



“Vedanta Resources Limited Q4 & FY 2019 Results
Conference Call”
May 21, 2019



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Moderator: Ladies and gentlemen, good day and welcome to the Vedanta Resources Limited FY 2019 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. Thank you and over to you.

Rashmi Mohanty: Thank you, operator. Very good evening, ladies and gentlemen. I am Rashmi Mohanty – Head, Group Investor Relations. Thank you for joining us to discuss the fourth quarter and full year results for FY'19. We will be referring to the presentation that is available on our website and please refer to the disclaimer on the presentation.

The call is going to be led by our Group CEO -- Mr. Venkatakrishnan and Group CFO -- Mr. Arun Kumar, who will share the operating and the financial performance of the company. We will open the line for questions post this presentation.

Let me now hand it over to Venkat for an update on the company's operational performance.

S. Venkatakrishnan: Thank you, Rashmi. and good morning, ladies and gentlemen. We are pleased to welcome you to Vedanta Resources Limited Fourth Quarter and FY 2019 Earnings Call. If I can kick off with some highlights before we turn to the presentation. Our work in the areas of safety, environment and sustainability and community progress further during the quarter, as you will see from the presentation.

Our operating and financial performance was stronger in the fourth quarter when compared to the third quarter as guided on volume, costs and margins. Our Zinc and lead underground production were up 29% YoY at Hindustan Zinc. We commissioned our Gamsberg mine in South Africa which is currently ramping up. Not well-appreciated commodity within our portfolio, namely silver achieved record production and was up 22% YoY taking us to being a top 10 global silver producer. Our oil and gas production was up 2% YoY. Our alumina production increased by 24% YoY and our aluminum production rose 17%, thanks to our various interventions. The cost of production in the fourth quarter fell to below \$1,800 a ton. The turnaround in our Electrosteel business is evident by 17% increase in steel production and more than doubling of our EBITDA per ton when compared to the prior year. Our growth projects in the key businesses are tracking well and capital expenditure was well within the guided range. We grew our resource base across our key businesses.

Before I move to the performance, let me cover the commodity markets briefly:

The commodity prices saw a downward trend in the first half of last year, reflecting concerns about global growth, especially due to trade tensions between the US and China, but rebounded in the first calendar quarter of 2019. This rebound increased reflected supply concerns, progress in trade negotiations between US and China and fiscal stimulus in China. We expect the prices to remain volatile, but with an upside opportunity from the possibility of tighter than expected

environmental policy, slower than expected easing of commodity and specific supply bottlenecks. Oil prices have risen significantly since the start of the year 2019 amidst production cuts by OPEC and other producers and supply disruptions elsewhere.

With that overview if I can turn to the presentation, Slide #5 which outlines our strategy and we will summarize the section reminding you of our strategic priorities to drive long-term value for all our stakeholders. To start with:

1. Ethics, governance and our social license to operate where we will continue our journey towards zero harm by ensuring greater levels of safety and ever gentler impact on our environment and resources and even greater inroads into delivering healthcare, education, skills and quality of life where it is needed in our communities.
2. Second, important pillar expanding our reserves and resource base with focused exploration to augment our long-life low-cost assets by improving our land positions, growing our reserves and resource positions in our businesses by more than offsetting depletion and bringing on stream more discoveries.
3. Thirdly, continuing our track record of delivering value-added growth in all of our businesses notably zinc, lead, silver, oil & gas and aluminum.
4. Fourth, very important strict capital allocation and balance sheet focus. As managers of the business, we will follow strict capital allocation while keeping balance sheet in sharp focus.
5. Finally, delivering the best out of our assets with the best teams and this means focus on operational delivery and having the right management and teams in place to deliver.

