“Hindustan Zinc Limited's Q1 FY22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Hindustan Zinc First Quarter FY'2022 Earnings 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 the 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. Shweta Arora, Head of Investor Relations, Hindustan Zinc. Thank you and over to you ma'am.

Shweta Arora: Good afternoon, everyone. I welcome each one of you today for Hindustan Zinc's First Quarter FY'22 Results Call.

Today, on the call, we have with us our CEO – Mr. Arun Misra; our Senior Vice President & Head of Finance, Mr. Vinaya Jain; and our VP, Finance and Deputy CFO – Mr. Sandeep Modi.

Mr. Misra will begin with an Update on Business Performance while Mr. Jain will walk you through Financial Performance, after which we will open the floor for Questions.

I now request Mr. Misra to begin today's call. Over to you, Mr. Misra.

Arun Misra: Thank you, Shweta. Good afternoon, and a very warm welcome to all of you. I trust that you and your families are staying safe and following all necessary precautions as well as taken dose of vaccination to fight against the spread of COVID-19 pandemic in our country.

Before I start today's Result Presentation, I regret to inform you that we lost two of our colleagues in an unfortunate accident that happened at our Rampura Agucha mine on 28th of June 2021. I would like to offer my deepest condolences to the bereaved family and friends of the deceased. One life lost is one too many. We commit to stand by their families in this hour of distress.

We have conducted an in-depth incident investigation by an independent investigation committee. The learnings from the incident have been reviewed and are being implemented across all our operating assets. Nothing is more important to us than safety of our people and we reiterate our commitment and vision to ensure all employees go home safely. Hindustan Zinc's safety team continuously drives various initiatives to meet our vision and the working committee identifies critical areas for improvement to address any potential risk.

In an unprecedented quarter, where the second wave caught the country by surprise and took a toll on our lives and livelihood, our key strength lies in the resilience of our people. The Hindustan Zinc family not only ensured continuity of operations but also supported the local governing bodies in their fight against COVID-19. With the supply shortage of medical grade oxygen, we immediately deployed resources to set up a bottling plant in five days to refill 500 oxygen cylinders per day to support the state of Rajasthan in their fight against COVID-19. We also supplied 5 tons of liquid oxygen every day to all the hospitals in the vicinity of our operating areas. We set up a 100-bed COVID field hospital at Dariba which will come in handy in case there is a third wave which is believed to be more fatal. In addition, we have handed over 550 oxygen concentrators to the state administration and a vaccination van to the Udaipur administration. It is our top priority to control and avoid any spread of the contagion amongst our employees, business partners and their families. Towards this end, we are running a mega vaccination drive under which 100% of the eligible population has already been vaccinated with at least one dose of the vaccine. We will continue this drive till 100% of our employees, business partners and their family members are administered both the doses of vaccine. We have also introduced new policies to support family members of employees in case of any loss of life due to COVID. This includes paying last drawn fixed salary until notional date of retirement, education assistance for two children till graduation and enhanced medical insurance. In addition, we have supported our business partner employees by providing medical and life insurance policy and then ex gratia amount for their family members in case of any loss of life due to COVID.

Coming to an Update on ESG front:

I am happy to inform that Hindustan Zinc has received the “Most Sustainable Company in the Mining Industry 2021” Award from the World Finance Sustainability Award 2021. This is to recognize our product, functional, strategic and managerial innovation and balancing it with commercial insight and market integrity while ensuring sustainability.

I am also proud to share that our Rampura Agucha mine which is one of the largest underground zinc-lead operations globally, has won CII's “Best Application & Uses of Renewable Energy” Award in the 5th Edition CII National Energy Efficiency Circle 2021. During the quarter, we also continued our engagement in the “CII Working Group” to drive accelerated climate action by Indian businesses for actively promoting the climate actions across various businesses in India.

I am also delighted to share that our people practices were yet again recognized, and we have received Great Places to Work Award. We will continue our endeavor to make the Hindustan Zinc family stronger every passing day.

In our overarching goal to create mines of the future, we have continued our digitalization and automation efforts in partnership with leading global experts.

