"Vedanta Limited

Q2 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Vedanta Limited's Q2 FY '24 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Prerna, Deputy Head, Investor Relations and Company Secretary, Vedanta Limited. Thank you, and over to you, ma'am.

Prerna Halwasiya: Thank you, Neerav. Hello, everyone, and welcome to our second quarter of the fiscal '23-'24 Earnings Conference Call. I'm Prerna, and on behalf of the entire team of Vedanta Limited, would like to thank you for joining us today to discuss our financial results and business performance. The transcript and audio of this call will be made available on our website. The financial statements, press release and presentation are already available on the website.

Today, from our leadership team, we have Mr. Arun Misra, the Executive Director, Vedanta Limited; Mr. Ajay Goel, our Chief Financial Officer; and Ajay Agarwal, President, Finance. Today, we are also joined by our leaders from our key businesses. Mr. John Slaven, CEO of Vedanta Aluminum; Mr. Sunil Gupta, who is the CEO of Jharsuguda. And along with him, we have Mr. Hitesh Vaid, who is our CFO for the Cairn Oil & Gas business.

Please note that today's entire discussion will be covered by the cautionary statement on Slide #2 of the presentation. We will start with the update on our operational and financial performance, and then we will open the floor for the Q&A.

Now I would like to hand over the call to Mr. Misra.

Arun Misra: Thank you all for joining the call today. The second quarter was defining in terms of strategic direction for Vedanta and its subsidiaries. Vedanta's Board approved the proposal to demerge the business into six independent listed entities, each one capable of executing its individual business strategies.

The decision is a significant step forward in its journey of sustainable growth and greater shareholder value. The demerger would create six incredibly competitive, nimble and focused enterprises. We have filed the scheme of demerger with the stock exchange in October 2023 and are working on next steps as we speak.

We exited the second quarter with strong financial results. We delivered the highest ever second quarter consolidated revenue of INR38,546 crores, up 16% quarter-on-quarter. We have also delivered highest ever second quarter EBITDA of INR11,834 crores, up 70% quarter-on-quarter and a strong margin of 35% and PAT before exceptional items of INR4,403 crores, up approximately 3x quarter-on-quarter.

I'm very pleased to share that in this year's S&P Global Corporate Sustainability Assessment Index, formerly known as Dow Jones Sustainability Index, Vedanta has achieved 5-point improvement year-on-year, taking Vedanta to 100 percentile of index as on October end.

Moving to operational performance. Each of our business is working to become more competitive globally, and this quarter has been excellent in terms of operational performance with healthy production and good control of costs visible across the businesses. Starting with aluminum sector, the business delivered one of the best quarters in terms of production and operational efficiency.

Production was up consecutively for the third quarter in a row. Cost of production has been trending lower with each quarter with a 6% reduction quarter-on-quarter and 25% reduction year-on-year. With respect to alumina, Lanjigarh production was up 17% quarter-on-quarter, with significant reduction in costs.

Lanjigarh is on track to deliver the first 1.5 million ton per annum train in quarter 4 followed by Train 2 of another 1.5 million ton per annum in second quarter of FY '25. This is a significant lever in the journey to structurally place aluminum in the first quarter in the cost curve.

Turning to Hindustan Zinc. The business produced the highest ever first half mined metal and continue to remain in the first decile of cost curve globally, with a further 5% reduction in costs quarter-on-quarter and 10% reduction year-on-year. Progressing on its growth project, it commissioned India's first fumer plant, commissioned 30,000 tons per annum alloy facility and a new concentrator in Rajpura Dariba mine, increasing the production of zinc and lead metal in concentrate. Zinc International also exited the quarter with a cost reduction of 1% quarter-on-quarter and 6% year-on-year.

Oil and gas business delivered stable production sequentially, supported by production from infill well campaign in NBA and RD fields and enhanced recovery projects, opex declined significantly by 6% quarter-on-quarter and 4% year-on-year through optimization of polymer consumption.

Moving to iron ore business. We are pleased to share that Karnataka mines have received an enhanced mine environmental clearance of 7.2 million ton per annum, further strengthening our mining portfolio. The business delivered nearly double the EBITDA sequentially driven by higher sales, 44% up quarter-on-quarter and 14% up year-on-year from Karnataka mines and margin expansion at pig iron business unit. In VAB, pig iron production has shown 80% increase year-on-year as a result of higher operational efficiency. We have seen an improvement of 36% in quarterly margin.

In Electrosteel, saleable production at 378 kt, was up 17% quarter-on-quarter and year-on-year, both on margins, improving sequentially on account of operational efficiencies and favorable input commodity prices despite a subdued pricing environment. Our quarterly margin increased from 36% quarter-on-quarter, driven by significant reduction in cost of sales. The business continues to operate at an enhanced capacity of 1.7 million ton per annum post debottlenecking carried out in FY '23 and progressing steadily on the 3 million ton per annum expansion project.

In FACOR, our 33 MVA furnace has been commissioned, and we are ramping up production. The ferrochrome production stands at 22,000 tons, which is 130% up quarter-on-quarter and 97% up year-on-year. The quarterly margin improved to $195 per ton driven by higher production and operational efficiencies.

