



“Vedanta Resources Limited H1 FY2020 Earnings
Conference Call”

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RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to the 1st half of FY2020 Vedanta Resources Limited's results 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. James Cartwright. Thank you and over to you, sir.

James Cartwright: Thank you very much everybody for joining the 1st half 2020 Vedanta Resources Limited's conference call. This is my first conference call for Vedanta Resources. So, a quick introduction of myself. I recently joined the Vedanta team after 25 years working in Global Capital Markets. Very exciting time for the companies of India and the broader region. So, everyone joining the call today are very much looking forward to further engagement over the coming quarters. I will point to our forward-looking disclosure. Please make sure you look at that, and with that, I would like to turn the call back to our CEO Venkat to address the results. Venkat, over to you.

S Venkatakrisnan: Good morning or good evening ladies and gentlemen depending on which part of the world you are calling from and welcome to Vedanta Resources Limited's 1st half FY2020 earnings call. Starting with a big picture takeaways and some comments, as I said at the time of the Vedanta Limited results in November, the Vedanta Group has had an exciting transition, particularly given you would have seen how India is actually growing and also the ease of doing business index. India has actually rocketed up in its position in the global stage. This is the transition that will see the company accelerate in the expansion of its reserves and resource base over the coming quarters. This expansion is being delivered through strict capital allocation and balance sheet focus and it is aimed at creating value for all of our stakeholders. Moreover, we are fully committed to our core values which are our guiding pillars on how we actually reach our goals and that's around safety, around environment, around ethics, governance, and social responsibility, and you would have seen from the slides today some of the improvements we have made in each of these areas, and I am proud to say that Hindustan Zinc has managed to retain its position of No.5 globally in the Dow Jones Sustainability Index and No.1 in the Asia Pacific region and Vedanta has improved its ranking by about 25% in that index.

Our confidence in the recovery in the commodity cycle has been reinforced of late with progress being seen in the US-China trade relations as well as a bounce seen in the oil prices. India as a country continues to offer enhanced opportunity for us and this combined with the delivery of our growth projects which give very good returns over the near-and medium-term we set to transform the top-line profitability across our key verticals.

Before I actually touch on some of the highlights, one open area which was there when we had the call last time was around the structured investment which our subsidiary CIHL had actually made in the investment that Volcan had in the Anglo-American Security. You would have seen when we made the announcement, we said it was entirely for financial instruments and we felt

there was an opportunity there which is best kept within the group and subsequently when it actually achieved the desired return rates, these investments were closed out and the net gain of around \$100 million over the 8-month period has actually been provided in full to Vedanta Limited shareholders. I think that's quite an important point. We did put out a press statement at that stage but it is useful to recap given the apt time this particular investment took during the last call but importantly the money has actually been provided for the benefit of all of Vedanta Limited's shareholders.

Now, turning to the H1 results, looking at a few highlights for the quarter, the benefits of successful volume growth across our businesses were somewhat dampened by a fall in commodity prices. Our EBITDA of around 1.4 billion represented a margin of around 25% and if we assume the same metal LME and oil prices that prevailed a year ago, our EBITDA would have been around \$250 million higher. More of it will be in Arun's presentation.

Our attributable profit after tax turned into a profit of \$502 million compared with last year's loss of 327 million. Our balance sheet remains steady with a net debt to EBITDA ratio of around 3.1 times.

Now, touching on a few operational highlights for the quarter, in Zinc India, ore production is up 3% year on year at 3.6 million tonnes demonstrating excellence in the Rampura Agucha mine. In Zawar, we have delivered with ore production almost up 25% with better grades. The ramp-up of our mine significantly de-risks future growth potential and our silver business is also growing and certainly will include recoveries and where silver prices would be a good cash stream as far as we are concerned. Zinc International produced record volumes with significantly lower cost. Although we have faced some such delays, our confidence in the Gamsberg ramp up remains unchanged which would lead to significant growth over the coming quarters.

