



Vedanta Resources Plc
FY2018 Preliminary Results Conference Call
May 23, 2018



MANAGEMENT: **MR. ANIL AGARWAL – CHAIRMAN**
MR. KULDIP KAURA – CHIEF EXECUTIVE OFFICER
MR. ARUN KUMAR – CHIEF FINANCIAL OFFICER
MR. SUNIL DUGGAL – CEO, ZINC INDIA
MR. SAMIR CAIRAE – CEO, ALUMINIUM & POWER
MR. ABHIJIT PATI – CEO, ALUMINUM JHARSUGUDA
MR. SUDHIR MATHUR – CEO, OIL & GAS
MS. DESHNEE NAIDOO – CEO, ZINC INTERNATIONAL
MR. NAVEEN SINGHAL – CEO, IRON ORE
MR. STEVEN DIN – CEO, KCM

Arun Kumar: Ladies and gentlemen, very good morning. I am Arun Kumar – CFO, Vedanta. Thank you for joining us today for our FY2018 Results.

Let me introduce our speakers and go over the agenda for the day: Our Chairman, Mr. Anil Agarwal will give an Overview, followed by a ‘Review of FY2018’ by our CEO, Mr. Kuldip Kaura. This will be followed by my update on the Financials. Mr. Kaura will then cover some details on our growth projects. This will be followed by a Q&A session.

We also have several of our business leaders in the phone with us today; we have Sunil Duggal from Zinc India; Samir Cairae and Abhijit Pati from the Aluminum Division; Sudhir Mathur from Oil & Gas; Deshnee Naidoo from Zinc International; Naveen Singhal from Iron Ore; and Steven Din from KCM.

So with that, I would like to hand over to our Chairman.

Anil Agarwal: Good Morning, Ladies and Gentlemen. I welcome you all to the Annual Results Presentation of Vedanta Resources. We had an excellent year and our strong financial results for 2018 demonstrate our world-class diversified, low cost, scalable assets, robust balance sheet, disciplined capital allocation and experienced team.

Let me start by talking about a topic that is close to my heart. The positive contribution that Vedanta continues to make is supporting local communities, creating job and operating as a responsible corporate citizen. Vedanta has always maintained that financial returns alone are not the mark of good business. Over the course of last year, we have contributed \$5.4 billion to the exchequer. We have invested about \$39 million in various social programs that have touched the lives of over 3.3 million people across India and Africa.

As we go forward, I am confident in the company’s ability to deliver superior shareholder return by building upon growth opportunities. I am particularly pleased that with our strong focus on productivity we have created a resilient portfolio of businesses. The team remain committed to all round operational excellence to attain the true potential of our assets. We are capitalizing on Vedanta’s unique position to meet India’s growing demand for resources. Vedanta provides an attractive opportunity to invest and participate in India’s growth story.

I am pleased that the Indian government has introduced a number of pro-business reforms in the past year - Key reforms around opening commercial coal mining to the private sector and the launch of open acreage licensing policy in the Oil & Gas sector to improve exploration, are just some of the steps taken towards creating a more favorable business environment.

The new bankruptcy code provides an opportunity for both lenders and corporates to come to a win-win solution. As we complete the due processes, we look forward to the integration of Electrosteel with our Iron Ore business.

At KCM, we have invested significantly in the businesses that have seen early operational improvements. Deshnee Naidoo's appointment as CEO of Africa Base Metals gives further impetus to our commitment to the region.

I am also pleased that many Brownfield opportunities that the team are developing, particularly in the Oil & Gas Zinc businesses. With various growth opportunities in the pipeline, our performance in FY2019 will be even stronger. At the same time, we will take a disciplined approach to capital allocation for the growth opportunities and increase shareholder value.

As you know, S. Venkat has recently been appointed as our CEO. He brings an impressive track record, the right leadership skills and experience in the key markets of our operations. I am confident that he is well placed to continue to drive the Group's strategy when he takes up his role in August.

With this, let me hand over to Mr. Kuldip Kaura. Thank you very much.

Kuldip Kaura:

Thank you, Chairman. Good Morning, Ladies and Gentlemen. When I took over as CEO in September 2017, most of our businesses were in the middle of their planned ramp ups. Today, as I share with you the full year results, I am pleased to report that the businesses delivered on the ramp ups as per plan and we achieved record production across our businesses.

The commodity prices saw appreciation over the year fueled by supply-related disruption, stable to growing demand, a weakening dollar and bullish global growth indicators. We benefited from this and coupled with a robust operational performance, delivered a strong set of numbers.

