Vedanta Resources Plc
Q1 FY2019 Production Results Conference Call

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MR. ABHIJIT PATI – CEO, ALUMINUM, JHARSUGUDA
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Moderator: Ladies and gentlemen, good day and welcome to the Vedanta Resources Plc Q1-FY2019 Production Results 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 Ms. Rashmi Mohanty from Vedanta. Thank you and over to you ma'am.

Rashmi Mohanty: Thank you, operator. Good morning everyone. This is Rashmi Mohanty – Head Group Investor Relations for Vedanta. Thanks for joining us today to discuss our 'Production Results for Q1FY 2019'.

From our Management Team, we have our Group CEO – Mr. Kuldip Kaura, Group CFO – Arun Kumar and several of our business leaders; Sudhir Mathur from Oil & Gas; Amitabh Gupta from Hindustan Zinc; Deshnee Naidoo from International Zinc Operations and KCM; Ajay Dixit and Abhijit Pati from Aluminum and Power, Ramnath from Copper, as well as Naveen Singhal from Iron Ore.

Before I hand over to Mr. Kaura, let me remind everyone to restrict their questions post the management comments only to the production and financial performance of Vedanta Resources. If you have any questions in regards to Rule 2.7 announcement made by Volcan Investments on July 31, 2018, please reach out to the Investor Relations team.

Kuldip Kaura: Thank you, Rashmi. Good Morning, Ladies and Gentlemen. I am pleased to welcome you to Vedanta Resources Q1 FY2019 Production Conference Call.

Operationally, this has been a good quarter. We are ramping up our production across our business segments and in Quarter 1 we made good progress.

Volume ramp up from our underground mining operations at Zinc India and at our Aluminium business continued at a good pace. We see further visibility on our oil production targets for the year. On KCM, quarterly production improved year-on-year and also sequentially. We also completed the acquisition of Electrosteel during the quarter. However, we did have a few setbacks as we started Financial Year '19 with the shutdown of our iron ore operations at Goa and Copper Smelting operations at Tuticorin.

At Goa, we continue to engage with the Government for resumption of mining operations. Regarding the Tuticorin operations, we have filed an appeal before the National Green Tribunal, Principal Bench challenging the rejection of renewal of CTO and closure of the existing plant.

Our copper smelter is amongst the best copper smelters in the world in terms of environmental practices and the plant uses the best-in-class technologies to be a zero-discharge plant. We will continue to engage with the relevant stakeholders on this matter.

We remain excited about our portfolio of businesses as the fundamentals for metals, Oil & Gas and other natural resources in India continue to be strong.

On commodity prices, despite some pull back in metal prices recently, especially zinc and copper on account of global trade war concerns and the appreciating dollar, we feel that the prices will stabilize in the medium-to long-term.

On Safety:

Vedanta remains focused on 'Zero-Harm, Zero-Waste and Zero-Discharge'. But regrettably five fatalities at our businesses overshadowed our Health and Safety efforts in Quarter 1.

Let me assure you that all of us in our Executive Team are committed to our safety goals and to bring Vedanta to the best HSE performance in the resources sector. We are focussing on enhanced visible leadership on the ground, risk management, and use of digital technologies to make the workplace safer and have taken some notable initiatives on training this quarter:

Digital projects on access control and geo tagging have been launched on a pilot basis and shall be replicated across the organization. We have also institutionalized surveillance program of our tailings dams at all Indian sites, readying them ahead of monsoons.

Let me now provide a brief operational update on some of our businesses:

In Zinc India:

MIC during the quarter was 212,000 tons lower by 17% from last quarter. From this quarter HZL transitions to fully underground mining. This was completed in a safe manner and underground output ramped up by 7% quarter-on-quarter from 197,000 tonnes in Quarter 4 to 212,000 tonnes in Quarter 1. Metal production was generally in line with availability of mined metal. The ramp up of Rampur Agucha will be accelerated with the commissioning of additional ventilation and mid-shaft during the Quarter 2.

Our cost of production ex-royalty was higher quarter-on-quarter due to low volume, maintenance shutdown costs, and impact of wage settlement.

Financial Year '19 is an important year for us as the gap in our production on account of closure of open-cast operations will be filled up with ramp-up at our underground mines. Our underground mine production will increase progressively every quarter and we are confident of reaching our guidance of surpassing last year's record production and will target a run-rate of 1.2 million tonnes MIC as we exit this year.

Major milestones on shafts and mill commissioning are on schedule.

In Zinc International, production was low at 25,000 tonnes mainly on account of a planned maintenance shutdown at Skorpion during the quarter which was partially offset by improved recoveries at BMM.

The lower production volume and Skorpion maintenance shutdown expenses also increased the COP for the quarter, but we remain on track for our full year cost guidance.

At Skorpion, Pit 112 ore mining and metal production is expected to ramp up progressively from Quarter 2. Going forward, all production at Skorpion will be from Pit 112.

At Gamsberg, almost 100% of pre-stripping work has been completed. About 0.5 million ton of ore stockpile has been built. The crusher has been commissioned and crushed ore stockpile is currently being readied. Mill commissioning has started, and first commercial concentrate production is expected in September after a minor delay due to a fatality at the site. We continue to work towards full year production of 100,000 tonnes.

On Oil and Gas,

We are progressing well to deliver the FY19 target of 220,000-250,000 barrels per day. With more new wells being brought online and availability of additional rigs, average gross production across assets was 195,000 barrels per day, 3% higher quarter-on-quarter. The execution of various growth projects involving CAPEX investment of over USD 2.3 billion has commenced. 7 drilled rigs are on site which shall ramp-up to 14 rigs in Quarter 2. We are expecting to increase the number of wells from 2 to 16 by Quarter 2 at MBA as our Infill, EOR Polymer and ASP projects progress well.

