



“Vedanta Resources Limited
1H FY 2023 Earnings Conference Call”

December 15, 2022



**MANAGEMENT: MR. SANDEP AGRAWAL – HEAD OF INVESTOR
RELATIONS - VEDANTA RESOURCES LIMITED
MR. SUNIL DUGGAL – GROUP CHIEF EXECUTIVE
OFFICER – VEDANTA RESOURCES LIMITED
MR. AJAY GOEL – ACTING GROUP CHIEF FINANCIAL
OFFICER – VEDANTA RESOURCES LIMITED
MR. SUJIT VERMA – PRESIDENT CORPORATE
FINANCE – VEDANTA RESOURCES LIMITED
MS. MEHAK CHOPRA – VEDANTA RESOURCES
LIMITED
ANUPAM JINDAL – GROUP TREASURY HEAD –
VEDANTA RESOURCES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the H1 FY '23 Earnings Call for Vedanta Resources Limited. 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 as 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 handover the conference over to Mr. Sandep Agrawal from Vedanta. Thank you, and over to you, sir.

Sandep Agrawal: Thank you, Faizan, and hello, everyone. I am Sandep Agrawal. On behalf of Vedanta Resources, I am delighted to welcome you to our first half of FY '23 Earnings Call. The transcript of this call will be made available on Vedanta Resources website. The financial statements OFR and presentations are already available on the website. Please note, today's entire discussion will be covered by the cautionary statement on Slide 2 of the presentation.

We will start with update on key highlights of our operational performance by our Group CEO, Mr. Sunil Duggal, and financial performance by Acting Group CFO, Mr. Ajay Goel. And then we will open the floor for questions-and-answers. Today, we have with us our Corporate Finance and Treasury team members also. Mr. Sujit Verma, President Finance; Anupam Jindal, Group Treasury Head and Ms. Mehak Chopra

Now without further ado, I would like to hand over the call to Mr. Duggal.

Sunil Duggal: Thank you, Sandep. Good afternoon, everyone and welcome to Vedanta Resources FY '23 Half Yearly Earnings Call. I'm pleased to share that despite the volatile external environment in the first half of the fiscal. We have delivered robust operational performance. This was underpinned by our focus on cost optimization and continued volume growth. We have delivered a consolidated EBITDA close to \$2.5 billion with a strong EBITDA margin of 29%.

Our growth and vertical integration projects are progressing very well. We now have six coal mines with upward of 40 MTPA production potential. These mines will be more than sufficient to take care of entire coal requirement of aluminum business and help in making it structurally strong. Gamsberg phase 2 expansion will make Zinc International one of the largest operations globally, with 500 KTPA plus MIC production.

While we continue to strengthen our operations to deliver sustainable and predictable performance across the cycles, we are relentlessly working on ESG commitments to transform communities, planet and workplace. We have reached a milestone of 3,600-plus Nandghars for women and child welfare under our flagship community building program. BALCO Hospital, Centre Health has also signed MOU with Tata Memorial Centre to drive excellence in cancer care.

At Jharsuguda, we deployed India's largest fleet of electric forklifts. We pledged to donate 2 million meals under our mission to eradicate child hunger through our Run for Zero Hunger Delhi Half Marathon sponsorship. We are steadily making strides towards achieving our target of deploying 2.5 GW renewable energy in our operations.

We have signed 580 MW RE power delivery agreement and have issued EOI for additional 500 MW RE procurement. Zinc India's Panthagar plant is now our first unit to run entirely on renewable power. On water conservation, Cairn and Iron Ore Businesses have received third-party assurance for being water positive.

We have rolled out internal carbon pricing, completed climate risk assessment and reported Scope - 3 emissions for FY '22 and FY '21. In continuation to our industry-leading people practices on diversity and inclusion, we have identified 120 women leaders, who are being developed for future CFO roles. We are launching Stree-Shakti program for women leadership development in the third quarter.

I am immensely delighted to share with you that Vedanta has entered the exclusive club of top 10 DJSI ranked global metals and mining companies. It ranked sixth globally with strong 14-point score improvement this year. This is a strong testament of our renewed ESG purpose and progress towards our commitment.

