"Vedanta Resources Limited

H1 FY '24-'25 Earnings Conference Call"

December 30, 2024

MANAGEMENT: **MR. AJAY GOEL – CHIEF FINANCIAL OFFICER – VEDANTA RESOURCES LIMITED**
MR. CHARANJIT SINGH – GROUP HEAD, INVESTOR RELATIONS – VEDANTA RESOURCES LIMITED
MR. ANUPAM – VEDANTA RESOURCES LIMITED
MS. SAKSHI– VEDANTA RESOURCES LIMITED
MR. VINIT – VEDANTA RESOURCES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Vedanta Resources Limited First Half Financial Year 24-25 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. Participants connected on webcast link may change the quality settings to 1080p to watch the proceedings on best quality. I now hand the conference over to Mr. Charanjit Singh, Group Head Investor Relations, Vedanta. Thank you and over to you.

Charanjit Singh: Hi Yashashri. Good afternoon, everyone and welcome to VRL's H1 FY25 earnings call. On behalf of team Vedanta, I thank you for joining us today to discuss the company's first half performance. Hope you had the chance to look at the results, press release and presentation which are available on the company's website. We will start with an update on the operational and financial performance and thereafter we will open the lines for Q&A. This call is covered by the cautionary statement on slide 36 of the results presentation.

With this, I now hand over the call to Mr. Ajay Goel, our Group CFO for his opening remarks. Over to you, Ajay.

Ajay Goel: Thank you, Charanjit. A very good morning and good afternoon to all. The first half of the year has been our best ever, highlighted by structural and sustainable cost optimization coupled with a strong execution of various initiatives including bond issues, QIP, offer for sale (OFS) for Zinc India. Furthermore, we also achieved a major milestone by regaining control of KCM effective July 24.

I will start first with the operational highlights. Vedanta's aluminum and zinc operations achieved record production levels with aluminum reaching its highest ever, first half output of 1.2 MT, a 3% Y-o-Y increase and Hindustan Zinc Limited recording an all-time first half metal production of 524 KT, up 5% Y-o-Y. Both aluminum and zinc sustained their cost leadership consistently ranking in top quartile and decile of the global cost curves respectively.

Aluminum's H1 COP decreased by 8% year on year while Hindustan Zinc Limited's COP dropped by 7% Y-o-Y marking its lowest first half COP in the last 4 years. I will move now to the financial highlights. For H1 FY25, we achieved a console revenue of 8.7 billion marking a 6% growth Y-o-Y and also delivered a robust EBITDA of 2.6 billion reflecting a remarkable 39% increase Y-o-Y. Our EBITDA margin reached 36% showcasing a substantial improvement of 858 basis points Y-o-Y. PAT of 1.7 billion including gain of 0.9 billion on our KCM consolidation. RoCE remains at 23% maintaining a strong double-digit performance.

Free cash flows pre-capex stands at 1.3 billion again an increase of 40% Y-o-Y. Our net debt to EBITDA ratio which is very very important and we all track it very closely. So, our net debt to EBITDA ratio improved to 2.3x compared to 2.6x same time last year. And finally, our liquidity position has significantly improved with our cash and cash equivalents of 3.6 billion and impressive 66% increase over FY24 levels.

Deleveraging. We are very happy to share significant advancements in our deleveraging journey.

Over the last two and a half years we have reduced our debt by 4.7 billion bringing it down to 4.8 billion, its lowest level over the last one decade. At the beginning of the year we committed to reduce 3 billion of debt over the next three years and we have already achieved 1 billion deleveraging in the first half of the current fiscal.

Through continued deleveraging efforts and strategic measures like refinancing we expect to achieve a single digit cost of debt in the near term at VRL and with interest obligations VRL will be covered through brand fee while the principal will be financed through a routine dividend. This will ensure that VRL in future is self-funded.

Moving on to the bond issuance and refinancing. Now as you may have noted, we have refinanced 1.2 billion of bonds with the last tranche of 0.3 billion at 9.99% yield. This strategic refinancing has led to a 3% reduction in the cost resulting in annual savings of about 35 million. Furthermore, in November, we raised 0.8 billion via new bonds with 300 million maturing in 2028 and the remaining balance scheduled for repayment in 2031, reinforcing our financial strength and long-term stability.

