"Hindustan Zinc Second Quarter FY '21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Hindustan Zinc Second Quarter FY21 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shweta Arora from the Investor Relations team. Thank you, and over to you, ma'am.

Shweta Arora: Good afternoon, everyone, and thank you all for joining us today for Hindustan Zinc's Second Quarter and First-Half FY21 Results Call. Today on the call, we have with us our newly appointed CEO – Mr. Arun Misra; and our CFO – Mr. Swayam Saurabh. Mr. Misra will begin with an update on Business Performance, while Swayam will take 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 safe and maintaining all precautions against the spread of COVID-19. As your newly appointed CEO, I am happy to share that we are continuing our operational excellence in a challenging environment. This showcases our resilience and innovative thinking as well as our unwavering commitment to become the largest and most admired zinc, lead and silver company globally. And while doing so, we remain equally cognizant of our environment, social and governance commitments as well as sustainability goals.

Caring for our communities is a value that all of us at Hindustan Zinc hold very close to our hearts. Our CSR team actively engages with the communities surrounding our operations and other key stakeholders to closely understand their needs and align their initiatives accordingly. This is also reflected in our ongoing COVID mitigation efforts, for which we are very humbled to have received CSR Health Impact Award by 'Integrated Health and Wellbeing Council', which was given as a token of appreciation for our exceptional response and on-ground work with extensive focus on life, livelihood and help mitigate the impact of COVID pandemic. I am also delighted by the fact that safety and sustainability are deeply ingrained in our culture and all leadership at our operations ensures that business decisions are aligned with the same. This is also reflected in the recognition that we received for our efforts, which continue to encourage and inspire us to stay ahead of the curve. I am happy to share that Hindustan Zinc has won the CII Environmental Risk Practice Award 2020 under the 'Most Innovative Environmental Projects' category.

I am also proud to inform you that our 22-megawatt solar power project at Rampura Agucha, 12-megawatt at Debari and 4-megawatt at Dariba are all registered under Gold Standard, which is the most rigorous certification given globally for carbon offset projects. It is evaluated based on net positive contribution towards economic development, employment opportunities, environmental and social welfare of the local population that host the project. Moreover, we have utilized wasteland at all locations for solar panel installation. With this, our complete portfolio of renewable power is registered under Gold Standard.

As part of our ongoing drive towards waste to wealth initiative, Dariba smelting complex has successfully commissioned a 4,500 million tonnes per annum freeze precipitation technology plant. This will help to recover sodium sulfate from final multistage RO rejects, which will cater to 1/3 of Dariba's smelters hydro plant's input salt requirement.

Coming to quarter's performance:

I cannot be more proud to share that during the quarter, we touched a few milestones. We saw an ever highest ore production, supported by our proactive mine planning, driven by increased use of technology and better targeting. Another good news is that we have produced highest ever quarterly silver, and this gives us immense confidence to achieve the goal that we have set for ourselves and be top 3 primary silver producer globally in the coming years. We focus not only to increase production from our existing resources and enhance recovery via technology levels, disciplined operations, but also work towards accessing new mining zones and partnerships. And most importantly, we managed to bring our cost to the lowest level since we transitioned to underground mining operations in March 2018. All of this, further bolsters our confidence and resilience of our people, new-age technology in mines, and our long-life rich assets. We seamlessly adapted to fast-changing conditions and deployed various initiatives and proactive measures in these challenging times to remain ahead of the curve.

Coming to market update:

Global mine supply continued to face threats of COVID-related suspension of operations and prolonged delays in new projects. Mines across the world are facing operational challenges to ramp up production, while complying with social distancing norms. Moreover, no new major capacity enhancement is going through.

According to Wood Mackenzie compared to the start of the year 2020, mine production forecasts have fallen by over 1.3 million tonnes, reflecting a 10% drop on mined metal supply. This translates to a 5% global decline in mine production in calendar year 2020 compared to 2019. A sharp fall in TCs for imported concentrate demand in China from $310 in January to $115 in September further points towards an existing deficit in concentrate supply to Chinese smelters. Global demand, on the other hand, is forecasted to contract by 5% to 6% in 2020, mostly during the first half. However, with a V-shaped recovery emerging in China's industrial demand along with many governments infusing stimulus packages to kickstart industrial activity, we are already witnessing demand bouncing back for base metals.