Coming to copper, the cathode production stands at 35,000 tons, which is 14% up quarter-on-quarter. To sum it up, we are encouraged by the positive performance in the second quarter and intend to build on that momentum.

Moving on to our growth story. We have a strong pipeline of growth projects at various stages of completion across the portfolio. Additionally, we are incorporating future enabling businesses in our portfolio, making Vedanta's future exciting. We are at an exciting inflection point where we are accelerating on our volume growth across the portfolio. The delivery of our growth and vertical integration projects over the coming quarters combined with acceleration in commodity prices will drive profitability across our businesses.

In the aluminum sector, we are expecting first metal out of our 435,000 tons per annum BALCO smelter by FY '25. Sijimali mine to start by FY '25, taking up bauxite capacity to 9 million ton per annum and expanding coal mines from 3.6 million ton per annum to 34 million ton per annum. Lanjigarh is also geared up to take the captive alumina from 2 million ton per annum to 5 million ton per annum.

Coming to zinc sector, Hindustan Zinc, we are focused towards setting up our 150,000 tons per annum roster project and 5.1 lakh ton per annum fertilizer project. Also talking about Zinc International, we are progressing well in terms of Gamsberg Phase 2 expansion. In iron ore, we want to increase our mine's volume by expanding our Karnataka mine from current 6 million ton to 7.2 million ton and then on to 10 million ton. Liberia to expand from 1.5 million ton to 5 million ton and strong focus on operationalization of Goa mines and Orissa mines.

FACOR growth is extremely important for us to have competitive advantage. Hence, we want to augment our ferrochrome production from 150,000 tons per annum to 450,000 tons per annum. On this strategic priority, the Board has already approved sufficient capex towards about INR2,650 crores for the ferrochrome project. It should further strengthen FACOR's position as one of India's leading ferrochrome's producer and exporter of ferro alloys.

In copper front, our first priority is to restart Tuticorin operations. In our port businesses, under VGCB, we want to take our volume to about 10 million tons.

Coming to communities and their wellbeing, Vedanta continues to work towards uplifting the quality of life of communities through various initiatives around drinking water, sanitation, health care, community infrastructure, children wellbeing and education.

The company spent more than INR226 crores in first half of the year on CSR, reaching a milestone of 16 million beneficiaries and 5,700 Nandghar, a flagship program of modernized anganwadis. Progressing towards a greener business model, the group achieved a water-positive ratio of 0.7 and utilized 84% of its HVLT waste, recycled 30% water and increased biomass firing by 40%.

Hindustan Zinc becomes India's first company in metals and mining sector to have validated its near-term and long-term GHG emission reduction targets from the science-based target initiative.

In a first, BALCO achieved environmental norm compliance of <10kg/t of fluoride consumption for the first time in quarter 2. This is a significant milestone that will result in reduced costs and resource conservation.

Before I hand over to Ajay for financial update, let me emphasize our strategic priorities for delivering lasting value for our stakeholders. First, we are committed to our transforming for good strategy, which emphasizes environmental responsibilities, sound governance and our social partnership. Second, we are dedicated to expanding our reserves and resource base. Third, we are committed to continued value-added growth in all our businesses. Fourth, we maintain a disciplined approach to capital allocation and a strong focus on our balance sheet. And fifth, we are dedicated to achieve the best results through our exceptional team and valuable assets.

With those remarks, over to you, Ajay.

Ajay Goel: Thank you, Arun, and good evening, everyone. I'm very happy to come back to Vedanta. Such a critical time as we embark on our journey of demerger and unlock significant value for shareholders. At the same time, we also reorient ourselves towards next phase of organic growth.

During second quarter, the commodity prices remain under pressure, mainly due to out-shipping of supply as compared to demand growth. The global economy has slowed down, compared to last year with growing regional divergences. However, Indian economy remains resilient, driven by healthy momentum in manufacturing and services.

Inflation is easing gradually, but remains well above targeting major economies. Strong government spending on infrastructure has led to robust demand for metals and minerals domestically. Leveraging strong domestic demand in a subdued pricing environment, our teams have delivered robust operational performance and a very good set of financial results.

I want to share some of the financial highlights for the current quarter. In second quarter, we delivered highest ever second quarter consol revenue of INR38,546 crores, which is up 16% quarter-on-quarter. Highest ever second quarter EBITDA of INR11,834 crores, up 70% quarter-on-quarter with a strong margin of 35%. Free cash flow, pre capex, of INR5,694 crores, up 84% quarter-on-quarter. Very strong double-digit ROCE, about 21%, which is up 460 basis points quarter-on-quarter. PAT before exceptional items of INR4,403 crores, which is almost 3x quarter-on-quarter. And finally, the net debt reduced by INR1,421 crores quarter-on-quarter.

I now move to EBITDA Bridge. EBITDA is 70% higher quarter-on-quarter as softening of input commodities, cost reduction initiatives, higher volumes and premia has positive impact on maintaining the margins. We also received favorable arbitration award in August 2023 in our Oil & Gas business, upholding our contention that we are not liable to pay additional profit petroleum in relation to allocation of common development costs across development areas and that we are also entitled to cost recovery of exploration costs for the purpose of computing profit early.

