



# Vedanta Resources Limited FY2019 Interim Results Conference Call

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**Moderator:** Good day, ladies and gentlemen and welcome to the Vedanta Resources FY2019 Interim 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 – Head, Investor Relations. Thank you and over to you.

**Rashmi Mohanty:** Thank you, operator and a very good evening and good morning to people joining us today. I am Rashmi Mohanty - Head, Group Investor Relations. Thank you for joining us today to discuss our first half results of Vedanta Resources for FY'19. We will be referring to the presentation that is available on our website and has also been emailed to you. The call will be led by our Group CEO – Mr. Srinivasan Venkatakrishnan. Just a brief introduction before I hand it over to him. Venkat as he is called was the CEO of AngloGold Ashanti Limited before he joined us here. He worked in several markets in UK, India, Africa, Australia, etc., He will be also joined by Mr. Arun Kumar who is our Group CFO.

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

**S. Venkatakrishnan:** Thank you, Rashmi. Good evening, everyone. This is my first results presentation at Vedanta Resources, since joining the group just over two months ago. I would like to share with you some of my initial impressions before we start to go into the results.

It has been an exciting two months. I have been visiting some of the assets and I have been very impressed with Vedanta's vision and resources. The company has world-class structurally low cost and diverse assets with excellent potential and importantly long life. I have also seen strong technical expertise in the group with the keen focus on exploration. Our operating mantra remains - safety, volume growth and the lowest cost of production.

The company is uniquely poised to grow in commodities that have a rising demand especially in India with an enviable growth pipeline which is being brought to fruition in a very disciplined manner. Any opportunity that demands capital always gets evaluated by us both for financial value and return and also on whether it meets our principles as a company on sustainability and ethics. Beyond the business of extraction, we are also engaged in the truly important sustainability work across the broad front, that is designed to improve in a tangible way, the lives of the people particularly women and children in the communities that host our operations.

Moving to the interim results, I would like to begin with safety. It is with the deepest of regret that I share with you that we had 10 fatal accidents during the first half of the year. This is unacceptable and we are learning from these accidents and have resolved to further strengthen our initiatives around safety measures with an increased emphasis on roles and responsibilities of our senior management, including visible felt-leadership, there are safety support teams, front

line supervision, improved compliance to procedures, behavioral changes, training, to name a few.

Turning to the broader area of E&G, it is pleasing that some of our initiatives on this front are being recognized. We are happy to announce that Hindustan Zinc was ranked #1 globally in the Environmental category by the Down Jones Sustainability World Index in the Metals and Mining Sector and #5 in the Overall Sustainability in the Metals and Mining Sector. This stands as a testimony to our commitment towards zero harm, zero waste and zero discharge. We continue to work and deliver strongly on our waste to wealth management programs, water and energy management programs and our CSR and community activities across the areas where we are present.

Now, moving to the slide, which shows the highlights for the first half of the year, our operations generally did well, resulting in revenue of US\$7.1 billion and EBITDA of US\$1.7 billion.

Starting with Zinc India, with 100% of our mining now underground, our volume ramp up continued at a good pace and notwithstanding the loss of open pit mining we delivered 425,000 tons of refined zinc and lead.

Silver production, an untold story here, stood at 10 million ounces which is a record. The cost of production was impacted by lower volumes, higher mine development and increasing input commodity prices especially around coal and these. We expect that as volume ramps up in the second half of the year the unit cost will indeed come down.

At Zinc International, Skorpion and Black Mountain mines are poised for a better second half. Importantly, we are pleased to report that the trial production commenced at Gamsberg at the end of September. Gamsberg is another example of strict capital discipline as we are finishing the project within budget.

In our Oil & Gas business, which delivered around 190,000 boepd in the first half of the year, our growth projects are progressing well and will pick up steam in the second half. We are excited with the opportunity offered by the 41 OALP blocks that we recently won. I will cover this in detail later.

The aluminum business which produced 976,000 tons of aluminum during the first half will continue to benefit from sourcing of bauxite from Odisha as the OMC mine ramps up. On power costs, this quarter was no different for us as compared to our industry peers in India. We continue to work on our plan for a structural reduction in the cost and working towards nil dependency on purchased alumina and purchase power.