We also anticipate that low interest rates and relative weakness in dollar would further support physical demand of metals going into quarter 3 and quarter 4. Driven by this fundamental support, zinc prices staged a strong recovery during the quarter and not only returned to pre-COVID levels but also touched $2,500 per tonne mark, last seen in October 2019. As mentioned earlier, this was primarily driven by Chinese demand, where stocks in SHFE bonded warehouses have fallen substantially from 160 kt in March to 60kt at the end of quarter 2. We expect global warehouses stocks to remain at lower levels, providing fundamental support to prices in coming quarters.

In domestic market as lockdown restrictions eased and India moved to unlock phase, the metal demand has started to recover. In the second quarter, demand revived and reached almost the same level compared to last year's same quarter. Resumption of infrastructure projects as well as government stimulus are providing the required support to the recovery.

Steel manufacturers, who are our key customers, are now running their plants at near-normal utilization rates with resumption in demand reflecting in their increase of crude steel prices. While auto sales improved in August-September, overall downstream demand has remained subdued. However, replacement battery segment witnessed an uptick in recent times owing to seasonally related monsoons and also approximately 70 days' long complete India lockdown-led inactivity.

Overall, we expect linear demand recovery to continue across all segments and remain optimistic for the upcoming festive season. Global investors' interest bolstered the prices of silver, which was over 50% up in Q2 compared to Q1 average prices translating into significantly higher EBITDA contribution from silver. We expect prices to remain strong as physical demand of silver has started to recover globally as well as locally reflected in lowering arbitrage between LBMA and MCX.

Moving on to operational update:

During the quarter, our mined metal production was up 9% from a year ago to 238kt on account of higher ore production. Subsequently, mined metal production grew by 18%, supported by higher ore production resulting from better mine planning and effective targeting with increased use of technology. However, this was partly offset by decline in metal grades and lesser ore treatment. Integrated metal production was 237kt, up 13% from a year ago and 18% sequentially, in line with availability of mined metals with zinc at 180kt and lead at 57kt. Salable silver production was 203 MT, soaring 51% year-on-year and 73% sequentially due to increased operation of pyro-lead smelter, better grades at SK mine and higher concentrate inventory.

Coming to an update on our projects:

I am happy to share that environmental clearance (EC) is recommended by Expert Appraisal Committee for Zawar mine expansion from 4mtpa to 4.8mtpa. Also, both the backfill plants at Zawar are under commissioning and operation is expected to start in November '20. I am also happy to share an update on our new sales and marketing initiatives. Hindustan Zinc has become the first-ever producer in the non-ferrous space to sell metals online with real-time INR denominated prices. The platform called EVOLVE went pan-India live on 18th September and was very well received.

Lastly, an update on fumer commissioning, due to ongoing COVID-19 disruptions, including visa restrictions for Chinese nationals, final commissioning of fumer plant at Chanderiya could not be completed in Q2, and efforts are ongoing for an early resumption.

As my closing remarks – I would like to draw your attention to our previously guided FY21 volume for both mined metal and refined metal in the range of 925kt-950kt each and silver at c.650 MT. I am happy to inform you that we are on track to achieve the previously guided numbers.

With this, I handover to our CFO – Mr. Swayam Saurabh, to update on the financial performance. Swayam

Swayam Saurabh: Thank you, Arun, and good afternoon, everyone. So before I deep dive into financial performance, I would like to draw your attention towards targeted efficiency initiatives that we as a management team have initiated since quarter 3 of last year, which is transforming Hindustan Zinc and setting stage for consistent volume growth and lowering costs.

