"Vedanta Resources plc Q1 FY2017 Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Vedanta Resources Plc Q1 FY2017 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, 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 Mr. Ashwin Bajaj -- Director, Investor Relations. Thank you and over to you, sir.

Ashwin Bajaj: Thank you, Operator. This is Ashwin Bajaj and Good Morning to all of you. Thanks for joining us today to discuss our Results for Q1 of FY2017.

Let me introduce our management team present with us today: We have Tom Albanese -- CEO of the Group; D.D. Jalan -- CFO of the Group; we have Samir Cairae -- CEO of the India Diversified Metals business and several of our business leaders; we have Sudhir Mathur from Cairn India, Sunil Duggal from Hindustan Zinc, Steven Din from KCM; Abhijit Pati from Aluminum and Kishore Kumar from Iron Ore.

With that let me hand over to Tom.

Tom Albanese: Thank you, Ashwin, and Good Morning, Ladies and Gentlemen. It is a pleasure to welcome you to Vedanta Resources first quarter results call.

As we started the fiscal year, we saw significant strength in commodity prices as you know. Investor sentiments which were pretty tricky and difficult last year has turned positive towards the sector. Among the commodities, Zinc and Silver prices have gone up materially in the last three-months and I am consistent in my belief of strong fundamentals for Zinc and expect zinc prices to remain strong in the near future.

The Chinese economy continues to post steady growth with second quarter GDP in line with market expectations at 6.6%. The stimulus provided by the government has supported growth in China. All of us hope that the lows we witnessed earlier in 2016 should be the trough for the commodity markets and the recovery we are seeing now is here to stay.

At Vedanta, we have used the current market volatility to our advantage as we optimize operating and capital cost. This improvement in commodity price comes at a very opportune time for us as we are ramping up our capacities in Aluminum, Iron Ore and Power. Zinc and Oil contributed 60% of the first quarter EBITDA and both commodities perform well in the quarter.

I will now Review the First Quarter Fiscal 2017 Performance and Update how we fared: First of all overall in terms of the Highlights, we had a strong quarter in terms of ramping up latent capacities. Our Mangala EOR production maintains its upward trajectory and Rajasthan production remains stable during the quarter. Zinc India production was lower in the first quarter as per the mine plan as we evacuated more waste than ore in the quarter. However, we expect

full year production to be higher than the previous year as the second half would have been substantially higher and it is again consistent with our previous flagging to the market.

At Copper Zambia, the cost of production was reduced 8% YoY, Konkola mine mobile equipment increased by 10% in the quarter.

At Aluminum, the ramp up of first line at Jharsuguda-2 smelter was completed. The second line has started commencing in July. Ramp-up of BALCO 325,000 tonnes per year smelter is nearing completion. At Goa, we maintain the monthly run rate of about 800,000 tonnes per month in the first quarter.

At TSPL, we have the third unit operational ready and that unit is expected to be capitalized in the second quarter. We delivered EBITDA of US$527 million and our gross debt was reduced by 300 million in the quarter. In the first quarter, we paid close to 1.2 billion of bonds maturing in June and July and as stated earlier we are committed to bringing down our debt and de-lever the balance sheet.

Group simplification remains a strategic priority and in line with this we have announced the Revised and Final Terms of the Merger of Vedanta Limited and Cairn India on 22nd of July. We expect to complete this transaction by the end of this fiscal year. The strategic rationale for merging Vedanta and Cairn India remains highly compelling as diversified resource companies have delivered superior returns to shareholders as we look at the trend either over the past 10-years or over the past 1-year.

Before I talk about operations, let me talk a bit about the strong performance of Zinc and Silver. I have been talking about the strong fundamentals for Zinc for at least the past year and I am happy to say I continue to believe Zinc still looks strong and strongest amongst the pack of metals. Along with Zinc, Silver has also had a good run this calendar year 2016. As you see in the global cost curve, Hindustan Zinc operates at the lowest decile of the cost curve. Post the silver credits, cash cost was further reduced to approximately 650/tonne. Refined Zinc will continue to remain in deficit. This deficit with slow improvement in demand is drawing inventory for LME and the Shanghai Warehouses. As we can see the Zinc inventory is 6-year lows and this has helped significant improvements in Zinc prices.

