"Vedanta Limited

Q1 FY 2023-24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Vedanta Limited's First Quarter Financial Year 2023-'24 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 need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Prerna Halwasiya, Deputy Head, Investor Relations and Company Secretary from Vedanta Limited. Thank you. Over to you, ma'am.

Prerna Halwasiya: Thank you, Dorwin. Hello, everyone, and welcome to our first quarter earnings call for FY '24. I'm Prerna and on behalf of the entire team of Vedanta Limited, we would like to thank you for joining us today to discuss our financial results and business performance. The transcript and the audio of this call will be made available on our website. The financial statements, press release and presentation are already available on the website.

Today, from our leadership team, we have Mr. Sunil Duggal, our group CEO, Along with him, we also have Ms. Sonal Shrivastava, our Group CFO. Please note today's entire discussion will be covered by the cautionary statement slide on -- on Slide number 2 of the presentation, we will start with the update on our operational and financial performance, and then we'll open the floor to the Q&A.

I would like to hand over the call to Mr. Duggal.

Sunil Duggal: Thank you, Prerna. Good evening, everyone. Thanks for joining our results call at such late hour. Today mark a significant milestone for me. As I announce my end of tenure as Group CEO for this extraordinary company. It is with profound gratitude and tinge of nostalgia that I reflect on the incredible journey we have undertaken together.

I want to take a moment to express my deepest appreciation to each one of you, our valued investor community. Your unwavering support, trust and confidence in our vision have been the driving force behind our collective achievement. I am incredibly proud of the growth and success we have witnessed throughout my tenure at Hindustan Zinc and then at Vedanta.

I'm equally humbled by the unwavering support and loyalty of our employees, whose dedication, passion and resilience have been the bedrock of our success. Together, we have weathered challenges, celebrated victories and relentlessly pursued innovation to propel our company to new heights. I take my leave with optimism and the fondest memory of our shared accomplishments.

Now I turn to quarter 1. At the outset, I want to share very key strategic updates from the quarter. Vedanta's Board of Directors has approved the strategic decision to enter the semiconductor and display fab business through acquisition of SPV from Twin Star Technologies. This marked a pivotal movement for Vedanta, presenting a unique opportunity to diversify our portfolio into the promising and forward-looking sector of electronics manufacturing.

Through this diversification, we will play a significant role in shaping India's electronic manufacturing sector, while simultaneously driving substantial long-term value for our esteemed shareholders with both the semiconductors and display fab market in India, displaying robust growth trends. We recognize the potential to establish the country's first integrated semiconductor and display fab manufacturing enterprise.

Our decisions have been carefully evaluated considering synergies and market expansion potential. With our expertise, resources and network, we are confident in building a robust and innovative platform catering to evolving consumer demands. We have also initiated a comprehensive evaluation of our steel and raw materials business to explore avenues for maximizing shareholder value.

The review encompasses a thorough analysis of steel manufacturing at Bokaro, iron ore mines in Karnataka, Orissa, Liberia, pig iron plant in Goa and met coke plants in Vazare and Gujarat with a focus on considering a broad range of alternatives. These alternatives may include but are not limited to the potential sale of all or part of any of these businesses.

To facilitate this process, we have engaged experienced advisers who will collaborate with us in analyzing and assessing the most advantageous path forward. We anticipate having a definite strategy within the next 4 to 6 months. We will keep you informed about any significant development and will communicate the outcome of this evaluation as soon as it is finalized.

Now moving to ESG. Vedanta is unwavering in its commitment to collaborate with all stakeholders, ushering in a adjust transition towards a low carbon economy and forging a sustainable future. Our journey on the ESG front has been remarkable fortified by robust policies and standards. In FY '22, we embraced a transformative narrative setting audacious target that will propel our organization to the forefront of the global metals and mining industry.

By charting this ambitious course, we are determined to lead the charge towards a more sustainable and responsible tomorrow. Our net-zero ambition were the first goals that we set, I'm happy to report that today, all our BUs have committed to these-ambitious target. Some of the most ambitious in the country and world.

Renewable energy use is up 4x since FY '21. PDAs worth 838-megawatt RE RTC are in place. We are on track to achieving our commitment to use 2.5 gigawatt of RE by the end of the decade. We have rolled out industry-leading policies such as EV purchase policy for all our employees and all our business units have plans in place to ensure that 100% of the LME are electric by 2030. Jharsuguda and HZL have also begun trials for HMVs and other vehicles from the mining fleet.