In the oil & gas business, we exited the quarter with 166 wells drilled and 63 wells hooked up and we expect another 120 wells to be online giving us confidence in our growth plans. Our RDG bridge has ramped up from around 35 million scuffs per day to around 50. We are commencing full field polymer injection in the Bhagyam and Aishwarya fields following on from our success in the Mangala EOR polymer injection space.

Aluminum where you would have seen a significant reduction in our costs over the last year, particularly with improved feed into our Lanjigarh Refinery from our OMC mine and also with better availability of coal in our commitment of achieving lower costs starting with alumina, our Lanjigarh production is up 18% year on year with costs down 18% year on year as well.

On the power side, Vedanta Limited emerged as the successful bidder for the Jamkhani coal block in Odisha. This along with our Chotia mine will improve our coal security for this business. With regard to iron ore business, we are pleased to announce that we have significantly ramped up volumes in our Karnataka business. Electrosteel, the sales were up 283,000 tonnes, up 6% year on year, and with a positive outlook on India growth due to government policy easing, we expect our sales volume to grow. Just in terms of KCM, to give you an update as I

am sure you are aware, Vedanta commenced the arbitration proceedings against ZCCM-IH in July 2019 which is the agreed dispute resolution mechanism as specified in the shareholders' agreement. Subsequently, ZCCM has sought leave to appeal in the Supreme Court of South Africa in September 2019 which was granted by the court and we understand the hearing is expected only around January 2021. We will be able to update you post that hearing.

To recap, before I hand over to Arun, let me conclude by reiterating our five strategic priorities to drive long-term value for all of our stakeholders.

- 1) Foundation, ethics, governance, and our social licence to operate.
- 2) We are a resource business. So, expanding our reserves and resource business both on the metal side and on the oil & gas side is a key priority.
- 3) Continued track record of delivering value-added growth across our businesses.
- 4) We will do that only with strict capital allocation and balance sheet focus.
- 5) We can only do that using the best from our assets and our people. So, certainly delivering the best from these 2 areas will be a continued focus asset has been for the group.

I will now hand you over to Arun.

Arun Kumar G R:

I will cover briefly the financial pages, page #20 to #23 both included. On EBITDA, the 1st half summary across businesses has been one of the holding or increasing the volumes and similarly on costs, either holding the costs or reducing them. For the commodity deflation, especially in alumina helped. Overall volumes and costs contributed some \$250 million positive to the EBITDA while the weaker commodity price and Brent as well reduced it by approximately \$600 million. Adjusted to external factors of price and commodity deflation, we reported a 5% improvement in EBITDA to \$1.4 billion in the first half. On an absolute reported basis, EBITDA was lower by 19% than the previous year. Free cash flow post CAPEX was approximately \$800 million.

Other key updates – 2 key updates – to the P&L including the audit report. One is, given the recent tax rate changes announced by the Government of India where most of our businesses are housed in, we have been remeasured our deferred tax balances as per the prevailing rules and this has led to a tax credit of about \$331 million primarily on the deferred tax liability balances in the balance sheet. The second update is, in terms of the ongoing litigation and situation with respect to the Zambian copper operations, it has been classified as a discontinued operation. The carrying value of the Zambian copper investments and loan dues of the group companies at a gross value of \$1.9 billion, net of reserves is about \$1.4 billion reflect as receivables on the asset side of the balance sheet.

The auditors have expressed a qualified audit opinion in the limited review just conducted owing to the inability to measure the fair value given the inherent uncertainty of the situation. This has also led to a few weeks of delay in finalizing our accounts. In terms of net debt and CAPEX, on the balance sheet side, the reported net debt on 30th September was about \$9.5 billion, lower by about 800 million compared to the beginning of the fiscal year. The free cash flows as mentioned earlier contributed positively. Focus on working capital continued to yield results with nearly 500 million of those cash flows coming from such reduction, especially old power sales government dues, inventory reduction of a permanent nature, and certain tax refunds.