Let me spend the new few minutes on our performance for the year:

I will start with Safety and Sustainability – Vedanta remains focused on zero harm, zero waste and zero discharge. It is therefore with great sadness we report nine fatalities during the year. We remain committed to bring Vedanta to the best safety performance in the sector. These fatalities have resulted in increased focus from the group executive committee. Some of the areas we are focusing on are: rigorous implementation of safety standards and management of high risk areas, we have augmented our HSE organization and inducted 10 HSE experts with global experience, our employees and contractors spent about a million hours in safety training last year.

On the positive side, our Oil & Gas business has been awarded British Safety Council's 'Five Star Rating' for all of its Rajasthan and midstream assets. Hindustan Zinc is now ranked 11th on the Dow Jones Sustainability Index for the Metal and Mining sector and was inducted into the prestigious Dow Jones Year Book.

In the area of environment, we were able to exceed our water savings and energy savings target and also reduce the greenhouse gas intensity materially. Improvement opportunities through

third-party audits of our tailing and ash management practices have been identified and corrective actions are being implemented by businesses.

Finally, work on our flagship CSR program, Nand Ghar continues. We are perfecting the pilot and remain committed to building 4,000 Nand Ghars.

Now moving to our FY'18 Highlights:

Our operational performance was strong this year on various fronts - Record production at Zinc India and successfully completing the full transition to underground operation with no significant increase in costs. At Oil & Gas, achieved a production run rate of 200,000 bpd towards March end. Record production at aluminum and exit production run rate of 2 mtpa.

Increase in volumes across businesses helped us deliver strong financial results. Full year EBITDA was \$4.1 billion, 27% higher YoY. Robust EBITDA margins at 35%, supplemented by favorable markets despite inflationary cost headwinds. Free cash flows of \$925 million and reduced debt by \$3 billion.

We made good progress on our growth projects in 2019. At Zinc India, we will hit a run rate of 1.2 mt in FY'19 and are on track to achieve 1.2 million tonnes production in FY'20. The Gamsberg project is on track to commence production in mid of this calendar year. In the Oil & Gas segment, contracts of \$1.3 billion have been awarded on the new projects and execution has commenced. First oil from these projects will flow in this quarter. On Electrosteel, the closure of the acquisition is subject to completion of due processes and is a step towards value addition for our Iron Ore business.

During the year, we also focused on all round operational excellence. This was through debottlenecking of our assets, adopting technology and digitalization, strengthening people practices, vendor and customer base enhancements and spend-based optimization. For example, at the Sindesar Khurd mine, we have piloted digital technology for transformation to an automated mine. At Gamsberg, the ongoing digital project will have leading edge systems to report on a real-time basis and enable online optimization.

Moving towards our Business Highlights:

At Zinc India, we achieved record annual refined metal production of 960,000 tons along with silver production of about 18 million ounces. Our cost of production ex-royalty at \$976/t was 18% higher YoY in dollar terms due to increase in input material prices and lower grades.

Our production was stable at Zinc International. We had some cost headwinds this year due to higher stripping costs of Pit-112 at Skorpion and unfavorable local currency appreciation.

At Oil & Gas, our debottlenecking efforts paid dividends as we exited this year at a production rate of 200,000 bpd.

Our Aluminum business delivered record volumes and exited the year at a run rate of 2 mt per year. However, inflationary cost pressures impacted the cost of production. We have taken measures to address this cost which we will cover later.

Moving to Power: TSPL delivered record 90%+ availability in the second half of the year and delivered strong growth YoY.

At Iron Ore Goa, we produced 4.9 mt this year. As you may be aware, the Supreme Court in February stopped all mining in Goa w.e.f. mid-March as a result of which our operations are also shut currently.

At Copper India, we had a record production of 403,000 tons this year. Average TC/RCs were lower 5% YoY at the back of strong copper demand and prices. Our operations at Tuticorin are currently shut as our application for renewal of consent to operate has not been approved by the Tamil Nadu Pollution Control Board. We are engaging with the regulatory body for a resolution. However, you will have seen the tragic news yesterday about the protest in Tuticorin. We were shocked and saddened to hear about the incident and are working with the relevant authorities to ensure the safety of our employees, facilities and the surrounding community.

At Copper Zambia, we delivered total integrated and custom volumes of 195,000 tons. We now have a long-term contractor partnering model in place to help deliver improved fleet availability and TLP reliability, and therefore drive higher productivity. We have put in place the key building blocks and now look towards an improved performance in FY2019.

Moving to our Strategic Priorities for the Year:

Operational excellence is a priority as spoken about earlier. We continuously strive to improve our operation, sweat our assets, optimize costs and improve realizations to benchmark levels.