Commenting on Silver prices, we have seen the Silver prices increasing by more than 50% from the lows of year 2015. As Silver prices move up, the Gold to Silver ratio has gravitated towards longer-term mean.

Let's talk specifically about Zinc India: Mined metal for the quarter was lower at 127,000 tonnes as per the mine plan and refined Zinc was lower in-line with mined metal. Silver production has increased 20% over the first quarter of fiscal year 2016 due to the higher contribution from the SK mine and this goes in line with what we mentioned during the last fiscal year from mine sequencing at Rampura Agucha where the first half was expected to be substantially lower than the second half and within the first half the second quarter will be higher than the first quarter.

For Projects, Rampura underground shafts has been sunk to 900 meters, the ultimate depth of 950 meters. Expansion of the SK mine is running ahead of schedule and we are working to further expand the mine to 4.5 million tonnes per year capacity.

The Kayad mine expansion is nearing completion with a capacity of 1 million tonne per year. We expect the fiscal year 2017 production to be higher than the previous year where the second half is expected to be much stronger. Silver production will improve further in the current year and we expect to produce 15 million to 16 million ounces of Silver. Our Zinc cost production remains stable compared to last year; however, between quarters we will have some inverse swings proportional to the lower volumes in the second quarter.

Moving to Zinc International in Southern Africa: The first quarter production was lower primarily due to the closure of the Lisheen mine; however, the other mines perform well during the quarter with Black Mountain production having record highs since its acquisition. As we guided earlier, the cost of production was lower at $1167 per tonne due to our cost saving initiatives. We are progressing well to meet our guidance of 170,000 to 190,000 tonnes of production and we would expect cost of production to be in the $1200 per tonne range in fiscal year 2017.

At the Gamsberg Zinc project pre-stripping is well underway and we have excavated 8 million tonnes of waste to-date, and we are on schedule to mine the first Ore in early calendar 2018 and we will ramp up to full capacity of 250,000 tonnes in 9 to 12-months thereafter. Gamsberg is expected to come on stream in a deficit Zinc concentrate market and generate strong returns for shareholders.

Speaking on Oil & Gas: I am pleased to share that the world’s largest polymer injection project is now being maintained at 400,000 barrels of polymer per day. The Mangala EOR production has increased to an average of about 42,000 bbl/d on the back of enhanced well performance and new wells coming online.

Water-flood OPEX at Rajasthan has now been brought down by 38% over the past six quarters to $4.4/barrel. The good part is while maintaining the polymer injection being maintained at the target level, we have been successful in reducing the blended overall OPEX and we have been able to reduce our polymer flood OPEX by approximately 25% from our earlier guidance.

In Fiscal Year 2017, we expect production at Rajasthan to remain broadly flat at the fiscal year 2016 level and we have routine maintenance plan for the latter half of September 2016.

We maintain our CAPEX plan of 100 million for the year; however, we have retained the lever to increase CAPEX if oil prices further improve during the year. With that we are working on the various options for growth projects, which include the RDG gas project, polymer flood in the Bhagyam Reservoir and Aishwariya reservoirs and the Aishwariya Barmer Hill formation.

Now I am going to move over to Copper and Copper Zambia. Total production was 5% higher at 45,000 tonnes despite Nchanga underground being put under care and maintenance at the end of last calendar year. This increase was primarily due to improved production from our TLP project, higher mined metal from Konkola underground mine and approved custom smelting. Our C1 operational cash cost excluding increased power cost and currency gains on VAT receivables to improve by 8% YoY to US$1.95 per pound for the quarter.

At Konkola, our production increased by 2% to 12,000 tonnes due to improved recovery. Equipment availability at Konkola improved by 10% in the quarter leading to higher production. At the TLP, production was 5% higher during the quarter.

It is important to note the integrated production was lower by only 1% YoY despite Nchanga underground which had contributed previously 6% of production in the first quarter of fiscal year 2016 going offline.

We have been put a lot of emphasis in our KCM operations on innovation. As announced in the fiscal year 2016 Results I am pleased to share the Elevated Temperature Leach Project is now under commissioning since June 2016 and the recovery improvements have been encouraging. The significant improvement of copper recoveries due to elevating leach temperatures, and as the first phase of scale up, presents a unique opportunity to bring online ore resources, such as additional tailings and additional re-handle dump materials which were previously uneconomic to process and recoveries achievable under the historic traditional ambient temperature leach conditions.