Moving on to next page on balance sheet and debt. Net debt as on September 30th, stands at INR57,771 crores as against INR59,192 crores as on last quarter. The net debt decreased overall majorly due to strong cash from operations and partly offset by working capital build-up and allocation of funds towards capex and returning money to our shareholders. Our leverage ratio, which is net debt to EBITDA, stood at 1.64x, compared to 1.88x in the previous quarter. We finished the quarter with healthy cash and cash equivalents of INR16,702 crores.

Our average maturity of debt is maintained at about three years with average cost of borrowings at about 9%. This quarter, we also transitioned to new tax regime for Vedanta Limited, a simpler tax structure starting FY '23, which is the last year. Adoption of new tax regime has resulted in onetime net MAT write-off of INR6,128 crores, but we had a net cash tax savings of INR2,040 crores for fiscal year 2022 and 23 from the same.

The cash tax in future years will also be lower under new regime. The scheme allows companies to lower tax outgo and redeploy the same on operations, growth and shareholder value creation. A quick word on demerger. We have filed the scheme of demerger with the stock exchanges in October '23, and we are progressing well on our plan.

Finally, in conclusion, the risk to the outlook are now far more balanced than they were six months ago, with the operating environment stabilizing. We remain committed to the cost and production guidance at the beginning of fiscal year 2024 and we're making good progress towards our long-term goals of vertical integration, operational excellence and deleveraging.

With this, I now hand over to operator for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: I have two questions. The first one relates to aluminum division, wherein the mining -- the commencement of mining at captive block has been pushed back by a couple of quarters, even VAP expansion has been pushed back. So just wanted to understand the reason for that while coal block might not be fully in your control, but VAP expansion definitely is. So just wanted to understand the reasons behind the same? That is the first question.

Arun Misra: So maybe, John, we have John Slaven from Aluminum CEO with us. John, would you like to answer?

John Slaven: Yes, certainly. Thanks for the question. So I'll answer the first question on the mining projects. We are working across all of the mining projects that we have through process of approvals. As you probably would imagine, is a pretty complex process. And I am very pleased with the progress that our team is making in terms of securing those approvals. So while we may not have kept up to the initial time lines that had been shared, I think we are making very, very good progress now. And the timelines that we have shared in the presentation, we are confident that we can achieve as we move forward.

The second question, I will defer to Sunil. Sunil Gupta, can you please answer that question?

Sunil Gupta: In second question, the mining project you are talking about, I think?

Arun Misra: Second is the value-added product project.

Sunil Gupta: Yes. Value-added product, I just wanted to say that we have all the 100% capacity of value-added projects in Jharsuguda and BALCO. Both put together, Jharsuguda, we are putting up 480 kt value-added project. And similarly, 450 kt in BALCO. Both the projects are on and they are coming in time is what I can say. And by this, we are going to have around 85% of VAP.

Arun Misra: Sunil, if I may add, while two coal mine projects are maybe slightly delayed because of various clearances, the Jamkhani project, which was originally designed for 2.5 million tons as actually, when we speak, it is currently operating at 4.5 million tons capacity on the monthly numbers, if we add up. So, we have doubled the production from the one mine, which is already in clearance. Other two mines, so we have made up for that.

Whereas the value-added products is actually the strict time lines that we've taken for ourselves. That is for various reasons, maybe slightly delayed, but the numbers, the productions that will come up now will suffice for whatever delays that are caused by it.

Sunil Gupta: And secondly, sir, for both the coal blocks also, there we have done substantially good progress on the public hearing we have already done. We have already started the land acquisition also. So we will complete in that timeline.

Amit Dixit: Sorry, just wanted to understand where we are stuck there. I mean is it related to land acquisition? Is it related to the...

Arun Misra: No, no, no. It's the various stages of the forest clearances, which is Stage 1, Stage 2 clearance and they are always coupled with some clarificatory questions, and they're going to go back and they keep settling. So nothing undue delay there.

Amit Dixit: Okay. The second question is on ferrochrome. Now here, our capacity expansion plans are quite, I would say, aggressive by 300 ktpa and ferrochrome, as we all know, is a power guzzler. And our larger goal is to reduce the emission. So how do we tie the power -- our goal of reducing emissions and enhancing ferrochrome capacity? That is one.

And secondly, where do we expect to ship this ferrochrome? I mean as far as I understand, ferrochrome capacity is -- I mean, there is like, the market is quite balanced today. So why is the sudden plan of expanding in this ferrochrome? Or whether we want to expand in stainless steel at a later stage as well?

Arun Misra: So as is the nature the way our group operates, we have always been in business where we are the number one, number two or number three. We would not like to become a small player in a big market and continue in that status. So our ambitions are always to be in the number one, number two and ferrochrome expansion plan is no exception. That is to begin with our intention on a visionary level.

Second, when we talk of ferrochrome, it's a key ingredient for stainless steel making. And in Indian steel production growth, if you see last 10 years, which have mostly been in the auto sectors or on the building sector, which are long products that people have expanded. We firmly believe as GDP per capita grows, as the country grows, you will see expansion in consumption of aluminium, expansion in consumption of stainless steel.

And it's not only India, entire Southeast Asia, this is going to be the situation in next five years to 10 years. And keeping that strong growth in mind, we feel that Vedanta will play a key role in that development part of India and hence the nature of this expansion.