Close to 40 kilometers of high bandwidth WiFi networks in our SK and Rampura Agucha mines forms the backbone of our digital framework. This enables us to track equipment in underground mines, fetch real-time telemetry data from various equipment to improve asset utilization, productivity and optimize cost. We have set up control rooms both in SK and RA mines which are then connected to a central collaboration center in Udaipur to ensure that senior management can review all operations based on real-time data, initiate improvement projects based on data analytics and share information online across mines for better collaboration.

Turning to Market Update:

Zinc prices have hit a three-year high of $3,085 a ton in early June but have slid since then. The decline in zinc prices is due to growing worries about inflation, a slightly less dovish tone from the US Federal Reserve, strengthening of the dollar and news that China's State Reserve Bureau will start selling parcels of metal including Zinc in the coming months. However, zinc prices subsequently recovered some of the lost ground. According to International Lead and Zinc Study Group (ILZSG), global demand for refined zinc metal is forecast to rise by 4.3% to 13.78 million tons this year. This is against a 3.9% decline in demand last year. Power shortage in China's Southwest Province of Yunnan could affect zinc smelting capacities to the tune of 1.2 Mt and result in 20,000 tons of refined zinc production being affected. While mine production in Peru is recovering, controls in Inner Mongolia to cut power consumption could also potentially impact global supplies. LME exchange stocks at their current level are only sufficient to meet eight days of global demand which is the lowest level for the current calendar year. Relatively low stocks and robust demand continue to put upward pressure on spot metal premiums globally.

On domestic front:

Indian economy showed some signs of cooling off in May due to second wave; however, of late, the weakness has already begun to dissipate as the nation exited lockdown. The overall economic effect of the second wave has been softer than the first wave of pandemic last year and this is clearly visible in demand recovery.

Speaking of zinc demand, galvanizing has been the key driving force for construction, infrastructure and automobiles related demand. Government's focus on infrastructure development will continue to provide necessary impetus to zinc demand locally. Over the medium-term, we also expect rising demand from the transport and highway sector which use road crash barriers and galvanized steel bridges.

Similar to zinc, lead prices also saw an increase over the quarter and remained at $2,100 level owing to constraint supply. Indian domestic demand took a hit due to second wave and muted demand from auto sector. The current quarter is already showing signs of recovery and demand from replacement auto batteries is expected to rise as distribution networks have opened up.

Coming to Silver:

Prices have remained steady and stable globally. Indian demand for silver has been subdued but the premiums have gone up due to limited global supply.

Overall, our continued foresightedness on market demand recovery scenario, pricing environment and adaptive approach to selling - that is striking a delicate balance between domestic and international sales has helped us to tread the path successfully in these uncertain times.

Coming to an Update on Operational Performance:

During the quarter, mined metal production was up 9% year-on-year to 221,000 tons on account of higher ore production, partly offset by lower overall grade. Sequentially, MIC production was down 23% on account of lower ore production and overall grade.

Integrated metal production was at 236,000 tons, up 17% year-on-year in line with higher mined metal availability. Sequentially, it was down 8% in line with lower ore production due to lack of operator availability in the mine in view of second wave of COVID-19. Integrated zinc production was 188,000 tons, up 20% year-on-year and down 4% sequentially. Integrated lead production was 48,000 tons, up 9% year-on-year and down 21% sequentially. Integrated silver production was 161 tons, up 37% from a year ago in line with higher lead production, partly offset by lower grades at SK mine while it was down 21% sequentially, primarily in line with lower lead production.

Coming to an Update on our Projects:

I am happy to share that post integration in last quarter, the shafts at Rampura Agucha mine and SK mine are fully operational. Ventilation and cooling systems or chiller units have been deployed to facilitate the same in a seamless manner. Moreover, increased use of Advance Process Control (APC) at both SK and RD Mills for purpose of grinding are used to improve recoveries.

COVID-19 restrictions including stringent visa guidelines for Chinese nationals continued during the quarter which resulted in a delay of the commissioning of Fumer plant at Chanderiya. We expect Fumer commissioning to be completed by end of November 2021.

Before I hand over the call to Vinaya for an update on financial performance, I would like to reiterate our production guidance for the fiscal year 2022.