In order to optimize our power cost, we have moved to install HFO fire boilers up in Nkana copper refinery which will enable us to ramp up the refinery and reduce energy consumption by the end of the third quarter. In the meantime, we have been basically selling anodes while we make this conversion in Nkana refinery.

Moving to Regulatory Developments in Zambia: We have been happy to see the sliding share mineral royalties linked copper prices, receive presidential approval on the 6th of June 2016 and those amended rates are effective from 1st of June 2016.

On VAT, we have been receiving regular VAT refunds w.e.f. March 2015 and we are working closely with the government on previous receivables.

I want have to say a few things about the power situation in Zambia. The Government of Zambia has increased power tariffs by 25% effective January 2016. We have been seeing improvements in the water level at the Kariba reservoir, and that water level increased to 33% in June from the lows of 23% in April, although this still remains significantly below last year's level of 43%.

KCM Outlook: We have always maintained our views of long-term potential at KCM with 50-years of probable mine life. In Fiscal Year 2017, we are committed to a forward outlook on volumes and cost as previously guided, that is 130,000 tonnes to 140,000 tonnes of integrated

production at about $1.50 to $1.70 per pound C1. The smelter is expected to undergo its biennial shutdown in the second quarter, which will improve the smelter feed rate from 70 tonnes to 80 tonnes per hour. Apart from this, equipment availability is slowly improving at Konkola and this will increase Konkola production going forward. Our key focus areas remains on the Konkola turnaround, processing stockpiled refractory ores and maximizing custom smelting production. A dedicated team is working on long-term optimized production model and workable implementation strategies.

On Aluminum, the ramp up is progressing well, with capacities that were idle are now being run and ready to run or at full capacity. The ramp up of the first line of the Jharsuguda smelter has been completed just this weekend, and the second line commenced in July. The ramp up at BALCO 325,000 tonnes per year smelter is nearing completion.

We have recommenced our second stream at the Lanjigarh refinery and we produced 275,000 tonnes of Alumina in the quarter. We are progressively ramping up Alumina production to 1.4 million tonnes as we move through the year. The Aluminum cost of production stands at $1476, this has been higher due to the increase in power costs. Power costs have increased from the last quarter due to a new clean energy cess that as the government had doubled the cess on thermal coal during the 2016 budget. Apart from that, we had some increases in power costs as a consequence of power purchases from the grid due to power outage at the smelter and water shortages, both of these we see as one-offs. Although the power cost has gone up, we are seeing improved availability of coal in the country and we maintain an EBITDA margin over $200 per ton of Aluminum produced in the quarter.

On the Outlook side, we are on course to deliver a full-year production guidance of 1.2 mt of aluminum. We started ramping up the second line at Jharsuguda in July as I mentioned and further ramp up of the third line is expected in the fourth quarter fiscal year 2017. The BALCO 325 smelter should be ramped up by the second quarter and we would expect to be operating at 1.7 mt per year equivalent capacity and run rate by the end of the year.

On Power, in TSPL two units were operating at an availability of 72% in the first quarter. At TSPL, all units are running efficiently and we expect all three units to run at availability of 80% in the fiscal year 2017. We expect margin of Re.1 per unit from TSPL. The PLF at the 600 MW Jharsuguda power plant continues to be low on account of lower demand. Overall we expect Power segment to deliver higher volumes in Fiscal Year 2017 as the third unit at TSPL is capitalized during this quarter and the plant delivers its full potential.

Make a few comments on Iron Ore: At Iron Ore we maintain the positive momentum to previous quarter. Goa production continued at 800,000 tonnes per month. The overall sales for the quarter were 3.2 mt, of which Goa contributed 2.4 million tonnes. Operations at Karnataka produced 800,000 tonnes in the June quarter. Iron Ore operations started in the third quarter fiscal year 2016 and within six months we have scaled our operations to 800,000 tonnes per month. We continue to engage with respective governments for allocation of higher volumes and maintain

our low cost of operations. We maintain production outlook for the year at 5.5 mt and 2.3 mt from Goa and Karnataka.

