Management Discussion

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
Good afternoon, everyone, and thank you for joining us. We recorded another strong quarter for Vedanta. EBITDA doubled year-on-year to INR 9,938 crore, and the margin improved to nearly 60% from 49%, driven by strong operational performance, lower costs and higher commodity prices. Revenue grew 57% year-on-year to INR 25,812 crore and PAT increased 151% year-on-year to INR 6,202 crore. With pre-capex free cash flow of INR 5,803 crore, our net debt to EBITDA ratio now stands at 0.1 times. Coming to business segment operations, Zinc India delivered another record quarter. Mined metal production increased 5% year-on-year to 271 Kt, while refined metal production rose 7% to 264 Kt, supported by smelter debottlenecking initiatives. Silver production reached a record 173 tons, up 20% year-on-year.

Importantly, zinc cost of production declined 29% year-on-year to $703 per ton, driven by better mined grades, higher metal production and stronger by-product realizations. Zinc International delivered 53,000 tons of mined metal during the quarter. Black Mountain mine produced 7.1 Kt MIC with stabilization of plant operations.

Encouragingly, Gamsberg Phase 2 has started its operations, positioning the business for a step change in volumes in the coming quarters. FACOR delivered a resilient Quarter 2 FY 2027 performance, generating EBITDA of $8 million, up 267% year-on-year. Ferrochrome production increased 26% year-on-year to 24 Kt, as chrome ore production reached 50 Kt, up 6% year-on-year. The business continues to benefit from 100% captive ore sourcing, which significantly strengthens its cost position versus external procurement. In copper, we achieved the highest ever quarterly cathode production of 46 Kt, up 15% year-on-year.

At our Fujairah operation, sales were impacted by supply chain disruptions arising from the closure of Strait of Hormuz, although operations have since normalized and we expect quarterly run rates to improve to 20,000 tons and more by Quarter 3 FY 2027. Beyond our operating assets, we continue to strengthen Vedanta's future resources base through the acquisition and advancement of critical mineral blocks across India. Today, the group has secured 11 critical mineral blocks, covering commodities such as manganese, graphite, vanadium, cobalt, tungsten, nickel and rare earth elements, with exploration progressing across multiple blocks. These assets position us well to participate in India's growing critical minerals ecosystem while creating a strong pipeline of future growth opportunities and enhancing long-term resource security. On growth capital expenditure, we invested INR 1,135 crore during the quarter across our priority projects.Key progresses include the commissioning of Gamsberg Phase 2, continued development of 250,000 tons per annum integrated zinc smelter at Debari, expansion of FACOR's ferrochrome capacity to 450,000 tons per annum, and ongoing execution of our copper rod plant in KSA, where construction is progressing and commissioning is targeted for Quarter 3 FY 2027. Additionally, at FACOR, the 75 MVA furnace expansion remains on track for commissioning in second half of FY 2028, while a favorable Odisha High Court order for the Katasai mine supports the planned restart of mining operations in second half of this current fiscal.

These projects will provide visible growth over the coming years. Sustainability remains integral to our strategy. Our renewable round-the-clock power capacity reached 592 megawatts. Greenhouse gas intensity improved to 3.36 tons of CO2 equivalent per ton of metal from 3.93 last year.

At Zinc India, renewable energy constituted 27% of our consumption, while our alloy business

achieved 100% renewable power sourcing. We also continued creating meaningful social impact, benefiting over 9 million women and children and supporting nearly 0.5 million families through skilling initiatives.

To conclude, the delivery of yet another quarter with EBITDA of approximately INR 10,000 crore reflects the quality of our assets, disciplined execution, and continued focus on cost leadership. With a strengthened balance sheet, industry-leading margins and multiple growth projects progressing well, we remain well-positioned to deliver sustainable value for all our stakeholders. Thank you. I now hand over to Ajay.