We maintain Mined Metal and Refined Metal production guidance for the fiscal year in the range of 1,025 to 1,050 kt each and saleable silver production at 720 tons.

With this, I hand over to Vinaya to Update on the Financial Performance.

Vinaya Jain: Thank you, Arun, and good afternoon, everyone. As outlined by Arun, we continue to strengthen the foundation of our operations to deliver on the guided volume growth. Our focus and continued efforts on digitalization and automation will help us enhance our mining output.

Internally and through our business partners, we are constantly looking at improving equipment reliability and availability.

Our goal is to increase predictability of our operations, thus reducing downtime as well as overall cost. All of this is laying the strong foundation for us to protect margins amid an uncertain environment and deliver on the promised performance for the rest of the year.

Going to an Update on Financial Performance for the First Quarter of Fiscal Year 2022:

I am happy to share that we delivered our best ever first quarter revenue, EBITDA and profit after tax. Revenue from operations during the quarter was at INR 6,378 crores, an increase of 64% year-on-year, led by higher metal and silver volumes as well as higher zinc, lead LME and silver prices. Zinc sales volume increased 15% year-on-year and Lead by 9% year-on-year in line with the high production and robust demand. Sequentially, revenue was down 5% owing to lower zinc, lead and silver volumes, lower metal premium, partly offset by higher zinc and lead LME prices and rupee depreciation. Zinc volume was down 5% while lead and silver were both down 21%. This was mainly due to lack of operator availability in view of second wave of COVID-19. Zinc LME prices were sequentially up 6% while lead prices were up 5%. Zinc cost of production before royalty during the quarter was $1,070 per ton, higher by 5% year-on-year and up 13% sequentially in USD terms. The upward pressure on COP, is primarily stemming from the surge in input commodity prices. The increase in coal and diesel prices, cement prices as well as higher power costs was only partly offset by higher sulphuric acid credits.

Finally, the fixed costs of the business are allocated based on volumes. We were accordingly impacted by this allocation as compared to previous periods. We fully recognize the headwinds from rising input commodity prices and are doubling our efforts to address them through long-lasting structural cost reductions that will lead us to greater operational efficiencies.

EBITDA for the quarter came in at INR 3,558 crores, up 123% year-on-year and down 8% sequentially. Year-on-year EBITDA was up on account of higher zinc and lead LME and increase in silver prices, higher volumes as well as higher metal premiums. Sequentially, EBITDA was lower on account of lower volumes and higher costs. Net profit for the quarter was INR 1,983 crores, up 46% year-on-year and down 20% sequentially. Year-on-year increase was mainly due to recovery in metal prices and higher volumes. Moreover, effective tax rate for the quarter was approximately 34.4%. The higher tax is due to the change in profitability mix between business and treasury income and also partly due to end of certain tax benefits.

Coming to our cost and CAPEX for the fiscal year 2022:

We keep both our cost and CAPEX guidance intact. As I mentioned, in the previous quarter, that we were anticipating upward pressure on commodity prices. I would like to reiterate that we will continue to closely monitor the situation this quarter and will take all necessary steps to address it.

With this, I open the floor for your questions.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: I have two questions. The first one is on mined metal production and refined metal. If I look at mined metal and refined metal production, mined metal was significantly lower than refined metal. So, if we convert it to refined metal, so how much concentrate is left as of now?

Arun Misra: Yes, sure, you are correct. After a very good Q4 exit, we had mined metal available with us and we have diluted the stock that we had, roughly about 22,000 tons of mined metal of opening stock that we had, could be converted to finished goods.

Amit Dixit: How much would be still left with this concentrated mined metal stock?

Arun Misra: Mined metal stock will be around 13,000 tons.

Amit Dixit: Second question is what would be the capital mine development in the quarter and how does it change Q-o-Q and Y-o-Y?

Arun Misra: Capital mine development is about 13 Kms in the quarter and the same figure Q1 of last year was about 7.6 Kms, so YoY 72% and it is slightly less than Q4. So capital development in Q4 was about 14 Kms and this is about 13 Kms, roughly 1 Km less.