Few words on Copper India: Copper India, performance remain strong for the quarter with strong spot TC/RCs. We have a plant maintenance shutdown of three days in the second quarter which will enhance smelter efficiency. Our production outlook for fiscal year 2017 remains at 400,000 tonnes.

Tuticorin Power PLF remains low due to lower demand; however as mentioned during previous calls we get compensated 20% of the contracted rate for any offtake below 85%.

With that I would like Mr. Jalan -- our CFO to make a few remarks regarding our Balance Sheet and Financial Statements. Over to you D.D.

D.D. Jalan: Thanks, Tom. Good Morning to you Ladies and Gentlemen. We have delivered an EBITDA margin of 28% during the quarter with strong focus on cost efficiencies. The ramp-up of volumes of Aluminum, Iron Ore and Power also contributed to the EBITDA for the quarter and the contribution from Aluminum and Power would be even higher in the coming quarters with capitalization of assets. The EBITDA was negatively impacted by the lower production at Zinc India on account of mining sequence as communicated earlier. However, we are on track to produce substantially higher volumes in Q2 and H2. Overall, we are on track to deliver strong EBITDA growth of 30% for FY17.

On the Balance Sheet side, we have been actively managing our balance sheet to maximize free cash flow, refinancing and terming out maturing debt and simplifying the group structure. We maintain strong liquidity with cash and liquid investment of $7.7 billion and undrawn committed lines of 1.1 billion. Our gross debt as at June 30 was lower by $300 million as Tom also mentioned as compared to March. Net debt was higher mainly due to the special dividend by Hindustan Zinc and reversal of some of the working capital initiatives as mentioned by me in the month of May. A lot of these working capital increase will roll back in Q2 and we expect net debt to be lower in Q2. The group debt maturities for FY17 has come down from 3.8 billion in March '16 to 2 billion in June '16 with PLC maturities fully taken care of. I am pleased to report that we made good progress with regards to meeting FY17 maturities at Vedanta plc. All the bond maturities for FY17 have been paid and we are now focused on maturities for FY19. FY18 debt maturities are mainly all bank debt which we expect to be met through rollovers.

In Summary, we have begun to focus on FY18 and FY19 bank and bond maturities at plc. Our outstanding debt maturities at Vedanta Limited for FY17 comprises of $1.4 billion of short-term debt and 0.5 billion of term debt. Repayment of 1.4 billion is expected to be met through internal generation and rollover/replacement with the term debt. Along with this, extending the maturity profile of the debt remains a key focus area and we continue to work on the same.

With this let me hand back to Tom. Thanks.

Tom Albanese: Thank you, D.D. Now to Summarize, I would like to state that as we continue to focus on disciplined ramp up of capacities of Aluminum, Power and Iron Ore in this fiscal year. Additional capacities without spending a lot of capital will generate strong EBITDA and free cash flow and this will enable further deleveraging from what D.D. just talked about. Resource sector has performed more well overall over the past quarter, commodity prices strengthened in the first quarter of this year although still lower year-on-year from the first quarter of 2016 with Silver and Zinc prices particularly strengthening. We have a strong financial profile which will further strengthen with our business priorities increasing production.

Lastly, as I have said before in the past, we have a strategic priority for a group simplification and so recently we announced Revised and Final Terms for the merger with Cairn India and we believe that this transaction will deliver long-term sustainable value enhancement for all shareholders.

So we will now be happy to take Questions. I will turn this over to the operator. As usual I will probably take the first run at the questions and then redirect them to a variety of our executives that we have on the call also to help.

With that, operator, over to you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. Our first question is from the line of Anna Mulholland of Deutsche Bank. Please go ahead.

Anna Mulholland: I have three questions please. The first is on the costs in Copper Zambia. You have given us a number of different costs without royalties excluding the increased power tariffs, etc., Could I just ask for some clarity on what your royalty cost was and what the unrealized gains on the quarter denominated VAT receivables would be if we added those in? The second question is on Iron Ore. You received about $36 a ton from your Goa product. Just wondering, are you actually making a margin on that given that it is such a low price realized relative to spot? The third and final question is what was your rationale for approaching Anglo American to talk to them about a potential combination?