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
Yeah. Thank you, Arun, and good evening, everyone. I am happy to report a record quarter for Vedanta Limited following the demerger.Strong operational execution, positive prices, and continued cost management enabled us to deliver a record EBITDA and robust free cash flows. More importantly, we continued to strengthen the balance sheet by further deleveraging while maintaining strong liquidity and financial flexibility. Now starting with the financial performance, and practically on every single metric, it is a record number. We carried the Q1 momentum firmly into second quarter. Revenue grew by 57% YoY to a record INR 25,812 crore. EBITDA more than doubled, up by 106% YoY to our highest ever INR 9,938 crore. EBITDA margin expanded to record about 60% without copper business, reflecting quality of our assets and focus on cost management. PAT rose by 151% YoY, again to a record INR 6,202 crore. Now in terms of the growth, it is self-funded and we are building capacities. Our operations generated free cash flow, pre growth capex of INR 5,803 crores in second quarter and about INR 10,215 crores in H1.

We continued to invest on our strategic growth projects with capex amounting to INR 1,135 crores during Q2 and INR 2,283 crores during our first half. At Zinc International, Gamsberg phase 2 was commissioned during the quarter, increasing total MIC capacity to almost 500 KTPA. At FACOR, commencement of ore extraction from Ostapal underground mine makes an important milestone toward strengthening long-term ore security and supporting future expansion.

I'll move now to growth pipeline which will also provide next leg of value creation. Looking ahead, we continue to advance a portfolio of value accretive growth projects across businesses while maintaining a disciplined approach to allocation of capital and returns.

At Zinc India, we remain committed toward our two MTPA production ambition, supported by 250 KT Debari smelter expansion and Rampur Agucha tailing reprocessing plant. At Zinc International, we are committed to achieving one MTPA MIC production and cost in top quartile. At FACOR, we are progressing our roadmap to expand ferrochrome capacity from 145 KTPA to 500 KTPA.

Finally at Copper International, the 145 KTPA copper rod plant at KSA remains on track for commissioning in Q3, while plans for an integrated copper value chain at KSA continues to advance. We are also continuing to build our future-facing mineral portfolio with 11 critical mineral blocks, of which five blocks are already under exploration. Moving on to the balance sheet. First half. Net debt is down to INR 3,675 crores. With this, the leverage net debt to EBITDA is now 0.1 times amongst the best in the industry.

Vedanta Limited is on track to turn net cash positive during the coming quarter, which is Q3. We continue to reward shareholders with a first interim dividend of INR five per share during the quarter. Maybe a quick word in terms of the parent company, Vedanta Resources. At parent Vedanta Resources, VRL, we made meaningful progress in strengthening the balance sheet and optimizing

liquidity profile. In H1 of the current fiscal, we raised $2.15 billion in international bond issuance and secured another $1.85 billion of syndicated term loans. VRL stand-alone net debt now stands at about $5.2 billion at an average borrowing cost of about 7.1%, with average maturity extended to over 4.5 years. The VRL rating remains at a decadal high, both S&P and Fitch at BB, with a stable outlook, and Moody's at Ba3 with positive outlook.

In conclusion, Vedanta Limited today is focused operating company with multiple growth engines, Hindustan Zinc International, Ferrochrome, Copper, Port, and Nicomet. Together with an emerging critical minerals portfolio, they will decisively shape our next phase of growth. Our model is very simple. We generate strong cash, reinvest to expand capacities, and reward shareholders. Thank you, and over to operator.

Questions & Answers

Operator
Thank you very much. We'll now begin the question and answer session. [Operator Instructions] Ladies and gentlemen, we'll wait for a moment while the question queue assembles. [Operator Instructions] First question is from the line of Ashish from Leo Capital. Please go ahead.

Ashish - Analyst, Leo Capital
Sir, on Vedanta, am I audible? Hello.

Operator
Yes, Ashish, please go ahead.

Ashish - Analyst, Leo Capital
Perfect. What is likely to be the dividend policy of the company going forward? Will you be fully dividending out all the dividends received from Hindustan Zinc? That would be my first question.