Similarly, our water positivity targets have seen the company increased its water positivity ratio by 21% over the last 2 years. More importantly, these efforts have seen our freshwater consumption reduced by 10%. We're also well on track to meet our DEI goals of having 20% women employees by 2030. Today, we stand at 14%. The company has implemented programs to place women in STEM roles and leadership positions. This commitment has yielded notable achievement, including the distinction of having India's first underground women mining engineers. Furthermore, we have recently established a dedicated women-only emergency response team for underground mines. I'm also proud that we have expanded our definition of diversity beyond gender.

There are more than 38 members from transgender community who are part of our workforce with more to join in the near future. In driving the ESG agenda, the company has not forgotten its commitment to local communities around our businesses. Our CSR and community program benefit nearly 12 million women and children across India, many beyond the company's organization footprint. Considerable effort has been dedicated to enhancing the transparency of our company, a testament to our commitment to responsible practices. This commitment is evident through the implementation of key frameworks such as BRSR, Sustainability Report, IR, TCFD, TTR, along with our participation in the global forums such as CDP and DJSI.

These concerted efforts have yielded positive results as reflected in our improved overall ESG rating that we have previously discussed. I take immense pride in the impetuous, I have been able to provide, positioning the company favorably to continue this journey. Our current standing reaffirms our commitment to further advancing our ESG agenda and I'm confident in our ability to build upon this momentum.

Moving to operational update. This quarter has been well balanced quarter. Aluminum continued the strong production trajectory from last quarter and delivered record volumes of 579 kt and a reduction of 6% in our cost of production. Our foremost priority continued to be decoupling production costs from external volatility. In line with this road map, our vertical integration projects are making significant headway.

Train 1 with incremental 1.5 million tonnes per annum capacity at Lanjigarh is on track for completion in quarter 3 of this financial year. Train 2 with additional 1.5 million tonnes per annum is expected to commission by quarter 4 of this financial year. We are making substantial progress on ramping our existing coal mines and operationalization of Kurloi and Radhikapur in the next 9 to 12 months, which will greatly enhance our coal security.

Today, the Board approved a capex to operationalization, Sijimali bauxite mine in Orissa. This asset plays a critical role in block bolstering the raw material security at Lanjigarh refinery at an expanded 5 million tonne per annum production capacity. These strategic initiatives align perfectly with our road map to ensure a more stable and resilient operational landscape safeguarding our company from external market fluctuations. As we continue to move forward, we remain committed to enhancing our competitiveness in the market.

Hindustan Zinc produced its highest ever first quarter mine metal production primarily through higher a production at Rampura Agucha and Carmine. Cost of production declined by 2% Q-o-Q. Through continued focus on higher volumes, better feed grade, higher linkage coal materialization and maximization of low-cost alternate fuels.

The business is on track to meet its stated annual cost guidance and ramp our production to 1.2 million tonnes. Zinc International delivered a commendable performance, both in terms of volume and cost of production. The volumes are higher by 9% Q-o-Q while costs are down by 11% Q-o-Q and 19% Y-o-Y, reflecting the strength and efficiency of our operations. Our priority remains ramping up the performance of Gamsberg plant to design capacity and completing Gamsberg Phase 2 expansion with an aim to start production in second half of current year.

At oil and gas business, we have been able to lower the rate of decline as seen by practically flat output from the previous quarter through infill wells and enhanced recovery projects. We have implemented plans to end the year with higher output levels than the year begin with.

The key priority ahead is to add volume in near term to infill project across producing fields, define up to 20 potential new development projects to bring these resources into production, unlock the potential of exploration portfolio comprising of OALP and PSC blocks, and continue to operate at low cost base.

In iron ore business, we were declared a successful bidder for Cudnem mineral block in Goa with an estimated R&R of 8.3 million tonnes. This is our second ore block in Goa after Bicholim and puts us on track to augment our mining footprint.

The operation at Western cluster, Liberia were stable and the production ramp-up continued.

Steel continue to operate at an augmented capacity of 1.7 million tonnes per annum. One of the larger blast furnace had a routine annual shutdown during the quarter, which had an impact on production. Production will be back to pre-shutdown run rate in quarter 2 with higher operating efficiency. With a vision to become high-grade, low-cost steel producers with lowest carbon footprint, first phase of expansion to 3 million tonne per annum is under progress with full vigor. We remain excited about the strength of our business portfolio, especially in metals, oil and gas and other natural resources in India. The fundamentals supporting these sectors remain robust, providing us with a confident and optimistic outlook.