Now moving onto the performance for the year and I will start with Safety and Sustainability:

It is with deep regret I share with you that we have one fatality at KCM during the fourth quarter. Zero harm is a continuous journey and we have embarked on further strengthening our safety processes and ensuring that safety of all of our employees and partners is the first priority above anything else. One life lost is one too many, but our other operations across the businesses did not suffer any fatality. We will want to improve our safety record going forward. We are focused on three specific catalysts in our commitment to zero harm, visible and self-leadership where the expectation is that leaders and support personnel spend quality time in the field performing safety interactions, workplace hazard reviews, making proactive and hands on safety interventions to create a culture of care. Managing safety critical tasks, where the expectation is that safety critical tasks are identified, critical competency and controls are documented properly and the task leader verifies that these are in place every time. And given that we outsource a number of our activities, business partner engagement is critical and we ensure that our business partners are committed to zero harm and we treat them as employees for safety purposes.

Turning to Energy and Water Management Initiatives:

Saving and recycling both remain a key focus area. We reduced our energy consumption by 1.6 million gigajoules and water consumption by 3 million meter cubes. Our greenhouse gas emissions intensity was lower by close to 15% while we target to reach the 16% reduction by 2020 against 2012 baseline. Our many sustainability initiatives are driven by a fundamental approach of converting waste to wealth. The company recycled 92% of high volume, low effect waste. At Hindustan Zinc, we used 60% of our tailings as space fill for void replacement in our underground mines. We also used an old tailings dam and we expect to install 38 MW of solar farms thereby by reducing our dependence on fossil fuel based power.

Turning to business update:

This year saw our three large businesses, zinc, lead and silver; aluminum and oil & gas which represents close to 90% of the group's EBITDA achieve significant milestones, which gives us a strong base for near-term targets we have set for these businesses.

Before I move to details on the operating performance, an update on Iron Ore and Copper India business: For our Iron Ore business in Goa, we continue to engage with and encourage the central and state governments to resume production, given the benefit to all of our stakeholders. At Tuticorin we continue to engage with the government, the relevant authorities, the courts and all stakeholders to enable the safe and supported restart of our operations at the copper smelter.

Turning to Zinc India:

Starting with that business, we are pleased that the transition Zinc India has made from open cast to fully underground mining with a record underground metal production of 936 kt increasing by 29% YoY; details are on Slide #7. This has been complemented by record lead production, up 18% YoY, and silver production up 22%. The increased silver production notably from our SK Mine has resulted in the business now being ranked 9th in the elite club of top-10 silver producers with a record production of 679 tons during the year up 22%.

We now look to build on that success for the next year to achieve the mined metal design capacity of 1.2 mt and further ramp-up in the silver production. We are expecting these volume increases to also translate to unit cost reductions in the businesses. Our growth projects are progressing well to achieve this. These projects include ways to mine more shaft commissioning to haul and hoist more, refine more through additional mills, extract more silver through Fumer project, and make our operations sustainable through face fill plants. The Zinc India business is a great example of using innovation and technology and planned execution to achieve sustainable growth.

Turning to Zinc International on Slide #8:

We are equally pleased that we are replicating this success at our flagship Gamsberg project in South Africa. The company achieved a significant milestone in December '18 when it shipped out its first parcel of concentrate. It is now ramping up to its target MIC capacity of 250,000

tons. This new age fully automated and digital mine will be a catalyst for the regions development and a significant contributor to Vedanta's earnings over the next 9 to 12-months. In the next phase, we expect Gamsberg to further ramp up by around 200,000 tons. Certainly, in FY'19 we took a step towards becoming the largest producer of Zinc in the world, with lowest costs and a suite of long-life assets.

Turning to Oil & Gas, Slide #9:

We now have an optimum portfolio mix with opportunities across the Oil & Gas lifecycle. During the year, our production sharing contracts for Rajasthan and Ravva block have been extended for a period of 10-years subject to certain conditions. As of end March, we had ramped up the development rigs to 11. Our early production facilities to ramp up gas volumes by around 90 million stuff or 15,000 barrels of oil and gas equivalent is being commissioned, and we will gradually be ramping up the volumes there.