As far as your question on ferrochrome production being power guzzler and it's been dependent on thermal pool, we need to appreciate that our own group company, Serentica is already putting up thousands of megawatts capacity of hybrid power of solar, wind, followed up by -- backup by pump hydro storage. Almost all Vedanta units are signing up with them for power supply.

So most of the power supply currently signed up would land anywhere between 2024 to 2026. And I'm sure ferrochrome projects will take another three years to come up. And by that time, we will have round-the-clock renewable power agreements and the lines being drawn or the capacities being put up.

So there would be time that we will stick to our emission reduction targets that we have set for ourselves by 2050, net zero and as well as looking at the numbers of 2040, 2030 internal targets are there. We have got our actions completely lined up as far as emissions are concerned.

Amit Dixit: So, what you're confirming is that ferrochrome plant would be fed from round-the-clock renewable power capacity?

Arun Misra: As in future, obviously, yes.

Amit Dixit: Okay, sir. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Pallav Agarwal from Antique Stock broking. Please go ahead.

Pallav Agarwal: Yes. Good evening, sir. So just firstly, I just wanted a clarification on the arbitration award. So part of the impairment, I'm guessing that would be under exceptional items. Is that understanding right, so that would not affect our revenue and EBITDA portion?

Ajay Goel: That's correct, Pallav. If I give a background, as you know, in the whole arbitration, there are two dimensions. The first remains allocation of the common developmental costs across developmental areas, which is DA1 and DA2. The second aspect remains recovery of exploration costs in many areas. On both the areas, the arbitration award is positive for Vedanta Limited. That leads to that one significant gain in terms of revenue and EBITDA in the current quarter, almost INR4,600 crores.

Secondly, that also lead us to reevaluate our CIHL investment, the carrying value towards DCF that lead to impairment reversal made in the past year, almost INR1,200 crores. That will not impact EBITDA, you're right.

Pallav Agarwal: Sure. And also, for the -- we have been showing the additional cess on oil also as a separate item. So I think in this quarter, maybe it's not mentioned separately. Was that a significant amount in Q2?

Ajay Goel: It is now part of our routine results, Pallav, and amount again is insignificant. It will not show up. On the point of the award, one more clarification. This is not only a notional gain, the entire INR4,600 crores will be recovered in cash. As in future, we'll pay our PP to the government.

Also on a continuing basis, we'll have a gain on the profit and loss account, both profit and the cash almost $20 million on every quarter basis. The quantum is large in current quarter, given it pertained to last several quarters. So it is a real gain impacting both profit and the cash in future.

Pallav Agarwal: Ajay, sir. Thank you for the clarification. Just also -- but on the deferred tax write-off, so that is a non-cash item. So that will not affect -- impact any cash flow as such. Is that correct, sir?

Ajay Goel: That's right. And the new tax regime, the discussion is on for quite some time. And in the current quarter, looking at multiple scenarios, be it the pricing or, for example, our allocation of capital policy, we believe transition to new tax regime is beneficial.

It will lead to onetime noncash -- you're right, noncash impact of INR6,130 crores, but it also gave us tax benefit, which is a cash benefit in the last fiscal, almost INR2,340 crores odd. The quantum will be almost similar in the current year as well. Net-net, the cash tax benefit is real over the next three years' time. The onetime write-down is noncash.

Pallav Agarwal: Sure, sir. Sir, finally, if I can just, on the aluminium CoP, we have been seeing reductions. So can we expect a further reduction in 3Q, a significant reduction apart from coal and other input costs?

Arun Misra: If you see quarter-on-quarter. They have a steady decrease in CoP. And that trend will continue as long as their own Jamkhani productions, own coal productions have gone up and new coal mines, which is Radhikapur and Kurloi as they come into operations, we can only expect and Lanjigarh capacity expanding bauxite mine coming into play. We have a clear road map to reducing to immediate terms about $1,800 per ton and in future maybe another $200 or so, we should be able to reduce.

Pallav Agarwal: Sure, sir. Thank you so much.

Moderator: Thank you. Next question is from the line of Vikas Singh from PhillipCapital. Please go ahead.

Vikas Singh: Good evening, sir. Sir, my first question pertains to Oil & Gas segment. Just wanted to understand, since we are just failing to ramp up the production to a desired level in the quarter after quarter, what is the capex which we need just to spend to maintain the volume only, if not the extra volume? So, the volume of 130 to 140 kboepd, what is the capex which we need to continue to spend just to maintain the volume there?

Arun Misra: If you look at last four quarters, five quarters, we have been steadily maintaining the same volumes between 135 to 138 or 140 kboepd barrels. So this is something we'll continue. As far as expanding the volume beyond this or then how to counter the natural decline, I will ask Hitesh is there. Hitesh, you would like to comment, how to prevent the natural decline?

Hitesh Vaid: Yes. Good evening. I think for the Oil & Gas business, as you rightly said, to manage decline, we continue to drill additional wells in our in fields, in all our traditional fields which we call it as infill wells. And generally, every year, we end up drilling around, say, 25, 30 new wells, which cost us, say, around $150 million to $200 million of additional capex on a gross basis.

So, from our share side of view, roughly between $100 million to $150 million is the cost which we incur on additional new infill wells, which help us to manage the decline.