Amit Dixit: So, impacted by lower operator availability, is it?

Arun Misra: Development was impacted by lower operator availability, but what we did this time was balance between deployment of operator and asset, between production and development. And in spite of COVID, this time we were aware how to manage and hence we could achieve 25 Kms of development, out of which 13 Kms would be capital and roughly about 12 Kms for revenue development, whereas the same number last year after COVID effect was only 16 Kms.

Moderator: The next question is from the line of Rahul Jain from Systematix. Please go ahead.

Rahul Jain: Sir, on your expansion that in your annual report you specified for 4 mt to 4.8 mt area, 0.42 to 0.5, could you give a timeline for this and also what is the outlay which is required to achieve this?

Arun Misra: We are moving aggressively as far as Zawar is concerned. And right now, we have just obtained the environment clearance for going up to 4.6 and then the next level also it requires amount of reserves so that your mine plan gets approved. So, you are focusing on converting more and more resource into reserve. Once that is done, then the projects will be brought to approval stage and then we will be able to tell you exact number how much we would need to spend for this.

Rahul Jain: Should we take this year CAPEX as similar to last year, I mean, that is how we should look at it?

Arun Misra: As of now, we are not changing any CAPEX guidance. Whatever we had the CAPEX this year we have stated in the beginning we continue with that.

Rahul Jain: Sir, how should we look at say over next three to five years in terms of volume trajectory, are you focused on taking silver to 100,000 and that is the primary goal and kind of just sustaining operations?

Arun Misra: Very-very nice and very-very valuable question. Thank you for that. So, our expansion terms right now is to go from 1.2 Mt to 1.35 Mt. So, we are on the drawing board for that. And that expansion is primarily also to move silver from 600, 700 tons level to maybe 800, 900 tons level if not 1,000. Then that has to come from SK mine and as well as Zawar mine, these are the two mines which would primarily provide silver bearing lead material. So, for that the necessary drawing board work that we are doing currently is how to expand entire SK mine and partly RD mine and at the same time work on Zawar mine for doubling the production and go to about 8 Mt. So, this is the vision and accordingly the work is happening. The moment we convert to project, surely, I will be able to share better details on this, but the trajectory is going towards 1.35 Mt.

Rahul Jain: Sir, in your initial comments you said that the cost increase Q-o-Q basis is transitionary, right. And what are the key components of this kind of cost increase?

Vinaya Jain: Major cost increases like I said earlier was the input commodity prices that has run up recently and also the kind of volume impacts will be there versus last year, sequentially, our volume was down, so the allocation will be accordingly higher. But the input commodity prices have a significant impact both on diesel, coal, cement, all of these factors will impact our input cost and COP accordingly.

Moderator: The next question is from the line of Vikas Singh from PhillipCapital. Please go ahead.

Vikas Singh: Just now you have said 800 to 900 kt of silver volume even with the higher capacity of 1.35 Mt. With Fumer coming in, we were previously guiding that much in 1.2 Mt only. So, was the problem with the Fumer or the problem with the grades where we are just lowering our silver guidance?

Arun Misra: No, Fumer will add 30 tons of silver plus how much of the SK mine we successfully able to take it up so that SK will give primarily silver bearing material. That's why I said that with Fumer and with the further 1.35 Mt expansion I am looking at anywhere close to 1,000 tons of silver if we can get.

Vikas Singh: So, there is no variation in the previous guidance, right?

Arun Misra: No.

Vikas Singh: Sir, my second question pertains to still we are carrying some debt. I understand that some investment would have been the high yielding assets. So just wanted to understand by when we can see this debt to be paid off or we would like to continue this debt carry on because going forward our yield was supposed to come down on our investment, right, so how are we managing this if you could explain to us?

Vinaya Jain: On the debt side, there are predictable maturities on the debt, and we will be paying down the debt for those maturities.

Vikas Singh: So, the debt maturity basically starts from next year or some maturity is having this year as well if you could give some number?

Sandeep Modi: Around Rs.1,000 crores is maturing in this year and remaining in the subsequent years.

Vikas Singh: In terms of 1.2 Mt to 1.35 Mt, any timeline has been set up? And any update on our fertilizer plant?