Despite some pullback in metal prices recently, particularly zinc and aluminium, we believe prices will be stabilizing in the medium- to long-term. In the subdued LME environment in quarter 1, we have delivered good set of financials. Our quarterly EBITDA is INR6,975 crores with an operating margin of 24% and PAT of INR3,308 crores, marking a 6% increase sequentially.

As we look ahead, we have several key growth projects on the horizon in the upcoming quarter. We expect our performance to exhibit steady and progressive improvement as we advance through the next 9 months of the financial year.

In summary, Vedanta is on a transformation journey with significant growth across its businesses. The key enablers for driving this growth are use of technology and innovation to drive best-in-class and low-cost operations. Skill development and global experienced leadership to steer the project delivery with sustainability at the forefront.

With this, now I hand over to our newly appointed group CFO, Sonal Shrivastava:, who brings a wealth of experience to Vedanta, her extensive knowledge in optimizing financial performance, identifying growth opportunities and managing risk will be instrumental in achieving sustainable growth here at Vedanta. We look forward to the promising outcomes under her able leadership. Over to you, Sonal.

Sonal Shrivastava: Thank you, Mr. Duggal, and good evening to everyone. As we know, the commodity prices remained under pressure during the quarter, stemming from the global demand and high interest rates and global supply surplus. However, the Indian economy sustained its momentum in the face of global headwinds.

Demand for our metals and minerals remained robust for domestic end-use sectors, specifically automobiles and infrastructure. Capitalizing on strong domestic demand in a subdued price environment, our teams achieved strong operational performance and delivered a good set of financial results. I want to share some of the highlights for the current quarter.

The consolidated revenue stands at INR33,342 crores and as against INR37,225 crores in Q4 of FY '23. EBITDA of INR6,975 crores as against to INR9,362 crores in Q4 of FY '23 translating into an operating margin of 24%.

Profit after tax stood at INR3,308 crores as against INR3,132 crores in Q4 FY '23. We continue to maintain double-digit ROCE of ~17%. Now I move on to the EBITDA bridge. As compared to Q4 FY '23, the EBITDA is lower sequentially, majorly impacted by LME. However, the easing of input inflation, cost reduction initiatives, and marketing premiums provided support to our margin.

Now moving on to the balance sheet and debt. The net debt on June 30 stood at INR59,192 crores against INR45,260 crores on March 31, 2023. Our net debt-to-EBITDA was at 1.88x. We finished the quarter with a healthy cash and cash equivalence of INR14,292 crores. Our average maturity maintained at 3 years and average cost of borrowing at 8.7%.

Meanwhile, I would like to reiterate that we will be committed towards the cost and production guidance. Our long-term focus on vertical integration is on track keeping operational excellence and deleveraging a key priority.

I would also now would like to thank Mr. Duggal. He has been part of Vedanta and Hindustan Zinc Limited for several years and has played a pivotal role in shaping Vedanta Group as one of the best conglomerates in the world. Vedanta has completed several important milestones under his leadership. I convey my sincerest gratitude for his guidance and wish him all the best for the future.

With this, I now hand over to the operator for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Indrajit from CLSA.

Indrajit: My first question is on this transaction of THL Zinc Venture. If you can explain what exactly is the transaction about and how it has led to rise in debt for us?

Sonal Shrivastava: As you know, previously, VDL has been funding the international zinc operations. And now given the performance and outlook of VZI we would like them to manage their operations on their own. Hence, VZI has refinanced its obligations. And in this normal course that we expect that the subsidiary will be self-sufficient and manage their obligations. And wherever there is a need, the parent will step into support.

Indrajit: So how have they funded it? Is it an external debt at THL Zinc Ventures?

Sonal Shrivastava: Yes, it is an external debt to the tune of $850 million.

Indrajit: So just to summarize, an internal intercompany debt has been substituted by an external debt, and that has also led to a foreign exchange gain, and that has been upstreamed as dividend, is that a correct summary? Or I'm getting anything wrong here?

Sonal Shrivastava: That's correct.

Indrajit: And secondly, the Cairn -- has Cairn transaction has also been approved till December '24 on the outstanding one. Any change in the terms of that?

Sonal Shrivastava: The ICL has been extended till December '24, and there has been a change in terms of the interest payment.