As you would have also noticed, we reduced our CAPEX guidance from \$1.4 billion to \$1.2 billion for the year with some of the optional CAPEX which we outlined at the beginning of the year now deferred into FY21 as we continue to be disciplined in the spends here which Venkat also alluded to.

In terms of proactive liability management, we raised 1 billion through a dual tranche bond at VRL and repaid the near-term maturities as a result of which we do not have any significant debt maturities till the end of FY21 at the Vedanta Resources level. The average debt maturity for the group continues to be above 3 years.

In terms of credit ratings, S&P moved up from a “B+ negative watch” to “B stable” on the back of weak commodity price environment. The net debt to EBITDA ratio as outlined by Venkat earlier continues to be a strong 3 to 3.1 range. Liquidity in terms of cash and cash equivalents continue to be at around \$5.1 billion.

With this, I now hand it back to the operator for further Q&A.

Moderator:

Ladies and gentlemen, we will now begin with the question & answer session.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Varun Ahuja from JP Morgan. Please go ahead.

Varun Ahuja:

Firstly, I didn't get fully the reason as to why there was some delay in the results. If you could just kindly repeat that for me. Second question more importantly is, I see that the HoldCo has raised about 500 million of additional debt. Could you give some color on the nature of that debt that was raised at VRL level, whether that's secured, and whether that was raised from foreign or Indian banks? Those will be my 2 questions to start with.

Arun Kumar G R:

In terms of the debt raised, they are primarily from a mix of Indian and foreign banks and the main purpose is towards de-levering which we will see coming out in the 2nd half of the year as well, we will be paying out the rump of the outstanding of FY21 where you can see a couple of hundred million is outstanding. So, with that, we should be cleaning up completely for the next 15 months. Secondly, it can't be secured debt, so never raised secured debt at Vedanta Resources level.

In terms of audit, the KCM issue took us a couple of weeks of up and down because of tricky accounting issue one had to deconsolidate KCM and take out the EBITDA report at previous period, etc., while finding a solution for the carrying value of KCM, etc., which finally resulted in the audit qualification as I mentioned. I hope that addresses your 2 questions.

Varun Ahuja: Arun, just a clarification on the debt. You mentioned that you raised this debt which would be used for debt repayment but then if I look at the net debt at the HoldCo level, that has gone up by 400 million. So, I am curious as to why that has happened in the 1st half. My sense could be that probably you raised some part of the debt for interest payment of 200-250 million at the HoldCo level but there is an increase of net debt. That's what I am questioning as to where that additional 400 million has been used?

Arun Kumar G R: That's right. As I mentioned, you would see the repayments happen in the 2nd half because it is probably timing which has come in the last few days. So, you will find most of it applied towards repayment of FY21 you will see it in the 2nd half.

Varun Ahuja: And related to that is, I see that typically Hindustan Zinc gives dividends in October-November which has not happened this time around. So, whether you could give any color on that? And also at the VRL level itself, I see that you have paid about 150 million in the 1st half, whether the full-year number would be similar to what we have seen in the past year as well?

Arun Kumar G R: In terms of dividends including FY20 full year at Vedanta Resources level, we have maintained as in the past that it should be normative in the range of 60 to 65 cents that we have been declaring in the last 10 years with the exception of 1 year in between.

And the second point in terms of dividends from Vedanta and Hindustan Zinc, as you are aware, the well-established dividend policy is in place and the exact timing of the dividend will be left to the board's as a decision.

And a quick addendum to your first round of questions was, a couple of hundred million also went towards KCM funding for the 1st half of the year when we took up certain creditor payments and certain bank loan payments on behalf of KCM. I hope that also explains a little bit of the recoveries.

Moderator: As there are no further questions, I now hand the conference over to Mr. James Cartwright for his closing comments.

James Cartwright: Thank you very much everybody for joining today's call. Should you have any further thoughts post the call, please let us know here at the IR team. Looking forward to catching up with you in due course. With that, I will pass back to the operator to close the call.

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