Vedanta Iron & Steel

Operator: Ladies and gentlemen, good day and welcome to Vedanta Iron And Steel Ltd.'s Q2 and H1 FY27 earnings conference call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded. From the management side, we have Mr. Charanjit Singh, Group Head, Investor Relations; Mr. Pankaj Sharma, CEO, VISL; and Mr. Navin Jaju, CFO, VISL. I now hand the conference over to Mr. Pankaj Sharma for his opening remarks. Thank you, and over to you, sir.

Pankaj Sharma - CEO & Whole-time Director: 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 Ltd. I am here to take you through our performance for Q2 and H1 FY27.

VISL runs 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 shutdowns at the Bokaro and Goa steel plants, supporting improved production stability in the coming quarters.

The first 2 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 costs, and the same may continue in the 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 a dry metric ton basis in Q2, down 30% year-on-year, and 4.2 million tonnes on a dry metric basis in H1, down 3% year-on-year.

Revenue for the quarter was 2,788 crore, almost flat year-on-year, while EBITDA rose 56% year-on-year to 83 crore. For H1, revenue grew 8% to 6,450 crore and EBITDA grew 54% to 598 crore.

The balance sheet remains healthy, with a 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 1,104 kt, up 3% year-on-year, while Q2 sales were 532 kt. On the profitability front, EBITDA margin in Q2 was 1,381 per ton. For the half year, the margin was 3,709 per ton. In H1, pig iron production reached a record 568 kt, a 4% increase over the same period last year.

Coming to iron ore, on the market front, iron ore realization remained under pressure during the quarter on account of a drop in the iron ore index and higher discounts for low-grade material. In

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H1, saleable production was 4.2 million tons, broadly stable against 4.3 million tons last year. With a growing contribution from Goa and Odisha, in Q2, saleable production at iron ore Goa increased 22% year-on-year. Total saleable production was 1.4 million—1.5 million tonnes.

On the sales front, total iron ore sales in Q2 were 0.8 million tonnes. Q2 sales in Karnataka were impacted due to the name-change transfer post-demerger, 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 960 rupees per ton, broadly in line with 967 per ton last year. The Q2 margin was 198 rupees per ton, mainly because of seasonality and lower sales from Karnataka.

On the growth front, we spent 231 crore during Q2. The ongoing investment across steel, DI pipes, and mining remains on track and will progressively strengthen our capacity base, with key milestones planned across FY27 and FY28.

Our community programs reached about 39.8 thousand beneficiaries across 68 villages in 5 states in Q2. Key outcomes include stronger rural livelihoods through Project Gram Nirman, 100% placement at Sesa Technical School, and continued recognition for our football development program.

I will now hand over to my CFO, Naveen, to take you through the financial performance. Naveen.

Navin Jaju – CFO: 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 a year-on-year basis, the business continued to demonstrate a meaningful improvement in earnings.

For the first half, revenue was Rs.6,450 crores and EBITDA was 598 crores, up 54% YoY, with a margin of 9%. PAT loss narrowed to 203 crores from 622 crore last year.

In Q2, revenue was 2,788 crores and EBITDA was 83 crores, up 56% YoY.

Our balance sheet remained strong, with net debt-to-EBITDA of 1.3x. Total net debt was 2,763 crores, and cash and cash equivalents stood at 847 crore. Our credit rating remains at AA Stable by CRISIL.

Gross debt came down to 2,637 crore from 2,792 crores. Net debt was broadly stable at 2,763 crores in September against 2,733 crores in June.

Working capital was down by 191 crore on account of the release of inventory built ahead of the monsoon. This largely offset 129 crore of gross capex during the quarter and 92 crore of movement in other cash from operations.

Over to you, Pankaj.

Pankaj Sharma – CEO & Whole-time Director: Thank you, Naveen. Finally, to conclude, H1 FY27 reflects steady progress across the business, with a 4% increase in steel production and EBITDA growth of 54%. With the annual shutdown completed and the market environment becoming more

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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.

