



“Vedanta Resources Limited 1H FY'24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Vedanta Resources Limited's 1H FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '0' and then '0' on your touchtone phone. Please note that this conference is being recorded.

On behalf of the Vedanta team, I would like to thank you for joining today to discuss Vedanta Resources' "Financial Results and Business Performance". The transcript of this call will be made available on the Vedanta Resources website. The Preliminary Results and Presentation are already available on the website.

Today, from Vedanta leadership team, we have with us Mr. Ajay Goel – Chief Financial Officer; Mr. Ajay Agarwal – President (Finance); Mr. Omar Davis – President (Strategy); Ms. Komal Sharan – Treasury (Head).

Please note today's entire discussion will be covered by the cautionary statement on Slide #2 of the Presentation.

Now, I would like to hand the call over to Mr. Ajay Goel. Over to you, sir.

Ajay Goel: Thank you. Thank you very much. Good morning and good afternoon, everyone.

So as we navigate through the mixed global macro environment, we are witnessing exciting opportunities in the metals and mining sector. While there are global headwinds due to softened prices and the pressured supply chains, demand remains stable.

On the other hand, the Indian economy continued its strong progress, driven by robust demand and easing trends on input inflation. At Vedanta, our singular focus has been on volume augmentation, cost compression and generating free cash flows. We delivered a robust \$2.5 billion consol EBITDA with a 33% margin in H1 of FY24.

Before covering operations and financials, I like to underscore few strategic actions taken in this half year. Vedanta Limited's board approved VEDL's demerger into six independent pureplay listed entities creating significant long term value for shareholders. The scheme of demerger has been filed with the Indian stock exchanges and we are working on the next steps.

In an important step towards realizing full potential of our diversified portfolio, the Zambian government agreed to reinstate Vedanta Resources' 79.4% stake in Konkola copper mines.

We're also very happy to report significant progress on our deleveraging efforts. In the last 1.5 years, we deleveraged Vedanta Resources by a remarkable US\$2.5 billion against our commitment of US\$4 billion in three years.

To further optimize the overall debt structure, we have launched liabilities management exercise at VRL. The exercise is aimed at extending the maturity of our key three bonds, namely in January 24th, August 24th and March 25th. By extending maturities, VRL aims to improve its current bond structure and provide attractive enhancement for bondholders.

Now, moving on to operational performance:

This year was strong in terms of operational performance with robust production and excellent control of costs, which is visible across all our key businesses. The aluminum sector achieved the highest ever half yearly production and 20% reduction in cost of production year-on-year (YoY). At Hindustan Zinc, the business achieved the highest ever first half mined metal production and continued to remain in the first decile of global cost curves with a further 7% reduction in COP YoY. Similarly, pig iron, steel and FACOR as well, delivered record production driven by operational efficiency and capacity expansion. Oil and gas production has remained stable over the last nine months, driven by infill wells campaign.

Very briefly on projects:

We are progressing well on all our growth projects. Zinc India for example commissioned India's first fumer plant, a 30 KTPA alloy facility, at the same time, new concentrator at Rajpura Dariba. Alumina refinery expansion is also on track, which will be completed in second quarter FY25. That will be a significant milestone in our journey of cost leadership at aluminum. We added another mineral block to our iron ore mining business and received enhanced mining clearances from the government for existing mines. In summary, we are encouraged by the positive performance in the first half and intend to build on that momentum as we go along in the second-half of the fiscal.

ESG:

As we strive for consistent and sustainable performance in our operations, we're also making significant progress towards our ESG commitments. I'm very happy to share that our operating entity, Vedanta Limited has achieved a five point improvement in its score in this year from S&P Global CSA, formerly known as DJSI, taking Vedanta to 100% percentile of the index. As we speak, we are on track to achieve our goal of using 2.5 GW round the clock renewable energy and construction against 838 MW RE RTC is also underway.

Now, moving on to financial highlights for the first half:

Revenue of US\$8.7 billion, which is the second highest ever half yearly revenue for Vedanta Resources. EBITDA of US\$2.5 billion which is stable YoY despite softened prices headwind. It has also been managed through aggressive cost reduction and softened input commodity prices in line with LME prices.

You may also have noted from our results that we received a favorable arbitration award in August '23 in our oil and gas business, upholding our contention that we are not liable to pay additional profit petroleum in relation to allocation of common development costs across development areas and that is also entitled to cost recovery of exploration cost for the purpose of computing profit early.