Our gas production will see a substantial jump driven by two factors:

1. 50% increase in production as GIGL pipeline gets commissioned in Quarter 2.
2. The work on gas terminal has commenced. In the interim, we shall be deploying early gas processing facility to double the gas production by Quarter 4.

We are progressively increasing the liquid handling capacity at MPT to produce incremental volumes. At ABH, our first Tight Oil project, the first oil expected in Quarter 3. We are also investing in exploration in Rajasthan and in KG offshore. We are looking to make significant additions to our current acreage under the government's Open Acreage Licensing Policy. We have bid for all the 55 blocks on offer. The award is expected in Quarter 2.

Moving to the Aluminium segment:

Aluminium division continued the strong production trajectory from last quarter and delivered record volumes of 482,000 tonnes and an improved margin of $425 per tonne in Quarter 1.

The key focus in this segment is on costs and improving realization. During our FY18 Results in May, we had guided to a $120-170 per tonne savings in our aluminium COP Year-on-Year by optimizing controllable costs and elimination of one-offs, while excluding impact of market factors.

In Quarter 1, we have achieved about $50 per tonne of the savings driven mainly by improvement of power plant operating parameters, elimination of pot revival one-offs and reallocation of cell relining expenses.

We have started receiving high-quality Odisha bauxite through OMC for our Lanjigarh refinery and this will meet a third of our bauxite requirement this year. Alumina production which was lower this quarter at 325,000 tonnes due to temporary issues in the bauxite handling unit, will ramp-up to 1.5-1.6 million tonnes this year with increase in Odisha bauxite.

On coal – the focus is on increasing linkages through Tranche-IV auction and improving the materialization of current linkages. We are also improving the power plant operating parameters and GCV loss elimination. With these key cost drivers, we retain the savings target for the year.

On the marketing side – we continue to focus on improving net premiums by progressively increasing value-added production from 43% of total sales in this quarter to a 59% exit rate in Quarter 4.

On Electrosteel:

During the quarter, we completed the acquisition of Electrosteel under the IBC process. We see this acquisition at an attractive pricing to be a strategic fit to create an integrated iron and steel business. We will consolidate the financials of ESL for a 10 months period in this fiscal.

The ESL plant is located in Bokaro, close to major raw material sources, including our proposed Jharkhand iron ore mines which are about 250 kms away from the asset. The plant currently has a hot metal capacity of 1.5 million tonnes and a design capacity to go up to 2.5 million tonnes with additional CAPEX. It produces long steel products - wire rods, rebars, DI pipes, billets, etc. In the last financial year, the asset produced around 1 million tonne of output at an EBITDA margin of $55 per tonne. We are in the process of integrating these operations within the group.

Our plan in the near-term is to stabilize production from the asset and to strengthen its various functions such as commercial and marketing while simultaneously working on ramping up production to its full current capacity of 1.5 million tonnes per annum. Once this is complete we would be able to substantially improve EBITDA from current levels. This will get us ready for the next phase which is the expansion to 2.5 million tonnes.

Lastly on KCM:

Mined metal production was 23,000 tonnes in Quarter 1 higher quarter-on-quarter supported by improved feed-grades from tailings and higher copper recoveries at TLP. The increase was partially offset by maintenance breakdown at Konkola underground mines which has now been rectified. Cost of production at 265 cents per pound was almost flat in comparison to the last quarter.

The new business partnering model is in stabilization phase and we expect full stabilization by end of Quarter 2 or early Quarter 3. As an evidence to this, the July 2018 daily production run-rate averaged at 310 tonnes per day of mined metal. We expect this to sustain in the near-term and improve as we progress through the year.

In Summary:

Vedanta is on a transformational journey with significant growth across its businesses. The key enablers for driving this growth are the use of technology and innovation to drive best-in-class and low-cost operations, skill development, experienced leadership to steer the project delivery with sustainability at the forefront.

We have maintained our guidance for 2019 across our business segments. With key growth milestones coming up in the upcoming quarters, we expect the performance to progressively improve as we advance through the last 9 months of this financial year.

Over to Arun to provide a brief Finance Update.

Arun Kumar: Thanks Mr. Kaura and Good Morning everyone.

As outlined by the CEO – the quarter saw the company deliver on growth projects with Zinc India, Gamsberg at Zinc international and Oil projects making good progress. Some key highlights of the quarter:

We delivered a strong first quarter EBITDA of $983 million, 26% up quarter-on-quarter driven by strong volume growth in aluminium and oil, as well as strong LME and Brent, partially offset by higher costs. EBITDA margin was robust at 33%. Our Guidance on volumes and costs remain broadly unchanged.

The net debt as on 30th June 2018, was at $10.7 billion, higher than $9.6 billion that we closed as of 31st March 2018, primarily on account of acquisition of the Electrosteel Limited and some temporary increase in the working capital due to input price inflation and copper plant shutdown as we try to sell-down the concentrate inventory.

We continue to actively manage debt maturities and to evaluate various options to optimize and strengthen its balance sheet, continue on the path of expanding the maturity profile and further reduce financing costs.

With that let me handover to the operator for Q&A.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. As there are no further questions, I would now like to hand the conference over to Ms. Mohanty for closing comments. Over to you ma'am.

Rashmi Mohanty: Thank you operator. Thank you all for joining us today for the Production Release Call for the 1st Quarter 2019. If any of you have any questions, you can always reach out to the Investor Relations Team of Vedanta. Thank you.

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