I now hand over to the moderator.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touch-tone phone. If you wish to remove yourself from the question queue, you may press star and two. 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 Neo Capital. Please go ahead.

Ashish – Neo Capital: Hello, am I audible?

Operator: Yes, sir, you are audible. Please go ahead.

Ashish – Neo Capital: Thank you for taking my question. Sir, 2 questions. The first one would be, what is the status of the regulatory approvals for the second phase of expansion and commissioning 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 – CEO & Whole-time Director: [pause] Okay, Ashish, we have made good progress on statutory approvals for our ESL growth project, and we are at the final stage. We are expecting some good news soon.

Ashish – Neo Capital: Any timeline, per se?

Pankaj Sharma – CEO & Whole-time Director: It is on the verge of final approval.

Ashish – Neo Capital: Okay. 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? Thanks.

Navin Jaju – CFO: The Liberia project, when we speak about it, Ashish, is a magnetite ore asset with 4 billion tons of R&R, with potential for the grade to go up to 67 plus Fe. Alumina and impurities remain below 3%, so that is the kind of concentrate the asset will produce. When we look at the project, it is at the detailed feasibility stage, and the project will remain viable even at an index as low as around $60. That is the kind of viability the project carries, considering the affinity for high-grade concentrate in the market and the effort to move toward low-carbon-intensity steel.

Ashish – Neo Capital: What sort of investments would that need, and what are the economics of the project?

Navin Jaju – CFO: The project will require, when we look at the overall project requirement, somewhere between $70 to $80 million per million ton. That is the kind of capex requirement it will carry. When we again look at the overall project with the index closer to $90, the project will have a payback of 3—

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Ashish – Neo Capital: Sorry, can you repeat that? 3?

Management: 3 and—

Ashish – Neo Capital: —a half?

Management: The project will require $70 to $75 million per million tons as capex. When we look at the payback for this particular project at a $90 index, the payback will be closer to 3 and 1/2 years.

Ashish – Neo Capital: 3 and 1/2 years, okay. Can I ask 2 more questions, or should I get back in the queue?

Management: Yes, please continue.

Ashish – Neo 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?

Management: [pause] So... [trails off] [off-mic discussion] Should I take it?

Fundamentally, when we look at iron ore volume ramp-up, there are mining assets which will become operational in the next, I would say, 1 year, like Cudnem mines in Goa, which will add another half a million ton kind of capacity. Then there will be {? Jankal ?} mine, which is there with us, which will become operational, adding another half a million ton kind of capacity, while the existing operating unit in Goa, Bicholim mines, has a present capacity of 3 million tons, which in a phased manner will move closer to 5 million tons. So, the immediate ramp-up will be from 3 to 3.6 million, then to 4 million tons, followed by subsequent growth.

Ashish – Neo Capital: Got it. As volumes grow, how do we expect the margin profile to be for some of the newer mines?

Management: When we look at it again, we will have to look at some of the areas in totality. Cudnem will largely be meeting our captive requirement in Goa. That is how it is designed. When we look at the {? Jankal ?} mine, the {? Jankal ?} mine will work in conjunction with the existing iron ore Karnataka mines. At the index where we are today, the iron ore Karnataka mines, together with the {? Jankal ?} mine, will deliver an EBITDA margin somewhere between $7 to $10.

Ashish – Neo Capital: Got it. Thank you for answering my questions, and best of luck.

Management: Thank you. Thanks.

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

Sunil Jain – Nirmal Bang Securities Private Limited: Thank you for taking my question. Sir, about iron ore, what is the volume target for H2 for Goa and Karnataka?

Management: [pause] For Goa, our volume target will be closer to 2 million tons for the second half, while for Karnataka, the volume target will be somewhere between 2 to 3 million tons. That is the number we are targeting.

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Sunil Jain – Nirmal Bang Securities Private Limited: This quarter, what was the EBITDA per ton in iron ore? That can be—

Management: This quarter, EBITDA per ton overall for iron ore has been closer to $2 per ton. This is largely the seasonal effect which we see in Q2, where mining operations in Goa remain subdued, as well as Karnataka volumes having been down during the quarter, as explained earlier in the commentary by Pankaj.

