"Vedanta Resources Plc Q2 FY-'14 Production Release Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Vedanta Q2 FY-'14 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. Thank you and over to you sir.

Ashwin Bajaj: Ladies and gentlemen, good day. This is Ashwin Bajaj – Director of Investor Relations for Vedanta. Thank you for joining us today to discuss our Production Results for the 2nd Quarter and Half Year for FY-2014.

Let me introduce our Management Team present with us today. We have Mr. MS Mehta – CEO of the group; Mr. DD. Jalan – CFO of the group; Mr. SK Roongta – CEO of our Aluminum and Power Businesses; Mr. PK Mukherjee – CEO of our Iron Ore Business; Mr. P. Elango – CEO of Cairn India and Mr. Kishore Kumar – CEO of our KCM Zambia Copper Business. Mr. Mehta will talk about the production results and then we will be happy to take your questions. So, with that over to you Mr. Mehta.

MS Mehta: Good morning ladies and gentlemen and welcome to Q2 H1 FY-'14 Production Release Conference Call.

First, a few highlights:

At Oil & Gas operation – We delivered a record production of 213 [thousand] barrels a day.

At Zinc India we delivered higher production with refined Zinc, Lead, Silver; Zinc going up by 21%; Lead up by 17%.

In terms of Corporate Developments, during this Quarter we received the final court approvals and the group structure consolidation and simplification is complete. This has created Sesa Sterlite which is one of the largest companies in India. Furthermore, the simplified group structure delivers around 200 million of synergies, and better alignment of cash and debt across the group.

We are also pleased to welcome Tom Albanese to the Group and look forward to getting benefit from his rich global experience in resources space.

As you would notice in the coming comments we have done very well in the two large businesses which contribute maximum of our EBITDA, namely Zinc and Oil.

Now I move on to zinc – At Zinc India mined metal production was higher in Q2 in H1 than a year ago. It is essentially coming out of stabilized operation and the growth plans that we have been working on it for last few years. However, as compared to the previous Quarter Q1 mined metal production was slightly lower in Q2 due to operational issue at Rampura Agucha and SK Mine but these issues have since been addressed, and we are on track to deliver close to a million ton metal in concentrate this year which amounts to almost 95% utilization of the capacity.

With significant improvement in the operational efficiencies of the smelter we delivered strong increases in refined zinc, lead and saleable silver production.

As you are aware we are implementing 1.2 million expansion project at Zinc India. The mining expansion is going on fairly well. During Q2 Rampura Agucha Underground Mine has delivered commercial production and Kayad Mine will deliver commercial production in the remaining part of the year.

Moving on to Zinc International – At Zinc International total production of Zinc and Lead was 106,000 tons in Q2. It was higher than sequential Q1 as the operations stabilized after certain disruptions in few operations in Q1. We remain on track to produce about 390,000 tons in the financial year.

Moving on to Oil and Gas – At Oil and Gas operation, we delivered a record gross production of 213,000 barrels a day in Q1. With higher production at all three production blocks, we contributed over 1/4th of India's domestic crude production. The increase was driven by ramp up in Rajasthan Block which delivered 2% gross production increase of 175,000 barrels a day and Cambay delivered 27% higher production with new infill wells and one workover well that we had put into operations in Q1 this year. Ravva also delivered 2% higher production.

Exploration in Rajasthan continues and we are targeting half of the 530 million barrels of risked recoverable prospective resources in the current exploration program. This includes considerable deep gas within this fiscal year, which will help to better monetize the block's prospect. We continue to maintain our earlier guidance of achieving 200,000 to 215,000 barrels a day production by end of the financial year.

Moving on to Iron Ore – At Karnataka Mine the restriction on mining was lifted earlier in the year. We are awaiting some final clearances which we are expecting shortly and will restart operation immediately thereafter. This process we guess is a matter of few weeks as we speak.

Regarding Goa, Supreme Court hearings have commenced. To us it is a good sign and we are pleased with the pace at which Supreme Court is helping us to do speedy hearing of this matter.

Production of Pig Iron and Met Coke was higher due to volume from those new capacities commissioned during last year.

On Copper India – The Tuticorin smelter which was temporarily closed in Q1 was restarted in June after the National Green Tribunal's order and has now ramped up to the full capacity. We delivered normal production of 90,000 tons of the anode at the smelter in Q2 and Cathode production will be at the full capacity in the second half of the year. The biennial shut down originally scheduled in FY'14 in Tuticorin is now expected to be taken up in the next financial year.

