Management Discussion

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
Thank you very much and good day everyone. Thank you for joining us. I am Pankaj Sharma, CEO and Whole-Time Director of Vedanta Iron and Steel Limited. I'm here to take you through our performance for second quarter and the first half of FY '27. We also run across the full value chain from mines in Odisha, Goa, Karnataka, and Liberia to steel operations in Goa and Bokaro. This integration allows us to capture value at every stage. During the first quarter, steel production rose 4% year- on- year to 532 KT and to 1,114 KT in H1.

We also undertook plant shutdown at Bokaro and Goa steel plants, supporting improved production stability in coming quarters. The first two months of Q2 witnessed subdued steel prices. However, we have seen a favorable reversal in steel prices from September onwards. On the other hand, rising coking coal prices have adversely impacted cost and the same may continue in coming quarters. We have also taken a step forward in our decarbonization journey by securing 21 MW of open access solar power at our ESL plant. Our aim is to be carbon neutral by 2050.

On the mining side, Q2 is typically a softer quarter because of seasonality. Iron ore production was 1.5 million tonnes on dry metric tonne basis in Q2, and this is down by 13% year- on- year, and 4.2 million tonnes on dry metric basis in H1, down to 3% year- on- year. Revenue for the quarter was INR2,788 crore, almost flat year- on- year, while EBITDA rose 56% year- on- year to INR83 crore. For H1, revenue grew 8% to INR6,450 crore and EBITDA grew 54% to INR 598 crore. The balance sheet remains healthy with net debt to EBITDA ratio of 1.3 and a credit rating of AA stable by CRISIL.

During the quarter, domestic steel demand for long products showed a quick reversal post-monsoon, supported by continued infrastructure and economic activity, while overall softer NSR and higher input costs exerted pressure on margins. In steel, H1 sales were 1104 KT, and this is up 3% year on year, while Q2 sales were 532 KT. On profitability front, EBITDA margin in Q2 was 1,381 per tonne. For the half-year, margin was 3709 per tonne. In H1, feed iron production reached a record of 568 KT, a 4% increase over the same period last year.

Then coming to iron ore, on the market front, iron ore realization remained under pressure during the quarter on account of drop in iron ore index and higher discounts for low-grade material. In H1, saleable production was 4.2 million tonnes, b roadly stable against 4.3 million tonnes last year, with a growing contribution from Goa and Odisha. In Q2, the saleable production at, at iron ore Goa increased 22% year on year. Total saleable production was 1.5 million tonnes. On the sales front, total iron ore sales in Q2 was 0.8 million tonnes.

Q2 sales in Karnataka were impacted due to name change transfer post-demergers and sales resumed from September. In H1, total sales were 2.8 million tonnes compared to 3.2 million tonnes last year. Merchant margin for H1 was INR960 per tonne , broadly in line with INR967 per tonne last year, and QT margin was INR198 rupees per tonne , mainly because of seasonality and lower sales from Karnataka. On the growth front, we spent INR231 crore during Q2. The ongoing investment across steel, DI pipes, and mining remain on track and will progressively strengthen our capacity base, with key milestones planned across FY'27 and FY'28.

Our community programs reached about 39,800 beneficiaries across 68 villages in 5 states in Q2. Key outcomes include stronger rural livelihoods through Project Gram Nirmal, 100% placement at Sesa Technical School, and continued recognition for our football development program. Now, I will now hand over to my CFO, Navin to take you through the financial performance. Navin.

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
Thank you, Pankaj. Hello everyone, good evening once again and thank you for joining us. Let me take you through the financials for the half year and the quarter. The quarter was characterized by seasonality, softer NSR, plant shutdowns, and elevated input costs, which weighed on sequential profitability. However, on year-on-year basis, the business continued to demonstrate a meaningful improvement in earnings. For the first half, revenue was INR6,450 crore and EBITDA was INR598 crore, up 54% YoY, with margin at 9%. [Indecipherable] loss narrowed to INR203 crore from INR622 crore last year.

In Q2, revenue was INR2,788 crore and EBITDA was at INR83 crore, up 56% YoY. Our balance sheet remained strong with net debt to EBITDA of 1.3x. Total net debt was INR2,763 crore and cash and cash equivalent stood at INR847 crore. Our credit rating remains AA stable by [Indecipherable]. Gross debt came down to INR2,637 crore from INR2,792 crore. Net debt was broadly stable at INR2,763 crore in September against INR2,733 crore in July. Working capital was down by INR191 crore on account of release of inventory built ahead of monsoon.

This largely offsets INR129 crore of growth capex during the quarter and INR92 crore movement under the cash from operations. Over to you, Pankaj.