Vikas Singh: Understood. My second question pertains to Zinc International business. That segment is also seems that we are not actually increasing the volume to desired level. Last two quarters has been kind of stuck. Gamsberg kind of stuck in the sub-50 kt. So is it because the market is weak and that's why we are not ramping up? Or there are some other issues, which is forcing us not to ramp up to desired level?

Arun Misra: See, Zinc International now is in a transition stage. While they are -- they have to maintain between 60 kt to 70 kt of production per quarter on the MIC front, but they are also have launched expansion of the open pit mine to augment the production to 600 ktpa and put up a concentrator and all that projects are also on.

So, we see the transition maybe another two quarters of very aggressive overburden removal and then aggressive stripping work will happen for maybe a couple of more months or maybe a quarter more. And then their production will come back to even 70 kt, 75 kt per quarter kind of a number, we'll see being generated by them.

Vikas Singh: Understood, sir. And sir, just one clarification. Since you said this INR4,600 crores, so this is not an incremental immediate cash inflow, but we will pay less in the subsequent quarters and that's why the cash generation in the subsequent quarter would be higher. This is not a one bullet payment, which we get. Is that understanding correct?

Ajay Goel: Correct. The EBITDA impact of INR4,600 crores is the impact that we'll have a positive cash impact over next few quarters. So it will be -- have an impact on the cash as well going forward.

Vikas Singh: So, cash outflow would be, say, basically less in the subsequent quarter, adjusting for this money?

Ajay Goel: That's correct.

Vikas Singh: Yes. That’s all from my side. Thank you for taking my questions and all the best for future.

Ajay Goel: Thank you, Vikas.

Moderator: Thank you. Next question is from the line of Ashish Kejriwal from Nuvama Wealth Management. Please go ahead.

Ashish Kejriwal: Yes. Good evening, everyone. Thanks for the opportunity. Sir, I have three questions. One is you mentioned about the captive coal. Definitely, we know that this is not under our control. But is it possible to share where are we in that stage? Whether we have received Stage 1 or Stage 2 forest clearance and environmental clearance?

Because this is a sequence which we normally follow for its clearance -- environmental clearance and mining lease and then only we can open the mine. So if it's possible, that will be great. And if we are very confident about the second quarter FY '25, it will be great if you can guide us what kind of captive coal we can do in FY '25? That's my first question.

Arun Misra: So if we look at the three coal mines, Radhikapur, Kurloi and Jamkhani, Jamkhani has already started operating and we are operating at double the design capacity that we started with to make up for the shortage in supply because of the delay in other places. Radhikapur's already environment clearance is obtained, but some of the forest land clearances are in the Stage 1 or Stage 2 state. Kurloi's forest clearance is on, and then we will be able to move it. So, I think it's another -- Sunil, any comment on the time-line, maybe another couple of quarters when we can set it through.

Sunil Gupta: I think the Kurloi will be the first, we are going to start the quarter 1'FY25. And what you have said rightly that we've got the EC also and the forest clearance is under progress. So, this is the progress. Jamkhani, already we are running at double the capacity. And Radhikapur, already we are in the stage of the forest clearance first.

Ashish Kejriwal: So sir, do you want to give any guidance of volume guidance for FY '25 from these mines? And in Jamkhani also, when we are operating at double the capacity, have we received the EC on that? Or it will be just on a monthly basis, we have the capacity?

Arun Misra: On the monthly rated basis and overall, as you know, we've been operating whatever we produce has to be under EC. So on that account, there is no issues on that. As far as giving guidance is concerned, we don't give specific guidance on every items of the production, so to say. Our aluminum guidance remains same. If you are interested in knowing current Jamkhani production, what percentage is of the total coal input, it's somewhere around 9 to 10% only.

Ashish Kejriwal: Okay. So that means if I understand correctly, next year also, we can produce 4.5 million ton from Jamkhani itself.

Arun Misra: Sure, sure.

Ashish Kejriwal: Okay. Sir, second is obviously about Vedanta Resources that, is it possible to give us a status of what -- where we are in terms of repayment, restructuring and how we are going to deal with it? And along with that, can we also indicate that the debt which we have at Vedanta Limited level, this could be the peak debt for this year?

Ajay Goel: Sure. So let me start, Ashish, my colleagues also may help. I'll start with our lofty vision, what we committed almost 2.5 years ago. And there, we committed will be deleveraging VRL 4 billion over 3 years. If you look at FY '22, '23 and the current fiscal, in 2.5 years, we have deleveraged VRL by 3.5 billion. So both in terms of value and the time scale, we are on plan, in fact, ahead of plan.

Now looking at the near term at Vedanta Resources, in Q3, ending in December, we barely have any maturities. And the next port of calling remains in the fourth quarter, which is ending in March, sometimes in January, almost $1 billion of bonds. So net-net, we need almost $1 billion at VRL in the next 6 months' time, for which we have multiple options.

We're engaging with many bankers. And I think looking at Vedanta's ability of raising resources, our deep engagement with the capital markets, I think that will be addressed pretty soon. Hopefully, by December end, we'll have $1 billion, which is required in the fourth quarter, fully fully addressed.

Coming to Vedanta Limited, our debt is about 8.5 billion. And again, if I give you a picture in the near term, in the third quarter in December, the refinancing need is almost INR4,000 crores. and the fourth quarter, almost INR5,000 crores. So give and take, over the next 6 months, almost 1.1 billion, which, again, I would think, looking at our operating assets and the free cash flows and our ability of refinancing, which is par for the course.