Copper Zambia – Mined metal production was lower due to suspension of mining at COP F&D since January which was partially offset by higher production from TLP. At this moment the reopening of COP F&D depends on the resolution of commercial dispute with the contractor.

Integrated production during Q2 has recovered after this smelter shutdown in Q1. Overall integrated production for the full year is now forecasted at 140,000 tons excluding COP F&D that I already mentioned is awaiting certain resolution of dispute with the vendor, and this largely is due to lower ramp up at Konkola and we maintain our earlier cost guidance of 220 cents in H2. So, in all while production is slightly lower but cost guidance remains consistent with the earlier mentioned numbers.

On aluminum – Our operations continue to perform well. The Lanjigarh Alumina Refinery restarted its operation in July and is ramping up to full capacity in Q3. Aluminum smelters operated at rated capacity and produced 395,000 tons in H1, 3% higher than the last year. We continue to convert a large proportion of the production into value-added products like we have been doing all these years.

We plan to tap the first metal at BALCO 325,000 tons smelter in Q3 and BALCO 1200 MW captive power plant is awaiting consent to operate. I am pleased to share with you that we made significant progress in moving towards starting the power plant and believe it is possible for us to start and commission the power plant in Q3.

For the Coal Block which is the essential component of the overall BALCO strategy and which we need to compensate the fall in the linkage coal by production coming out of coal block. We are working on signing the mining lease and acquiring the land and we expect to commence mining in Q1 of the next year.

On overall strategy in the backdrop of change in relative dynamics of making aluminium versus selling power by virtue of our good aluminum cost performance consistently in the last several quarters and we remain in the second quartile of the global cost curve and of course some subdued power tariff for a while, we are actively reviewing the option to start commissioning of 1.25 million ton aluminum smelter at Jharsuguda.

Moving on to Power – The Power sales at Jharsuguda and BALCO are affected by lower demand. At the same time we saw significant improvement in the overall coal scenario in the country which has significantly changed in last few quarters, essentially reflecting in growth in the Coal production reduced premium for eAuction coal. While I already mentioned Power demand lately has been subdued but we expect Power demand to pick up on the busy season of Q3 and Q4 and also it is likely to be impacted by coming elections.

We operated 2400 MW at 31% PLF on 4 unit basis and at the back of our current forecast or the Power demand, we expect PLF to be in the order of 60% in H2. Our Talwandi Sabo Power Plant is reaching close to commissioning and we plan to commission, synchronize the first unit of the 1980 MW power plant in Q3.

Now I will be very happy to take your questions. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. We have the first question from the line of Jatinder Goel from Citigroup. Please go ahead.

Jatinder Goel: Firstly on Iron Ore in Karnataka, has any other category demands actually started production? And a second follow up on this is for how long you would be able to mine under deemed lease once you get the environmental clearance? And second question is regarding the maintenance at Tuticorin, was it not an opportunity to do the maintenance while you had the downtime earlier this year, and is there a particular reason to postpone it to the next year?

MS Mehta: I will take your question on Tuitcorin then pass on to Mr. Mukherjee. You are right we were able to do the maintenance partly that is how we are able to skip and with this skipping of shut down earlier scheduled in the current financial year we will be essentially doing the full shut down which involves repair of the bricks, etc., after 3-years which is a record by itself. But we observe you have a good point out there and I must share with you that it has been taken care of in the operations. I would request Mr. Mukherjee to respond to your questions on Karnataka.

P K Mukherjee: Couple of big grade mines, B-Class mines which were not having any issue as to the renewal of permissions - they had started, but we will be the first who will start after renewal of the permissions that is number one. Number two is that so far the deemed lease renewal we do not find any reason of concern as to the while deemed lease renewal we cannot continue to mine. In any case we have got 'Letter of Intent' from Department of Mines, Karnataka Government as to renewal of the lease. And so far as EC is concerned it is known that EC is coterminous with the life of the mine unless there is an increase in production capacity.

Jatinder Goel: If I can ask one more follow up, have other Category-B mines been also kept in terms of their production versus the capacity or is it particular to your case or may be a few handful of mines?

P. K. Mukherjee: Production capacity for all the mines whether A or B, everybody's capacity has been trimmed down in line with the criteria what CEC has laid down in front of the Supreme Court, namely 1) Reserves, 2) The dumping capacity within the lease, and 3) The evacuation capacity. So all mines not only ours, everybody's capacity has been trimmed down roughly about 30% in all cases, some places much lower than 30% also.

Moderator: Thank you. Then next question is from the line of Liam Fitzpatrick from Credit Suisse. Please go ahead.