Tom Albanese: Let me go probably in the reverse order of what you asked on your question regarding Anglo rationale to be quite clear that Vedanta as a matter of corporate policy like every other company would not comment on media speculation. So we leave that at there. On question #2, I will ask Kishore to make a few remarks, but I do want to note two points about our Iron Ore margins; the first is as we do sell generally 56/57% product which by the way has zero export tariffs with recent Government of India supports the Iron Ore industry, we will get an FOB discount from what would be an Australian 61% type product and that would be reflecting us $36, it is approximately $20 per ton discount from 61% CIF product price to what would be 56%, 57% FOB product and that has been relative consistent. But with that our C1 costs have been running in the $10/ton range, actually lower than the Pilbara. So that has allowed us to have even with fairly higher royalties than you see at Pilbara, it has allowed us to have a reasonably attractive

free cash flow margin for every ton we produced and sold in Goa. But, Kishore, is there anything else you would like to add to that and particularly talk about some of the things you are doing to ensure we stay cash flow positive in these weaker Iron Ore markets.

Kishore Kumar: Our cost competitiveness will depend largely two issues: #1, which obviously is with the scale of production, and as I mentioned in the earlier call, our EC limit which is our production limit at 5.5 mt is something which is constantly getting reviewed by the business as well as by the state authorities and the Supreme Court for increasing the volume, and as Tom has mentioned our C1 cost are sub-$10, then we continue to be competitive at this low price; #2, of course, in terms of cost management that we continue to do is to focus on a), the quality and offering that we can do up to 58% grade, because up to 58% there is no export duty tax and we obviously keep chiseling our quality in terms of upgrading the headline to 57.5 and also making sure that the deleterious items if any in the product are always marginalized. So the BI's discount remains at the lower end. So constantly we are benchmarking ourselves both with the international players from Australia as well as from Brazil and of course we continue to work with Chinese steel mills to make our low grade product economical for those mills.

Having said that the other important cost which remains in our advantage and this can be harnessed is the freight cost where the scale would really help in terms of dispatching our products in the Valemax vessels or even in the Cape vessels which we have not really managed to do that at this moment of time because all the mining companies have not geared up to produce together and a couple of them have ramped in the first quarter, but largely the second half we will see many mining companies in Goa which start dispatching all the ores and the possibility of bringing in large vessels to our shore is much better, and finally, the important element remains is on the taxation side, where government continues to have duplicate taxes in Goa with respect to the metal taxes that they collect and we have appealed to them for removal of duplicate taxes which of course is something goes in the NSR, but it helps any case the business in terms of remaining viable in difficult times.

Tom Albanese: Thank you, Kishore. So moving over to Zambia, Steven, I think you can take the question, but maybe if you can just, looking at the C1 numbers that we have disclosed just could provide us what the royalty component is, what was the effective increase of the power tariff and then talk about the amount and the effect of the unrealized gains on the VAT because of the appreciation of Kwacha during the quarter.

Steven Din: If I can respond specifically to your two points, the C1 cost at operational level before the royalty is $4297/ton, and the royalty which would be added to that is $316/ton. Now the impacts of the two items which we have considered as exceptional are there is a benefit coming through from the exchange rate differences on the VAT receivable. Now, that gives benefit of $247/ton to the operational cash cost. But then there is an increase once again in terms of dollars per ton of 325 which is related to power. So the net increase that we see on that C1 cost is 78, which is the 325 which is related to the power and then the benefit that we see on the 247, which is related to the Kwacha revaluation. I hope that helps.

Moderator: Sir, there are no further questions from the participants.

Tom Albanese: Thank you very much. Again, I think we are looking at a world of continued volatility but hopefully sum up the momentum in pricing from the beginning of the calendar year. We have continued to focus on reducing our costs, getting our cost savings in place and ramping up the production that we said we would be ramping up particularly in those businesses, we have spent several years ago the capital for those businesses. I think from my own perspective operationally the challenge of Zambia turnaround is still something that confronts us but again I have been very pleased with the steady progress that we are getting on that over the past year or two. We have been, as D.D. said, continue to focus on improving the balance sheet, we met this year's bond maturities at the Vedanta plc levels and we see a longer-term basis the opportunity to continue to simplify the corporate structure and balance sheet with the merger between Cairn India and Vedanta Limited which we provided a revised upward and final offer just last week. Thank you very much.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Vedanta Resources plc that concludes this conference. Thank you for joining us and you may now disconnect your lines.