Now let me come to our operational performance. At our Aluminum business, we completed our Jharsuguda capacity ramp up to 1.8 MTPA, taking our total capacity to 2.4 MTPA.

Our aluminum production grew by 3% Y-o-Y in first half of FY '23. We have started Chotia coal mine operation in September to rationalize our coal cost. Zinc India achieved a refined metal production of 506 kt up 14% Y-o-Y. Silver production grew 19% Y-o-Y. The operations are now sustainably running at 1

MTPA plus production run rate. Our next focus is to achieve 1.2 MTPA on debt as soon as possible. Zinc International achieved highest ever Gamsberg MIC production at 108 Kt, up 27% Y-o-Y. We are now operating at about 300 ktpa run rate.

In oil and gas business, our average gross operated production was 144 kboepd. I'm pleased to inform you that government has extended the production sharing contract for 10 years, for the Rajasthan block. We continue to engage with government on SAED within the framework of PSC and RSC.

In Iron and Steel business, we commenced commercial production at Nicomet, which is India's only nickel cobalt operation. We have successfully started ore production in our Liberia mines in July and are planning our first shipment in current quarter.

In terms of outlook, while Indian economy is not fully insulated from global events it is relatively resilient. Indian government increased capital expenditure continues to support demand and Indian economy is projected to grow at a robust 6.8% in 2023, fastest among the major economies. We are optimistic about Indian economy and India being our largest market, its continued strength holds well for our business performance.

In the longer term, with a rich, diversified asset portfolio and strong balance sheet, we remain well positioned to benefit from the long-term global mega trends of decarbonization and energy transition and withstand the challenging macroeconomic environment.

With this now, I would like to hand over to my friend, CFO, Mr. Ajay Goel for Financial Performance.

Ajay Goel:

Thank you, Sunil so much and welcome again, everyone. The macro environment in the first half of the year was quite mixed with a softening output prices and input inflation. Also, at the same time, various fiscal and monetary policy changes in India and world over. During the first half of the year, our businesses delivered strong operational performance further supported by several initiatives, which resulted in delivering strong financial numbers across businesses.

In H1, we achieved a consolded revenue of \$9.5 billion, which is up 21% Y-o-Y. EBITDA of about \$2.5 billion with a strong EBITDA margin of 29%, supported by improved sales volumes. ROCE continues to be in double digits at about

29%. This number, you will remember, not too far, was almost 15%. So, our profitability is raising far ahead than our need for capex and the capital. This year, EBITDA performance is majorly impacted by input inflation. However, we were able to lower the impact to a large extent through better volumes across our key businesses.

Strategic hedging also helped us to some extent in navigating the volatile and tumultuous market further supported by LME upside in the first quarter specifically. I'm very happy to share that we are progressing well on our deleveraging commitment of \$4 billion over 3 years. And we have already deleveraged the holding company Vedanta Resources in the first half as of September by almost \$1.4 billion, including ICL.

During the first half of the year, we had strong operational pre-capex cash flow of almost \$1.8 billion. We are in a comfortable position to meet our deleveraging requirements and all our capital market commitments. As on September 30, we achieved net debt-to-EBITDA ratio of 2x with healthy cash and cash equivalents of around \$3.5 billion. All our capex programs are on track as planned. On full year basis, we are revising the growth capex guidance of aluminum business to about \$0.6 billion, in-line with the cash outflow estimates. With this, full year growth capex guidance now stands at about \$1.6 billion.

I'm also very pleased to share that recently Vedanta Limited has been awarded with a Golden Peacock GLOBAL Award 2022 for excellence in corporate governance. Lastly, I'd like to reiterate we have an outstanding portfolio of long-life assets and the expertise to invest and grow in delivering vital commodities for a low-carbon future. We will continue to challenge ourselves and deliver across rising cycles.

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

Moderator: The first question is from the line of Love Sharma from Lombard Odier Investment Managers.

Love Sharma: Couple of questions. The first, on the holding company level. If you could just break down what kind of repayments are still left as of today at the PLC level? What kind of liquidity you carry presently? And then secondly, in terms of the liquidity upstreaming ability, there was supposed to be general reserve transfer, but you have to wait for NCLT approval, would like to know what kind of progress you have made there?