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
Our dividend policy, in fact, which has been adopted by the Vedanta board post demerger, is in public domain. There we made two changes. Earlier for Vedanta Limited, we had minimum commitment of at least 30% PAT being paid as dividend, which now has been made more flexible. Now the board can decide how much they want to pay as a dividend.

The second requirement earlier was that zinc dividend will be a pass through compulsorily. Again, that requirement is now more flexible. Now it is up to the board. Having said that, our commitment has been we as a group, Vedanta Limited, other companies, paying between 3%-5% as dividend yield. With that, the parent company will keep deleveraging by at least half a billion on every single year basis.

Ashish - Analyst, Leo Capital
Got it. On the second question, what sort of economics are there for the Zinc International business expansion that is underway? What sort of capital investments would that take and what sort of costs and EBITDA do you expect at current market prices? What likely is the payback period?

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
Vedanta Zinc International current capex that has been spent is for the phase II expansion, which is expansion of the mine as well as new concentrator. The concentrator has been commissioned, so

that is the current status. Going forward, they have to go to underground mine and then also put up a smelter as well as increase capacity of concentrator. They have to become 1 million ton player. Roughly looking from past capex expenditures of Hindustan Zinc, this amount of money that would be needed for growing to 1 million ton will be anywhere from INR 80,000 crores to maybe INR 100,000 crores.

Operator
Thank you. Ashish, I will request you to come back for a follow-up question.

Our next question is from line of Indrajit Agarwal from CLSA India. Please go ahead.

Indrajit Agarwal - Analyst, CLSA
Hi, sir. Three questions. First, Ajay, if you can help us, how much is the repayment at VRL, both debt repayment and interest for the rest of FY 2027 and in FY 2028?

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
Yeah, sure, Indrajeet. For the current fiscal in the second half, the interest obligation at Vedanta Resources is almost $200 million. So it is $0.2 billion. And we also got to fund KCM about $100. So overall, in the second half, VRL requirement is $300. And how do we want to fund it? It will be done mostly by dividend, and that amount will lead to deleveraging. So the debt of $5.2 opening at the year beginning remains $5.2 as on the first half and any more payment from India side will do deleveraging. Now FY 2028, we should look at from three viewpoint. We got a billion of Citibank bridge financing that matures in July next year. But we target to refinance that sometimes latest by end of January. So the $1 billion will be fully refinanced, again, combination of bonds and other avenues.

Secondly, the interest cost of Vedanta Resources next year will be almost $400 and that will be fully met by the brand fees that the five companies pay to Vedanta Resources. The third cohort remains the routine loans, again $400 and our KCM obligation $300, total $700, which will be met through payment of dividend. In summary, a billion bridge loan from Citibank will get refinanced by January. Interest will be equal to the brand fee, if not brand fee is more than interest cost and loans and the KCM obligation by dividend. With that, one can assume VRL next year will deleverage by almost $0.5 billion to $0.7 billion.

Indrajit Agarwal - Analyst, CLSA
Thank you for the detailed answer. Second, ex of Hindustan Zinc, what kind of capex can we see at Vedanta Limited in rest of FY 2027 and in FY 2028?

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
Total capex guidance we have for the current fiscal is about INR 6,500 crores and out of which a very significant portion comes from Zinc only.

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
INR 2,000 crores.

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
It will be the capex mostly in Zinc International and a small amount also in Ferrochrome.

Indrajit Agarwal - Analyst, CLSA
Sure. Thank you.

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
4,000 in Zinc India and the balance, 2,500 between Ferrochrome and Zinc International.

Indrajit Agarwal - Analyst, CLSA
Very helpful. Lastly, any progress or update, I understand there are some unrest works still there, Middle East copper venture, any thought on that? Any progress over there?

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
First part of that was the rod mill, which is about to be commissioned in quarter 3 of this year, 150,000. That is for certain. On the mining, the licensing agreement is about to be signed and following that we are tying up for exploration. Agency is being appointed. Maybe another two years when by that time we should be able to start mining operations there. Smelter is a certainty because that is something that can be done by importing concentrate as well as producing concentrate domestically in Saudi Arabia, both ways.