Recently, we have also finished our bond consent exercise for remaining 0.4 billion bond which has far better and congenial covenants. Credit rating, you may have noted, S&P has upgraded our corporate family rating to B with stable outlook. Moreover, Fitch has assigned Vedanta Resources its first time rating of B- with positive outlook, underscoring our strengthened position and optimistic future prospects.

KCM very briefly, talking about KCM, we are fully committed to driving a remarkable turnaround at KCM and unlocking its true potential, aiming to achieve production of copper to 300 ktpa. Additionally, we are firmly committed in investing about 1 billion over the next five years to successfully complete key expansion projects ensuring long-term growth and value creation.

Finally, in conclusion, our strategic actions have successfully optimized the balance between risk and rewards paving the way for long-term and sustainable growth. As we look ahead, our priorities remain centered on driving robust cash generation and reaching key deleveraging targets supported by a well-diversified asset base and resilient balance sheet. We are uniquely positioned to seize opportunities arising from global mega trends. We are steadfast in our commitment to delivering steady value across all phases and business cycles.

With that, I hand over to the operator for any Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We'll take our first question from the line of Love Sharma from JPMorgan. Please go ahead.

Love Sharma: Hi. Thanks, Ajay, for the call. Just one quick question from me, mainly on KCM. If I look at the release which you just had on the earnings side, you have about -- it shows about $235 million of cash which you got post the acquisition of KCM assets and there's also certain borrowings outstanding there of about 634 million. Could you just elaborate what was the debt or the net debt incurred as part of this transaction? And secondly, how much of cash you have injected since then and if you could just give any indication about what kind of profitability or cash flows you are seeing from that asset?

Ajay Goel: Yes, sure, Love. I'll start with the business part first. I'll request my colleague, maybe Anupam or Sakshi to cover the debt part at KCM. As you know, the KCM is one of the foremost assets world over in copper and with R&R base of 50 years and a very high grade of copper. As you speak, the production in the current fiscal is about 70 to 100 kt in the current year and that is set to go to almost 200 kt per year next fiscal. With that, our EBITDA next year will be almost 150 million or thereby 150 million in terms of overall EBITDA.

Net-net over next year or the year next, KCM in fact will be generating a healthy EBITDA and the free cash flows. Right now, I think rightfully so the management is fully committed and dedicated in terms of operationalizing the KCM mines given the pricing outlook in terms of copper. Maybe I'll request Anupam or Sakshi to cover debt part.

Anupam: So, there is no additional incremental debt that has been taken at KCM as yet. We are still in the various phases of looking at options available at KCM. There has been an infusion of $290 million of new loans from the VRL entity to KCM to support the immediate requirements and to enable the acquisition of the KCM entity back into the VRL group.

Love Sharma: Okay now thanks Anupam. So just if I could follow up on that. So based on the release which you have there is a borrowing of about 634 million at KCM as I said. I assume these are borrowings which are there pre-acquisition and those remain outstanding. Is that right?

Anupam: Yes, correct.

Love Sharma: Okay understood. And then you mentioned the cash infusion which you mentioned of about 290 million. This is post the acquisition because I see cash something cash of about 235 million at KCM during the acquisition date. So, this 290 million probably is on top of that. Is that right?

Anupam: No. The total outstanding is included in the number that you mentioned. The 635 million that's the total debt outstanding at KCM which includes the infusion done by us.

Love Sharma: Understood. Okay so that includes that as well. Okay got it. Makes sense. Okay so that's clear. Apart from that and again I think Ajay coming back to what you just commented on the current rate output rate is about 70 KT to 100 KT per year and you're looking at about 200 odd for FY '26 I believe.

So, and that gives you 150 million EBITDA. So is it fair to say as of today you would be running at maybe close to break-even estimate or so at current output levels and once you have this project ramp up next year that's when you see 150 million EBITDA. And if you could just also elaborate what kind of capex you need to do for next year to bridge this gap between 70 to 100 to 200 next year?