Our unwavering focus towards strict capital allocation and continuous improvement in costs driven by new age mining technology, rigorous benchmarking, continuous adoption of best practices across the globe is helping us to stay ahead and maintain our first quartile cost curve. Many of these cost optimization initiatives deployed across our operational units are already visible in our financial performance and yielding desired results.

Coming to financial performance for the quarter:

Revenue from operation during the quarter witnessed an increase of 25% year-on-year and was at Rs. 5,660 crores due to high zinc volumes, which were up 8% year-on-year, and increase in 30% in lead volumes year-on-year. This was further supported by higher silver prices as well as a significant jump in volume as well as overall higher price realization as rupee depreciated over the year. However, some of these gains were offset by a fall in zinc-lead LME year-over-year.

Compared to the previous quarter, revenues soared 42%, primarily driven by higher zinc-lead LME prices. Sequentially, zinc LME rose 19% and lead LME increased 12%. This was further supported by higher metal premium resulting from revival in domestic demand after quarter 1. Some of the gains were offset as price realizations were impacted by rupee appreciation from quarter 1 to quarter 2.

Zinc cost of production before royalty for the quarter was $919 per tonne, down 10% sequentially and 12% from a year ago. The reduction in cost of production is our continued effort towards structural cost optimization measures. As outlined by Arun earlier, We are proud to share that we have now reached the lowest level of cost for a quarter in dollar terms since we transitioned to a fully underground mine 2.5-3.0 years ago. This is a result of extraordinary effort on all fronts, including consumption, contracting, procurement and fixed cost optimization, resulting in sustained improvement at costs of goods.

This was also made possible by a number of firsts, including different look at fixed costs, digitally backed operational efficiency tracking, redesigning some of our contracts and renegotiation as well as efficiencies related to consumption norms and favorable commodity sourcing.

The resulting EBITDA for the quarter was Rs. 2,952 crores, higher 39% from a year ago and 85% sequentially on account of higher revenue and lower operating costs.

Net profit for the quarter was 1,940 crore, a drop of 7% from a year ago, but a stellar increase of 43% sequentially. This was primarily due to higher depreciation and amortization as well as finance costs and higher tax due to change in our income mix. Our treasury income typically is taxed around 11%, 12%, while our business income is taxed about 27%, 28%. So when the interest rates started to come down, our business income increased in proportion, and this change in the mix led to volatility in the tax rate between quarter 1 and quarter 2. However, for the full year, this can be guided at an average of 24% to 25% of effective tax rate.

I am also happy to inform that Board has approved an interim dividend of Rs. 21.30 per equity share, which amounts to INR 9,000 crores. The record date for the same is 28th of October 2020.

Now coming to our previously guided cost and CAPEX for the fiscal year:

Our cost base is successfully resetting to a lower level, and we are confident to keep zinc cost of production comfortably below $1,000 for this fiscal year, which is inclusive of significantly higher mine development expenditure to support future volume growth.

As for CAPEX, we keep our guidance intact with a focused approach of investing in high IRR projects, and exercise continued prudence in an uncertain business environment to strike a delicate balance between investing in growth and conservation of cash.

With this, I open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: I have couple of questions. The first one is on your silver production guidance. At around 650 tonnes, I believe it looks a little bit conservative, considering what you have done in this quarter and the last one, of course, being an exception, but if the current run rate holds good, I think your silver production should be higher than what you are guiding. Any comments on the same?

Arun Misra: So silver production, we'll still stick to the guidance because this quarter, as you observed, the silver grade in the mined metal from SK mine has been better than last quarter. However, looking at mine and overall plan basis, we would stick to a balanced number, which would reflect in the guided production.

Swayam Saurabh: Correct. And just to add to that, there is also a recognition that the COVID has not gone away. And while these numbers are indeed cautious, and your assessment is correct, we have done 320 tonnes in H1 basis. If production stays as per plan, we should be able to beat our guidance. But for now, this guidance holds.