Indrajit Agarwal - Analyst, CLSA
So CapEx for that will start in FY28 back half at the earliest, is that correct?

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
Absolutely. Next business plan year, we will be able to announce some of capex how much, and I can guide you accordingly.

Operator
Thank you. Rajeev, I will request you to come back for a follow-up question.

Next question is from the line of Ashish Kejriwal from Nuvama Institutional Equities. Please go ahead.

Ashish Kejriwal - Analyst, Nuvama Institutional Equities
Yeah. Hi, good evening, everyone. Thanks for the opportunity. Sir, my question is, from when we can start seeing capex on the next phase of growth in Zinc International, whether we will prioritize between zinc or copper. Second thing is in terms of Vedanta Resources debt, which is $5.2 billion, and we have been targeting it to reduce it to $3 billion. Unfortunately, we were not able to do that. So still our target remains the same or is there any change in that? Thank you.

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
First part is Zinc International. We have to stabilize the expansion program for which already we have spent the money. Right now, the concentrator has to produce, and that will provide cash for their further growth. I do not see that immediate any announcement for capex for 1 million ton. While we continue to work on the board, there may be some pre-project expenses of investigation, consultancy and things like that. Otherwise, our first task for next 3-6 months is stabilizing the current expansion and generating enough cash from the business.

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
On the second part, Ashish, in terms of the VRL plan. In the current year, the $5.2 billion remains $5.2 billion. Of course, there the reason is very simple. We have to fund KCM, which we initially planned that through KCM IPO it will be self-funded. Again, it is a question of time when KCM goes public. Secondly, the entire $4.5 billion or in fact a couple of billions of the bond raising, the expense which are one time are sitting in the current fiscal, but the benefit on the interest cost will be for next

eight years' time. In the second half, as the remainder companies pay dividend, which again they will decide, will be at about $4.6 billion or so in terms of VRL debt.

In the next three years, between 2028 and 2030, one can safely assume by paying 4%-5% dividend, $0.5 billion to $0.7 billion will be deleveraging every single year. Over three years, this amount is almost $2 billion. So $3 billion target in next three years is absolutely intact.

Ashish Kejriwal - Analyst, Nuvama Institutional Equities
Okay. Thank you and all the best.

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
Thank you.

Operator
Thank you. Next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia - Analyst, Kotak Securities
Yeah, good evening. Thanks. I just have one question. I wanted to understand the unit economics for phase 2 at Gamsberg. If you can share what would be the cost of production and at the current level of zinc prices, what sort of EBITDA we can expect hypothetically.

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
Understood.

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
There, we are targeting around $1,500 per ton at the current operating level. And once the recovery improves, the current recovery around 70%, once that goes up to 75% or 80%, then the cost may fall further closer to $1,300 per ton. As of now, $1,500 to $1,600 would be the cost of production.

Sumangal Nevatia - Analyst, Kotak Securities
And what would be the volume ramp-up over next 2 years?

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
Right now around 15 KT should go up to 30 KT over the next couple of quarters.

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
Sumangal, we have given the guidance for I am talking of the entire this, that we will be closer to 500 at the MIC level in two years' time as we ramp up the phase 2. That is what is targeted. And what Arunji mentioned is targeted from a cost perspective by Q4 of this financial year.

Sumangal Nevatia - Analyst, Kotak Securities
Understood.

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
$1,500 per ton.

Sumangal Nevatia - Analyst, Kotak Securities
Next year, second half, we are expecting almost full ramp-up. Is that the right understanding?

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
Full ramp-up.

Sumangal Nevatia - Analyst, Kotak Securities
Understood.

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
Absolutely. That is correct. Yes.

Sumangal Nevatia - Analyst, Kotak Securities
Got it. Thanks. That is it from my side.

Operator
Thank you.

[Operator Instructions]

Next question is from the line of Ritesh Shah from Investec India. Please go ahead.