Liam Fitzpatrick: Firstly, on the aluminum given that you are considering starting up the dormant smelter, can you give us an idea of where your current cash cost sits for the aluminum business and what sort of level you would be targeting to make that target switch for decision? And then secondly, just on KCM if they are going through production guidance, can you give us any guidance for FY-'15, FY-'16 both in terms of integrated production and cash cost?

SK Roongta: Our aluminum cash cost at Jharsuguda for our present operating plant have been now about $1675 in Q1 and of course in Q2 we are working out our number and we would come up with our financial numbers, financial results are declared. And that was the question on aluminum?

MS Mehta: I think, Liam, this has been consistently in the lower end of the second quartile cost for last few quarters. And while we do not have the numbers as yet for the Q2 etc. but we know from our operational efficiency that it should be helping us to move on the lower side of the cost going forward. And at this moment the rupee exchange value is also helping as we have mentioned and it is a general economic index. So since large part of the cost is in rupees so rupee depreciation is helping the cost in dollar denominated, even while there have been news remain determined by the dollars itself. On the KCM I take your questions, you are looking for guidance for FY-'15-'16 while we like to discuss in detail in the full results call early November I will request Kishore to give some color on what exactly is happening in KCM so that would be helpful. Kishore?

Kishore Kumar: Thank you Mr. Mehta. For listeners the guidance that we gave this year has been brought down from the 160 to 140 primarily because our open pit mines obviously had a little bit of a contractual issue with the contractor. Going forward we expect some of these issues to be resolved in terms of the arbitration process that we are going through hopefully in this current financial year and subject to this aspect, most of our mines, both the open cast mines as well as Konkola we expect to have uplift of between 5 to 10% next year in terms of the volumes and cost obviously will be looked at very closely. At this stage it is suffice to say that we have not factored COP F&D coming into production before March of this coming financial year.

Moderator: Thank you. The next question is from the line of Prasad Baji from Edelweiss. Please go ahead.

Prasad Baji: First question is on the India Zinc business; your press release mentions that we are expecting full year mined metal production at 950 KT. So is there a cut in guidance there because earlier we were looking at 1 million ton?

MS Mehta: Yeah, if you are looking at number minutely compared to 1,000 we're looking at 950 but that will be 95% of the utilization of the capacity.

Prasad Baji: On the Power Business you did mention that the softer demand caused the PLF to decline but it is a big decline from around 50% to 31%. Are there any issues such as credit constraint issues, coal I understand is no longer issue but are there any other issues apart from demand which have caused this sharp drop?

SK Roongta: Yeah, of course, power demand has been one of the issues which for low PLF but one time issue we faced this year is first fortnight of July we had a problem of water availability from Hirakud Reservoir because of late monsoon in Western Orissa, the Hirakud Reservoir water level came down and we had to virtually shut all the four units for a fortnight so that impacted almost about 400 million unit in that fortnight that was also another factor. And thirdly some of the bilateral agreements we had with Dis-coms because of the very low market price in the exchange in the current quarter some of them decided to curtail against bilateral arrangements and pay the penalty rather than draw the power. So that was again very exceptional situation which happened in this quarter and we do not expect it to repeat going forward.

MS Mehta: Prasad, if I can add overall as you know very well that country has a huge power shortage and currently Gen-cos are not able to generate full to its capacity, largely arising out of imperfect Dis-com markets, this is a slow process, one has seen in last few years a change in that, but a major journey yet to be covered but we find that every year this Dis-com imperfection demand, supply imperfection is getting addressed. May not be getting addressed in 1-2-years but over the period the direction seem to be right. So we remain positive that overall the market condition remain good and we might have some short term periods in which the mismatch or the Dis-coms financial health might come way of offtake issues.

SK Roongta: Some of the Dis-coms are finding some solutions like UP probably they are refinancing another since getting through and we are finding in exchange also now rates have started moving up from the month of October, and as Mr. Mehta mentioned that with a forthcoming elections may be Q4 of the current financial year should be better from the point of view of demand.

Prasad Baji: You mentioned also that in H2 we are looking at 60% PLF. So is that a reflection that these issues are very short term in nature?

SK Roongta: As I mentioned two of the issues we faced in this quarter were only specific to this quarter which we do not expect it to remain like curtailing of power or water issue for which we lost almost 10 to 12% of PLF. And going forward the demand is also improving and we are also looking to as mentioned considering our option of starting smelter operations, so all put together we expected to certainly achieve 60% PLF and that is true.

Moderator: Thank you. The next question is from the line of Jay Doshi from IIFL. Please go ahead.