Overall Ashish, all I will say, both for Vedanta Limited and Vedanta Resources for upcoming maturities in the current fiscal, we feel absolutely comfortable.

Ashish Kejriwal: Sure. And sir, and just to elaborate on that, definitely, we can get it, but will it be much higher cost as compared to the maturity which we have to analyze?

Ajay Goel: No, not really. I would say -- I mean, say, the cost of the funding, I would say, right now is more a reflection of the current macro environment, not necessarily in terms of Vedanta or Vedanta Resources. Our recent refinancings are in the same ballpark, not very high. But of course, as we go along, we'll have more information and we'll know more.

Ashish Kejriwal: Sure, sure. And sir, lastly, on the dividend payment, where we are in that status conversion of general reserve into retained earnings?

Ajay Goel: The status has not changed, I would say, over the last couple of months and still we need NCLT approval, which again requires approval by the creditors. We're engaging with them for sure, but nothing substantive that we can share with you right now.

Moderator: Next question is from the line of Vikash Agarwalla from Bank of America. Please go ahead.

Vikash Agarwalla: Just a couple of follow-up questions on some discussion points before. One is on the arbitration award, so I'm seeing the amount mentioned as INR9,545 crores as the government demand, whereas what you have written back as part of revenue and EBITDA for this quarter is INR4,761 crores and asset impairment write-back of INR1,179 crores. Can you help us reconcile this number?

And if you can also just share some insights on how the cash flow discussion that you mentioned you will be benefiting from lower cash outflow in the coming quarters? So how would you distribute this cash flow in the coming quarters, the INR4,761 crores which you have which you've written back? That's my first question. And the second question is if you can share also the retained earnings level for Vedanta Limited stand-alone at the end of September?

Ajay Goel: Yes, sure. So let me cover all the areas, Vikash. First, starting with the INR9,500 crores, about $1.2 billion, it was a demand raised by DGH as part of their audit processes. In terms of the arbitration award that we received, on almost all the points, be it the allocation of common cost on developmental areas or in terms of exploration cost recovery, it is positive for us. So against 1.1 billion demand, what we write back now is almost INR4,600 crores, give and take 550 million in the current quarter, which goes to both revenue and EBITDA.

Additionally, almost INR1,200 crores is a reversal of impairment taken in the past. So INR4,600 crores will be cash as well in the future. How this INR4,600 crores will metamorphose into cash? When we pay profit petroleum to the government in the coming quarters, we'll be withholding or adjusting that amount in future, hence, INR4,600 crores also will be cash impact in future.

Let me also add that this is not a onetime gain, as I initially mentioned. Going forward, on a quarterly basis, almost 20-odd million will impact both on positive on cash given the PP becomes lower from 60% to almost 50 percentage right now. Finally, third part, you mentioned about what is RE provision for Vedanta Limited. So as on September 30, the quarter just passed by, it is INR2,400 crores as of now.

Moderator: Thank you. Next question is from Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer: Just a follow-on, on the previous question. You mentioned your PP is now going to reduce to 50%, which is why there will be a cash -- basically the total payments to the government of around 20 million per quarter. That's over and above the INR4,600 crores that you are going to -- that you had from the arbitration award this specific quarter? And also, what's the time frame for the INR4,600 crores to come in if this is not the $20 million, if this is over and above the $20 million?

Ajay Goel: So both are, in fact, separate and addictive, I must say, Abhiram. So the INR4,600 crores is gain in the current quarter, which will get liquidified over the next, I guess, few quarters, and that will be the lower PP that we pay to the government in future.

Now in terms of time lines, it all depends in terms of the pricing environment and how much PP is yable. It will take some time for sure. But the entire INR4,600 crores would be cash realisation. 20 million will be additional impact for the future revenues with the government. It will be 20 million every quarter EBITDA and free cash flows. So both are separate and both one can add.

Abhiram Iyer: Got it. And just for my understanding here, what this -- you withhold the entire amount until the INR4,600 crores is clear. Is that right? And what would be the corresponding amount for this quarter? Just to get a sense, I mean, obviously, it depends on pricing, as you mentioned.

Ajay Goel: Okay. So we also got our Oil & Gas CFO, Hitesh Vaid on the call. I'll request him to share some more information.

Hitesh Vaid: Yes. So I think out of this INR4,700 crores in this quarter, we have adjusted INR1,000 crores. So roughly, it will take around, say, 5 quarters to adjust the full amount. And of course, we will adjust fully and then start paying again.

Abhiram Iyer: Got it. So -- but from the margin -- so from my understanding, from a margin perspective, the higher margin will be seen this quarter, but you'd go back to the margin improving by that 20 million that you talked about from the next quarter onwards. However, from a cash flow perspective, give or take, INR1,000 crores, as you mentioned, would be getting reversed?

Hitesh Vaid: Correct, correct. So that 20 million will be an EBITDA benefit. But of course, that 20 million gets added to this recoverable. So that's why INR1,000 crores we recovered in 1 quarter. So roughly over 5 quarters we'll recover the full INR5,000 crores roughly.