On the IPP side, the TSPL plant delivered high availability of 93%.

Moving to Iron Ore, post the Supreme Court judgment in March this year, mining operations in the State of Goa are shut, including ours. Given our commitment to the region and the considerable impact on the local economy because of the shutdown, we continue to engage with the government for the resumption of the mining operations.

On Electrosteel, the new addition to the family, we have made significant progress on improving efficiency of this asset post the acquisition and I am quite pleased that we exited the second quarter with a monthly run rate of 1.3 mtpa. The EBITDA margins improved to a strong \$90 a ton from \$55 a ton a year ago. We see scope for further improvements here as the business ramps up to 1.5 mt capacity in the near-term.

At Tuticorin, the company has made a representation to the National Green Tribunal which is hearing the case on its merits. The NGT has referred the matter to an independent committee to submit the report on the environmental compliances by the plant. We expect the independent committee to take decision in the current quarter. Meanwhile, we continue with our engagement with the local community and stakeholders through various outreach and CSR projects and on the ground interaction. Having visited the operations recently and interacted with the stakeholders, we are seeing more and more stakeholders supporting the appeal to reopen the plant given its compliance record today and at a macro level the wider social and economic impact in Tuticorin by the plant being shut.

At KCM, the integrated production in the first half was at 48,000 tons, 11% improvement from the prior period, primarily due to better output from the tailings leaching plant and Nchanga. Costs were impacted mainly by the depreciation of the local currency. As equipment mobilization program as well as dewatering and underground mine development by our business partners at Konkola improves, we expect to see better production and lower cost going into the future.

In summary, the second half of the year in particular the fourth quarter, promises to be better in both top and bottom line across the business, as our growth projects particularly in oil and zinc ramp up and start to deliver.

Before handing over to Arun for the financials, let me spend some time discussing our growth projects: We have an enviable growth pipeline and ramping up of these projects in the current sequence, on time, within budget with a proper stage-gating process will remain a focus area for me.

At Zinc India, we continue to ramp up our underground production and we remain on track to deliver our guidance of this year which is higher metal-in-concentrate production as compared to last year and the silver production will be in the range of 650-700 tons which is around 21-23 million ounces. Our projects are progressing in line with the expectation of reaching 1.2 mtpa of metal-in-concentrate capacity next year through various development work on shaft commissioning, mill and fumer plants commissioning at the respective mines. With these near-

term milestones, we are simultaneously planning for the next phase of expansion to 1.35 mtpa as we reported earlier.

I am happy to share that at Gamsberg we put the first ore feed to the mill and commenced the trial production in September. We are forecasting around 75,000 tons of metal-in-concentrate in the current financial year, slightly lower than our earlier guidance. However, this marginally lower production will be more than offset by lowering cost ranging from \$800 to \$1000 per ton. We will be moving to a full ramp up of 250,000 tons by early part of FY20. The Digitization project in mining will help in grade management for better process control and quality.

In line with our modular approach of expansion and project execution, we have advanced the feasibility and design of Gamsberg Phase-II expansion to increase the production to 450,000 tons to 500,000 tons per annum.

At our Skorpion mine in Namibia, the pre-stripping of Pit-112 continues with full completion expected by the fourth quarter of this year. With ore production fully ramped up and higher grade now exposed, production in the second half of this year is forecast to increase.

To sum up the zinc story, the outlook for zinc continues to remain robust on the back of low inventory levels, tightness in refined metal production and higher demand growth projection, especially in emerging markets. We expect significant increase in volume in the second half of FY19 and in the coming years from our side and therefore the cost of production to reduce in both our zinc businesses.

Moving to Aluminum, our plan is to create supply sources for our raw materials to eliminate volatility and drive a structural reduction in cost towards \$1,500 a ton through the following key factors:

Let us start with coal. We have recently secured 3.2 mt of additional linkages from Tranche IV coal options and separately commenced mining at the Chotia mine which has started to supply coal to Balco. We will continue to work on improving materialization from the linkages and increase linkage through participation in future tranches.