Amit Dixit: The second question is on cost of production. So as we observe, it is significantly down, almost \$100 per tonne Q-o-Q, and you have also highlighted during the opening remarks about some of it remaining sustainable and the fact that we have achieved a particular cost level. I think some of it would be driven by the transportation cost and as you rightly mentioned, other various factors. So just wanted to understand how come you are guiding our cost of production **below \$1000 when already performing better than** what we were doing in 2019 I believe it should remain at the similar level, and we should end up much below the guidance. So two parts to my question. One is, of course, what are the factors that you consider sustainable? Of course, coal cost can vary, but there would be some sustainable factors, how much would be that? And the second is like my previous question, this cost of production also appears to be a little bit conservative

Swayam Saurabh: Alright. So you are right. I mean, at H1 level, our cost of production is \$965. We have shown significant improvement in quarter 2. And almost a very large part of this is going to be sustained because they are structural, they are driven by actions which has been initiated for some time, changing our basic cost fabric. The reason we are guiding higher cost, slightly higher cost in going into H2, is the point I made, I think 3 quarters back, is we need to invest ahead of curve in developing faster. What that would end up help us do is certainly give us a larger immediate mineable reserve. But when I mine them, then only the benefits would come. So we are trying to build a little bit flexibility in our system. Just to use a reference, a typical global company would have almost two months' worth of production, sitting in minable reserves. We are not there yet. And we want to get there because this also allows us to be more predictable, more consistent with our volumes.

Moderator: Thank you. The next question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh: Two questions from my side. First is on the dividend and balance sheet. Now in terms of, we still see there's 4,500 - 4,700 crores of borrowings on the balance sheet. Going forward, how does the company look at debt? And can you guide us to in terms of what is the thought process on how much would the company like to lever up the balance sheet on a gross basis? What metrics would it use? Will it be a debt-to-EBITDA or debt-to-equity? And the second is on the expansion projects. I mean there is not much of a commentary. The volume guidance implies mined and refined metal production of 510 Kt in the second half of the year. So at this point of time, given all the COVID-related shutdowns that have taken place, the road map to 1.2 million tonnes, where do we stand? Where can we see a run rate production come through?

Swayam Saurabh: Yes. So let me take the first question, and Arun could answer the second one. We are open to leverage balance sheet, more to do with the fact that the investments might have different time horizons and tax efficiency. So it's a choice between if a dividend has to be paid, like the one which was announced today, breaking those investments and you lose the coupon versus a scenario where you could borrow cheaper. So leveraging on a cheaper interest rate environment. But we are very conscious of net debt-to-EBITDA as well as debt equity ratio. And while I cannot be more specific here at this moment, we would like to assure you that this will remain very healthy, like our balance sheet has always been.

Arun Misra: Yes. And on the question of 1.2 million tonne metal production rate, we are confident that in quarter 4, we'll be hitting that number. And if you look at our guidance, we should be producing about 950 kt of metal. And if we continue at the current rate in the quarter 3, quarter 4, we should be there or even better than that, and quarter 4 expected exit at 1.2 million tonnes.

Moderator: Thank you. The next question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: Sir, one question on the investment side. You recently signed up MoU with the Gujarat Government regarding 300 Kt smelter, greenfield one. So can you just give some more color on the requirement of a greenfield smelter? My understanding was we do have enough leeway at existing locations to increase smelter capacity. Why Gujarat and what kind of incentives will be available there in terms of taxes and other incentives? And what is the IRR target, which we hope to get there?

Swayam Saurabh: Yes. So the MoU is still at initial stage, we are at initial feasibility stage. But I will give you a very high-level insight on why it still makes sense. So a costal smelter has, let's say, a more efficient access to external concentrate because we see an opportunity here. Also, when our volumes grow to the level it needs to grow, as you know, as part of my current mix of percentage today, approximately 20%-22% gets exported. So it makes sense, and it fits in our longer-term plan. Now why Gujarat? One is indeed today part of my product gets exported. So it does not add pressure to my supply chain. But also as an investment destination, Gujarat is very attractive for us, access to port. And the last point around IRR, I'm not going to be specific, but we have very high hurdle rates defined for ourselves for any investment to make sense. And we are very confident that once the initial feasibility gets completed, this project would provide that kind of IRR.

