“Vedanta Iron & Steel Limited

Second Quarter and Half Year FY26-‘27 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Vedanta Iron & Steel Limited's Second Quarter and Half Year FY26-'27 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 you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone 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: Thank you, very much and good day, everyone. And 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 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 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 quarter.

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 ton on dry metric ton basis in Q2 and this is down by 13% year-on-year, and 4.2 million ton on dry metric basis in H1, down to 3% year-on-year.

Revenue for the quarter was INR2,788 crores, almost flat year-on-year, while EBITDA rose 56% year-on-year to INR83 crores. For H1, revenue grew 8% to INR6,450 crores and EBITDA grew 54% to INR598 crores. 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 1,104 KT and this is up 3% year-on-year, while Q2 sales were 532 KT. On profitability front, EBITDA margin in Q2 was INR1,381 per ton. For the half year, margin was INR3,709 per ton. In H1, pig iron production reached a record of 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 drop in iron ore index and higher discounts for low-grade material. In 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, the saleable production at iron ore Goa increased 22% year-on-year. Total saleable production was 1.5 million tons.

On the sales front, total iron ore sales in Q2 were 0.8 million tons. Q2 sales in Karnataka were impacted due to name change transfer post-demerger, and sales resumed from September. In H1, total sales were 2.8 million tons compared to 3.2 million tons last year. Merchant margin for H1 was INR960 per ton, broadly in line with INR967 per ton last year. And Q2 margin was INR198 per ton, mainly because of seasonality and lower sales from Karnataka.

On the growth front, we spent INR231 crores 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 FY27 and FY28. Our community programs reached about 39.8 thousand beneficiaries across 68 villages in five states in quarter two. 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, Navin, to take you through the financial performance. Navin.

Navin Jaju: Thank you, Pankaj. Hello everyone and 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 crores and EBITDA was INR598 crores, up 54% Y-o-Y, with margin at 9%. PAT loss narrowed to INR203 crores from INR622 crores last year. In Q2, revenue was INR2,788 crores and EBITDA was at INR83 crores, up 56% Y-o-Y. Our balance sheet remains strong with net debt to EBITDA of 1.3x. Total net debt was INR2,763 crores and cash and cash equivalent stood at INR847 crores. Our credit rating remains AA/Stable by CRISIL. Gross debt came down to INR2,637 crores from INR2,792 crores.

Net debt was broadly stable at INR2,763 crores in September against INR2,733 crores in June. Working capital was down by INR191 crores on account of release of inventory built ahead of monsoon. This largely offset INR129 crores of growth capex during the quarter and INR92 crores movement under the cash from operations. Over to you, Pankaj.

Pankaj Sharma: Thank you, Navin. And finally to conclude, that H1 FY27 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.

Moderator: Thank you very much. Your first question comes from the line of Ashish with Leo Capital. Please go ahead.

Ashish: Hello, am I audible?

Moderator: Yes, sir. You are audible. Please go ahead.

Ashish: Yes. Thank you. Thank you for taking my question. So, I have two questions. The first one would be, what is the status of the regulatory approval 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: Okay. 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: Any timeline per se?

Pankaj Sharma: Yes, it is on the verge of final approval.

Ashish: 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? Thanks.

Navin Jaju: So, Liberia project, when we speak about, Ashish, the asset is a magnetite ore with 4 billion ton of R&sR with a potential where the grade can go up to 67 plus 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: And what sort of investments would that need and what are the economics of the project?

Navin Jaju: So, project will require, when we look at overall project requirement, it will be somewhere between $70 million to $80 million per million ton. So, that is the kind of capex requirement which it will carry. And when we look at the -- again, overall project with index closer to $90, so project will have a payback to 3.5 years.

Ashish: Sorry, can you repeat that? Two?

Navin Jaju: The project will require $70 million to $75 million per million ton as a capex. And when we look at the payback for this particular project, at $90 index, the payback will be closer to 3.5 years.

Ashish: 3.5 years. Okay. Can I ask two more questions or should I get back in the queue?

Charanjit Singh: Yes, please continue.

Ashish: Okay. What sort of ramp-up profile do we see from the iron ore volumes in the next two to three years, and which states or mines will drive that growth?

Navin Jaju: So, fundamentally, when we look at iron ore volume ramp-up, there are mining assets which will become operational in next, I would say, one year, like Cudnem mines in Goa, which will add another half a million ton kind of capacity. Then there will be Janthakal mine, which is there with us, which will become operational, adding another half a million ton kind of capacity, while the Goa unit, the existing operating unit of Goa, Bicholim mines, present capacity is 3 million ton, which in phased manner will move closer to 5 million ton. So, immediate ramp-up will be happening from 3 million to 3.6 million, then to 4 million ton, and then the subsequent growth.

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

Navin Jaju: So, when we look at again, we will have to look 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 Janthakal mine, Janthakal 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 and in together with Janthakal mine will be delivering EBITDA margin somewhere between $7 to $10.

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

Pankaj Sharma: Thank you.

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

Sunil Jain: Yes. Thank you for taking my question. Sir, about this iron ore, what is the volume target for this second half for Goa and Karnataka?

