



## Vedanta Resources plc

# Q1-FY14 Production Release Conference Call Transcript

July 31, 2013



### MANAGEMENT

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- Moderator** Ladies and gentlemen good day and welcome to Vedanta Q1 FY14 Production Release Conference Call. As a reminder all participants' 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashwin Bajaj.
- Ashwin Bajaj** Good morning ladies and gentlemen and thanks for joining us today for Vedanta's 1<sup>st</sup> Quarter FY 2014 Production Results Call. This is Ashwin Bajaj, Director of Investor Relations. We have with us today Mr. MS Mehta - our CEO; Mr. DD Jalan - our CFO and the CEOs of several of our businesses. We have Mr. P Elango - CEO of Cairn India; Mr. PK Mukherjee - CEO of Sesa Goa; Mr. SK Roongta - CEO of our aluminium and power businesses and Mr. Jeyakumar - CEO of KCM Zambia. Mr. Mehta will present the results and then we will be happy to take your questions.
- MS Mehta** Good morning ladies and gentlemen. Operationally Q1 was a good quarter as we delivered a strong production and cost performance.
- The key highlights were:
- Strong volumes at Rajasthan Oil and Gas, mined metal and integrated production in Zinc in Zinc India and increased power generation at Jharsuguda 2400 MW power plant.
- Tuticorin copper smelter restarted operations;
- Karnataka Iron Ore mines were cleared by the Supreme Court and should restart its operation in Q2.
- During the quarter we reported an EBITDA of 1.03 billion essentially reflecting as you are aware Iron Ore and Tuticorin smelters were closed. We had a strong growth volume at Oil Gas and Zinc India, and of course commodity prices were lower. Let us now review business of business.
- First Zinc India - Mined metal production was 27% higher, driven by improved asset utilization and operational efficiencies. We are on track to deliver 1 million tons of mined metal this year with higher volumes coming from SK, Kayar and Zawar mines. We may also sell some excess concentrate in second half of this year. Our integrated zinc production was 10% higher due to improved smelter utilizations and availability of mined metal at the back of strong mine production. Integrated production of refined lead was in line with the previous Q1. We expect to deliver around 110,000 tons to 120,000 tons of integrated lead for the full-year basis. Integrated saleable silver production was 9% higher driven by higher volumes from SK

and Zawar mines and we are on track to produce around 360 tons of saleable silver this year. Compared to the previous quarter i.e. in Q4 production was lower as we had some planned maintenance shutdown and we expect production to be higher in Q2. EBITDA was marginally higher at \$258 million at the benefit of higher zinc volumes was partially offset by lower metal prices and lower by-product credits.

Moving onto Zinc International – Total production of zinc-lead metal in concentrate was lower due to disruption in production caused by some accidents at Lisheen and BMM. We regret the unfortunate incidents and safety remains the top priority at all our operations. We expect full-year production at Zinc International to be around 390,000 tons. COP for the quarter was \$1,162 per ton, and we expect to sustain costs in the range of \$1,100-\$1,200 this year. EBITDA was lower by 12% due to lower volumes, lower LME and higher COP.

Moving on to Oil and Gas – Our Oil and Gas operations delivered a record gross operated production of approximately 212,000 barrels, 3% higher over the last quarter. Ramp up was driven by the prolific Rajasthan operations which delivered approximately 173,000 barrels in Q1, currently producing over 180,000 barrels, and on track to reach 200,000 to 215,000 barrels by the end of the year. At Cambay, production nearly doubled after a successful infill drilling program. Production at Ravva, the other mature field, declined as expected. We plan to drill a deep high-value high-risk exploration well here in the second half of the year. At Rajasthan our exploration program is on track to drill more than 450 wells over the next three years. This is a step towards realizing the basin potential of 300,000 barrels. Revenue and EBITDA were affected by the lower realizations, higher profit petroleum payout of about 30% at Rajasthan DA-1, partially offset by higher volumes.

Now Iron Ore – Operations in Goa and Karnataka continue to remain closed with the current restrictions. Karnataka mine received the clearance of Supreme Court and we are right now in the process of obtaining the forest clearance, a procedural clearance, which is in very advanced stage, and we expect to restart mining in Q2. At Goa, the hearings for the Supreme Court are yet to begin, and we hope to have an early resolution to this matter once the hearing starts. At Liberia, we are on track for the completion of the first phase of 2 mtpa by December 2014 and make the first shipment by end of this year.