Secondly, on Alumina, Lanjigarh production was strong in the first half and following our debottlenecking initiative, it is expected to move to an exit rate of around 2 mtpa by the end of this year. Our cost of alumina production at Lanjigarh is significantly below current import alumina prices and we have a good value unlocking opportunity here by expanding this capacity. The first phase of Lanjigarh refinery expansion to 4 mt is in the final stages of planning.

Next on Bauxite: A key positive development for us has been the start of the Odisha bauxite delivery from the Odisha Mining Corporation. The mine is ramping up well and we are targeting 250,000 tons of bauxite per month exit rate this quarter in order to meet half of our Lanjigarh requirements.

Additionally, other initiatives such as maximizing inland movement by rail, power plant technical parameters and rail-road turnaround times are important operational focus areas for us.

On the Marketing side, we continue to focus on improving net premium by progressively increasing value added production to grow by 25% in the second half driven by improved sale of wire rods in the domestic market as well as higher billets sale internationally.

On account of some of these measures coming into fruition in the second half of the year, we expect the full year cost of production to be in the region of \$1,950-\$2,000 a ton.

Moving to Oil & Gas, we are pleased to share that we have secured the approval for the Rajasthan production sharing contract extension for another 10-years until 2030. The applicability of the Pre-NELP extension policy to our Rajasthan blocks is currently subjudice. With this extension, our proven and probable reserves in Rajasthan has jumped by more than 4x from 138 million barrels to 596 million barrels.

Our robust portfolio now comprises of a number of exploration blocks with promising projects, large pool of development projects and prolific producing wells. We are excited with the opportunity offered by the 41 OALP blocks that we recently won which together with our current production capability will take us a step closer to our aspiration of meeting 50% of India's crude oil demand. We plan to carry seismic survey over 10,000 sq.kms. and drill over 150 wells to unlock the potential.

On Exploration, our focus is to target high impact prospects across the basin. In Rajasthan, we are deploying five rigs in the second half for exploration and appraisal and we shall drill 7 to 18 exploration wells. We shall also carry appraisal for four of our key fields with the potential of around 200 million barrels of resource. In the KG offshore area, our first exploration well has indeed been a discovery. The second exploration well will be drilled in the fourth quarter. Exploration efforts also continue in the Ravva block which has a global benchmark recovery of around 50%.

We plan to monetize our reserves through various projects across enhanced oil recovery, tight oil, tight gas and facility upgradation with the total gross capital investment of around US\$2.5 billion. Although the closure of our contracts for the risk/reward partnership model with global vendors, took a bit longer than initially envisaged, impacting on our near-term volume, we have locked in world-class recovery rate at very low capex cost. We are at a distinct advantage over our peers as the enhanced oil recovery techniques shall have ultimate recovery from our core fields at around 50% at a capex investment cost which equates to around \$5 per barrel.

We have a clear plan on timelines for each of these projects. The second half of the year will be fairly busy with increase in the rig count, wells drilling and hook up and our rig counts shall jump from 7 to 11, the number of wells drilled shall increase to 132 in the second half of the year. The number of wells hooked up, shall increase to 56. We are accelerating the tight gas

project to bring incremental volumes in the near-term. The GIGL pipeline is also nearing completion. Facility debottlenecking at our end shall lead to increase in gas volume in this quarter. In addition, we are building early production facility to increase our production by around 90 mmscf by the end of the fiscal year. We are also increasing our liquid handling capacity by around 30% in a phased manner to handle incremental volumes.

To summarize, the growth projects we have are promising on long life assets and we have contracts locked in around \$5 per barrel for capex and world class recovery. We expect the average for the year to be around 200,000 barrels per day.

With those comments, I will hand you over to Arun to walk you through the financials.