Arun Misra: First part, as I said, we have to establish the basic R&R ratio of about 1.35 Mt, and we want to assure ourselves that we have eight to 10-years of reserves with that. So currently with us having 1.35 Mt metal levels, we would have about six to seven years of reserve only. So, while converting resource to reserve, we have to first ensure 10-years of reserve and then we make ourselves of that capacity. So maybe another one year of exploration, then we should be onboard, and we will come back to you after getting the necessary approval. On the fertilizer plant, we have almost completed the design work. We are in the current process of appointing the right CEO for the fertilizer business and once that is done, then we take board approval in next board meeting we should be through.

Moderator: The next question is from the line of Ashish Kejriwal from Centrum Broking. Please go ahead.

Ashish Kejriwal: Two book-keeping questions for me. One is, is it possible to share coal cost on a per ton basis what it was in the first quarter versus fourth quarter? Secondly, you said that sulphuric acid credit was higher this quarter, so what was the price for that in this quarter? And thirdly, what is the project status of our Gujarat smelter which we were planning earlier?

Vinaya Jain: On the average coal cost for the Q1 last year was about Rs.7,100 versus Rs.8,300 this quarter. On the sulphuric acid, it was about Rs.1,350 Q1 last year versus Rs.3,100 this quarter. For coal it was Rs.6,700 approximately in Q4 and about Rs.3,000 on sulphuric acid.

Ashish Kejriwal: So major is our coal cost increase which led to higher cost of production because cement and all very small actually?

Vinaya Jain: Yes, and diesel as well; diesel in Q4 was about Rs.65 per liter versus Rs.81 per liter now. So, these are the two major factors; of course, coal impact was quite significant.

Arun Misra: Gujarat smelter, we have done the MoU, we are in the process of environment clearance. So once that is done, at the same time we are parallelly working on the design. Once the environment clearance is through, then we will seek board's approval for taking the project up.

Ashish Kejriwal: So that means the actual CAPEX is at least 1, 1.5-years away from …?

Arun Misra: Roughly, a year away.

Moderator: The next question is from the line of Vishal Chandak from DAM Capital. Please go ahead.

Vishal Chandak: Sir, this is with regard to your debt. If you could just let us know do you plan to raise further debt given the fact that your CAPEX was never dependent on the debt, but you still went ahead and raised debt in the past, so in this year also do you plan to raise debt or we plan net debt to push it down further?

Vinaya Jain: As of now, there is no plan to raise further debt. So, we will continue paying down the debt as and when the maturities happen.

Vishal Chandak: My second question is to Mr. Arun. If you could help us with your plans for the Galena zone next level of mining, how do we plan to go about it and what are the timelines?

Arun Misra: Yes, next level of mining, there are basically three fronts. One front is in Agucha. As we go to the Galena zone deep inside the mine, so it will alter the ratio of zinc to lead. So that will be one area of Agucha, and we are continuously investing in development to reach the Galena zone fast. And it is also expected to give more silver out of Agucha mine. Second expansion is SK, RD belt. How do I increase resource, reserve base in SK and then further go down into SK mine to open up new block. This year itself we are working to open up two new blocks in SK mine itself. Third is doubling the production in Zawar mine which has got immense potential as far as reserve and resource is concerned perhaps the maximum potential lies in Zawar mine and Zawar mine has the huge potential for expansion. These are the three areas in which we will be working as far as expansion is concerned. And it should result in of course ultimately more silver, more zinc and more lead.

Vishal Chandak: Sir, if you could help us with the timelines by when we can expect the incremental output from this mine?

Arun Misra: See, first is one more year of exploration is needed, and as far as projects are concerned, within three years' time.

Moderator: The next question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: I have two questions: First one is if you could split the coal sourcing mix between linkage and imported coal in this quarter and what was it in last quarter?

Vinaya Jain: Roughly, one-third linkage coal and two-thirds imported coal for the quarter. In the last year quarter, it was about one-fourth linkage and three-fourths imported.