At Copper India – The smelter is now operating normally since 23<sup>rd</sup> June. To recap, on 31<sup>st</sup> May, the Appellate court NGT conditionally allowed us to restart operations and sent an expert committee to inspect operations. The expert committee completed its inspection and confirmed that company is neither an existing pollutant nor is it a threat of future pollution. Based on this the NGT reaffirmed its earlier order of allowing the plant to operate. The Tamil Nadu Pollution Control Board has parallelly also appealed against this before the Supreme Court and a stay on interim order has not been allowed by Supreme Court. As smelter started operations towards the end of the quarter, we had very little production and hence the sales, revenue and EBITDA

are not comparable with the prior period. The smelter has been operating normally since 23<sup>rd</sup> June and expected to produce this normal run rate of around 85,000 to 95,000 tons per quarter in the remaining quarters.

Production at Australia was lower due to lower grades, and we expect full-year production of about 25,000 tons to 26,000 tons of mined metal at Australia. EBITDA was lower due to fixed cost at Tuticorin which was partially offset by sale of surplus power. We sold 137 million units of power from 1<sup>st</sup> 80 MW unit of Tuticorin power plant. The second unit is ready for commissioning, awaiting consent to operate.

Moving on to Copper Zambia - These operations delivered lower mined metal production due to the suspension of mining at Nchanga open pits COP F&D since January'13. This was partially offset by improved volumes at Konkola Deep and TLP. We continue to work to restart operations in COP F&D. On costs - we have been able to reduce the cost during the quarter, and going forward for the year basis we expect to produce 160,000 tons of copper production at a cost of \$2.30. Volumes from restart of COP F&D will be additional.

On aluminium - We delivered strong production volumes. The Vedanta Aluminium Jharsuguda smelter operated at 7% above its capacity and delivered higher 8% volume year-on-year basis. We also expect the smelter to sustain production at this level. Korba smelter operating at its capacity and we expect it to continue delivering stable volumes through the year. On the cost, we delivered a strong cost performance in Jharsuguda with a cost of \$1,675 per ton, well within the second quartile, driven by the significant improvement in specific power consumption and other operating efficiencies. Going forward we expect to maintain cost in Jharsuguda at this level. This, as you would know, was despite running the smelter with third party alumina feed.

On Alumina refinery - It restarted operations in July and will reach its capacity by Q2. Bauxite will be sourced from BALCO and third party domestic sources and augmented by imported bauxite. Regarding long-term bauxite sourcing - We remain engaged with the Government of Odisha and are looking at multiple options. Korba smelter had higher cost of \$1,934 per ton primarily due to tapering of coal linkage, which impacted the cost by about \$70 per ton and of course a one-off maintenance shutdown of one of its captive power, which made us draw power from one of the low efficiency power plants in BALCO, which hitherto was being sold commercially.

On overall basis we remain well within the second quartile of cost efficiencies, and hope to strengthen the position going forward. Although revenues were marginally lower on account of lower LME as you would know, the premiums remained strong through the quarter, about \$450 per ton at BALCO and \$325 per ton at VAL Jharsuguda. EBITDA was 3% higher, despite

not having operations at Lanjigarh refinery and using imported alumina, and of course lower LME.

On projects, BALCO 325 KT smelter is expected to tap first metal in Q3. The 1200 MW power plant at BALCO is ready, awaiting consent to operate. We hope to receive this consent in the next few months. Regarding the BALCO coal block, we obtained the crucial forest clearance earlier and are currently working on obtaining the various approvals at the state level. This is taking longer than what we expected and now we expect to commence mining in Q1 of the next financial year. We continue to evaluate the potential start-up of the 1.25 million ton Jharsuguda smelter, in the meantime we have stopped capitalizing the interest cost relating to the smelter from Q1. The impact of interest cost was \$46 million for Q1, and we expect a similar cost going forward.

On power - Power sales were 28% higher, driven by higher generation from Jharsuguda power plant. During Q1, the plant operated at 54% PLF on a four unit basis as compared to about 40% a year ago. We expect to deliver a similar PLF in Q2, and improve the PLF to 60% to 70% in Q3 to Q4 this year, driven by improved access to evacuation of power. Average realization of power business was higher due to higher sales from open access. We delivered 20% higher EBITDA driven by higher volume. On the project, Talwandi Sabo first unit is expected to synchronize in Q3 later this year.