Ajay Goel: Sure, so if you start first with the current fiscal and as you know the mine has been inoperative for last 3-4 years and hence operationalization and the opening cost including the O&M is right now high and hence the current year COP will not be good guidance. But as we close the year once mine reach substantial and critical mass in terms of volumes will be break-even at the year-end as on March closing production. The number I mentioned is about 150 KT to 200 KTPA next year will lead to EBITDA of 200 million next year.

So that number remains intact. Finally in terms of capexes and our commitment has been about a billion investment over next 5 years. These numbers will be mostly linear give and take 200 million every single year.

Now how that will be funded? It will be funded mostly through operating free cash flows at KCM in year two and three onwards and in the interim maybe an offtake agreement at KCM. So, in summary the funding for the KCM over next 1 to 2 years will not stretch VRL balance sheet.

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

Imtiaz Shefuddin: Thank you. Hi Ajay and thanks for the chance to ask questions. I have a couple. The first one relates to your ongoing de-merger exercise. What's the next step for the de-merger exercise and if you set the dates for the creditor and shareholder meetings?

Ajay Goel: Yes sure. So, as you know we filed the scheme Imtiaz sometime August of the current fiscal and the matter at NCLT was heard sometime in October and the order has been now cited. And order which is routine par for the course is asking for calling a meeting of shareholders and the creditors.

Next step remains we have three months' time from the order date which is sometimes in mid of November. So, we have to call a meeting of the creditors by end of January or early Feb. That's the next step.

Imtiaz Shefuddin: Okay.

Ajay Goel: So overall in terms of critical next steps meeting of the creditors and there we need to secure the approval for de-merger then the meeting of the shareholders and with that certain statutory approvals knowing in couple of our businesses example remains in Cairn Oil & Gas, government has a stake or at various the local state governments various statutory approvals that again takes some time. So overall most critical meeting now remains meeting of the lenders and the creditors and securing an approval for de-merger and with that we foresee this transition culminating by June or July of next calendar year.

Imtiaz Shefuddin: Okay. June or July. Okay. My second question is relates to the intercompany loan which was due in December. I understand that you were looking to roll over by about a year and a half. Has that been done? And if so if you could provide the new maturity date?

Ajay Goel: Yes sure. So as you recollect that inter-corporate loan of 417 million now has been rolled over by the Vedanta Board and this was done about a week ago or so. Now we are looking at two maturities so almost half 200 million will be now due in January of 2026. So, it is rolled over for about 13 months or so and the remainder 217 million will be due in May 2026. So, on average the loan has been rolled over by about 15 months.

Imtiaz Shefuddin: Okay and can I just ask what is the interest rate on the new terms?

Ajay Goel: Rest all terms and conditions including the rate of interest 13.5% remains unchanged. So, the only change remains the maturity has been deferred from December half in Jan '26 other half in May '26.

Imtiaz Shefuddin: Okay. Thank you. And if I can just ask one more question now post the successful consent exercise on the 28th can you give us an update in your thought process on the 460 million outstanding of the old August 28th and also the 600 million of the 26s?

Ajay Goel: See the entire 1 billion and one discussion which we had internally and of course with experts should we look for a consent or should we go for TAP in December for the 0.4 billion and obviously the company leaned towards consent exercise which led to the same outcome as in TAP you know which means we got better rating now we got far more congenial maturity curve. We believe the market will be far better in January or early Feb or mid-January and with that we will wait and watch the market and look for both 0.4 or 460 million and 0.6 the unsecured maturity to be addressed sometimes in January.

Imtiaz Shefuddin: Okay. So, am I right to assume that you are looking to potentially access the US dollar bond market for these two?

Ajay Goel: I mean it's hard to give a guidance on those lines Imtiaz.

Imtiaz Shefuddin: Okay.

Ajay Goel: But obviously that 1 billion is on the radar and the 460 and of course 0.6 billion both has to be addressed. The one obviously is high cost and bringing down the cost of funding to a single digit in near future and a far lower number in mid-term is one priority. For unsecured which is due in April 26th we have to address of course give and take by March in terms of maintaining our rating. So, we have to address both a billion- 1.1 billion sometimes in the next quarter hopefully it will be the first half of the next quarter.