**Arun Kumar:**

Thanks, Venkat and good morning, everyone. As outlined by Venkat, we laid a solid foundation in the first half of this fiscal year by consolidating underground volumes at Zinc India, commencing almost the entire \$2.5 billion gross basis growth capex in oil and gas, executing broadly as per plan on the Gamsberg mine, aluminum sector seeing some key wins on bauxite and Tranche IV coal linkage auctions and getting Electrosteel up to its current capacity. I believe this sets up for a strong second half across the board in line with the growth play book as we had laid out earlier in the year.

Some of the key financial highlights as you can see on Page #18. Sequential EBITDA was higher by 1% YoY at \$1.7 billion with the robust margin of 29%. Strong ROCE, continues to be at mid-teens. Net debt increased to \$10.2 billion, (\$9.6 billion as on 31<sup>st</sup> March 2018), primarily on account of the Electrosteel acquisition that just got consummated in the last quarter. We believe that this asset will meet its investment case in the years to come

As can be seen in the EBITDA walk in the second half of the page, EBITDA is marginally higher. The increase was driven by improved commodity prices compared to first half of last year, however, offset by an increase in raw material inflation, mostly in alumina, coal and carbon; however, the volumes of the operating businesses were a positive contributor of nearly \$68 million. Even within the \$68 million, in Hindustan Zinc, we must be reminded that while the number shows -\$39 million, however, it does not have the benefit of the open cast mine production which contributed nearly \$190 million in the same period last year. This has been made up by increased volumes from the underground production. Hence, one can broadly conclude that the teams are executing well on the assets with volume increases across. Though given the backdrop of input inflation, shut unit, i.e., copper, and end of life open cast production, basically giving a flat EBITDA picture.

On the next page, as you can see update on the capex. Overall capex spend for the year is estimated around \$1.4 billion including the optionality built-in. It is lighter than the earlier projection and is basically driven by the deferred spend on the India copper smelter expansion which is on hold now. The second half spend picks up as the oil growth projects progress. The

project under execution at zinc, oil & gas, as we already informed earlier, will all be at greater than 30% project IRR in a conservative price scenario.

Finally, on the page on maturity profile, despite a global tight liquidity environment, the company continue to focus on stated objectives of proactive balance sheet management. Access to bank liquidity both at Plc and its subsidiary companies remains strong in the first half and with fresh facilities availed during H1, a significant part of the FY19 maturities have been refinanced, be it at the Holdco or at the subsidiaries. This has helped improve the average maturity of Plc debt on a standalone basis to 3.6-years as at September '18 on a rolling basis from 2.8-years at the end of December '16. We have seen a marginal increase in our interest cost by 25 bps in line with the rising benchmark rate. In addition, the first half of the year also saw significant depreciation in the emerging markets currencies. Just as a reminder, this works favorably for a company like Vedanta which is predominantly INR operations. Every one rupee depreciation benefits EBITDA by about \$35-40 million on an annualized basis. At the same time, with a prudent hedging policy, our subsidiary balance sheet is protected from any foreign currency exposure on the borrowing side.

Global credit and capital markets continue to remain volatile; however, liquidity continues to remain strong where we have retained around \$5.5 billion of cash and cash equivalents at the end of the reporting period.

I would like to reiterate here that we are committed to a well-balanced capital and disciplined allocation framework as Venkat had also pointed out to. This is supported by a robust balance sheet to invest in Brownfield capex leading to mid to high teens ROCE and robust IRR.

The dividend policy in the subsidiaries have been in play for the last three years and as you observe, Vedanta Limited, the primary subsidiary, had declared nearly about \$900 million of dividend couple of weeks ago in their board meeting.

With this I wrap up the update on the financial section. Thank you and back to Venkat.

**S. Venkatakrishnan:** Thank you, Arun. Let me wrap up by saying that our strategic priorities remain unchanged. We are committed to achieving our objectives of zero harm, zero wastage and discharge thus creating a sustainable value for all of our stakeholders. Growth with an eye on strict and disciplined capital allocation will remain a focus area whilst we continue to strive to improve our operations, sweat our assets, optimize cost and improve realization.

**Rashmi Mohanty:** Thank you very much, Operator and thank you everyone for joining us today. As always you can reach out to the investor relations team for any follow up questions you may have.

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