Management: So how about this, let me give a bit of a macro picture detailing -- I'm sure we can also talk to -- so if you look at the debt at Vedanta Resources as of September 30, it's about \$8.3 bn. So, \$9.7bn at the year beginning, down to \$8.3 bn and that means \$1.4 bn deleveraging. If I slightly fast forward till December 30, the debt right now is at about \$8 bn. So, \$9.7 billion to 8 billion for the first nine months. So we have already deleveraged about \$1.7 billion at Holdco in the first nine months.

If I look at the upcoming maturities, and let me look at maybe next three quarters, that is the current quarter, Q3, Q4 and also April, May, June, knowing significant portion of the bond maturities almost a billion are due in Q1. So, after the last dividend -- the requirement until June 30, 2023, is about \$2.5 billion, both bonds and other term loans, \$2.5 billion, how do we intend to broadly refinance or repay -- so we are working very closely on various PSU bankers funding directly with Vedanta Resources. We believe at least \$0.5 billion funding will come from various PSU bankers.

A small amount with the Barclays, there's a loan that we can roll over about \$150-odd million. That makes \$650 million. The third bucket is Oaktree refinancing again on Oaktree we have at least three work streams in play right now, and we are more towards closure than towards initiation. So, we believe at least \$750-odd million will be upscaling on Oaktree bucket, so these three makes almost \$1.5 billion out of \$2.5 billion.

Reminder, 1 billion is an option between the brand fee in the first quarter, \$0.3 billion and the balance is dividend. So, net-net against \$2.5 billion, almost \$1.2 to \$1.5 will get refinanced and almost 45%, 50% will be repaid with the combination of brand fee and dividends.

Love Sharma: If I can just follow up on the PSU part. In terms of timeline, are you looking to do this pretty soon because I think the timeline for this \$0.5 billion was probably around, let's say, December itself in Q3?

Management: Yes. So, there are at least four odd decisions happening right now Love and around mid to end Feb is what we're looking at the closing all of them

Love Sharma: Mid to end Feb for the PSU loans, right?

Ajay Goel: Correct.

Love Sharma: And how about the Oaktree, you said you are at the closing stages is what I heard. Does that mean that we could expect something pretty soon within next

couple of weeks or month, or the next month within Oaktree? And if you could just highlight, you said I think there are three work streams which are progressing, if you could elaborate more there?

Ajay Goel: Sure. So, Oaktree as you know right now the collateral is quite high, value almost \$2.8 billion or \$3-odd billion and there is lot of interest in refinancing. Details will be hard to share for now. You will be among the first ones to know something. We are looking at the time again of end of January, early February including Oaktree. So, in terms of the loan value, in terms of the tenure and also the cost of funding, we will optimize all three in next 8 to 10 weeks maximum.

Love Sharma: I don't expect any delays there?

Anupam Jindal: Yes, just to clarify one point, there's \$2.5 billion which Ajay mentioned for next six months, it's the total requirement. The maturities are about \$2.1 billion including the internal ICL and balance is about \$0.35 billion to \$0.4 billion is interest for next six months. Just wanted to clarify because these are not the total maturities.

Ajay Goel: Move on, the last point you mentioned about can you pay dividend. Let us take a bit of step backward and look at a slightly longer mass of data, the last five years or six years or in seven years. If you look at the Vedanta's, EBITDA and the free cash flow has been almost 1.5x to 1.7x than what we paid as a dividend. So, the current step of converting the general reserve into RE is not necessarily aimed at paying dividend in the near future. Our current profit and our current free cash flows will be more than sufficient in paying dividend, still meeting our larger commitment of deleveraging of \$4 billion over the next three years.

As I mentioned in last three calls, that the whole concept of GR to RE is more futuristic, it is enabling, it is also in line with the recent accounting and changes in the Indian corporate laws wherein in the latest company's back there is no concept of General Reserves. So, it is not necessarily required for up-streaming money in near future.

Love Sharma: But fair to say, I think in case you do a very large dividend transaction from here on that would probably need this conversion to happen.

Sunil Duggal: Very hypothetical.

Ajay Goel: Yes, but not necessarily. I mean I think that situation I think is quite speculative. As I mentioned our profits and cash flow are sufficient to meet all our commitments be it deleveraging or managing our leverage.