Preserving our license to operate is a key priority. Our commitment to zero harm, minimizing environmental impact, and creating sustainable value for all our stakeholders remains important to us.

On the Financial side, our focus is on generating strong cash flows and maintaining a robust balance sheet through prudent capital allocation.

I am excited about the growth opportunities in our portfolio. The many brownfield opportunities and in addition some exciting inorganic opportunities in the resource segment align well to the demands of a fast growing Indian market.

Exploration and addition to reserves and resources underpin our growth strategy. For instance, at Zinc India, our continuous focus on exploration has resulted in gross addition of over 19 mt enabling us to end the year with estimated R&R of about 411 mt.

I will now hand over to Arun, who will take you through the Financials.

Arun Kumar:

Thank you, Mr. Kaura. I am happy to report another strong quarter of numbers, largely led by operations. Before I delve deeper into the numbers, a few highlights: We reported the highest yearly EBITDA in four years at \$4.1 billion, 27% growth, with H2 at \$2.4 billion, which is 39% higher than H1. Margin continues to be robust at around 35% excluding custom smelting. ROCE measured conservatively on a post-tax basis has touched approximately 15%, an improvement of 210 basis points. Annualized Q4 number, of course, will be much higher. Net debt-to-EBITDA improved to 2.4x and for those of you following our principal subsidiary, Vedanta Limited at India, it recorded a net debt-to-EBITDA at about 0.9x. Gross debt is down by \$3 billion while net debt increased. We believe these are important milestones led by strong operational performance with volume growth across every business segment, of course, aided by a good price environment. The volumes and costs were largely in line with the guidance.

The Board approved a final dividend of \$0.41, thus taking the total for the year to \$0.65.

While we have the detailed income statement in the appendix, I just thought I will cover a few highlights of that. As you are already aware, given the announcement in March, we took an impairment charge in iron ore of \$534 million, net of taxes, consequent to the Supreme Court order to cancel all mining leases in Goa effective 16th March 2018. As indicated a few weeks ago, we took an approximately \$900 million net of tax impairment reversal in the Oil & Gas business. We have been talking about this over the last 18-months, more specifically in the interim that seven or eight growth projects, what we call key growth projects, which Mr. Kaura also alluded to, in the next few years, it will be executed, and we made all of these works at IRR exceeding 20% at a conservative \$40/bbl Brent. This has led to rerating of the reserves and resources and hence overall valuation of the business with the accounting impact manifesting as an impairment write-back.

On finance costs, the blended cost of borrowing for FY'18 was 7.15%, significantly lower to 7.5% in FY'17. With the yield curve hardening, we expect the cost to move up by anywhere from 25 to 50 basis points in FY'19.

On the investment income line, we earned approximately 7.4% pretax given a lot of cash in India and continue to invest it safely in high quality instruments. Reported numbers of course impacted a bit by the mark-to-mark counting adjustments given the yield curve movements.

For FY'19, one should expect around 7%+ underlying pretax return on our investment portfolio, of course, subject to mark-to-mark accounting. Depreciation for FY'19 should be significantly higher given all the growth that we are likely to experience in the mining and the Oil & Gas businesses in the full year as well as the impact of ramped up assets in aluminum during the year, additionally Gamsberg coming online, and, of course, the higher asset base given the impairment reversal, so one should expect higher depreciation in FY'19.

For FY'18, the final tax rate was 32% excluding dividend distribution tax and special items which is more or less in line with our guidance of around 30% which we had given during the year. For FY'19, the overall effective tax rate is likely to be around the similar range.

With that let me move on to the next page on the EBITDA bridge:

As you can see on this page, \$300 million of incremental EBITDA was driven by strong operational volume growth across the businesses. We had recorded annual production in Zinc India with 18% increase in integrated metal, 23% up on silver and a record aluminum production with run rate exit of 2 mtpa. This lays the foundation for a further increase in volume for FY '19. If you look at the guidance given in the annexures, especially in the Oil & Gas business, Zinc India, Gamsberg and Zinc International and the full year impact with the stabilized volume in the aluminum sector. On the external side while prices helped, significant input inflation and currency appreciation offset half the price gain.

Moving on to the next page on Net Debt:

During the year we remained focused on generating cash. We generated strong cash flow from operations, nearly \$2.6 billion, which helped reduce the net debt; however, due to record dividend by subsidiaries, the glass acquisition earlier in the year and some proactive adjustment to replace some of our working capital funding with a permanent debt funding, we defrayed the earned cash thus taking the net debt higher.