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

Vikash Agarwalla: Hi thanks Ajay. Thanks team for doing this call and providing update. Just a quick follow-up from the last question being discussed on the refinancing strategy. I would you know it would be great if you can share some thoughts more on the medium-term strategy on the cap structure.

You have obviously shown access to bond market and you know so we are talking about another 1 billion refinancing. Can I check you know what is your strategy on accessing bank loans at VRL level again? We have seen a small amount I think 125 million in the recent past but apart from that is there's you've been paying down all the bank debts specifically for the Indian bank domestic banks.

So, can I check what is the medium-term target for cap structure in terms of split between dollar bond and bank loan at the other level?

And this again goes back to your point of bringing down the cost below 9%. That could be some insights on how to think about the strategy on the cap structure side. So that's my first question and the second question is on the Fitch rating that you mentioned about positive outlook. Any discussion in terms of the key milestone or timeframe that you're looking for an upgrade from Fitch?

Ajay Goel: Yes sure. So maybe I'll start the first area first and maybe allow me to elevate the discussion Vikash in terms of overall capital structure for Vedanta as a group. Now we see it from three viewpoints. First of all, what will be our overall debt cap or net debt to EBITDA both for VRL and the VEDL where we are right now? What is short-term outlook? Second area from allocation of capital and the cap structure remains. How about the equity part?

Are we looking at more stake dilution or will we buy more stake in Vedanta Limited? How about Zinc? Post demerger how one should look at overall caps to equity viewpoint? Third area is very much tactical though very important for Vedanta resources. The entire 5 billion debt stack how one should look at it in multiple cohorts and how one should look at in the medium term.

So, starting with the first area. In terms of our debt overall benchmarking, overall structure and ceiling we see it as a bifocal issue for Vedanta Resources. At the year beginning our debt was about 5.8 billion. Give and take 6 billion and we announced that we will be deleveraging VRL 3 billion over 3 years. So, at VRL our debt cap is in absolute value terms. So right now at about 5 billion it will go down to 4 and eventually 3 billion over next 2 years that's Vedanta Resources.

At Vedanta India console Vedanta Limited console this being an operating company. It will not be perhaps appropriate put a value term it's in high growth mode and hence net debt to EBITDA ratio we believe is right benchmarking. In the recent past debt to EBITDA at about 2x it is down to about 1.5x as we speak in September, and we intend to bring it down to less than 1x where our EBITDA will be racing ahead of debt at India level.

So, 3 billion at VRL less than 1x at Vedanta India console level. Second area in terms of equity capital structure. We right now are fairly comfortable in terms of VRLs stake in Vedanta Limited at about 56.4%. There are no plans immediately of more dilution or acquisition and obviously our biggest priority remains deleveraging, other priorities becomes subservient to that priority.

So, there is no discussion in terms of more stake buy in Vedanta by VRL or in Hindustan Zinc Limited by Vedanta Limited. Post demerger the repertoire of optionalities becomes far wider. One can think of the demerged say Aluminium Limited may be a differentiated capital structure than right now the large monolithic Vedanta Limited, but that is still I guess six months from now discussion.

Finally, if I come down to VRL current debt of 5 billion and it has three large cohorts 3 billion worth of bonds about a billion worth of bank loans from mostly Indian state government and bankers and last 1 billion is PCF. So out of 3 billion bonds 2 billion is addressed over last eight odd weeks. The last billion will be addressed as I mentioned over next 4 to 6 weeks depending upon how the market opens once it's a new fiscal or New Year.

The billion worth of bank loans they are at lower cost mostly a high single digit and you are right Vikash over the last 1.5 years they have been mostly being paid down not refinanced or rolled over maybe the reason remains given the demergers and many of those bankers are investors including in Vedanta Limited, their queries around debt allocation has been now mostly addressed and that market reopens for us at VRL and you will see more action in near future where we either roll over or refinance or take more debt from the Indian bankers as well.

And the last cohort remains a billion worth of PCF and that is a very high-cost loan that we intend to pay down almost 0.4 billion in April once next brand fee is paid and the remainder 0.6 billion once the make-whole ends in August next fiscal. So overall if I look at Vedanta Resources' 5 billion the cost of funding need to go down in the short term to a single digit.