Sunil Jain – Nirmal Bang Securities Private Limited: Yes. About capex, can you talk about the yearly capex plan and how much we had incurred in the first half?

Management: [long pause] To date in the first half, we have spent 300 crores on capex. In the second half, we will be spending another 600 to 700 crores on capex. In totality, out of our total capex program, we have spent 2,800 crores, and another 900 crore is to be spent.

Sunil Jain – Nirmal Bang Securities Private Limited: And about the FC–II approval, I think you had already forwarded the formalities, and the formalities from your side were completed. Only the approval from the other side is pending. Once you receive that approval, how much time will it take to complete the project from 1.6 to 3 million tons?

Management: After getting the approval, it will take 4 to 5 months.

Sunil Jain – Nirmal Bang Securities Private Limited: Okay. How much more investment needs to be made for it?

Management: In this particular phase, we have already spent 2,200 crores, so another 600 crores of capex will be required.

Sunil Jain – Nirmal Bang Securities Private Limited: Okay. Can we expect this FC–II clearance in Q3, or will it go to Q4, or will it remain the same?

Management: It is at the final stage of approval, so we can expect it soon.

Sunil Jain – Nirmal Bang Securities Private Limited: Thanks, sir. All the best. Thank you very much.

Management: Thank you. Thanks.

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

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

Management: [long pause] Fundamentally, when we look at our steel business, we can divide it into 2 parts. One is the existing capex projects which are in progress, which Pankaj spoke about, where we will be completing Phase 1, and our overall hot metal capacity from the present capacity of 1.6 million will move to 3 million at Bokaro. When we look at the capacities for Bokaro and Goa put together, the capacity will move closer to 4.4 million tons with this expansion.

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Subsequently, we have a second phase where we are debottlenecking the existing blast furnaces and putting in downstream facilities for the production of the hot metal which is being produced. That will take us to a 5 million ton, fully integrated, value-added product steel plant. That will take us to that particular capacity. The total capex for the present phase is 3,700 crore, out of which 2,800 crore has already been spent. The proposal for the second phase will come as we progress with the approvals.

The tentative number, Vishal, for the second phase, as earlier communicated in the investor call sometime in May, was $400 million, and more or less we expect it to be around that.

Vishal Gupta – Himalaya Capital: Got it. The 600 crore capex in the second half that you are highlighting, is that for the pending Phase 1? Of the 900 crores pending, do you expect to incur 600 to 700 crore in Phase 1 in H2?

Management: Correct. Absolutely.

Vishal Gupta – Himalaya Capital: Got it. To clarify on the timelines for Phase 1, do you feel that once the approval comes in, you should be ready to commission it in another 6 months, and Phase 2 would take its time? Is that correct?

Management: Yes. Phase 2 will take time.

Vishal Gupta – Himalaya Capital: Got it. With Phase 1 coming through, given the current market scenario around pricing and spreads, what sort of revenue and EBITDA profile do you expect from the steel business for the full year once Phase 1 is fully commissioned?

Management: Fundamentally, when we are completing Phase 1, it will include our railway siding as well as the logistics ecosystem within our premises. It will have a coke oven, it will have the DI expansion, and it will, of course, have the hot metal capacity expansion. There is synergy both in terms of cost, which we will get because of our captive setup and the better logistics infrastructure we will have under Phase 1, as well as the increased volume capacity we will get.

We can calculate, based on the present market, what kind of margins it will add. On the cost front, $20 to $30 is the advantage which we will get by completing our project.

Vishal Gupta – Himalaya Capital: Got it. One last question was around the Liberia project. You said that the feasibility report is ongoing, but do you have any sense of the timelines for when you expect to initiate capex there and when you expect that project to be in production?

Management: Sometime in the latter part of the year, we expect this to trigger, and the typical timeline for the project will be closer to 24 to 30 months. That is the high-level understanding we have right now. Sometime in FY30, we will start seeing the first production coming from that particular asset, if everything goes well.