Anuj Singla: So any broad numbers, sir? Is it (+20%), (+25%)? Just broad brush number on what kind of IRR we can look at?

Arun Misra: After we complete the detailed feasibility and we arrive at the entire project cost, I think at that time quoting a figure would be fairer.

Anuj Singla: Okay, understood. And sir, the second question is regarding our second phase of growth, volume growth from 1.2mtpa to 1.5mtpa, so what is now the timeline for that? Has that also got impacted because of COVID? And will this also entail more smelter investments within the maybe existing locations or elsewhere?

Arun Misra: So 1.2mtpa to 1.5mtpa, obvious that there will be additional smelting requirement. It is also associated with about 1,400 MT of silver, so that necessitates more of silver refining capacity. So these two are, which are under study currently, how do we debottleneck and where do we take our smelting capacity to? And beyond that, only if any additional facility to be provided. So that is under study. Second part is from the mine side, how do we make for one-year production, which has to be sustainable. So the life of mine studies are in place. Out of all the mines, for two mines we have first completed life of mine study and remaining mines are in place. By December, we will be completing the life of mine study, the feasibility report for this expansion and then we can come back with a fairer number on what it would actually entail and the timeline that it would take us to complete this project.

Moderator: Thank you. The next question is from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: A couple of questions. One, on the employee costs, it has dropped sharply both Y-o-Y and Q-o-Q. So what drove this reduction? And how should we look at it going forward?

Swayam Saurabh: So you are right, employee cost has dropped to 166 crore in quarter 2, which translates into about 650 - 660 crores of annualized run rate. If you look at the way cost reductions have been achieved, optimizing employee cost has been part of the structure. And the simple explanation on why Q1 cost was higher is quite simply Q1 as well as Y-o-Y; Q1, we had to pay VRS, which is not there in Q1 as part of our, let's say, employee cost optimization part of delayering the organization. The right answer here is actually a guidance. We expect the cost around employee to remain under 700 crore annually. And just to remind you, two years back, employee costs were 904 crores.

Indrajit Agarwal: Yes. That's very clear. Second question, on the COP side, I see that you have restated your first quarter COP. Is it overall because the mine development expenses have been added now in the first quarter numbers as well? It was 954 when you reported first quarter numbers, now it is 1,019. So is that all the adjustment or if there's any other adjustment there?

Swayam Saurabh: Sure. There is no adjustment. The difference between 954 and 1,019, it was made very clear that it represents 105 crore donation, which was made in Q1 to support COVID, which was in Prime Minister CARES fund. The delta between these two is precisely that.

Indrajit Agarwal: Sure. That helps. Last question, again, on the balance sheet side. So if I add investment, in our 7,000 - 8,000 crore of cash and investments, about 4,300 crore of debt, even if you assume 9,000 crore of those dividend payment, you'll still be left with a healthy cash balance and there is enough cash generation at Hindustan Zinc level. So what is the thought process on capital allocation? Is it a thought of like continuously higher extraordinary dividends or like the Gujarat smelter, we can see some more organic-inorganic aggressive expansion?

Swayam Saurabh: So it's a combination of both. We do want to allocate capital to places where which can create adjacent spaces and better returns for stakeholders. And if there is excess cash, at certain moment, it gets distributed back to shareholders. This is all I can provide you at this moment.

Arun Misra: I think, Swayam, if I can add. The visibility for expansion needs are for till 1.5 mtpa. And as I said for silver to go up to 1,400 MT. This will also be associated with a lot of waste to wealth projects, which will be on the minor metal side. So if you look at capital allocation, those will be the preferential areas of allocation going forward.

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

Pallav Agarwal: So I had a question on, you did not mention anything on the fertilizer project. So given that we are now looking at a greenfield smelter in Gujarat, so are the plans for the fertilizer project still on or we've shelved that for the time being?