Love Sharma: But just as a process, where does it stand with the NCLT or the lenders?

Ajay Goel: The whole process is laid down in detailed Indian Companies Act. Starting with the companies' external directors segmenting to board, then BSE, NSE, SEBI and approved by shareholders, those five hurdles we have crossed. We have done and right now it is with the NCLT and where we are seeking dispensation of approval by lenders and the creditors. We believe the whole process will reach a conclusion in the fourth quarter by March 31st.

Moderator: The next question is from the line of Vikash Agarwal from Bank of America.

Vikash Agarwal: A couple of follow-up questions from my side. One is question is on the hedging side. I think, Ajay, you mentioned about hedging benefit particularly in Q1. Can you talk about what are the outstanding hedges already in place right now and what levels, if you can share? That is one question. And the second question is on, this is related to the investment on the tech side for the chip investment. It keeps coming on media in terms of your group involvement, at least at the Volcan level. So, if you can, probably for the benefit of everyone, share what is the requirement there and how is Volcan looking to fund that? These two questions from my side.

Ajay Goel: Yes, so I'll start with the hedging part, Vikash. And I'll request Mr. Duggal to cover the other parts of the chip part. So, hedging as you have seen, Vedanta's philosophy has been to capture the average spot price for the month of production, and we haven't hedged in the past. Given the current environment on pricing, which is quite tumultuous, quite volatile, we made a strategic shift. So, if you look at H1, again, April to September, almost 35% volumes for large businesses, specifically aluminum and zinc got covered almost 20% volume for oil and gas, in fact, oil also got covered. And in the hindsight, that seemed like a good decision. We booked almost \$320 million worth of gain on hedging in H1. In Q3 and Q4 as the open position stands, they're in fact quite small in that sense, speaking relatively.

So the current gain will be about \$75 to about 100 million in Q3, Q4 for outstanding hedges. And even that number one can find in the financials. the gain which goes in OCI line below profit and loss account. Now having said that, as you'll appreciate, the hedging is always an evolving decision and at

every week or a fortnight we do evaluate should we hedge more both for aluminum and zinc and also oil given the pricing. So, but right now we stand with a small number in second half than the first half but again it may change basis pricing on commodity. Mr Duggal, you want to comment

Sunil Duggal: The good thing is that realizing the importance of this subject, the last one year we have set up a hedging desk and a research center within Vedanta where we keep evaluating what could be the options, how the trends and what call we can take. We do not have the philosophy as such, but we take the strategy call depending on the requirement and the advice from our internal research center. On semiconductor, it is already there in the public that this entity currently lies under Volcan, and this is the position at this point of time.

Vikash Agarwal: Any comments on what is the funding requirement for the next 12, 24 months for this project and how is Volcan funding that?

Sunil Duggal: It may not be proper for me to answer this question on this call because when it lies under Volcan, it may not be good for me to comment now.

Vikash Agarwal: Okay. And maybe, one small follows up to the previous question from the previous participant on the refinancing. Ajay, you did mention about the Oaktree bucket, few work streams going on. Is this refinancing discussion going on with the domestic banks or offshore banks? Can you share some color on that?

Ajay Goel: It's in fact a large opportunity, Vikash. I'd appreciate it. And it's a combination of both domestic players and international ones as well. We will share more information as I mentioned in ASAP. And I don't see it going beyond early February or so.

Moderator: The next question is from the line of Imtiaz Shefuddin from Barclays.

Imtiaz Shefuddin: Thank you very much for the call. I just have one question and it relates to the question Love had on refinancing. My question is - have you had a chance to communicate your plans with the rating agency? I guess for now S&P. Now that I notice the timeline for seeing the various funding sources has, now it's as late as February next year. And what is S&P response? Are they comfortable with such a tight date line?

Ajay Goel: Yes. Sure, yes. I mean the engagement with getting one is, in fact, a continuous and it is not event base. The team at Vedanta treasury, including myself, are to engage with them. And it is on schedule, on diaries. Our entire

plan of refinancing or repayment or a mix of both, as I mentioned, has been well covered with S&P. And normally, it's par for the course that in those discussions, we share more information. For example, all upcoming loans where we also got, for example, the term sheet. So S&P has been fully in those things, and they are fully in loop with what's happening with the refinancing or repayment for next 1 - 1.5 years?