Indrajit: What exactly is the change in terms?

Sonal Shrivastava: Interest rate has now been set at 17%.

Indrajit: My last question is the move on getting the semiconductor business in the Listed Company. What has changed since Vedanta Resources or the group had embarked on this journey? Why the decision to get it on the List Co. now? And what kind of capex upfront and gradual can we expect on this?

Sunil Duggal: See, originally, this was not under Vedanta Limited it was under Volcan. And we internally evaluated that if we actually bring this business under Indian entity and to manage various stakeholders. And since this business will be housed in India. And this is an operational entity it would be easy for us to make it operational, and there could be a lot of synergy with the existing businesses, which could be created.

As we speak, we are in active discussion with the various technology supplier, both for JV and the technology partnership -- and we are in advanced discussions. You may hear some announcements soon on which way we are going. As far as capex is concerned, based on the technology partnership and the facility we want to put up like which size of the nanometer of the chips we want to manufacture, we will come back after the feasibility study. But you would know that the Government of India has announced a PLI scheme, which they have announced that they will give the 50% Capital subsidy on this.

And since we have declared that our facility will be based at Dholera, Gujarat special economic zone, which Gujarat government is building up. They also have a policy of funding 40% of the subsidy of the government of India, which virtually is 20% if the government of India gives 50% subsidy. So overall, 70% and the exact number on the capital involved and the capital cost of the project will come back as we complete our feasibility study.

Moderator: The next question is from the line of Palav Agarwal from Antique Stock Broking.

Palav Agarwal: Firstly, best wishes on your future endeavors. Sir, on the ESG front, we've set some pretty ambitious targets going ahead. So, what do you see as a path towards achieving this, how soon can we reach those targets?

Sunil Duggal: So, we have declared 10 commitments on what we want to do right from decarbonization to water positivity to the other commitment we have been. So as far as the decarbonization is concerned, we have declared that we want to be carbon-neutral by 2050. By 2030, we want to reduce our carbon footprint by 25%. So, in that direction, you would know that with the various entities, we have signed the PDA.

We have set up a separate vertical in the name of Serentica, who is putting up the facilities. There is a substantial progress, which is happening. The next year, it will start feeding renewable power to some of our entities. And apart from that, there are a lot of projects for tree plantation, energy efficiency improvement, sequestration, introduction of EVs, LMEs and many other decarbonization projects like biomass firing. So, there are large number of projects which are there in the pipeline, by which we have made a plan and by each measure, how shall we reduce our carbon footprint by 25% from a base of 2021 level.

Palav Agarwal: Sir, also I had a question on the performance of the Oil & Gas segment because the Brent price fell only by about $3 on a sequential basis. But our realization fell were almost probably close to $7 to $8. So that has caused a very sharp dip in the EBITDA. So, is this expected to recover going ahead?

Sunil Duggal: No, as far as oil and gas is concerned, we have been able to mitigate the natural decline by intervention through the infill wells. And our gas production also has increased because we have taken a campaign of 27 wells drilling in our Rajasthan assets.

But apart from that, there are a lot of other projects in the pipeline where we will be able to mitigate the decline but grow some production during the year, and that is why we are confident that we will be exiting the year with a higher production than the one where we exited.

But apart from that, there are few targets we have identified in our OALP blocks where we want to drill 20 wells, where we have hope that we may get a 500 million barrels of the result. It will give a step jump in the production from our oil and gas assets.

And we are also evaluating another project of ESP where we have now involved Worley to design a pilot on the smaller number of fields so that our risk could be mitigated. So, with all these projects and the initiative in the pipeline, we feel that this year we will be exiting at higher production than that of where we entered. The next year should give a step jump in our operations.

As far as our margin is concerned, in fact, our cost has gone down. The margin may be because of the higher profit petroleum, but that exact calculation I have to see since it is a factor of the capex recovery. So, with that, that calculation we'll have to check, and I can revert back to you on that.

Moderator: We have the next question from the line of Amit Dixit from ICICI Securities.

Amit Dixit: I have a couple of questions. The first one is the aluminium division, if you look at it, there is a small hedging gain of $8 per ton. how much hedging we have? and at what price in aluminum division and whether it is also there in oil and gas division or some other divisions?

Sunil Duggal: I don't think we have any hedging gain in our aluminum business.

Amit Dixit: Actually if you see the Aluminium waterfall chart, then $8 per ton is the hedging.

Sunil Duggal: So that is a very miniscule gain. There is hardly any gain.