In continuation to our efforts to enhance our resource base, we have issued global tender inviting bids for end-to-end integrated contracts for the 41 blocks awarded under the OALP. In addition, we were awarded two development fields under the DSF Round-II in Assam and the KG basin.

Turning to Slide #10:

We continue to work on many growth projects across a rich set of opportunities covering enhanced oil recovery, tight oil, tight gas and exploration and appraisal prospects. As part of our strategy, we continue to have an integrated partnership model with global oil field service companies.

The development projects entail an internal rate of return of over 20% at an oil price of around \$40 a barrel. With 11 rigs at site, we are witnessing significantly increased activity levels in the field. The number of wells shall almost double from around 500 to over 900 over the next two years. Our disciplined low-cost operating model, coupled with cutting edge technology adoption shall enable us to increase production and achieve world-class recovery rates. Our exploration efforts are focused on adding to our resource base, both the wells drilled in the KG offshore block have been declared as discoveries. We are evaluating the data to plan the way forward in that block.

In Rajasthan, we were awarded the Integrated Contract for Drilling to around 7 to 18 Exploration Wells. In Ravva, we were awarded the Integrated Contract for Exploration and Development for 9 to 16 wells. These campaigns in both these blocks are expected to start in the second quarter of the current fiscal year. Beyond this, the acquisition of 41 exploration blocks under the open acreage licensing policy has made Vedanta the largest private acreage holder in India. In the current quarter, we will evaluate the techno-commercial bid to award the exploration and appraisal contract through an integrated partnership model.

Turning to Slide #11:

All of these projects are at the back of the world class resource base with gross 2P reserves and 2C resources of about 1.2 billion barrels. Our exploration and appraisal efforts are focused on adding to our resource base and all our development efforts are focused on increasing production to the target level of around 270,000 to 300,000 barrels of oil and gas equivalent per day.

Now moving to the aluminum sector which achieved a significant turnaround during the second half of the year. We are happy to report that we achieved record metal production of 1.96 mt. Our alumina refinery in Lanjigarh ramped up strongly this year and achieved a peak run rate of 1.8 mtpa as the local bauxite sourcing ramped up during the year. Half of our refinery bauxite requirement for the fourth quarter was met from local resources.

On costs, we face some headwinds in the first half of 2019 as you would recall, but we are very encouraged by the many structural changes we have put in place in the business to reduce the overall costs. The cost of production in the fourth quarter of 2019 was around \$1,776 a ton, significantly lower when compared to the previous quarter.

Now moving on to Slide #13:

Over the last year, we have shared with you our target to get to a cost of production of \$1,500 a ton. We are very enthused to share that we have seen significant structural improvements in our aluminum business which makes me believe that this target is indeed achievable. We will see volatility in the interim, no doubt, but the trajectory for the cost reduction has been set.

Let me take up each of our input commodities individually:

Our alumina sourcing will be a mix of own alumina and imported alumina. Lanjigarh refinery has been ramped up and achieved a peak exit rate of 1.8 mtpa. We plan to ramp this up further in stages to 2.7 mtpa and further ramp up to 4 mtpa in the medium-term. This year, we also started getting dispatches of local bauxite. We expect the local bauxite to meet a third of our requirements for the year. Further bauxite security has been ensured through a long-term contract with EGA.

Moving on to Slide #14:

We saw repeated headwind on coal supply during the first nine months of the year. However, we ended the year with coal inventory of more than 10-days at our plants. For this year with 3.2 mt of coal secured in transfer auction along with our previous linkages and captive Chotia mine, we have increased our coal security to 72%. We target to take the security to 90% through participation and auction of coal mines and more linkage auctions. Further initiatives on logistics, long-term contracts on carbon are being worked on. On the market side, the focus remains on selling more domestically and increase the proportion of value added products thereby improving margins.