Again on the next page on refinancing and improving maturity profile. The company continued to manage its debt book with the objectives of delivering, reducing the cost of the borrowing and extending maturity. During the year, we completed successfully a proactive refinancing of nearly \$2.4 billion through bond issuance and bank loans and improved the average maturity at Resources PLC to above four years from around 2.5-years a year ago. Continuing with our focus on debt reduction, the gross debt came down to about \$15 billion, it is lower by about \$3 billion compared to the beginning of the year.

On the back of strong operational and financial performance, Moody's upgraded the corporate family rating by one notch to 'Ba3 Stable'.

We will continue to generate strong cash flows on the strength of higher volumes and operations in FY'19 and will continue to allocate wisely to growth projects with high returns, de-lever further and yet provide adequate return and appreciation to the shareholders.

On that note, let me move to the next page on CAPEX Guidance:

The CAPEX guidance for FY'19 comes in at around \$1.5 billion against the '18 actuals at \$0.8 billion, which was marginally below our guidance at mid-year. The increased level of CAPEX is largely driven by the Oil & Gas business given all the growth project announcements, which we believe will lead to much higher production levels with the immediate FY'19 guidance at

220 to 250 kboepd which will be an increase of 20% to 35%, whichever range you take at the bottom or the top end of the range and Sudhir will talk a lot more about this when he talks about Oil & Gas.

Zinc India management team covered their guidance in the Zinc Results Day with plans to take the production from 1.2 mt to 1.35 mt in the near future. Zinc also includes spends in Gamsberg as it achieves commercial production in mid-calendar 2018. The entire CAPEX on this page will be self-funded from the EBITDA and cash flow earnings of the year and all of them, every single project out here will return an IRR of about 20% or more at conservative price assumptions, which is well above our WACC.

In summary:

Focus on fundamentals of operational excellence, generating free cash flows to fund our CAPEX, delevering and adequate shareholder returns will be our endeavor. Priorities around keeping the balance sheet strong and staying proactive on refinancing, credit improvements and keep improving the ROCE will continue.

With that, thank you all, and back to Mr. Kaura for his brief on the growth projects.

Kuldip Kaura:

So before we talk on growth projects, let us look at a few points on what is happening in India. India is our key market and production base. Indian economy is one of the fastest growing G20 economies and is projected to grow at around 7-8% p.a. over the next few years. Currently, per capita consumption of metal in India is 70-80% below global averages. As the economy grows and the intensity of consumption increases, the demand for key commodities will increase multifold. Vedanta, as the only diversified natural resources company in India, is uniquely positioned to cater to the demand. Vedanta stands out from its peers as it has many brownfield opportunities for growth.

This slide is a snapshot of projects across various businesses, detailing both the near-term growth on the execution and our medium-term growth options. As an organization, we are well equipped to deliver on these growth projects with our world-class resources, requisite management bandwidth, and strong cash flow generation from our operations.

Moving to Oil & Gas:

In the Oil & Gas business, we are moving towards our vision of contributing 50% share in India's total crude oil production. The key to realizing this vision is augmenting our reserves, and as you can see from the slide that since 2009 to-date, we have added 1.3 billion boe in production and reserves through use of leading-edge technologies. Our growth projects include a rich mix of enhanced oil recovery, tight oil and tight gas projects involving gross CAPEX of \$2.3 billion over the next two to three years, and at IRRs in excess of 20% at oil prices of \$40 per barrel. These projects will result in doubling of our production progressively over the next two to three years. Contracts of about \$1.3 billion for these projects are already in place. Project execution is

underway with four rigs currently at site in Rajasthan which will be scaled up to nine rigs by August 2018.

The polymer enhanced oil recovery at Mangala, which is now a global benchmark is being replicated in the Bhagyam and Aishwariya fields with the target to deliver an incremental 5% recovery. The first well has spud both at Bhagyam and Aishwariya in April 2018. We are going for Alkaline Surfactant Polymer or ASP in short, to further boost recovery by about 10% from our MBA field, taking overall field recovery to around 45% level from the base level of about 30%. The success of the ASP pilot in Mangala has paved way for a phased implementation of ASP in the MBA fields.

Moving on to Tight Gas:

The first well has spud in April 2018. We are also looking at early production through a rental arrangement of surface facilities as soon as the GIGL pipeline is ready towards the end of first half '19. We are on track to monetize Aishwariya Barmer Hill, our first tight oil project. The two rigs drilling program comprising 39 wells is on track to spud in May 2018. In addition, we are upgrading liquid handling capacity at the Mangala Processing Terminal to accommodate post-expansion volumes. In aggregate, we are thinking to add around 375 million barrels of gross reserves on account of our growth projects. We will also continue to invest further in exploration in this business. We have identified a number of new and high impact undrilled lead and prospects in Rajasthan and will start drilling 17-18 wells in August. Beyond Rajasthan, we have a 100% participating interest in KG Offshore block. The first well of the two well exploration campaign at KG has spud in April 2018. We are also actively looking to add to our current acreage across key basins in India under the government's Open Acreage Licensing Policy. We have bid for all the 55 blocks on offer and expect to increase our exploration portfolio significantly to continue building the reserve and resources base aggressively.