Arun Misra: No. Actually, the project is on, and we are aggressively pursuing the project. We are also now looking at the Atmanirbhar India Campaign to how to use more domestic rock phosphate and appropriate the design accordingly, that is number one. Second is the location is finalized. It's just some of the clearances are being worked through. And once we go to the board and take approval, we'll be declaring it.

Pallav Agarwal: Sir, **in terms of** premiums, there still seems to be lower than last year's levels. So is it because our export proportion still remains high? Or will we see an improvement in the zinc premiums next quarter onwards?

Swayam Saurabh: There are 3 reasons. One is indeed the ratio of domestic and export. To use a data point here, quarter 2, the domestic sales as a percentage of total sales have started to normalize. It is not yet at last year level, but it has changed sharply in a positive way. Second is LME itself. The total premium includes an import duty equalization component. So while zinc LME has improved very significantly, it is still a little bit lower than where the LME was last year. So that has another small impact. And the third one is exchange premium. We clearly see a trend of premiums improving. So there are 3 global Asian exchanges we track, and that becomes a reference for us. But they still not have reached at the levels they were last year.

Pallav Agarwal: Is this because of the lower demand on the ground? Is that causing a slight subdued physical thing?

Swayam Saurabh: I think the perception of demand is a factor because we see that premiums are catching up to the price. That's the trend we see in last 5, 6 months. And as zinc prices are strengthening and holding actually quite well, we also see that the premium stabilization, premiums have improved quite significantly, actually almost as high as a 30% improvement in quarter-over-quarter. So we expect that trend to continue. But of course, COVID is still a factor for everyone out there, but we very clearly see signs of recovery. The fact that zinc has almost touched last year level itself says a lot, and this is holding on.

Pallav Agarwal: Sure, sir. Just finally on sulphuric acid and byproducts. So have you started seeing some improvement over there as well?

Swayam Saurabh: Steep improvement. So as we mentioned in the last quarter, our sulphuric acid realization dropped last quarter to Rs. 1,350 per tonne. They have now improved to over Rs. 2,100. So that's the trajectory which we forecasted last quarter. And I think we are very much there. It should further improve.

Pallav Agarwal: Sure, sir. Okay. If I can just squeeze one last question, sir? Just on you know commercial paper would be, I think, it is short term, right? So I guess we would be retaining that. So could you give us a sense of how the rates are like? Is there an arbitrage within what we get on our deposits and what we are paying on a short-term commercial paper?

Swayam Saurabh: Yes. It's a good question. I think it links back to a question which was previously asked around our leveraging balance sheet. So today, short-term borrowing is indeed very attractive when I compare to some of the investments, which are locked for tax efficiency. So a short-term borrowing versus an option of breaking something which is locked for, let's say, up to 3 years horizon. But short-term borrowing compared with the short-term return in fact to keep that liquid is definitely not attractive. So simple answer is very attractive short-term CP rates, also leveraging our balance sheet to get those kind of rates, which also could be the reason that we may be actually open to fund some of our short-term funds requirements using these borrowings instead of breaking an investment with an attractive coupon.

Moderator: Thank you. We take the next question from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Sir, my first question was on the Gujarat smelter. Just wanted to understand will it only process concentrate from Rajasthan mines or is there scope that it could also do blending from Zinc International?

Arun Misra: So this is the new area to explore on the concentrate flow that happens around the coast of India to various destinations. As Swayam explained, strategically, it also fits with when we expand to 1.5mtpa, if there is an additional smelting capacity needed and if we decide to do so, this could still serve as an export-oriented smelter located on the coast. But as of now, the business case standalone basis is justified apparently at the preliminary stage on the concentrate flow that happens around the coast of India for the various destinations in the Southeast Asia and beyond.

Ritesh Shah: Okay, that's helpful. And sir, my second question is, is there any update that you can provide on HZL divestment? I think government did indicate that the arbitration process will start. Has there been any update post that consultation with the government? If you can update something over there, it would be of use.

Swayam Saurabh: We would not comment on that question because this does not relate to us.