In that case the interest cost will be managed through the brand fee which is contractual and the maturities will be 0.7 to 0.8 billion every single year that can be easily met by a routine dividend with about 6% to 7% dividend yield and in that case as I mentioned VRLs both income statement and the balance sheet will be self-funded.

In terms of Fitch your second part of the question obviously our target and we believe entitlement is BB rating at Vedanta Resources. And many rating companies also concede in our meetings with them that our metrics now are more close to BB. So, once we tap a billion in Jan-Feb and do some more actions, we believe that BB is of course is in striking range in near future.

Vikash Agarwal: Sure. I understand again that's very helpful maybe one more question from my side is on the operational side especially for Vedanta Limited after the mining tax rule which was recently passed. There have been some headlines which I've been reading about states imposing taxes and I think very simply there were some news on Karnataka as well.

How are you seeing those you know potential taxes impacting your operations if you can throw some insight, I don't know how much real numbers you have. But maybe even some directional or how are you thinking internally about it will be helpful to understand the issue.

Ajay Goel: Sure, so your question has two parts Vikash first the mining tax ruling which came from Supreme Court a few months ago sometimes in August. And where the impact can be retroactive that area we have addressed in our last earnings call. The impact on Vedanta there is quite minimal and any provision that we see is probable has been already addressed and provisioned in our second quarter earnings.

So, ruling by Supreme Court has been addressed and the impact on Vedanta there is quite minimal. The number I remember is about INR180 odd crores is about 20-25 million. The recent ruling which came in in Goa or Karnataka in terms of tax on iron ore. See I will urge you to look at the Vedanta portfolio, if I look at the Vedanta portfolio from the finance prism as in the profit pools. So, almost 40% EBITDA right now comes from aluminum about 35% from zinc 10% from oil and gas, so these three makes about 85% of the profitability the remaining portfolio be it steel iron ore frac ore and rest all about 15%. Within that the Sesa Goa is about 5%, the point I'm trying to reach to that the impact of this ruling potentially which we have to see how it pans out will be truly insignificant on Vedanta in terms of overall profitability.

Truly insignificant, rounding off in one sense.

Vikash Agarwal: Got it so I understand Ajay I think what I was trying to understand more is for example say, zinc right. I mean for zinc if we have any such rulings or taxes which comes up how are you factoring in that impact on you know potential imprecision from that? I understand iron ore is a small portion and does not impact you materially, but zinc potentially can be because that is you know one large pocket of your EBITDA contribution?

Charanjit Singh: We cannot speculate on the call with respect to what could happen so let's stick to the factual things and whatever the incidents are in the public domain.

Vikash Agarwal: Okay, got it. Thanks that's it from my side thank you everyone.

Moderator: Thank you thank you we'll take our next question from the line of Bharat Shettigar from Standard Chartered Bank. Please go ahead.

Bharat Shettigar: Yes, hi Ajay thanks a lot for this call a few questions from my side. Firstly, if I look at the segment-wise debt breakdown in one of the slides the VRL debt is shown as $5.55 billion as of September but the footnote says that it also includes Konkola debt, how much is the Konkola debt out of that as of September?

Ajay Goel: Okay maybe I'll request Vinit, Sakshi to address this?

Vinit: Yes, this number of 5.55 billion also includes external debt of KCM which is insignificant. Majority of the KCM debt out of 635 Mn is of VRL itself and hence gets eliminated while consolidation.

Sakshi: Yes just adding on to Vinit's line basically as on September the numbers that you're seeing in our segment debt breakup so that includes new issuance of 900 million bonds. And the repayment from that 900 issuance happened in October. So, that is the impact that you're seeing in debt and cash numbers as on 30th September.

Bharat Shettigar: You know that I understood. My question was more on the footnote about Konkola debt. So, you're saying about 600 million is Konkola out of that 5.55 right?

Vinit: No, this ~635 million debt is at KCM standalone and in 5.5 Bn only external debt of KCM is there which is insignificant.

Bharat Shettigar: Right. And then looking at 2025 just want to understand how or what is the plan with respect to Konkola funding access? And will Vedanta Resources Holdco need to make any inter-company loan or equity infusion for the Konkola operations?