Vishal Gupta – Himalaya Capital: Got it. Thank you.

Management: Vishal, you can also see the details in the deck which we released earlier in May, which has the details for each and every project, from the capex and proposed capex to the

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timeline of completion. The details are laid out in that investor presentation.

Vishal Gupta – Himalaya Capital: Thank you.

Operator: Thank you. Before we take the next question, a reminder to all participants: if you wish to register for a question, you may press star and one.

Participants, you may press star and then one 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 – Nuvama Institutional Equities: Good evening, everyone. Thanks for the opportunity. Sir, my question is on our steel business. Is it possible to quantify in some detail what kind of cost-saving measures you are going to adopt, and which will be permanent in nature? Earlier, what I remember is that you indicated that the railway siding and logistics would contribute $20-$25 from there, the coke oven was separate, and volume growth was separate. Is it possible to quantify, from here until these projects come in, or at the end of the first phase of the project, what kind of cost savings we can see that will be more or less permanent?

Management: Ravi, do you want to answer this?

Ravi: Yes, sir. I will take it.

Thank you for this question. In terms of parameters other than cost efficiency, there are 3 aspects. One is the benchmark PCI injection rate. This is a part of the blast furnace. This is what we have taken up, and we are doing well there.

Beyond that, in terms of infrastructure, you rightly pointed out that the railway siding and the wagon tippler coming inside the plant will give us around $10 to $12 of margin. The horizontal coke oven that we are yet to commission, which is also subject to regulatory clearance, is all set to start. These 2 infrastructure additions will give us around $20-$25 per ton of additional cost gain. These are the 2 major points beyond what we call volume and fixed-cost reduction, which will come with the higher volume.

Ashish Kejriwal – Nuvama Institutional Equities: At peak capacity, if you can spell out what kind of fixed-cost absorption—because this kind of EBITDA per ton in this environment is also very low compared to your competitors. We are nowhere close to that. When you have guided for Rs.8,000-Rs.10,000 per ton, I do not know at what price we can achieve that. That is why I am focusing more on the cost side, because prices are not in our control. After looking at these 2 aspects, where we are seeing $20 per ton or $25 per ton in cost savings, and then, marginally, you can say, in terms of cost reduction and higher fixed-cost absorption, 8,000-10,000 rupees per ton, I am not sure whether we will ever be able to achieve it or not.

Management: Ashish, regarding what Ravi has said, with the capacity enhancement and the railway-line logistics network coming in, in total we will save around $30 to $35, and fixed-cost absorption will give us another $10. Put together, we are seeing that we will be able to save around $50, and from that we will be able to get around 4,500 to 5,000. Currently, in Q1, we had made

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somewhere around 5,000 to 6,000 rupees per ton margin. Put together, we will be able to see growth of around 10,000 to 11,000 after the expansion comes in. We will be near our peer companies, and continual improvement will keep happening so that we reach our benchmark numbers.

Ashish Kejriwal – Nuvama Institutional Equities: One can expect these kinds of numbers in FY29?

Management: No, it should be in FY28. There are 2 parts. One is that, for our immediate steel volume, the cost will come down the moment we complete our project. The existing steel volume will have the margins in the way Pankaj was speaking about. From the Q1 level, we should see the margins; the comparable margin should be Q1, because there was a plant shutdown in Q2. From that level, we will see the increase happening to a double-digit number. And—

Ashish Kejriwal – Nuvama Institutional Equities: FY29 is a better option?

Management: Worst case, FY29.

Ashish Kejriwal – Nuvama Institutional Equities: If it happens in FY28, that is good enough for us.

Management: Correct. For us, the end of FY28 is what we anticipate for reaching this number.

Ashish Kejriwal – Nuvama Institutional Equities: Thank you very much, sir, and all the best.

Management: Thank you very much.

Management: Thank you.

Operator: 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 Ltd., that concludes this conference. Thank you, everyone, for joining us, and you may now disconnect your lines. Thank you.

Management: Thank you.

Management: Thank you very much.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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