Ritesh Shah: Okay. Then probably, I can ask one more question? Sir, how do you see on the timeline on unwinding of pledges at Hindustan Zinc level? How do you see this, like, what is the comfort level that we have over here? How should we look at it, sir?

Swayam Saurabh: So you are referring to pledges by Vedanta?

Ritesh Shah: Yes, sir.

Swayam Saurabh: This is, again, not right forum to ask that question.

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

Rahul Jain: So sir, how should we look at our volumes going for FY '22 and '23? Because I think the expansion from 1.2mtpa to 1.5mtpa would likely take two years. So should we assume like a flattish volume curve from here on?

Arun Misra: It is still quite far in the distance. We have a tentative target of taking up 1.5mtpa project and completing it. Just the life of mine study justifies that the investment can be sustained at a good economic IRR over a period of 10 years. So that should fall somewhere around FY '23 or FY '24. But the exact timelines and what numbers will come, I would refrain myself from guessing just now.

Rahul Jain: And what kind of broad number are we looking at for this kind of...

Arun Misra: See, if I have to explain the way the mining is done, that 1.5 million tonnes is not a steel plant that will be keyed on and it will start producing the next day. The mine development has to start. So many of the preliminary activities are already gone. The mine has to be developed, incline has to be done and then your footwall drives have to be done, somewhere the shaft work has to be done. So all those are, some being studied, some in process. So you will see a gradual stepup in the number from now till FY '24. And if the other parts of the project, which is in the smelting, which could be in the mine ventilation, which could be in the infrastructure of power, if those are also in place, then you'll see the final numbers taking in towards that timeline.

Rahul Jain: So is it like 5% to 10% kind of an increment because of that?

Arun Misra: It will go in steps, and I wouldn't put a quantity to it, but it will continuously grow up year-on-year basis.

Rahul Jain: And sir, given that we have a limited mine life now, so what is the rationale of reinvesting so much in smelting projects because anyway the TC/RCs are really low to justify any kind of real need to get into that business?

Swayam Saurabh: So as I said, we are doing pre-feasibility. If you look at last 5 years TC/RCs, possibly there is still a business case there. The question is, in an integrated view, for instance, 5, 7, 8 years from now, what kind of return would it generate. And once the feasibility is complete, we'll be able to give you more clarity.

Moderator: Thank you. The next question is from the line of Vishal Chandak from Emkay Global Financial Services. Please go ahead.

Vishal Chandak: My question was just a follow-up on the Gujarat smelter. Somewhere in the back of mind, do we also are looking at transporting the Gamsberg over at some point in time as we see the increase might be low for a while, maybe 3 years, 4 years down the line as a way of integrating these two facilities during the time that there are power outages over in South Africa and Gujarat being one of the best destinations for investment, as you mentioned. So do we look at integration of the Gamsberg over to the smelter to be set up in Gujarat?

Arun Misra: So this smelter, as I said, standalone basis, it is built on the concentrate that moves around that coast of India. This does not exclude Gamsberg or any particular facility, so to say. As long as the business is justified, all concentrates will be used as long as the technology justifies the separation of minerals based on those because every concentrate has its own peculiarity, some has more manganese, some has less manganese, some has some more cadmium. So call will be taken once we do the detailed feasibility report.

Vishal Chandak: Right, sir. Sir, second question was, again, with the capital allocation that you mentioned, when you look at funding the short-term debt through the long-term investments, which is understandable, you have certain investments locked in for 3 years etc., but the rationale for NCD at this stage, do we really have an immediate deployment of that tune? Or basically, it's trying to fund the dividends at this point in time, because even if we assume on a net basis, even after we take out the 9,000 crores of dividend, the net cash on the books is still at about 8,800 crore assuming everything all the debt is immediately paid out.