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
Thank you, Navin. Finally, to conclude, that H1 FY'27 reflects steady progress across the business with a 4% increase in steel production and an EBITDA growth of 54%. With the annual shutdown completed and the market environment becoming more supportive, we enter H2 with stronger operational preparedness. H2 has historically been a stronger period for the business, and we remain focused on capturing this opportunity through higher operating stability, improved product mix, and disciplined execution of our growth plans.

Now, I hand over to the moderator.

Questions & Answers

Operator
Thank you very much. We will now begin with the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone phone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Your first question comes from the line of Ashish with Leo Capital. Please go ahead.

Ashish - Analyst, Leo Capital
Hello, am I audible?

Operator
Yes, sir, you're audible. Please go ahead.

Ashish - Analyst, Leo Capital
Thank you for taking my question. So I have 2 questions. The first one would be, what is the status of the regulatory approval for the second phase of expansion and commission for the steel plant? By when do we expect all the clearances to come in, and where are things stuck? That would be my first question.

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
Ashish, we have made good progress on statutory approval for our ESL growth project, and we are on the final stage of it, and we are expecting sooner some good news to come.

Ashish - Analyst, Leo Capital
Uh, any timeline per se?

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
Yeah, it is on the verge of final approval.

Ashish - Analyst, Leo Capital
Okay and the second question is, has there been any progress made on the Liberia project? What sort of investments would that need and what are the economics of the project at today's price of iron ore? Does it make commercial sense at today's price?

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
Liberia project, when we speak about the Ashish, the asset is a magnetite ore with 4 billion tonnes of RNR with a potential, where the grade can go up to 67+ Fe, alumina, and impurities remain below 3%. So that is the kind of concentrate which the asset will produce. When we look at the project, the project is at, I would say, at the detailed feasibility stage, and the project will remain viable even at index as low as $60 around. So that is the kind of viability that project will carry considering affinity for the high-grade concentrate in the market and the effort to move towards low carbon intensity steel.

Ashish - Analyst, Leo Capital
And what sort of investments would that need and what are the economics of the project?

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
So the project will require-- when we look at overall project requirement, it will be somewhere between $70 to $80 million per million tonnes. So that is the kind of capex requirement which it will carry and when we look at , again, overall project with the index closer to $90, so project will have a payback of 3 to 3.5 years.

Ashish - Analyst, Leo Capital
Sorry, can you repeat that?

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
The project will require $70 to $75 million per million tonnes as capex a nd when we look at the payback for this particular project at $90 index, the payback will be closer to 3.5 years.

Ashish - Analyst, Leo Capital
3.5 years. Okay. Can I ask two more questions, or should I get back in the queue?

Operator
Yeah, please continue.

Ashish - Analyst, Leo Capital
What sort of ramp-up profile do we see from the iron ore volumes in the next 2 to 3 years, and which states or mines will drive that growth?

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
So, fundamentally, when we look at iron ore volume ramp-up, there are mining assets which will become operational in next, I would say, 1 year lik Kudne Mines in Goa, which will add another half a million tonne kind of capacity. Then, there will be Janthakal Mine, which is there with us, which will become operational, adding another half a million tonne kind of capacity. While the existing operating unit of Goa Bicholim Mines present capacity is 3 million tonne , which in phased manner will move closer to 5 million tonne .

So immediate ramp-up will be happening from 3 to 3.6 million then to 4 million tonne and then the subsequent growth.

Ashish - Analyst, Leo Capital
Got it. And as volumes grow, how do we expect the margin profile to be for some of the newer mines?

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
So when we look at-- we will have to look at some of the areas in totality. Cudnem largely will be meeting our captive requirement at Goa. So that is how it is designed for. While when we look at Janthkal mine, the Janthkal mine will work in conjunction with the existing iron ore Karnataka mines. So, at given index where we are today, the iron ore Karnataka mines together with Janthkal mine will be delivering EBITDA margin somewhere between $7 to $10.

Ashish - Analyst, Leo Capital
Got it. Thank you for answering my questions and that's all.

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
Thank you.

Operator
Thank you. Your next question comes from the line of Sunil Jain with Nirmal Bang Securities Private Limited. Please go ahead.

Sunil Jain - Analyst, Nirmal Bang Securities Private Limited
Yeah, thank you for taking my question. S ir, about this iron ore, what is the volume target for the second half for Goa and Karnataka?

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
So, for Goa, our volume target will be closer to 2 million tonnes for the second half, while when we look at Karnataka, again the volume target will be somewhere between 2 to 3 million tonnes, so that is the number which we are eyeing for.

Sunil Jain - Analyst, Nirmal Bang Securities Private Limited
This quarter, what was the EBITDA per tonne in the iron ore?

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
So this quarter, EBITDA per tonne overall for iron ore had been closer to $2 per tonne , and this is largely the seasonal effect which we see in Q2, where the mining operations in Goa remain subdued, as well as from Karnataka volumes had been down during the quarter as explained earlier in the commentary by Pankaj.