Abhiram Iyer: Understood. Understood. And another clarification is with respect to your annual report, you already had about INR1,500 crores as a potential asset -- other financial assets in your books as of March. And so shouldn't the amount that would be reversed INR6,200 crores because that's INR1,500 crores plus this INR4,700 crores?

Hitesh Vaid: No. So in the books because PP is payable on the first day of the next quarter, so that is not a correlated or same number and some of the provisions are for different matters as well. For example, issues related to special excise duty as well as other matters. So this is not 1:1 comparison with that.

Abhiram Iyer: Okay. And just one last question, sorry, just clarifying this matter. You mentioned in the recent financial that GOI has sought additional interpretation and clarification from the tribunal and that's still pending. The company does expect a positive order result here. But is there any time frame for this final response? And is there any recourse for the government to withhold this payment or withhold this award, withhold its cash award to you by challenging this order in the court or something?

Hitesh Vaid: See, from the award point of view, the government has sought for some clarification, but these are -- as far as the merit is concerned, the matter has been closed and awarded, right? So it would take the settlements here around the month or so to get back. But then this amount, as we said, government cannot adjust as such because we have to deposit, and we have started adjusting based on the financials, which we have submitted to the government as an outcome of the award.

Abhiram Iyer: Perfect. Perfect. Thanks for the clarification

Hitesh Vaid: Thank you.

Moderator: Thank you. Next question is from the line of Imtiaz from Barclays Bank. Please go ahead.

Imtiaz: Thank you. Thank you for the opportunity and congrats on the second quarter performance. And Mr. Goel, great to have you back. I have two questions. The first one, can you just let us know where you are now in your attempts to sell your steel and iron ore mines?

Arun Misra: Look, so we had -- to let the world know that we have a strategic interest in looking for strategic investors in our steel and iron ore mine business. But we are, at the same time, investing in growing the business. We are investing in debottlenecking the operations. We are investing in getting the best people to run the shops there. So these two are two independent activities. As of now, I won't be able to put a finger on when and to whom the final decision will go to. As and when it happens, we will let it be known.

Imtiaz: Okay. The second question is with regards to your dividends. You received a dividend from Hindustan Zinc back in July. Any plans to pay that dividend out?

Ajay Goel: See if you look at our allocation of capital policy, Imtiaz, on the website, which is sometimes in 8th Feb, 2022, the time frame that we have committed for pass on is six months. In that case, July, we have time until January. Now you also appreciate that any dividend declaration is a board matter, and it will be, I think, a tad, I think, early in terms of commenting what is the plan now. Overall, if you see Vedanta's current year dividend, which is about INR39 per share is far higher than what Vedanta got from the Zinc as well. So from taxation viewpoint, which is our 80M deduction, we are anyways fully covered.

Imtiaz: Okay. Great. And my last one is just a clarification of something you just said earlier with regards to maturities at Vedanta Limited. Could you just repeat what you said? Do you -- did I hear correctly, you have about $1 billion at Vedanta Limited maturing over the next couple of quarters?

Ajay Goel: That's correct. So between Q3 and the Q4, the year second half, almost $1.2 billion are the maturities. And what I also say if you look at our cash flow plan for the second half, it will be more than $1.2 billion. And also our deep engagement with the capital markets, be it a PSU bankers, multinational bankers, FIIs, we feel, in fact, quite comfortable in terms of refinancing or repaying, both are the options.

Imtiaz: Okay. So this is at a limited level, yes?

Ajay Goel: That's correct.

Imtiaz: Great. Okay, thank you. That's all I had. Thank you very much.

Moderator: Next question is from the line of Shreyans Daga from Barclays Bank. Please go ahead.

Shreyans Daga: I think my question has already been answered on the tax of -- tax regime. I'd like to skip. Thanks.

Moderator: Thank you. Next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Yes, hi, sir. Thanks for the opportunity. Sir, a couple of questions. Sir, first, can you please repeat the status of GR to RE for both Hindustan Zinc as well as Vedanta? I did hear that does the

NCLT approval and we are waiting for creditors' approval. If you could please clarify for Hindustan zinc and Vedanta separately, please?

Ajay Goel: Yes. So for Vedanta Limited, I clarified that we are awaiting NCLT order and there the critical step remains getting creditors' approval. We are engaged with them, and we don't have right now a time line that we can commit to right now. For zinc is concerned, the next hearing is happening on 8th of November. And we are forcing that to get closed in the current quarter.

Ritesh Shah: Sure. That is helpful. So second question is pertaining to the debt maturity at Vedanta Resources. I think you indicated around $1 billion. This pertains to, I presume, the Jan bonds. But if I remember it right, I think we had intercompany loans, which was due for Jan, Feb, March. I don't see it in the presentation this time around. So just wanted to know the status for that, besides the bond. In addition to that, are there any loans which are there? So if I have to look at it on a cumulative basis beyond the bonds, including ICL, how should we look at it?

Ajay Goel: So you're right, the $1 billion bond I mentioned is, in fact, is due sometime in January, which is fourth quarter. There is no ICL due in the current fiscal. You might remember the ICL has been deferred till 2024. So barring this $1 billion bonds in Q4, nothing more is due for refinancing at Vedanta Resources in the current fiscal.