Margins remain very strong at about 33%, and we also delivered double digit ROC of 22%, cash flow almost a billion, US\$0.9 billion before CAPEX cash flow to be precise. Our net-debt-to-EBITDA ratio that all of us track very closely remains at 2.7x with cash and cash equivalents as at half year end at about 2.2 billion.

And finally, in terms of tax structure:

During this period Vedanta Limited transitioned to a new tax regime which allows for a simpler tax structure starting from FY23, which is the previous year. The scheme allows companies to lower tax outgo on cash basis and redeploy the same on operations, growth and shareholder value creation.

In conclusion:

With our strategic actions, we believe our risk-to-reward outcome are now more balanced. As we move forward, our singular focus will remain on generating strong cash and deleveraging targets.

Lastly, with our outstanding portfolio of diversified assets and strong balance sheet, we remained well positioned to benefit from the global mega trends of decarbonization and energy transition and withstand the challenging macroeconomic environment. We will continue to challenge ourselves and deliver across various cycles.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Shreyans from Barclays. Please go ahead.

Shreyans: So my question is regarding the LM exercise. So, two parts. Does the consent for the 2026 bondholders required for the LME to go through and what is the consent threshold for them?

Omar Davis: Hi, thanks for your question. It's Omar Davis here. So yes, it is required and it's 50.1% for that just for the April '26 tranche.

Moderator: The next question is from the line of Reema Ghosh Roy from HSBC GAM. Please go ahead.

- Reema G Roy:** My question is also on the LME. I saw the pro forma debt structure which the company has put out. Can I get a better understanding of what is the plan to address the loans that will be outstanding in FY25, how do you plan to repay those?
- Omar Davis:** You're referring to bank loans at the VRL level?
- Reema G Roy:** That's right, US\$496 mn due in first half and US\$383 mn due in the second-half.
- Omar Davis:** There's a loan of 200 million that's due that will be repaid to Trafigura in the first half that is a loan on the same brand royalties against which we've secured the new credit facility. So, it is in that sense part of this exercise because it's carved out of the requirements for the new facility. The rest of the loans in the first half I think you're referring to are probably the money that are repaid as part of this LME to Oaktree which will actually be repaid now. So actually the first half is therefore taken care of in your 496 and the second half I think for pro forma over the LME exercise we expect to refinance them in the ordinary course.
- Reema G Roy:** Given the companies haven't been able to refinance for a while, I mean, have you already had some conversations that banks would be willing to roll over once the LME is done?
- Omar Davis:** I think as part of the LME exercise as you could expect we've spoken to pretty much every stakeholder that we have in our debt complex and the company is confident that pro forma exercise and the extension of tenors that it's in a better place to refinance.
- Moderator:** We have the next question from the line of Bharat Shettigar from Standard Chartered Bank. Please go ahead.
- Bharat Shettigar:** First question from me is on potential asset sales because this LME has a component of potential asset sale as well. So, what is the thinking currently and any progress we have made so far?
- Omar Davis:** I think we've had strong interest in the assets. I think what we've guided to in the past in terms of timing is something in our FY24 for a process to an announcement. I think that remains a realistic guidance to the market. What that means for closure is obviously harder to determine. But if we achieve something in calendar Q1 in terms of an announcement, then I think calendar '24 guidance for closure would be fairly standard for mining and steel assets and that remains our guidance at the moment.
- Bharat Shettigar:** Just to understand, at the moment you're just thinking about the steel and steel related assets, right, none of the other assets are on the block?
- Omar Davis:** I think there's a little confusion sometimes when we say steel relating assets, what we mean there just for absolute clarity is the iron ore business, not simply iron ore mines related directly to the steel business. So that does encompass the iron ore business that we have both in Africa and the unconnected iron ore business that we have in the west of the country as opposed to just in the east.