With regard to Electrosteel business that was acquired during the year, Slide #15:

2019 was a transformational year for this business with production ramping up to 1.2 mt for the year, and with an exit run rate of 1.5 mt and EBITDA margins of \$122 a ton. The business achieved record volumes, EBITDA, and free cash flow generation with an industry leading margin of 19%. The plan ahead is to ramp up eventually to the design capacity of 2.5 mt backed by the Iron Ore mines at Jharkhand and supported by a diversified value added product portfolio at the front end.

Turning to Slide #16 KCM:

At KCM the integrated production for the year was 91,000 tons flat YoY. The costs were higher impacted mainly by inflation, asset costs, lower cobalt grid and waste stripping at Nchanga.

The fiscal changes of increase in royalty rate and levy of customs duties on import of copper concentrate has made the smelting of copper concentrate commercially unviable which in turn has impacted the availability of acid needed to operate at an optimum level, the tailings treatment and the Nchanga operations.

Advocacy efforts that include refund of overdue VAT, duty exemption on imported concentrate to restore the stability of the circuit, rethink of the proposed fiscal changes are currently underway with the Zambian government both directly and through the Chamber of Mines. We believe that reaching an agreement with the government will create an acceptable pathway for KCM and the mining industry as a whole in Zambia. We have noted the President's comments in the media recently which has created headwinds at ground level. Notwithstanding this we will continue unabated in our efforts to reach an amicable pathway forward in the interest of all stakeholders. Given that this is also an evolving legal situation, we have been advised not to comment any further at this stage. I hope you will understand that we will not be taking any questions on KCM on this call and will update bondholders just as soon as we have clarity on the situation.

With that I will now request Arun, our CFO to cover the financial performance of the group. Thank you.

Arun Kumar:

Thanks, Venkat and good morning, good afternoon, everyone. I will start by repeating that this year has been a steady year for the company where all our businesses delivered on their growth investments. The record production at Zinc business, robust turnaround Electrosteel post acquisition, improving cost structure in aluminum and last but not the least nearly 35 new wells hooked up and the gas project just coming online anytime now in our oil and gas business are good building blocks of growth in each of our businesses.

Some of the key highlights for the quarter and the year:

EBITDA for the year was at \$3.4 billion which is 14% down YoY majorly due to uncontrollable factors such as price, input commodity inflation and the copper smelter shutdown, yet a robust EBITDA margin of 29%. Strong end to the year's cash with the free cash flow post CAPEX at

\$1.2 billion, up 29%. Contribution to the exchequer for the year was significantly higher and about \$6.2 billion, FY'18 was \$5.4 billion. With the strong flows to FY'19, we believe we are geared up for a volume growth and a competitive cost position in FY'20.

We have a detail income statement in the appendix, few key updates on that: Depreciation for the year was driven by growth CAPEX and impairment reversal end FY'18 in the oil and gas business and for FY'20, we will continue to see an increasing trend in line with higher capitalization and growth plans.

Second, investment revenue for FY'19 is higher mainly on account of the mark-to-mark gains of about \$130 million on the cash investment made by our subsidiary, CI2 through a purchase of economic interest in a structured investment in Anglo American Plc from Volcan though was partially offset by lower investment coppers post dividends. Investment income for FY'20 should continue at the current levels of around 7% pre-tax and subject to mark-to-marks on the portfolio including the set about its structure.

On finance cost:

FY'19, it increased largely due to acquisition debt of Electrosteel and increase in benchmark rates primarily in India which were transmitted to us given that 65% of the borrowings is INR and is variable in nature in terms of interest rates. For FY'20, the average cost of the debt book will increase marginally due to the focus on maturity expansion partly offset by stable or declining interest rate scenario cycle that has just started and free cash flow generation from three key businesses of aluminum, zinc and oil post CAPEX perhaps helping us to de-lever as the operating entity.