In summary - We had a good production performance and remained focused on continuing to deliver cost control and continuous improvement across our portfolio of well-invested Tier-1 assets. With this, I would like to open the call for questions, thank you.

**Moderator**

Ladies and gentlemen we will now begin with the question and answer session. We have the first question is from the line Fawzi Hanano from Goldman Sachs, please go ahead.

**Fawzi Hanano**

Firstly on Copper India - you produced 16,000 tons. Did you end up selling down from inventory and could you expect inventory to rebuild in Q2? Also with regards to the NGT's order to operate the smelter - is this permanent or does it remain temporary pending the appeal?

Secondly on Lanjigarh, you restarted the operations at the refinery in July - what is your current bauxite sourcing situation and what would it be for the remainder of the year?

Thirdly on both Korba-III and Talwandi Sabo, the commissioning for both have been delayed by an extra quarter - it previously was guided to Q2 in May and now in Q3. Is there any particular reason for the delay in commissioning?

One last question on Cairn India, it's more of an accounting question: When Cairn reported EBITDA, it was 522 million. Today's release has 546. What is the reason for the translation difference?

**MS Mehta**

First on the Copper India, yes there will be some inventory adjustment because as you know the process has the WIP in the form of stock in the cell house. But there will be similar negative impact or favorable impact on the inventory because some concentrate inventory would have piled up during in this period as you can imagine because though we postponed few shipments, yet there were some shipments which landed at the plant. So there will be some adjustment of working capital. Maybe off-line we can give you more color on this sector and how much it is going to change in the quarter.

Your question on whether the operations are temporarily shutdown - it goes by what the court says and since this plant has been inspected repeatedly by 2-3 agencies in last two years or more, we have the conviction, full confidence that courts will not stop the plant because this has been objected and seen repeatedly in the court. So while the court process is on, our internal conviction and confidence is very high that the plant will continue to operate at the back of the very clear statement made by the NGT that the plant never polluted and the plant is not in a position to pollute further.

**SK Roongta**

As far as Lanjigarh bauxite sourcing after commencement of operations at our refinery is concerned, we are going to source bauxite from BALCO for tolling purposes roughly about 100,000 tons a month. In addition we are sourcing bauxite from the Gujarat area and some small quantities from Orissa, Chhattisgarh, Madhya Pradesh areas and also we are planning for some import of bauxite. So, a combination of all these sourcing will ensure that we are able to run a 1 million ton refinery in full.

The other question relating to aluminium and power was about BALCO smelter commissioning - putting off from Q2 to Q3 - there are no specific reasons but there are certain governmental approvals which have taken slightly longer than what we had anticipated but we are on track to start BALCO commissioning in Q3. As far as Talwandi Sabo Power Plant synchronization, which now is scheduled for Q3 - well we had certain timelines in mind and it is taking slightly longer so we are giving this guidance to start this first unit from Q3, but work is proceeding well as per schedule and we don't see any hiccups at all.

**P Elango**

The difference is basically the reporting standard I-GAAP and IFRS and it largely reflects how you treat the income on deposits.

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- Moderator** The next question is from the line of Cedar Ekblom from the Bank of America Merrill Lynch, please go ahead.
- Cedar Ekblom** Just one quick question on the court process for the corporate restructuring - We've see that the original court order in the Goa High Court has been appealed. I know you have said that the hearings have completed and you are awaiting the decision there. Could you just explain to us what the court process would be if there was another appeal? Can there be another appeal after this one is decided on? And similarly, what is the process in the Madras Court? Have any appeals been lodged there? How long do we have before those appeals have to be lodged? If they are going to be made, how many appeals can we go through here? Because it is just one of the difficulties with India, with Vedanta that it always seems to be appeal after appeal after appeal, and we never get the final decision on the issues? So just want to get some color on that.
- MS Mehta** I appreciate your understanding. You are right, theoretically appeals can happen. So, while it is a simple matter but technically and theoretically speaking, somebody can appeal in the next court. And on your first query on when will we get to know the outcome of the appeal made in Goa High Court - the hearing is complete the order is shortly awaited.
- Cedar Ekblom** How many courts can we go through before the appeals have to end? In the Goa High Court, can you just explain to me in terms of the legal structure, how many courts are there above the Goa High Court or the Madras High Court where we can have appeals?
- Is it literally an open ended number of appeals or is there a certain point where if you have an appeal and the decision has been made, that is it? Because this is very opaque and obviously this is a key issue for Vedanta and if we don't get any color on when the appeals process is going to come to an end, then we have to start saying - are there going to be further delays on this corporate restructuring completing. So, from a legal process, can you just explain to me - We've had the appeal in Goa High Court - if that comes back in your favor, where are the other courts or which are the other courts where an appeal can be made again?
- DD Jalan** Basically as of now, Goa High Court and Chennai High Court, these two High Courts are involved and both these High Courts - they have given their judgment on the merger and as you very rightly have said these judgments are subject to appeal but since all the matters which are subject to appeal have already been addressed while hearing the main judgment, I think it is just a repetition or maybe borrowing of some time, but we see that there is no impact of these appeals on the judgment. It is just a timeframe which can delay, but technically once the appeals are heard - after that we need to file the acceptance of the order with the ROC and then the merger is done. And as of now there is only one appeal at Goa High Court, and as of now there is no appeal in Madras High Court.