Arun Misra: Last year roughly about 25% linkage coal, 75% imported. So looking at the exponential rise in cost of imported coal, so this year we have knowingly increased the linkage coal percentages and we have moved up to about 33% and we are still working on engineering solutions so that we can consume more and more domestic coal in our power plant looking in view that the coal costs are high.

Amit Dixit: If you could help us with your grade for this quarter on zinc and lead?

Arun Misra: So overall grade if you look at it, this quarter was 6.91 which was compared to last year same time it was a shade higher than 6.91, maybe about 7-point something.

Amit Dixit: In Q4?

Arun Misra: Total was 7.41 in Q4 of FY'21; it has reduced from 7.41 to 6.91

Amit Dixit: There is a considerable reduction in the quarter. What lead to that?

Arun Misra: It is a sequencing of the mine. As we are exiting last quarter, the areas that we are mining and this quarter the areas we are mining are different, number one, number two is because of the COVID effect many of the high grade stopes we could not reach because of lack of development. So, the mix shifted adversely to low grade stopes, but nothing is lost, those high-grade stopes are getting developed and in the subsequent quarters they will add to the grade.

Amit Dixit: You also stated about tax rate at 34% in this quarter because of expiry of the incentive. So, what is the tax guidance for the year as a whole?

Vinaya Jain: For the year tax rate should be around 30%. So, this will normalize a bit as the year goes on.

Moderator: The next question is from the line of Avadhooot Joshi from Newberry Capitals. Please go ahead.

Avadhooot Joshi: In your annual report, it mentions about silver paste used in PV modules and 80% of which is imported. So, it has been mentioned that effort has been underway with IIT Mumbai to reduce the import. So, I would like to know what is the plan, how our company is getting involved into it so that these volumes come to us accordingly?

Arun Misra: As of now, not this COVID affected consumption, standard consumption of India was about 10% to 12% of the total silver consumption in India is supplied by us and about half of it goes into jewelry making. So, we are looking at silver paste which goes into PV cells manufacturing. It's a very refined product. In India, there are manufacturers who are manufacturing it and mostly they are also importing the silver because it gives them tax advantage when they export silver paste to the manufacturers who are manufacturing PV cells outside India. So, we are looking at how to develop this product from the silver that we have, number one. Number two, it has to come along with increase of solar cell manufacturing in India which is likely to happen for various SOPs that the government of India is giving to promote green and renewable energy. So, we are looking at working with IIT and then see what product we can make. This will be part of value-added product that we can manufacture out of silver that we make.

Avadhooot Joshi: So, this will be value added product, so margins will be greater in this area, we can consider, sir?

Arun Misra: Absolutely.

Avadhooot Joshi: Second question is about the NCDs what we have raised last year. If I am correct, we have raised about Rs.3,400 crores of NCD. I was just triangulating it with the cash and cash equivalents we have 17,000 crores of cash currently. So, what was the reason to raise the NCDs when we are having this much of cash with us?

Vinaya Jain: There were temporary cash flow short-term mismatches because our investments were long-term maturities. That was the reason for raising these NCDs at that time.

Avadhooot Joshi: If I read correctly, NCDs are also for I think 10-years we have, right, and we will be paying it in three-year period, right?

Sandeep Modi: Yes, it is for three years. So, getting repayment 20% in September '21, then 20% in September '22 and balance 60% in September '23. So as Vinaya said, timing mismatch and that time COVID was there, so we were getting at very attractive rate, so we wanted to keep the liquidity. So that's what our stated purpose in the board approval we raised.

Moderator: The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Sir, I had a question on how the zinc and lead premiums have moved. I think this quarter they have softened a little. So how have they moved compared to your 4Q and last year if you could just give us some indication?

Arun Misra: Compared to last year, it has moved a lot primarily of course LME as well as ratio between domestic and exports last year because of COVID there was hardly any domestic demand, almost more than 50% we had to export. So that has led to better realization of premiums this year. Again, there is a slight dip as far as from Q4 of last year to this year first quarter.

Pallav Agarwal: Are you seeing in 2Q it's picking up?

Arun Misra: Correct, as the lockdowns are receding …and of course, India did well this time in COVID-2, they did not stop the wheel of economy, everything was running, people were fighting COVID along while it is running, so domestic demand also started picking up. And as we speak right now also, we were doing better than what we did in Q1.