Moving to Aluminum:

We are pleased with the strong ramp-up of this year in our aluminium business, exiting the year at approximately 2 mt production rate. We will continue to full ramp-up of third line of 1.25 mt Jharsuguda smelter within the first half of the year.

This year was, however, not without its challenges. Inflationary cost pressures across alumina, coal and carbon accelerated the cost in the business. Amongst input commodities, alumina continues to trade at elevated levels, driven by the supply tightening from Alunorte's partial refinery shut down and uncertainties due to US sanctions on Rusal. While our medium-term target is to achieve cost of production of about \$1,500/ton, in the immediate future, we are focusing on improving costs within our control and also improving realizations.

Some of the key actions to reduce costs are: On alumina, we are targeting production of about 1.6 mt of captive alumina in FY '19 with the potential to move up to 2 mt, thereby reducing imports of high cost alumina substantially from current levels. Increasing the share of Odisha

bauxite significantly will add high quality, low cost bauxite to our refinery feed mix. Together these factors will lead to appreciable reduction in alumina cost.

On Power: We are working towards achieving benchmark level of plant operating parameters which will reduce non-coal costs. We are also working towards increasing our linkage coal mix from 45% currently to a target of 70%, thus reducing the share of high cost imported and auction coal. We are optimizing controllable cost and through elimination of one-offs, we expect COP reduction in the range of \$120 to \$170/t in FY19.

Since the supply dynamics for global alumina and prices for other input commodities remain uncertain, it is difficult to provide an exact guidance for financial year '19 cost of production. Assuming cost of imported alumina, coal e-auction and carbon stay at average of current year, this would imply COP of about \$1,725 to \$1,775/t range in FY '19.

On the Products and Marketing side: While our vision is 100% value-added production, we are targeting a 35% increase in financial year '19 to a milestone level of about 1 mt. These and other efforts along with improved headline premium is expected to contribute about \$50/ton to the EBITDA margin in financial year '19.

While in the near-term, we are focusing on improving cost and realization, we are also evaluating an expansion of up to 3 mt in aluminium, possibly through an additional pot line at BALCO which has surplus captive power in place. This will be in tandem with the alumina ramp up at Lanjigarh to 6 mt.

Moving onto Copper Zambia:

Financial year '18 was an important year for us as we transitioned into a new operating philosophy through the business partnering model. Konkola achieved its highest production of the year in March 2018. Encouraged by this operational improvement, we continue to focus on a sustained development and dewatering strategy at Konkola underground, augmentation and improved fleet availability at Konkola underground and Nchanga open pit under OEM supervision across businesses, strengthening the operating organization and rationalization of cost base.

In summary: We have in place a renewed operating model to have substantial improvement in output in financial year '19. KCM has the required infrastructure and coupled with the necessary mine development, this asset has the potential to produce 300,000 ton copper in the medium-term. At Zinc India, our strategic vision is to grow our zinc lead output to 1.5 mtpa and our silver portfolio to 48 million ounces.

I am pleased to announce that the Board of Hindustan Zinc earlier this month approved Phase-1 of this expansion which will increase our mined metal and smelting capacity from 1.2 mt-1.35 mt per annum over a period of three years.

Phase-1 will be implemented concurrently with the ongoing mining expansion of 1.2 mt which is now in its final stages. A salient feature of this next phase of expansion will be the use of technology to increase productivity, efficiency and safety. We plan to deploy autonomous machine enabling 24/7 mining to increase production hours and fleet availability. These measures along with initiatives like predictive maintenance will create capabilities for cost optimization and improve safety. In short, our mines will be smart, connected, intelligent mines, which will be safer and more productive.

We will be expanding our smelting capacity also simultaneously via debottlenecking of our existing smelters and addition of a new smelter. A new silver refinery of 200tpa will be set up to process higher silver feed.

Talking about Zinc International:

As you are aware, Gamsberg is the anchor project for our growth plans at Zinc International. It has a huge potential with its large reserves and resources base of 215 mt with 16 mt of contained zinc. Phase-1 of the project which will produce 250,000 tons is currently under execution and on track for commissioning in middle of this year. Gamsberg Phase-2 can start immediately after completion of Phase-1. In terms of output, we can expect to add another 200,000 tons to 250,000 tons metal-in-concentrate in two-to-three years. It is our vision to sell finished zinc metal from Gamsberg, and towards this we are evaluating various possibilities for converting concentrate to metal.