Ritesh Shah - Analyst, Investec India
Yeah, hi. Thanks for the opportunity. My first question is, how should we look at the promoters holding in different listed entities? Basically from a leverage standpoint, I think you explained it's quite comfortable position that we are in, with the brand fees and payouts. But if one had to understand basically how is the promoter looking at his holding and the different entities, including Vedanta Aluminium, Vedanta standalone.

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
We made a statement, Ritesh, I think about a month ago or so, that the promoters has no plan to make any more equity sale across the portfolio. Even earlier, our publicly announced policy remains that Vedanta Resources would like to hold at least a mathematical majority 51%. So in near future, across all five companies and VZI, we don't plan to make any sales in the future. That's in terms of equity. Now, debt viewpoint. Yes.

Ritesh Shah - Analyst, Investec India
Sure. Go ahead, please.

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
Secondly, of course, now we don't report the VEDL console, now post demerger. But if one has to take the VRL Inc. view on a console basis. Now the debt between Vedanta Resources, $5.2 billion September end, and roughly $4.9 billion in Vedanta India, all the five companies. So right now the debt has come down to almost $9.9 billion. So we have deleveraged at Vedanta Inc. level by more than $2 billion in the first half. Going forward, one may expect about $1 billion more deleveraging. So in the current fiscal at the VRL console level, we are looking at deleveraging by almost $3 billion and across the portfolio, no plan to sell in equity.

Ritesh Shah - Analyst, Investec India
Sure, that is helpful. Sir, my second question was, I just wanted to understand the hedging policy, and the existing hedges that we have across different entities, whatever we can detail right now.

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
Hedging has been mostly for us tactical. Now, again, if I just think of the new Vedanta, in terms of zinc, silver, and Zinc International. The open position is at about, we have 18K of open position in Zinc India at about $3,600 per ton. Silver is a small amount. It is about nine tons at about $68 per troy ounce, and Zinc International, again, about 75K, and there the value is $3,300 per ton.

Ritesh Shah - Analyst, Investec India
Sure. This is helpful. And sir, you did indicate on FY 2028, I think interest you indicated 400, KCM was 100, and the balance 300, you indicated something I did not get that. What was that number?

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
FY 2028, the best way to look at Vedanta Resources, we have $1 billion worth of Citi bridge financing, which is falling due in July next year. But we intend to refinance that much ahead of time. So let us take that out of the way. The routine interest will be sub 400, less than 400. That will be fully met by the brand fee. So in that case, the operating P&L is self-funded. The routine loans are 400. KCM is in fact 300. So 700, that will be met by dividend.

Ritesh Shah - Analyst, Investec India
Sure. How will the numbers look like for FY 2029?

Ajay Goel - Group Chief Financial Officer, Vedanta Limited
Well, the year thereafter, in fact, the interest will be about $300 and the principal is almost $500, so $800. Year two onwards, FY 2029, obviously the brand fee will be covering interest and partly managing repayment. If you keep paying almost 4% dividend, in that case, one can assume the deleveraging even organically will be $0.7 billion to $0.8 billion.

Ritesh Shah - Analyst, Investec India
Sure. This is quite useful. Just last question, specifically on the KSA project. Is it possible to fast-track it given it looks quite an attractive proposition? Just wanted to gather thoughts on how the management is actually looking at it. If you could provide some details of the ore body or earlier we did indicate that there could be certain incentives that could come from the local partner or government. Some color over there would be quite useful. Thank you.

Arun Mishra - Group Chief Executive Officer, Vedanta Limited
Even now, that copper project is a success. Unless we want it only to be a conversion business, the success depends upon making that business fully integrated. That will depend upon the exploration that we do on the mine that they are providing, and also other fiscal incentives that the government will provide, which is for the better IRR of the project. I think we will be able to come back to you with more information on the grade once we start drilling. As of now, we would have whatever is the indicated grade by the government, but we cannot base all our predictions on that.

Ritesh Shah - Analyst, Investec India
Sure. This is useful. Thank you so much. All the best. Thank you.

Operator
Thank you very much, ladies and gentlemen. We will take that as the last question.

[Operator Closing Remarks]