Amit Dixit: Okay. Is there a more hedge book per se?

Sunil Duggal: Going forward, there is no hedge as such. And this gain is also very miniscule.

Amit Dixit: Okay. Sir in aluminum division only, we saw that alumina cost was up despite lower base price of alumina Q-o-Q, but why our alumina cost was up this quarter?

Sunil Duggal: There was some supply concerns from the OMC mine and the alumina production had a lower percentage of the domestic bauxite and the higher percentage of imported bauxite and the imported alumina was used more, and that is why the weighted average cost of the alumina, which was used for production of aluminum was higher.

Amit Dixit: Okay. Understood. So, in subsequent quarters, will it be kind of again back to further old stuff we had, the mix of bauxite source from OMC and outside.

Sunil Duggal: Yes. The supply has totally stabilized now, as we speak, in the current month. And with that, you will see the substantial reduction in the cost of alumina. We could estimate around $50 per tonne of the cost reduction in the current quarter only on alumina.

Amit Dixit: At what metal level?

Sunil Duggal: At the hot metal cost, but $25 at the alumina cost and around $50 at the aluminum hot metal cost.

Amit Dixit: Sir, another question is we have seen that the debt mix, if you look at the international debt versus domestic, it has moved in a quarter from 90:10 to 82:18 %. Is it driven solely by the external funding that we have done that was explained in that bank subsidiary?

Sonal Shrivastava: That's correct.

Amit Dixit: Thanks a lot, Mr. Duggal for all those interactions and I wish you all the best for your future endeavors.

Moderator: We have the next question from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: My first question is on the royalty or rather the brand fee, which we are paying. We have now increased it to almost 3%. And if you look at the first quarter performance, it's coming out to almost 35% of the PAT being paid as royalty to the parent. So first is, I just want to understand when was it approved? And in future, how much it can be increase as per law by the Board without seeking shareholder approval.

Sonal Shrivastava: Yes. So basically, the brand and strategic management service agreement, it was up for renewal effective April '23. The revised rate has been duly considered post external benchmarking by the Big Four firms and based on which the Board has approved the same. Now as per SEBI LODR, the shareholder approval is only required if it goes beyond 5%.

Sumangal Nevatia: Okay. And for how many years is this been as per the latest approval by the Board when they increased from 2% to 3%?

Sonal Shrivastava: So basically, we look at it on a periodic basis. And from time to time, the Board is empowered to take the decision.

Sumangal Nevatia: Okay. But last year, I think it was freezed for a period of 2 years. So, no such time-period is kind of defined this time?

Sonal Shrivastava: Three years. Right now, it is 3 years.

Sunil Duggal: It was earlier 3 years.

Sumangal Nevatia: Okay. So, for the next 3 years, I mean, the 3% is kind of freezed. Hello?

Sonal Shrivastava: Yes. So basically, the current one will remain for 6 years but can be reviewed from time to time.

Sumangal Nevatia: That's helpful. Sir, my second question is with respect to our working capital practices. If you look at -- I mean, the 2 line items like buyers credit and advance from customers, for FY '23 has increased very sharply by around INR7,000 crores to INR8,000 crores. So I just want to know, I mean, what is the nature of these instruments? Is it an ongoing rolling kind of instruments and going to continue in future? And what sort of discounting cost does these working capital increment warrant.

Sonal Shrivastava: Yes. So you're right. It's on a rolling basis, and it is continuous. And the cost is about the same, around 7% to 8%.

Sumangal Nevatia: And just one last thing, given the -- I mean, Mr. Duggal talked about the strategic review of the iron and steel business. So just want to understand what sort of time-line are we looking? Is it our endeavor to divest it in a very short period given the upcoming bond repayments at the VRL level?

Sunil Duggal: No, we have just instituted a study and evaluation by the bankers. And we have set up a time-line of 3 to 6 months for this. So based on what they will evaluate, what they will suggest, what value it can generate. The decision will be taken only at that point of time.

Moderator: Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to Ms. Prerna Halwasiya for closing comments. Over to you, ma'am.

Prerna Halwasiya: Thank you, Dorwin, and thank you all for taking the time to join us. I hope we were able to answer most of your questions. In case you have any further questions, please feel free to reach me or my colleagues at the IR team. This concludes today's call. We look forward to reconnecting you for the next quarter earnings call. Thank you, everyone.

Moderator: On behalf of Vedanta Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.