar: I think maybe break it into two parts. One, to easily get the Hindustan Zinc pledge out of the way. At a point of time, a deal was agreed with a set of banks. That situation doesn't exist today as you all have rightly observed from the set of numbers not only what we've delivered, but what Q4 is looking like and perhaps FY'22 is looking like. So really once you think about how in future one can repay or substitute that borrowing and release the pledge or release the perception as to why we pledged at that point of time. And I think the future augurs very well for that situation. So that is independent. As far as the promoters activities in terms of voluntary open offer and the 5% pledge, not in a position to comment on this earnings call which we should I think restrict to the Vedanta Limited and its performance, but in a broader way, if one observed during the bond road shows that we did for the Vedanta Resources bond that we issued in December, fundamentally, we're trying to create a two-year runway of getting all the debts out of the way, as well as we mentioned that, part of it is being refinanced and part of it is also going to be organically delevered simply on the strength of the huge cash flows that Vedanta Limited can generate at these price levels, especially with the end of the CAPEX cycle in at least two of the key sectors and the LME and price levels and the 10% volume growth I talked about in Q4 versus the nine months that went by. So there are lots of tailwinds for Vedanta I would say. And I know there were questions on the CAPEX guidance, etc., but at the same time, if you look at the trend, including sustaining CAPEX, we've never exceeded a billion dollars good year or bad year. And it will take some effort to go beyond that. But we will come with the right set of guidance numbers at that time. So bottom line is, a lot of cash generation will help in organic delevering at Vedanta Resources level. So, on the VO bit, I will avoid any comments. And as an afterthought, I also want to add a sentence on your earlier question on Videocon. Again, one thing purely from an analysis perspective, I think somewhere that asset is coming into the group is something for us to all cheer about, simply because it's got a very valuable oil and gas portfolio, including the Ravva effect of which Vedanta Limited itself holds about 22% and Videocon used to hold about 25%. Still thus so somewhere that offers a fantastic opportunity to consolidate that very, very promising asset. So that's just an afterthought, but at the same time right now Vedanta Limited isn't involved. If at all, we will certainly announce and let you know. Thank you. I hope I answered your question.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Varun Kapoor for closing comments. Thank you, and over to you, sir.

Varun Kapoor: Thank you very much, operator. To conclude, again thank you all of you for taking the time to join us this evening. In case you have any further questions, do not hesitate to contact myself or my team here and we would like to help. So, I just wish everybody a very good evening and I'll pass it back to the operator to close.

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