Sunil Jain - Analyst, Nirmal Bang Securities Private Limited
About the capex, if you can talk anything about what is the ERT capex plan and how much we had incurred in the first half?

Operator
Yeah.

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
T ill date, in the first half we have spent INR300 crores on the capex. In the second half, we would be spending another INR600 to INR700 crore on the capex. In totality, if we see, out of our total capex program, we have spent INR2,800 crore and another INR900 crore is to be spent.

Sunil Jain - Analyst, Nirmal Bang Securities Private Limited
About this FC2 approval, I think you had already forwarded the formality from your side completed. Only the approval from the other side is pending. Once you receive that approval, then how much time will it take to complete the project from 1.6 to 3 million tonnes?

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
So after getting the approval, it will take 4 to 5 months of time.

Sunil Jain - Analyst, Nirmal Bang Securities Private Limited
Okay, and that is how much more investment need to be done?

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
In this particular case, we have already spent INR2,200 crore, so another INR600 crore capex will be required.

Sunil Jain - Analyst, Nirmal Bang Securities Private Limited
In this FC2 clearance, we can expect in Q3, or will it go to Q4?

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
It's on the final leg of approval, so we can expect sooner.

Sunil Jain - Analyst, Nirmal Bang Securities Private Limited
All the best. Thank you very much.

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
Thank you.

Operator
Thank you. Your next question comes from the line of Vishal Gupta with Himalaya Capital. Please go ahead.

Vishal Gupta - Analyst, Himalaya Capital
Thanks for the opportunity. My first question is on the steel business. Once these approvals come in, what sort of trajectory do you expect for that business over the next 2 to 3 years? What is your expectation and what sort of capex would that mean?

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
So fundamentally, when we look at our steel business, we can divide it in two parts. One is the

existing capexes which are in progress on which Pankaj ji spoke about, where we will be completing our Phase 1 and our overall hot metal capacity from the present capacity of 1.6 million will move to 3.2 million at Bokaro and when we look at the capacities, both Bokaro and Goa put together, the capacity will move closer to 4.4 million tonnes , with this expansion. Then, we subsequently have second phase where we are debottlenecking the existing blast furnaces and putting the downstream facilities for the hot metal which is getting produced, so that will take us to 5 million tonnes fully integrated value-added product steel flares. So that will take us to that particular capacity.

The present phase, the total capex is INR3,700 crore, out of which INR2,800 crore we have already spent. The second phase proposal, we will come as we progress in this particular approvals and all. The tentative number , Vishal, for the second phase is earlier communicated in the investor call somewhere in May month was $400 million , and more or less we expect it to be around that.

Vishal Gupta - Analyst, Himalaya Capital
Got it and the INR600 crores capex in the second half that you have highlighted, that is for the Phase 1 which is pending? The 900 crores which is pending, 600 to 700 crores you expect to incur out of that in Phase 1 in H2?

Sunil Jain - Analyst, Nirmal Bang Securities Private Limited
Correct , absolutely, absolutely.

Vishal Gupta - Analyst, Himalaya Capital
Got it and Phase 1, just to clarify on the timelines, you said that once the approval comes in, another 6-odd months you should be ready to commission this and Phase 2 would take its time. Is that correct?

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
Yeah, phase 2 will take time.

Vishal Gupta - Analyst, Himalaya Capital
Got it a nd with phase 1 coming through, what sort of spreads, you know, given the current market scenario around pricing and spreads, what sort of revenue and EBITDA profile do you expect on the steel business for the full year once this phase 1 gets fully commissioned?

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
So see, fundamentally, when we are completing our phase 1, phase 1 will include our railway siding as well as the logistics ecosystem within our premises, plus it will have coke oven , it will have the DIE expansion. It will, of course, have the hot metal capacity expansion which will come in. So, there is synergy both in terms of cost, what we will be getting because of our captive setup and better logistics infrastructure, what we will have under phase 1, as well as the increased volume capacity -- what we will be getting.

So somewhere, again, we can calculate this at the present market what kind of margins it will add; on the cost front, $20 to $30 is the advantage which we will be getting by completing our project.

Vishal Gupta - Analyst, Himalaya Capital
Got it. One last question was around the Liberia project. You said that the feasibility report is ongoing, but any sense on timeline there? By when do you expect to initiate capex there, and by when do you expect that project to be in production?

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
So somewhere, I would say, later part of the year, we expect this to trigger, and the typical timeline which the project will take is closer to 24 to 30 months, that is the high-level understanding which we have right now. So, somewhere in FY'30, we will start seeing the first production coming from that particular asset if everything goes well.

Vishal Gupta - Analyst, Himalaya Capital
All right, thank you.