Let me also cover our integration strategy for iron ore and expansion:

As I mentioned earlier, at Goa, our iron ore operations are currently shut. Given our commitment to the region and the considerable impact on the local economy, we will continue to engage with the government to provide clarity around restarting of mining operations at Goa.

On Electrosteel: the IBC process gave us an attractive entry opportunity into steel. We see steel as a natural value add for Vedanta's iron ore business. In early April, we received a favorable order from NCLT for our bid to acquire Electrosteel. We are working towards completing this acquisition. Electrosteel runs a blast furnace and produces long steel in the State of Jharkhand. We see a number of opportunities to turn around this asset, including the immediate ramp up to 1.5 mt and subsequently to 2.5 mt and synergies with the to be developed Jharkhand iron ore project.

Let me wrap up by summarizing our Key Investment Highlights:

Firstly, Vedanta's diversified and low cost production portfolio, positions us well to deliver strong margins and cash flow through the commodity cycle.

Secondly, we are strongly and uniquely positioned to benefit from India's growth potential.

Thirdly, progressively, over the next two years, we will have significant growth across a number of our businesses. Production at Oil & Gas will almost double from current levels of 180,000 barrels per day to about 320,000 barrels per day. Our zinc portfolio will grow from current level of 1.1 mt to 1.6 mt across Zinc India and Zinc International. Aluminum production will increase from 1.7 mt to 2.3 mt. Copper Zambia will double its integrated production from around 100,000 tons to 200,000 tons.

As a part of our operational excellence program, our main thrust is to adopt digital technology across our operations. We have already implemented this at two of our mines and are looking to replicate across our various assets.

We, at Vedanta, remain committed to our philosophy of zero harm, zero waste and zero discharge. As a growing organization, management remains centered around strengthening our leadership pipeline and building capability. All these factors will enable us to deliver superior long-term return to our shareholders and broader stakeholder base.

With that, we can now take questions from the audience. Thank you.

Arun Kumar:

Thank you, Mr. Kaura. We will take questions from the audience here, followed by the operator who will facilitate questions online. And since this is being webcast our team will hand over questions if any on the webcast as well. Thank you.

Jatinder Goel:

Jatinder Goel from Citigroup. Two slightly higher-level questions; firstly on leverage, you mentioned 0.9x at subsidiary level and 2.4x at plc. Do you think there is a need for convergence and is there a timeline over which you would want this to be converged, and is there a road map that you could lay out to get to those levels where those two entities look reasonably similar? Second one, just on further diversification into steel. You are still probably actively bidding into other entities as well. Do you think Electrosteel is not sufficient or do you have the capability or need to go beyond Electrosteel as well?

Anil Agarwal:

We fundamentally wanted to be only in iron ore production. But in certain continents and countries, the government insists of value addition. Like if you look at Central America, Mexico, they insist, and same in India, they do not encourage only to remain as an iron ore producer. And we are producing already in Goa about a million ton pig iron. We have a phenomenal mining site, but everybody insists on value addition. So we got this opportunity to bid for Electrosteel, so we can integrate. Once we are in steel, we have to be a player and we find that Essar is also available for bidding and we have put in a very reasonable bids. I m not sure where it will go, there are other bidders and if it comes through, we can integrate and see how one vertical can develop as a major steel player including Essar Steel and Electro, but at this point of time, we are very comfortable with the iron ore we are producing and Electrosteel - what we have got, so we have created a comfort in the government's mind that we will be value adding to at least some of the iron ore.

Arun Kumar: Thank you, Chairman. Very important as a follow up to what the Chairman mentioned to underline the strength of the operating subsidiary - Vedanta Limited. I think the statistic I shared with you is probably the best-in-class balance sheet amongst any corporate group in the country. And all that has been achieved, thanks to the volume ramp-up that we have gone through as a journey in the last 18-months, every single one of our assets is producing good EBITDA at this point of time. If you take our Q4 run rate, the ROCE has crossed 20%. So that gives us the confidence to put our step forward on all brownfield growth opportunities and as well as the bolt-on steel acquisition that the Chairman very eloquently explained. So, at the PLC level, of course, our journey is getting towards investment grade rating as I have shared in the past, and if you look at the last 24 months of journey, we are almost back to where we were at the commodity price down cycle. So the key point is the handsome cash flow generation potential in FY'19 and beyond at the operating subsidiary. Absolutely exciting growth opportunities in front of us in Oil & Gas, Zinc, Zinc International and aluminum realizing its full potential this year, and with that smartly allocating our cash between shareholder returns and further deleverage. Thank you.