Imtiaz Shefuddin: Do you get a sense that they are supportive of the plans that you have put in front of them?

Ajay Goel: I believe so, yes. And I feel they are quite comfortable.

Imtiaz Shefuddin: If I could just follow up with one very small technical question. In your cash flow statement, I noticed the profit after tax in your P&L and also cash flow, those two numbers do not gel. There's a difference of about \$32 million -- just wondering what the difference is all about the \$32 million?

Ajay Goel: Okay. Then I will need go and check that part, Imtiaz.

Imtiaz Shefuddin: No, worries. Maybe I'll follow up of the call, don't worry.

Moderator: The next question is from the line of Eric Liu from Nomura.

Eric Liu: I have a couple of questions I want to verify. So first, you mentioned that the amount of brand fee to be received is 0.3 billion USD to be received in the third quarter of this fiscal year or other time?

Ajay Goel: Right. So, the way it works, I mean, it's an estimation. And overall, about 2% of the revenue of Vedanta Limited entities and subsidiaries feed as advanced in the first quarter. If I look at the current fiscal, the estimate is about \$250 or \$270 million. And that number will be almost \$0.3 billion that we intend to pay in the Q1 of next year. Okay. So, depending upon revenue, number may change a little bit, but it will not be very far off. So, between \$0.3 million plus minus a small amount.

Eric Liu: Then just want to confirm your Holdco cash at the end of September quarter. Is it around \$200 million?

Ajay Goel: Yes, it's about \$220 million. You're right.

Eric Liu: And do you have repaid some of the debt during this quarter? Like do you contact any bond-buyback activity in the open market.

- Ajay Goel:** Well, if I look at maybe that deleveraging as of September as in H1, it's about \$1.4 billion. And Vedanta paid, it's a third interim dividend in Q3, the current quarter. And with that, some more debt has been repaid, the number is \$0.3 bn. So, between April till December 31, that deleveraging at Holdco is about \$1.7 billion. Yes. Bond buyback, we had nothing significant in the current fiscal.
- Eric Liu:** And just last question. You also, mentioned that you have \$150 million rollover maybe is referring to the Barclay side. Just wondering what the new tenure would be. Is it still six months for the rollover or it has been rolled into a longer maturity?
- Ajay Goel:** Yes. So maybe we'll have it sent over to your email, please? So it is, in fact, a couple of bankers and rollover will be for the short term with an auction of again rolling over for a long time as well.
- Eric Liu:** Just maybe a last question on the Oaktree. Is there any idea like how the tenure looks like and corresponding interest calls for this, let's say, if you are able to get another \$700 million or how would be this kind of interest cost and tenure looks like?
- Ajay Goel:** Yes. Sure. As I mentioned, right now, that work stream is under play. -- allow us six weeks' time, we will try to optimize tenure cost and the size of all. Tenure, what we are looking at is about at least three to five years.
- Eric Liu:** Okay. And is it a kind of a bullet or it could be an exchangeable bond like some rumors are talking about could be converted into the shares, any kind of this kind of things would be in the structure?
- Ajay Goel:** It is still brewing, as I mentioned, the allowance will be one and a half months' time and we'll give you the concrete details including who is the financier, tenure, cost and the scale. But as I mentioned, maybe right now it will be a slightly premature comment because still the work is going on and we have more than one work stream. So, end of January, early February we'll have the closure.
- Moderator:** The next question is from the line of Bharat Shettigar from Standard Chartered Bank.
- Bharat Shettigar:** Hi. Thanks for the call. First question is the \$2.5 billion requirement that you talked about in June. Is it from January to June or does it include some maturities due in the December quarter as well?