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
Vishal, you can also see the details in the deck which we have released earlier in May, which has the details for each and every project from the capex, proposed capex, to the timeline of completion. So, the details are laid out in that investor presentation.

Vishal Gupta - Analyst, Himalaya Capital
Thank you.

Operator
Thank you. Before we take the next question, a reminder to all the participants, if you wish to register for a question, you may press * and 1. Participants, you may press * and then 1 to ask a question. As there are no further questions-- sorry, we have a last-minute registration coming from the line of Mr. Ashish Kejriwal with Nuvama Institutional Equities. Please go ahead.

Ashish Kejriwal - Analyst, Nuvama Wealth Management Ltd.
Hi, good evening everyone. Thanks for the opportunity. So , my question is on our steel business only. I s it possible to somewhat quantify in somewhat details what kind of cost-saving measures you are going to adopt and which will be somewhat prominent in nature? Because earlier what I remember is that you have indicated about this railway siding logistics, $20-$25 coming from there only, then coke oven was separate, and then volume growth has been somewhat separate. So is it possible to quantify from here on till these projects come in, or you can say at the end of the first phase of the project, what kind of cost savings we can see, which is more or less permanent, I think?

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
Ravi, you want to answer this?

Ravi - Executive, Vedanta Iron and Steel Limited
Yes, sir, I'll take it.

Thank you for this question. So, in terms of parameters other than the cost efficiency, there are three aspects. One is the benchmark PCI injection rate, which is a part of any blast furnace. This is, what we have taken up and we are doing good over there, and beyond that, in terms of infrastructure, you rightly pointed out the railway siding, the wagon trippler coming inside the plant will give us around $10 to $12 of margin and horizontal coke oven that we have yet to commission, which is also subjected to the regulatory clearance, is all set to start.

These two infrastructure additions will give us around $20 to $25 per tonne of additional cost gain. , I mean, these are the two major points beyond what we call in terms of volume and fixed cost reductions, that will come with the higher volume.

Ashish Kejriwal - Analyst, Nuvama Wealth Management Ltd.
The peak capacity, if you can spell out what kind of fixed cost absorption or -- this kind of EBITDA per tonne in this environment also is very, very low as compared to your competitors. We are nowhere closer to that. So when we have guided for INR8,000-INR10,000 per tonne , I don't know at what price we can able to do that. That's why I'm hopping more on the cost side, because the prices are not in our control, but after looking at these two aspects only, where we are saying $20 per tonne or $25 per tonne saving in the cost, and then marginally you can say in terms of cost reduction, in terms of higher fixed cost absorption, Then also INR8,000-INR10,000 per tonne , I'm not sure whether we are able to get it ever or not.

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
So, Ashish, here what Ravi has said that with the capacity enhancement and with the railway line logistic network coming in, totally we will be saving around $30 to $35, and also the fixed cost absorptions will give me another $10. So, put together, we are seeing that we will be able to save around $50 and that around INR4,500 to INR5,000 we will be able to get from there and currently, we are making-- in Q1, we had made somewhere around INR5,000 to INR6,000 per tonne margin, so put together, we will be able to see that, you know, a growth of around INR10,000 to INR11,000 a fter the expansion comes. So, we will be near to our peers' company, and also this continual improvement will keep on happening so that we come to a benchmark number.

Ashish Kejriwal - Analyst, Nuvama Wealth Management Ltd.
One can expect that in FY'29 we can have these kind of numbers which we are talking about, right?

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
No, this will be in FY'28.

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
So , there are two parts. One is that my immediate steel volume , the cost will come down the moment we have our project completed. So, the existing steel volume will have the margins the way Pankaj Ji was speaking about. From Q1 level, we should see the margins, comparable margins should be Q1 because in Q2, there was a shutdown , plant shutdown which was there. So, from that level, we will see that increase happening to a double-digit number.

Ashish Kejriwal - Analyst, Nuvama Wealth Management Ltd.
And that's what I'm saying, FY'29 is a better option. Worst case, FY' 29. FY '28, if it happens, that's good enough for us.

Navin Jaju - Chief Financial Officer, Vedanta Iron and Steel Limited
Correct, correct. So us, FY'28 beginning is what we are anticipating that we should be getting to this number.

Ashish Kejriwal - Analyst, Nuvama Wealth Management Ltd.
Thank you so much and all the best.

Pankaj Sharma - Chief Executive Officer and Whole-Time Director, Vedanta Iron and Steel Limited
Thank you very much

Operator
Thank you. Ladies and gentlemen, as there are no further questions, this concludes our question

and answer session. Thank you, members of the management, on behalf of Vedanta Iron and Steel Limited. That concludes this conference.

Thank you everyone for joining us, and you may now disconnect your lines. Thank you.