- Moderator:** The next question is from the line of Love Sharma from JP Morgan. Please go ahead.
- Love Sharma:** Just two questions from me. First one, if you could help us understand the new loan facility which has been raised, what could be the amortization on those? Secondly, if you could highlight what is the refinancing progress on Vedanta Limited level in terms of the term loans which are due for the second-half FY24 and also beyond that?
- Omar Davis:** Thanks. So let me take the first question and then maybe Ajay can answer the Vedanta Limited question. As far as the new money facility is concerned, the amortizations are \$150 million in May of '24 and a further \$300 million in April of '25, with the balance being at the end of the facility as a bullet.
- Love Sharma:** Maybe just one question on the asset sales. If you could indicate in terms of the assets which have been so far identified is still an iron ore, is there a plan to identify even more going forward or is it just these assets which we are focusing right now?
- Omar Davis:** These are the assets we're focusing on right now.
- Moderator:** The next question is from the line of Jing Peng from Bank of America. Please go ahead.
- Jing Peng:** I want to understand; can you tell us the cash balance at the holdco level now?
- Komal Sharan:** Hi, this is Komal. The cash balance at the holdco level is a combination of cash that is held at Hindustan Zinc and Vedanta. In general, we continue to have I think a reasonable amount of cash balance at HZL, of course, that cannot directly be upstreamed to VEDL or VRL. Those numbers are also available in the public domain. Vedanta India also continues to maintain a reasonable amount of cash balance.
- Moderator:** We have the next question from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.
- Abhiram Iyer:** Can the company just highlight what's the process forward for Konkola -- is this going to be transferred over down to the operating company level? And what does the company expect in terms of cash to be put in over the next say 18 to 24 months?
- Omar Davis:** On KCM, the process is as follows: There's a formal process in the country to remove the provisional liquidator and reinstate the board and return the asset, which we expect to be completed in two to three months. Thereafter, the asset is effectively back to the old regime pre-2019. I think we've made public commitments, which is to invest a billion dollars in the asset over the next five years. That investment is very marginally weighted to the first two years, but pretty evenly weighted for your modeling purposes. And look, clearly we've announced as part of the demerger exercise, the creation of a base metal company. At this stage, that's the construct that the company envisages, which obviously did not include KCM as part of that base metals exercise, but that is something that we continue to evaluate. I mean the demerger is already announced in terms of the creation of a base metals business.

- Moderator:** The next question is from the line of Bharat Shettigar from Standard Chartered Bank. Please go ahead.
- Bharat Shettigar:** A couple of follow up questions. Firstly, can you tell us the status of the conversion of general results to retained earnings at both Vedanta Limited and Hindustan Zinc? And secondly, with respect to the demerger, have you spoken to the onshore lenders at the Vedanta Limited level and any initial feedback from them on the same?
- Management:** So let me start with the first part and then maybe Ajay can cover the second part. So starting with the Zinc India process of converting the GR to RE, the last hearing with NCLT was scheduled sometimes on 8th of November and given festival holidays it got deferred tentatively to 11th of January. Now as you know, all the approvals including shareholder vote is done, it is positive. Now, the second motion is before the terminal, the NCLT which is due sometimes on in January. So, depending upon the next hearing, the process should get finished in fourth quarter. But again it is subject to the hearing at NCLT. We feel quite positive of the process. So far as Vedanta Limited is concerned, we are still engaging with the creators content and with that NCLT. Now that process with the creators is still again ongoing and it is hard to commit a timeline for Vedanta Limited. That's where we are right now. You may have seen in the current year the cash flow at both Zinc and Vedanta Limited are sufficient and it does not impact our ability of paying any dividend as required.
- Komal Sharan:** On the lender consent, right, we need 75% of secure lender consent. I think if you look at the loan book at Vedanta India, it's pretty concentrated in terms of having few large vendors who have a reasonable amount of exposure. Obviously, given that this information and the scheme is public, we have started the conversations with them. But obviously we will need to sort of crack this through and take some more time as we understand the whole process along with them, get them comfortable on the new businesses. I think initial feedback from all the lenders has been positive because these are standalone businesses that they're operating today. But we will continue to engage with them to meet the timelines which Ajay has mentioned to ensure that we have the relevant consent well in time.
- Moderator:** We have the next question from the line of Love Sharma from JP Morgan. Please go ahead.
- Love Sharma:** Just one follow-up quickly on the private credit facility. Is there any time-bound covenant which you have in terms of the asset sales which you have to meet in those loan documents?
- Omar Davis:** No, there isn't.
- Love Sharma:** Could you indicate if there's any other covenant which would ensure there is some deleveraging which you would target which you would have to meet?
- Omar Davis:** I think the company has given its guidance on where we're targeting to the year, which is sub-5 billion in two years.

Moderator: Ladies and gentlemen, we have no further questions. On behalf of Vedanta Resources Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.