Before moving on to the next page, I would like to draw your attention again to Venkat's update on the KCM situation and the efforts:

Due to those factors listed by him, carrying value tests were conducted including sensitivity on key variables with the conclusion that no impairment was required in the year-end accounts. However, if the various efforts including the latest developments were not to succeed, then there could be significant risk of impairment in the future. We will keep all the investors and loan holders updated accordingly.

Moving on to the next page on EBITDA bridge:

As you can see on this page, our full year EBITDA was 14% lower as compared to last year. As I mentioned earlier, excluding pretty much price, input commodity inflation, copper shutdown and one-off, it was sort of flattish in nature. Much of the volume gains were offset by cost issues in aluminum, which have been corrected largely by the end of the year FY'19. The guidance which I covered in detail should give us confidence and reassurance as we start delivering in FY'20.

Now moving on to the next page, on net debt:

As you can see on this page we have generated \$1.2 billion from operations post capital expenditure, almost 35% of EBITDA. Full year working capital was positive with good relief from tax balances including refunds, working capital initiatives and controls. We will discuss CAPEX further in detail on the next page, but important to mention that CAPEX for the year is within the guidance given at the beginning of the year.

As you know, our subsidiary companies, primarily Vedanta Limited and Hindustan Zinc, have a board approved dividend policy to pay minimum 30% of their profit after tax as dividends. Strong cash generation at these companies over the last few years has ensured robust dividends more than the minimum stipulated as for policy being paid by them to Vedanta Resources. The average dividend yield for the last three years has been a healthy 8% approximately. As a majority shareholder, the company has benefited by having strong liquidity available for its use.

Moving on further to the next page on financial and returns profiles:

Our focus on balance sheet management continues. We refinanced our FY'19 maturities well in advance in H1 itself. On the back of continuing operational performance and cash flows, excellent banking relationships as well, we were able to efficiently refinance our requirements. We have been able to hold our average borrowing costs at around 7.5% for the full year. Again, as a reminder, most of our debt is INR debt at the opco. Our INR investments on the other hand are rated Tier-1 by the premium rating agency in India CRISIL and with the evolving market situation, especially around the non-banking financial institutions and the general liquidity in that market, the portfolio is being monitored very closely on a regular basis.

Our relationship with the banks and capital market participants remain strong and we continue to work on further widening as well as deepening our access to the markets. We recently post the year in close raised \$1 billion through new issue of bonds at Vedanta Resources to refinance our near-term maturities. The bond had an average maturity of about 5.8-years was a dual tranche bond. Out of the \$1 billion proceeds, we have utilized around 850 million already as prepayment of the various bank term loans falling due in the next 18-months at the beginning of the year itself. This has resulted in the maturity profile of the debt going up to about 3.5-years as of the end of March '19. This was also the largest high yield USD bond issuance from India since January 2018. Vedanta's comfortable liquidity with cash and cash equivalents of about \$5.6 billion at the close of the fiscal year and undrawn line of credit of approximately \$1 billion.

On the next page on CAPEX:

Our capital allocation strategy, disciplined distribution towards achieving the overall objective of maximizing returns to shareholders, de-levering the balance sheet and to invest in the next phase of growth projects. Our CAPEX over the years has been largely self-funded and will continue with that even in fiscal FY'20. We are investing in projects with robust hurdle rates of 15-20% and are self-funded by the respective business segments. Following this guiding

principle, next year, our CAPEX spend would be around \$1.4 billion, primarily into oil and gas and zinc sector, which will drive strong operating performance and higher volumes in FY'20 and beyond. We regularly review the market and business environment to ensure that CAPEX is spent rightly and may pull back if the situation so demands. Overall, we continue to allocate capital prudently, focusing on good cash flows through increasing volumes and lowering costs, increasing efficiency, thus funding robust shareholder return.

Rashmi Mohanty:

Thank you, operator. Thank you, Venkat and Arun and thank you all participants for joining us today on this call. If there are any follow up questions, the investor relations team of Vedanta is available, you can reach out to us.

Moderator:

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