Ritesh Shah: Can you help me with the number? I think it was $450 million. It was due Jan, Feb, March. Has it been pushed out? I'm not aware of it, if it could help me with the time line, a particular month or a quarter would be helpful, sir.

Ajay Goel: Yes. So the exact amount is $415 million, that is due on December 31, 2024.

Ritesh Shah: This is helpful. And how should we look at the maturity for FY'25? To my understanding, I think that is something which is outstanding from Oaktree and there are two bonds, $1 billion each. And I'm not sure if there are any loans outstanding. But based on your prior commentary, I think the number was around $3 billion. Can you help us with the time line over here and a broader breakup will also help, sir.

Ajay Goel: Sure. So the numbers are right on a ballpark basis, if you look at FY'25, next fiscal, the term loans is almost $1 billion. In fact, a tad lower than the $1 billion. And we've got almost $2 billion worth of bonds, $1 billion each. It's about $3.1 billion overall in the next fiscal. The breakup is practically $0.5 billion in the first quarter, $1 billion in second quarter and almost the same breakup between Q3 and the Q4. So $0.5 billion, $1 billion; $0.5 billion, $1 billion.

Ritesh Shah: And where does Oaktree stand over here? Is it included in $3 billion?

Ajay Goel: Correct. So the $3.1 billion for the next fiscal includes everything, be it term loans or bonds, including Oaktree.

Ritesh Shah: So should one presume around $2 billion as bonds, around $0.5 billion for Oaktree and the balance is outstanding loans?

Ajay Goel: That's correct.

Ritesh Shah: Okay. That helps. Sir, I think you did clarify on the steel assets. I understand you are not giving any time lines over here. Just trying to have your thoughts. Has the company thought of securitizing the brand fee, given that's captive? And secondly, has the company even exercised advance pay and supply agreements for any of the commodities that we operate in?

Arun Misra: Advance, I didn't get you the last one.

Ritesh Shah: Sorry, advance pay and supply agreement. So this is a trade finance agreement. Typically, if you want to bolster your cash flows at this point in time...

Arun Misra: So that's also a strategic initiative that we have launched on our marketing front, maybe with a few of the customers as and when we are able to secure such agreement with an advanced payment, not so much in steel. It happens mostly on our base metal side. We do have advanced payment agreement with long-term commitments with key international buyers, not so much to do with steel. But as and when it happens, we'll let you look.

Ritesh Shah: Okay. But sir, my question is do we have anything of that sort right now on the balance sheet where we are already seeing the benefits?

Arun Misra: No, I don't think on the steel side we have.

Ritesh Shah: Sir, nonferrous, specifically from base metals.

Arun Misra: For nonferrous, see, there are various stages in aluminum, zinc. There are advanced payment and long-term commitment to key buyers. We have that as they are all on the supply side, maybe for seven months, eight months, nine months kind of a duration we have.

Ritesh Shah: Is it possible to quantify the number? And how much of leeway do we have to increase this because this is a big variable that can actually help our cash flows?

Arun Misra: No, no. So I won't be able to put because these are all specific agreements with specific customers. Won't be able to let out that number exactly.

Ritesh Shah: Sure. And sir, brand fee, have you thought of securitizing the stream of brand fees? Is there a possibility over there?

Ajay Goel: Multiple options are being discussed, all I can say right now. But at this point in time, sharing more information will not be possible. Once we take one definite decision, maybe you will be the first one to know I can commit that.

Ritesh Shah: Sure. And just last question, sir. If you can help us with a status on KCM. How much is the debt over there? Are there any time lines? How should we look at that particular asset?

Arun Misra: No. So I think right now, KCM is -- we are talking of VEDL only?

Ajay Goel: KSM, as you know, is part of Vedanta Resources. And you would know we'll be also having an IR call for Vedanta Resources as part of H1 results reporting. Maybe that will be, I think, opportune timing to ask more specific questions around Vedanta Resources.

Moderator: Thank you. Next question is from the line of Vikash Agarwalla from Bank of America. Please go ahead.

Vikash Agarwalla: Just a quick follow-up to the earlier comment on Vedanta Limited maturity. You mentioned about $1.2 billion in second half of FY'24. Can you provide a breakup of what these maturities are and what's the refinancing plan?

Ajay Goel: So Q3 is about INR4,200 crores, and Q4 is about INR5,500 crores. So about INR9,500 crores, INR9,600 crores, that's the number we have for the second half. As I mentioned, if you look at our H2 cash plan and typically, our Q3 and Q4 specifically, is a far bigger than H1. So our cash flow, I think even post capex will be more than $1.2 billion, which can take up the whole maturities. At the same time, we're dealing with multi bankers, be it PSU bankers or multinationals. So both in terms of refinancing and repayment, we have multiple options. And as I mentioned, we feel reasonably comfortable in the managing refinancing or repayment or both.

Vikash Agarwalla: Got it. Thank you so much.

Ajay Goel: Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as our last question. I now hand the conference over to Ms. Prerna for closing comments.

Prerna Halwasiya: Yes. Thank you, Nirav, and thank you all for taking the time to join us. I hope we were able to answer most of your questions. In case you have any further questions, please feel free to reach me or my colleagues at the IR team. This concludes today's call. We look forward to reconnecting you for next quarter's earnings call. Thank you, everyone.

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