Saurabh Agarwal: Saurabh Agarwal from Barclays. A very quick clarification on this aluminum division. You mentioned the medium-term plan of improving the alumina production to 1.4 mt to 1.6 mt. I think the capacity can go up to somewhere in the range of 5 mt to 6 mt, and then associated bauxite, the local procurement either from the State of Odisha or otherwise. So just if there is any update on that? The second question related to that was this increase in the value add that has been targeted for aluminum, any associated CAPEX for that?

Anil Agarwal: We have set up this alumina plant and at the moment we have a very small mine in Chhattisgarh and we are feeding with that. Last few months we are getting Odisha bauxite, which is helping well, and our cost is coming very well and we are targeting from 1.5 mt to 2 mt this year. I am very confident that the 100% bauxite will be available within a year's time so that we will ramp up, up to 3 mt and then we will go next phase for 6 mt. Not much capital required, but we allocated some capital, because infrastructure has been developed and we are excited about the alumina. We want to first cut on the value addition and I am very pleased that our team is working with our existing rod mill and the existing billet and some of the alloys. They are looking forward at least 90% value addition of product. Looks like there will be about \$70, \$80 or \$100 million investment, not much investment will be required.

Kuldip Kaura: Just to supplement, last year we produced about 1.2 mt alumina. This plant is 2 mt capacity. With the mix of the bauxite which we are feeding, it will immediately go to 1.7 mt and then we will also debottleneck further to 2 mt. And then as Chairman was saying, our next milestone will be debottleneck this 2 mt to 3 mt. Feeding of bauxite from Odisha has already started and this is the merchant mine, that is OMC, supplying us with bauxite, and this mine will continue to ramp up to a potential of about 6 mt which will supply quite a large proportion of the bauxite which we require. On the value addition, no serious investment, as Chairman said, it is less than \$100 million. Plus we also have about 100,000 tons capacity in BALCO which actually is being now put into operations and debottlenecked to deliver its full potential.

Arun Kumar: So if there are no other questions in the room here, can I ask the operator to kindly link in the question queue.

Moderator: Sure, thank you very much. The first question is from the line of Varun Ahuja from JP Morgan.

Varun Ahuja: Two or three questions; firstly, you mentioned deleveraging and strong balance sheet being a priority. I see that the attributable net debt something that rating agencies also follow, has been around \$8 billion, although there has been some debt reduction, but if I look at it how much percentage you are holding in each of the asset versus where the debt is, it is still hovering around \$8 billion. So there are some new growth projects that you mentioned and I believe they are in commodities where you expect prices to hold up pretty well. But just I am trying to understand your thinking, are you comfortable with the current debt numbers what you have on the balance sheet right now, or would this number further decline from operating cash flows as well as one-off dividends that you have recently given? Secondly, on debt at KCM, that has been reducing. So just curious how that is being done and what is your total outstanding from Vedanta PLC to KCM?

Arun Kumar: Thanks for the question, Varun. I think as we mentioned earlier, the relative net debt-to-EBITDA has been improving for us over the last two years; if I wind the clock back to FY'16, I think we were at about 3.36 and it is almost 100 basis points down. Very reflective of the operations trend that we keep underlying. The fact that we reached a certain EBITDA level with our most significant potential unlocked, given all the growth projects would definitely take those earnings and the cash flow to the next level. As we also mentioned on the capital guidance page, all the CAPEX will be completely self-funded. So the three objectives of capital allocation, which is smart growth projects with high returns, continue to delever, as we saw in the PLC, the debt is below \$6 billion at this point of time, it was about same time last year, and third is ensuring the appropriate shareholder returns at the subsidiaries which are earning, which also means good cash flow into PLC. These 3 objectives then get balanced out very neatly at any price level, given the fact that our operating philosophy is to be at the first quartile cost curve for every business that we operate, and that gives a position of strength to go through the cycles. Needless to say the diversified asset portfolio has been a source of strength to the group as we have repeatedly outlined in the last couple of years and you see that play out in all the commodity cycles. As regards KCM, Steven is on the line, Mr. Kaura is here, there are excellent improvements in the second half of the year and some new contractor strategy has been put in place. I will request them to sort of outline the same and share the potential of KCM in FY'19.