Navin Jaju: So, for Goa, our volume target will be closer to 2 million ton for the second half, while when we look at Karnataka, again, the volume target will be somewhere between 2 million to 3 million ton, so that is the number which we are eyeing for.

Sunil Jain: And this quarter, what was the EBITDA per ton in the iron ore? If you can repeat.

Navin Jaju: So, this quarter, EBITDA per ton overall for iron ore had been closer to USD2 per ton, 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 ji.

Sunil Jain: And about the capex, if you can talk anything about what is the yearly capex plan and how much we had incurred in the first half?

Navin Jaju: So, till date, in the first half, we have spent INR300 crores on the capex. In the second half, we would be spending another INR600 crores to INR700 crores on the capex. In totality, if we see -- out of our total capex program, we have spent INR2,800 crores and another INR900 crores is to be spent.

Sunil Jain: Yes, and 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 million ton to 3 million ton?

Pankaj Sharma: So, after getting the approval, it will take 4 months to 5 months of time.

Sunil Jain: Okay. And that is how much more investment need to be done?

Navin Jaju: In this particular case, we have already spent INR2,200 crores, so another INR600 crores capex will be required.

Sunil Jain: Okay. And this FC2, is we can expect in Q3 or will it go to Q4 also?

Pankaj Sharma: It's on the final leg of approval, so we can expect sooner.

Sunil Jain: Great, sir. All the best. Thank you very much.

Pankaj Sharma: Thank you. Thanks.

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

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

Navin Jaju: So, fundamentally, when we look at our steel business, we can divide it in two parts. One is the existing capex's which are in progress on which Pankaj ji spoke about, where we will be completing our phase one, 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 ton 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 ton fully integrated, value-added product steel player. So, that will take us to that particular capacity. The present phase, the total capex is INR3,700 crores, out of which INR2,800 crores we have already spent. The second phase proposal, we will come as we progress in these particular approvals and all.

The tentative number for the second phase -- sorry, the tentative number, Vishal, for the second phase, as 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: Got it. And then INR600 crores capex in the second half that you have highlighted, that is for the phase 1 which is pending. The INR900 crores which is pending, INR600 to INR700 crores you expect to incur out of that in phase one, in H2?

Navin Jaju: Correct, yes. Absolutely.

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

Pankaj Sharma: Yes. Phase 2 will take time.

Vishal Gupta: Got it. And with phase 1 coming through, what sort of spreads -- 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: 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 DI expansion, it will support 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 versus the present market, that 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: Got it. And one last question was around the Liberia project. You said that the feasibility report is ongoing, but any sense on timelines there? By when do you expect to initiate capex there and by when do you expect that project to be in production?

Navin Jaju: 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 FY30, we will start seeing the first production coming from that particular asset, if everything goes well.

Vishal Gupta: Got it. Thank you.

Charanjit Singh: 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 proposed capex to the timeline of completion. So, the details are laid out in that Investor Presentation.

Vishal Gupta: Thank you.

Moderator: Thank you. 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: Hi. Good evening, everyone. Thanks for the opportunity. Sir, my question is on our steel business only. Is it possible to somewhat quantify in somewhat details what kind of cost-saving measures you are going to adopt and which will be somewhat permanent 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,

at the end of the first phase of the project, what kind of cost savings we can see which is more or less permanent type?

Pankaj Sharma: Ravish, you want to answer this?

Ravish Sharma: Yes, sir. I'll take it. Thank you for this question. In terms of parameters other than the cost efficiencies, 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're doing good over there. And beyond that, in terms of infrastructure, you rightly pointed out, the railway siding, the wagon tipplers coming inside the plant will give us around $10 to $12 of margin.

And horizontal coke oven that we are yet to commission, which is also subjected to the regulatory clearance, it is all set to start. These two infrastructure additions will give us around $20 to $25 per ton of additional cost gain. So, I mean, these are the two major points beyond what we call in terms of volume and fixed cost reduction that will come with higher volume.

Ashish Kejriwal: But peak capacity, if you can spell out, what kind of fixed cost absorption or….

See, this kind of EBITDA per ton 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 ton, I don't know at what price we can able to do that. That's why I'm harping 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 ton or $25 per ton saving in the cost, and then marginally, you can say, on terms of cost reduction in terms of higher fixed cost absorption, then also INR8,000-INR10,000 per ton, I'm not sure whether we are able to get it ever or not.

Pankaj Sharma: Ashish, here what Ravish 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 absorption 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, like you know, we are making in Q1, we had made somewhere around INR5,000 to INR6,000 per ton margin. So, put together, we will be able to see that a growth of around INR10,000 to INR11,000 after 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 our benchmark number.

Ashish Kejriwal: Sir, one can expect that in FY29 we can have this kind of numbers which we are talking about, right?

Pankaj Sharma: No. This will be in FY28.

Navin Jaju: So, there are 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 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: That's why I'm saying, FY29 is a better option? Worst case, FY29. '28, if it happens, that's good enough for us.

Navin Jaju: Correct, correct. So, for us, FY28 beginning is what we are anticipating that we should be getting to this number.

Ashish Kejriwal: Cool, sir. Thank you. Thank you so much and all the best.

Pankaj Sharma: Thank you.

Navin Jaju: Thank you very much.

Moderator: 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.