Ajay Goel: Yes that question I briefly covered Bharat initially. So, if I look at the current fiscal we'll be ending the current year with about 70 ktpa to 80 ktpa production and that number is set to go to about 150 ktpa to 200 ktpa next fiscal. Now with I think with almost a stable cost of production and operations that lead to almost 200 million of EBITDA at KCM next year or so.

And that would lead to even the cash generation, so in summary we don't foresee maybe beyond some rounding off differences from VRL's viewpoint where VRL has to fund KCM so KCM next year. So, as I mentioned we need a billion of capex at KCM over next 5 years and that will be broadly linear in terms of yearly requirement 200 or thereabouts every single year.

Net any funding at KCM next year will be managed through any off-take agreement at KCM and thereafter, or cash flow at KCM. In summary, beyond a very small number, VRL don't have to fund KCM next years.

Bharat Shettigar: Okay, and then one clarification, you mentioned -- sorry go ahead.

Ajay Goel: No, please carry on Bharat, what I have mentioned I hope that clarifies.

Bharat Shettigar: Yes, sure. Now, the next question is on the private credit facility. You mentioned the $1 billion outstanding amount. My understanding was that $850 million is outstanding at the moment. Is that correct?

Ajay Goel: It is correct $850 million is the PCF and we have taken one more one at $125 million. Yes so it's a same sort of speaker coordinator. So total is $975 million. So out of $850 million, $300 million to $400 million will be repaid in April when the next brand fee is paid and for the remainder $550 million or $600 million- there is a make-whole until August of next year. And that we intend to address on priority once make whole gets over.

Bharat Shettigar: Right, but the $125 million loan is the standard chartered loan right? That you're talking about or is it something more?

Ajay Goel: That's correct, I know it is same Stan Chart.

Bharat Shettigar: Right, but that is at the VRL holdco right not at Vedanta Holdings Mauritius two levels?

Sakshi: Yes, that's good. That's at VRL.

Bharat Shettigar: Okay. And then final question is, I mean there's a lot of these -- bond issuance and buybacks etc., in this current quarter, as in the December quarter. So just trying to understand what would be the pro forma debt and cash now at VRL after, after netting off all those transactions?

Ajay Goel: Sakshi, can clear this?

Sakshi: So as on date 30 December, so we have debt of around $4.9 billion at VRL and cash of approximately $140 million.

Bharat Shettigar: And the debt does not include the intercompany loan, right?

Sakshi: No. The intercompany loan of $417 million is separate.

Bharat Shettigar: Right. And just to clarify, this includes the dividends that were recently announced by Vedanta Limited. That has already been received, right?

Sakshi: Yes, that's right.

Bharat Shettigar: Okay, that's all from my side. Thank you.

Moderator: Thank you. We have a question from the line of Imtiaz Shefuddin from Barclays. Please go ahead.

Imtiaz Shefuddin: Thanks again. I just wanted to get some details on this 125 million. I wanted to confirm the details on this 125 million PCF from Stan Chart. When is it due? And if there is any make-whole? And the interest cost please?

Ajay Goel: I request Sakshi to address this please.

Sakshi: Yes, sure. So, Imtiaz, the cost is sub 10% and this complete amount is due in next financial year.

Imtiaz Shefuddin: Can you provide like a date? I mean, just a month when is it due?

Sakshi Agarwal: So, 25 million is due in Q1 and balance Q2.

Imtiaz Shefuddin: Okay, great, thank you.

Sakshi: Thank you.

Imtiaz Shefuddin: Sorry, Q1 of calendar or financial?

Sakshi: It's financial year. Q1 and Q2 of the next financial year. Yes.

Imtiaz Shefuddin: Thank you.

Moderator: Thank you. Ladies and gentlemen, we'll take that as the last question for today. I now hand the conference over to Mr. Charanjit Singh for closing comments. Over to you.

Charanjit Singh: Thanks everyone, for taking out the time to join us on this call. I hope most of your questions have been answered. In case there are further questions, feel free to reach to us. We look forward to reconnecting around mid of 2025 for our full year results. So have a wonderful rest of the day and very best wishes for the New Year. With this, we conclude our today's call. Thank you.

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