Jay Doshi: There is an article in 'Business Standard' today which talks about that we have not received deemed distribution license for 1.25 mtpa smelter and even the Government is not willing to convert IPPs into CPPs, and that article talks about an impact of Rs. 2.4 per unit of power that is higher cost for smelter. So could you please explain this a little bit?

SK Roongta We do not know who has some of the data which has been taken in the article and that is not based upon facts, I suppose there is lot of speculation in the article and they have not quoted any authoritative sources, so I do not think so that is factually correct in all aspects.

Jay Doshi: So if we were to start 1.25 mtpa smelter in near term would its cost of production be very similar to the one that is operating right now at Jharsuguda or will it be higher?

SK Roongta: Cost of production should be similar to Jharsuguda except that to the extent we have to see the incremental coal which we have to get depending upon eAuction other. So to that extent it may make a difference in the coal cost. CPP cost of coal is definitely lower because we had the earlier linkages and so to that extent it will make the difference. But we will have better operational efficiencies, so operating cost in the new smelter will be less as well as I suppose there will be some economy on the other cost also.

Jay Doshi: And would it be possible to quantify if without in absence of deemed license what would be the incremental cost per unit of power for the aluminum smelter? I mean you mentioned that the numbers are probably incorrect quoted in the newspaper but in your sense what would be that impact?

MS Mehta: If you look at the full year results we have shared with you the detailed cost of IPP also and we also mentioned that at increased PLF cost may go up slightly because the increased ratio of coal coming from the eAuction site. But if we use the reported cost of the full year results for IPP plus you can calibrate that it has been tampered slightly with increase the eAuction coal cost you will get a sense of the power input cost. But all we can say in the absence of full financial result in front of us in this moment for the Q2 but broadly the power cost will be in line with the existing aluminum smelter cost broadly and model wise the way to look at it will be like this that in Q1 we ran this smelter using imported alumina, and as and when we start the smelter we will continue to use imported alumina, so for cost model, import model, your Q1 cost can be good starting this point.

Moderator: Thank you. Ladies and gentlemen we have the last question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir my question is on the Copper business. You said that you are going to take some maintenance shut down in next financial year. So what kind of production loss can we witness there? And secondly on BALCO coal block we said that we are going to start with land acquisition now after filing with a mining lease. So what gives us the confidence that we can mine the coal in the First Quarter of next fiscal year?

MS Mehta: On the smelter the shut down has taken once in every two years and it was scheduled in the current financial year. This comprises lot of planning to get the essential parts, long delivery, lead items etc. but since we had the forced shutdown in Q1 we took opportunity to use the time for doing part maintenance we were able to do without getting these long lead items, and by virtue of that the full blown shut down that is a maintenance shut down once in two years now we will do in end of 3-years in the next financial year, and this typically takes about 20 days time.

SK Roongta: As regards the BALCO coal block out of about 1,070 hectare total land for the coal block 365 hectare is forest land, and for which we have already obtained the second stage forest clearance. So after the lease is signed and this forest land is diverted, and we have also procured some private land, and after the lease deed is signed some of the land we can obtain the surface rights and we hope to start the first stage of mining from this forest land and some of the private land which we have procured and some additional surface rights we will be obtaining post signing of lease. So it is possible to adhere to the schedule of Q1 of FY-'14.

Shashank Kanodia: Last just two questions on Hindustan Zinc, are we witnessing some less proportions of silver in the refined lead that we are mining?

MS Mehta: No, this is just some production delay, some WIP adjustment; our grades continue to behave consistently what we have been predicting. This you will find ironing out in succeeding quarters.

Shashank Kanodia: Last question on refined zinc stake sale. So there have been some lots of media on and off reports supporting the stake sale of Hindustan Zinc, Mines Ministry opposing to regarding the mines in the Regulation Act. I am pretty much hopeful that you might have considered some legal opinion on this. So would you like to share with us?

MS Mehta: I think most of our comments in the past and today also is largely coming out of what we also hear in the public domain. Yet to get any official version from the Government on this side. So what we are hearing is different levels of debate - sometimes it is round the corner, sometimes some legal obstacle coming in the way, but all we are knowing that it is very much fits into the part of the Government's disinvestment fund raising program and we see conviction on the part of the Government to move ahead on Discom, and in this moment our understanding Government is largely trying to work out the modalities of making this transaction happen.

Moderator: Thank you. I would now like to hand the floor back to Mr. Bajaj and the management for closing comments. Please go ahead.

Ashwin Bajaj: Thank you all for joining us today and if you have further questions please contact us at IR as usual.

Moderator: Thank you gentlemen of the management. Ladies and Gentlemen on behalf of Vedanta that concludes this conference call.