Pallav Agarwal: What about the proportion of value-added products? In FY'21 that had reduced. I think we had a target of 25% of revenues coming from value added products.

Arun Misra: It should be close to 20% of the product is now currently value-added product and we are on our way to become 25%. Only the strategy change was instead of trying to produce all kinds of product, we have fixed our eyes on two products which is the maximum yielding and we are producing it very-very consistently and getting very-very good feedback from the market.

Pallav Agarwal: Which are the two products?

Arun Misra: One is CGG, and another is HZDA3. Other Jumbo and all that, we used to produce earlier, there is no change in that, but these are the two products which require some amount of control on the impurity. So that is where we are trying to do our best and put CGG and HZDA3 first, then we will do HZDA5 to make it 25% and then also, we are looking at zinc powder as a product and seeing how to start producing that. So, more and more value-added product in zinc will get added up as the year goes by.

Moderator: The next question is from the line of Vishal Chandak from DAM Capital. Please go ahead.

Vishal Chandak: Sir, if you could just help us with what was the premium that we have realized on zinc in this quarter over LME?

Arun Misra: It is of course much better than what we did last year I can tell you that. I will not be able to give you further details on that.

Vishal Chandak: Actually, if we calculate it, then the premium works out to in excess of about $600 per ton while the average premium that we generally realize is close to about $200, $250 per ton. So, there is a huge difference. That's why just wanted to reconfirm, whether these numbers are near to the actual realized premiums?

Arun Misra: No, as long as your premium calculation is concerned which you said, I think it should be in that range only.

Vishal Chandak: Any reason why this premium has shot up so drastically in this quarter because historically we have never seen such high premiums of $600 barring a couple of…?

Arun Misra: Not $600, I said your other base for calculating premium, not this base, cannot be $600, no way.

Vishal Chandak: Maybe I will take it offline, but that's the number which I have absorbed.

Arun Misra: Take it offline. We will discuss separately.

Vishal Chandak: Second question was with regard to the NCDs that you have mentioned, we have raised it for 10-years for a mismatch in cash flows. So, if you could just help us with some more details on what kind of interest rates are we carrying on the NCD?

Vinaya Jain: These are below the interest income that we are able to earn. So, there is definitely a positive carry on these NCDs. So, it's around 5%.

Vishal Chandak: So, through the life of the NCD, there would be a plus carry on these?

Vinaya Jain: As of now we are seeing. So that's the expectation, yes.

Moderator: The next question is from the line of Abhishek Mody from Emkay Global. Please go ahead.

Abhishek Mody: My question pertains to the cost of production ex-royalty. Previous quarter you have guided say below Rs.1,000 per ton for the full year. Now it is Rs.1,070. So, do you expect the next two quarters to be lower?

Vinaya Jain: First quarter was always expected to be higher than $1,000 because this is a year average and not a quarterly number that we provided. But yes, we expect the cost to come down and that's what we are shooting for. Both driven by volumes and the other measure that we mentioned on the efficiencies.

Abhishek Mody: With respect to the third wave, do you see at least the domestic side of things to pick up in terms of volumes?

Arun Misra: As of now, the signs are the domestic demand will slowly go up. Third wave is more in the mind, but the strategy that we have taken, and I am sure most of the big corporates in India have taken is 100% vaccination of all employees and families and government of India also pushing vaccination on a fast pedal. So hopefully, we won't see any breakage in supply chain and as people go out of the lockdown, spending will increase, government of India has also committed to spending on infrastructure. Third wave, again, it's always an uncertainty, I cannot rule out. Unless third wave strikes much more violently than even wave 2, I don't see any big change in the domestic demand as of now.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Shweta Arora for her closing comments.

Shweta Arora: Before we close today's call, I am happy to share that we have continued our journey of comprehensive and holistic disclosure. And our Integrated Annual Report for the Fiscal Year 2021 is now available on our website. We look forward to your valuable feedback on the same. With this, I close today's call. For any follow up questions or clarifications, please feel free to reach out to Investor Relations team. Thank you.

Arun Misra: Thank you.

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