Swayam Saurabh: Right. So the net cash, which you have calculated, not necessarily would be cash because they would be part of a pool under cash and investment. And the current NCD fits in because the timing of NCD is not necessarily the dividend or liquidity needed for dividend. But also some of the other commitments, a few questions were asked around them, we may have to commit to in the next 6 to 12 months. So this basically is part of the planning, which has been done on what kind of cash we might be needing for next 12 months. And hence, NCD is timed the way it is timed.

Moderator: Thank you. The next question is from the line of Vineet Maloo from Birla Sun Life. Please go ahead.

Vineet Maloo: So I just wanted to know, it's good to know about this, you know that you want to actually pay out more dividend, and you are not actually worried about leveraging up a little bit to take care of the sort of investment and timeline mismatch. You did speak about there will be guardrails in terms of how much leverage was done on debt equity or debt EBITDA side. Could you share some of those metrics that you're looking at, which are the outside limits that you would want to maintain at all points in time, regardless of the cycle?

Swayam Saurabh: So I am not able to put a ratio as we are planning to basically have a sign off with board in the coming future. But what I can assure you that it will remain very, very healthy, irrespective of what industry you compare that with. This is all I can give you right now.

Vineet Maloo: Okay. I would have assumed that you would have something in mind already because I am sure this is probably the first time that you are actually borrowing this kind of amount. And so a lot of thought would have gone into this process already. But anyway, we can wait for that development. The other question I had was on the smelter in Gujarat. You mentioned that it could also process independent raw material. I am just wondering, is it that you foresee somewhere in the future that dynamics for smelters are likely to be better than just pure mining or rather not integrated smelter and mining that you would look at processing some of the independent raw material as well?

Swayam Saurabh: It's a good question. So custom smelters are standalone business with a very healthy business model, while the current decline in TC/RC, if you just look at last few years, there are decent IRRs when done well. Technologies are also changing, leading to very high level of recovery, which adds to that. But if I add another context here, I mean, if you just look around and the data on what kind of concentrate which is flown into Asia for processing and Asian metal demand 5 years from now, you would understand the rationale behind why exploring to build up a smelter. That's one side of it. Other side could also be within Vedanta, if there is better integration. And third is indeed our own growth model. I mean we are looking to get to 1.35mtpa then to 1.5 mtpa. So sooner or later smelter is coming. And we are just looking at it in a more broader perspective that are there other adjacent opportunities. While we continue to focus on mining growth, are there other adjacent opportunities, which can also be a value for shareholders? And this includes the smelter as well as fertilizer, which we're looking at.

Vineet Maloo: Yes. So I appreciate the point that eventually as mining volumes grow, you would need smelting capacity. But I was sort of thinking that a brownfield expansion and integrated operations would be better to cater to that part of the whole picture, right, when mining volumes grow? Because you specifically mentioned the ability to process independent raw materials. I was just curious whether you believe that smelter economics itself is going to be attractive versus mining?

Swayam Saurabh: No. So this question you are asking, I think, 3, 5 months ahead of this time. So we are doing pre-feasibility right now. And all these variables are getting at this and when time is right, we would also announce that.

Moderator: Thank you. We'll be able to take one last question. The last question is from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer: Could you just give me a quick run-down of what type of the investments, the current investments? Basically, I just wanted to get a sense of what kind of instrument these are and how, if required, these can be sort of liquidated?

Swayam Saurabh: So your question was specific to current investments or total investments?

Abhiram Iyer: Yes. Sir, current investments or actually both if you can.

Swayam Saurabh: Yes. Current investments would be FDs, would be liquid money market, which are very short term. But other than that, our total investment composition would have FMPs, zero coupon bond. Total investment portfolio is rated very high and we maintain that mix of long-term versus short-term.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Ms. Shweta Arora for closing comments.

Shweta Arora: Thank you. Before we close today's call, I am happy to share that we are progressing well on our journey of comprehensive and holistic disclosures. And towards this end, I want to update you all that we have published our first-ever integrated annual report for the financial year '19-'20. And we look forward to your valuable feedback on the same. Also, our tax transparency report as well as our sustainability report are now available on our website. 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.

Moderator: Thank you very much. On behalf of Hindustan Zinc Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.