- Ajay Goel:** Yes, it is January to June.
- Bharat Shettigar:** And I think you mentioned it includes interest as well. Can you give us the principal maturities due in the March, June, September and December quarter next year? Just the principal maturities.
- Ajay Goel:** I'll request my colleague, Mehak to.
- Mehak Chopra:** So around \$2.1 bn is the loan/bond and balance are interest.
- Ajay Goel:** So, \$2.1 billion if I'm paraphrasing is the base amount, principal amount and \$0.4 bn is interest.
- Bharat Shettigar:** I wanted it quarter-wise March, June, September and December quarter next year. Is it possible to do that?
- Mehak Chopra:** Yes, I can do that \$300 million for Q4FY23 loan maturities and balance \$1.7 bn in quarter one. - Next year.
- Bharat Shettigar:** Okay. Thank you.
- Mehak Chopra:** \$900 million bonds as well.
- Moderator:** The next question is from the line of Michael Stansfield from UBS Asset Management.
- Michael Stansfield:** Yeah, management, thank you for the call. Just on that Oaktree, I know it's a little bit hard to comment as we're getting close, but are we thinking about it as the shares that are sitting within the entities that have been sitting in the existing Oaktree facility, are those remaining in those entities and that's how we should be thinking about the loan to value going forward?
- Ajay Goel:** Yes, as you know Michael, right now about 17.5% of Vedanta Limited's stake in fact is collateralized and we intend to use the same securities as collateral and upscale the current loan.
- Michael Stansfield:** And sorry, just to double from 17.5%.
- Ajay Goel:** Correct.
- Moderator:** The next question is from the line of Darren Ku from Jefferies Singapore Limited.

- Darren Ku:** Yeah, hi I apologize. I was cut off for a little while, but I just wanted to clarify with respect to the \$300 million brand fee that's expected, I guess, in the first quarter. That's 2% as you mentioned. I just wanted to get some clarification on this 2% of revenue. And so how often is this brand fee paid? So I mean, is this like a quarterly payment or is this something that's only paid once a year?
- Ajay Goel:** Yes, so right. So, the practice has been, it is in fact a 2% for most of the profiles. So, Vedanta Limited revenue, 2%, including its wholly owned subsidiaries, example remains ESL Steel. So, we pay the whole amount at the year beginning in first quarter of the year on the revenue estimate for the full fiscal. So, it is practically paid the whole amount in the Q1. And towards the last quarter, Q4, Q3, depending how the year goes in terms of volume and the pricing, numbers are actualized. As I mentioned, the number is \$0.3 billion. it may slightly change depending upon the pricing and the volume but not by a wide margin.
- Darren Ku:** So, this \$300 million is based on an estimate of the forward revenue for the year?
- Ajay Goel:** Correct.
- Moderator:** Thank you. Ladies and gentlemen, we'll take the last question from the line of Vikash Agarwal from Bank of America.
- Vikash Agarwal:** Thanks again for the opportunity. A couple of follow-up questions. One on the brand and loyalty fees. Aditya, you did mention that you're expecting about \$0.3 billion next year. But what about this year? There were about \$200 million payments which happened in June. Is there any further payment expected or made subsequent to that?
- Ajay Goel:** Yes. So around \$41 million is in fact paid in the Q3, the current quarter, in November, December. And that makes about \$250 mn. So, for the current year, we are done for brand deal.
- Sunil Duggal:** Until there is a huge price variation which takes place in quarter four.
- Vikash Agarwal:** And one follow-up question on the maturities for next year as well. For this calendar year second quarter, Mehak I mention that the maturity is \$1.7 billion, including dollar bond which is \$900 million. Can you give me a breakup of what the remaining \$800 bn is?

- Mehak Chopra:** Yeah, so there is \$250 million amortization of Oaktree, then another \$250 million amortization of the creeping loan which we took, that's \$500 and then smaller amortization of other loans which are there.
- Vikash Agarwal:** And then one last question from my side is then this is on the rating side, now with your request for discontinuation of Moody's rating, you are currently only with outstanding ratings from S&P. Is there any plan to engage other rating agencies such as Fitch for second rating agency or are you comfortable just maintaining one rating agency?
- Ajay Goel:** I think there is no need for dual rating internationally. But that discussion is always continuous. But as of now, in the short term, we don't foresee going for second rating.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Sandep Agrawal for closing comments.
- Sandep Agrawal:** Thank you all for taking time out to join us. I hope we have been able to answer most of your questions. In case you have further questions, you can reach out to me or my colleagues at IR team. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Vedanta Resources, that concludes this conference. Thank you for joining us, and you may now disconnect