Steven Din: As you mentioned, the debt levels at KCM are reducing. So at the end of Q1, we had an external debt level of \$509 million, which at the end of Q4 has reduced down to \$376 million, and then if we look at the balance that we have in group, at the end of Q1, it was \$612 million, and it has moved up slightly to \$622 million, overall the debt level at KCM has reduced. This is quite simply, is a result of the improvements which are coming through essentially a change in the operating philosophy, where we found that there were certain parts of the business which were mainly legacy assets, and in some cases, they were suffering from low equipment availability or not having the right level of fleet. So we have looked at certain parts of those legacy assets and

where there is a short life, we have basically contracted those sections out to essentially business partners and the transitioning is now almost complete and we are starting to see the productivities, particularly, for example, from the open pits coming through. But at the same time, we also have the asset at the Konkola underground mine, which if I can just remind everybody has just under 300 mt of resource at 3.5% copper. This is also being looked at in relation to our contracting out philosophy with the business partners. Once again, we have looked at probably the two shafts that we have at Konkola in a different way that we are once again starting to see the productivities come through. And as you have seen in the outlook for FY '19, we are hoping that the numbers that we achieved towards the end of March and that we are achieving right now in May, will continue and grow into the end of the year and then hopefully these debt levels will reduce even further.

- Varun Ahuja:** After the couple of acquisitions you have done in FY '18, including foray into the steel sector, I guess for the near-to-medium term... I am not looking for specifics, are there any potential acquisitions or interesting opportunities that you still see that you would be actively tracking or is organic growth going to be the focus going forward?
- Anil Agarwal:** Yes, whatever we have said - organic growth which is there. Apart from that there is nothing for acquiring any new asset.
- Kuldip Kaura:** I think the focus is mainly on the brownfield growth which you saw we outlined across all our assets in Oil & Gas, in Zinc.
- Moderator:** Thank you. The next question is from the line of Bharat Shettigar from Standard Chartered Bank. Please go ahead.
- Bharat Shettigar:** First, couple of questions on the entity wise cash and debt levels which is on Slide #39 of the presentation. Firstly, I want to understand the \$606 million dividend inflow that you got, is that reflected in the March-end numbers?
- Arun Kumar:** That is right.
- Bharat Shettigar:** If I look at Cairn India Holdings, that has about \$791 million of cash as of March. Just trying to understand what is the strategy behind keeping such a high cash number at that entity?
- Arun Kumar:** The production sharing contract is split between two legal entities. So this is actually the handsome cash generation - which is half the asset is sitting in that legal entity. And this cash is available for us for any of the corporate uses and it is earning a very good interest income, as I outlined earlier in my presentation that we earned about 7.4% on a pre-tax basis on the investment income while our cost was about 7.15%. So I hope that answers your question.
- Bharat Shettigar:** If I look at the September results, the Holdco had about \$900 million of debt repayments due in FY'19, that number has come down to \$400 million now. So clearly you have refinanced some

of that debt during FY'19. Can you talk a bit about what kind of tenure and what kind of interest rates at which the debt was refinanced?

Arun Kumar:

I think the broad picture on PLC is that we have been very proactive on refinancing, and if you really see that the average tenure has gone up from nearly 2.5-years 12 months ago to approximately 4.2-years at the end of March '18. It has been sort of well appreciated by the debt markets and credit rating has also improved on the back of this proactive refinancing, because on an overall basket of borrowings has come down during the year by nearly about 25 basis points to 30 basis points as a result of this kind of smart refinancing that we have done. The specifics of any of the borrowings in our balance sheet, we can definitely connect offline and share more details.

In the meantime, there is a question on our webcast and I will probably pass this on to Steven, it is about how well are we working with the Government of Zambia and they see penalties being inflicted on some of the competitors and what is the situation for Vedanta? Steven, you would like to talk about your government relations and how we work with them?

Steven Din:

I would say that over the last few years, we have managed to create a very open dialogue with the various ministries in the Government of Zambia. But most importantly, I think we are having a very good set of dialogues with the Zambia revenue authority. So you are right, very recently there were some publicity where one of the other large miners in the country was assessed basically on customs duties which is now being negotiated. There have been small assessments on other mining companies as well. But we are in dialogue, we do not believe that we have any large exposures, our compliance is very good to all of the regulations. Even more so, maybe if I can state that we had some very positive dialogues with the Zambia revenue authority in relation to recouping some of the backlog VAT. So I would say that despite some of the economic difficulties in Zambia at the moment in relation to the budget deficits and the economy, our relationship with the government is good.

Arun Kumar:

Is there any other questions? So thank you, ladies and gentlemen. This concludes the FY'18 Earnings Call of Vedanta Resources. The IR team is available for any queries, the coordinates are on our corporate website. Thank you again.