**Cedar Ekblom** How long does anyone have to put an appeal in place at the Madras High Court? That is question number one.

Question number two, can the Madras and Goa Courts refer the appeal to a higher court, and if that happens what is the process there? I know that you cannot say that this is what is going to happen in a specific timeframe, but I want to understand the framework of where we are with the courts, which courts could get involved if it got referred, and how long the timeframe is? Because with everything that we have seen with Vedanta in the past, these open-ended timeframes - and it would just be helpful to have an understanding of where are we, what are the boundaries on this? Are we talking a three-month delay or if these things get referred to higher courts are we talking of a three-year delay?

So how long do we have before someone has to appeal in the Madras High Court and to what extent can Goa and the Madras High Courts refer these appeals to higher courts?

**DD Jalan** I see the amount of impatience what generally the shareholder, analysts and everyone has about the legal system, but the legal system is what the legal system is. And the High Court will not be referring the matter to the higher court, i.e. the Supreme Court. It is the aggrieved party i.e. the appellant - if he's not satisfied with the judgment and the appeal of the High Court, then he can technically go to the Supreme Court. But since it is a matter between two shareholders, and the shareholders have already agreed and they have decided, so virtually I think the admissibility of the appeal in the Supreme Court is a question mark. But yes, the aggrieved party has got remedy to go to the Supreme Court. And I will say that basically any appeal can be filed till we file the application with the ROC for the merger and that can happen immediately as soon as the Goa High Court disposes off the appeal.

**Cedar Ekblom** So if the Goa High Court comes and disposes the appeal and there has been no appeal made in the Madras High Court, then all the documents are in place to file for the completion of the merger, and after that there can be no more appeals, is that clear?

**DD Jalan** Absolutely right

**Cedar Ekblom** So there is recourse to the Supreme Court, but you think it is unlikely?

**DD Jalan** It is unlikely but I think technically that resort is there, and it is a matter of a few weeks or a few months rather than years.

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**Moderator** The next question is from the line of Manuj Jain from Credit Suisse, please go ahead.

**Manuj Jain** Can you please share the cash and debt number as of June end?

- DD Jalan** So basically our cash and net debt position is almost similar to what we had as on 31<sup>st</sup> of March, and there is no significant change in that. If you still want the numbers, it is \$16.6 billion of gross borrowing and \$8.1 billion of cash, thereby resulting in net debt of \$8.5 billion.
- Manuj Jain** And can you give me a quick split of this debt into your various businesses, if it is possible?
- Ashwin Bajaj** We do not provide this on a quarterly basis, we provide it half yearly you can find it in the half-year results.

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- Moderator** As we have no further questions I would like to hand the floor back to Mr. Bajaj and the management for closing comments, please go ahead.
- Ashwin Bajaj** Ladies and gentlemen thanks for joining us today and if you have further questions please do feel free to contact us at IR.
- Moderator** Thank you gentlemen of the management. Ladies and gentlemen on behalf of Vedanta that concludes this conference call.

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**About Vedanta Resources plc**

Vedanta Resources plc ("Vedanta") is a London listed FTSE 100 diversified global natural resources major. The group produces aluminium, copper, zinc, lead, silver, iron ore, oil & gas and commercial energy. Vedanta has operations in India, Zambia, Namibia, South Africa, Ireland, Liberia, Australia and Sri Lanka. With an empowered talent pool globally, Vedanta places strong emphasis on partnering with all its stakeholders based on the core values of entrepreneurship, excellence, trust, inclusiveness and growth. For more information, please visit [www.vedantaresources.com](http://www.vedantaresources.com).

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