"Hindustan Zinc Limited Q4 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Hindustan Zinc Q4 FY21 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shweta Arora, Head of Investor Relations, Hindustan Zinc. Thank you and over to you, ma'am.

Shweta Arora: Good afternoon everyone. I welcome you all to Hindustan Zinc's Fourth Quarter and Fiscal Year 2021 Earnings Call with the management to discuss the results. Today on the call we have with us Mr. Arun Misra – our CEO and Mr. Vinaya Jain who has joined us as Senior Vice President and Head of Finance along with other senior members of the management team.

Mr. Misra will begin with an update on business performance while Mr. Vinaya Jain will walk you through the financial performance after which we will open the floor for questions.

I will now request Mr. Misra to begin today's call. Over to you, Mr. Misra.

Arun Misra: Thank you Shweta. Good afternoon and a very warm welcome to all of you. I trust that you, your families and friends are staying safe and following all necessary precautions against the spread of COVID-19 pandemic in the country. At the outset I am pleased to announce that Mr. Vinaya Jain has joined us as Senior Vice President and Head Finance, Hindustan Zinc earlier this month. He has the rich and diverse experience of 25 years spanning across General Motors, Infosys and Bira 91 heading various finance functions and held Chief Financial Officer roll at General Motors and Bira 91. We are excited to have him and wish him good luck for success in his new role.

I would also like to thank Mr. Swayam Saurabh our ex-Chief Financial Officer for his immense contribution in the growth of the company and setting the stage right for next phase of structural initiatives. It gives me immense pleasure to share that the culture of holistic inclusive and sustainable growth that we set as a leadership team for the company is starting to yield results and is evident in some of the external recognitions we have received during the quarter on various fronts including sustainability, people practices, innovations and CSR activities.

I am happy to share that Hindustan Zinc has featured in the Sustainability Yearbook for the fourth consecutive year and also in CDP annual report for being amongst the first Indian companies to be rated A in climate change CDP 2020. Additionally Hindustan Zinc is also part of CII working group to drive accelerated climate actions by Indian businesses and is actively engaged for promoting the climate actions in India. On environmental front our zinc smelter at Debari has received ICC environmental excellence award.

I am delighted to inform you that our Chanderiya Lead-Zinc Smelter is the first in the world to reach current efficiency of 93% in cell house and was bestowed with a gold medal national award for manufacturing competitiveness. This truly raises our confidence and spirit to work towards many such new feathers in our innovations. There was no better time to be appreciated about the spirit and resilience of our people. I am delighted to share that our people practices were recognized in the form of People First HR Excellence Award and we will continue to strive to make Hindustan Zinc family stronger every passing day.

At Hindustan Zinc our ethos is to give back to society and make a difference. It gives me enormous happiness to see our flagship CSR project Nandghar being identified as the best CSR initiative in the country. Safety of our people and operations is our first priority. It gives me deep satisfaction as a leader to report that Hindustan Zinc recorded 22 months of fatality free operations and we will strive to do everything necessary to sustain this achievement.

I am also happy to share that we have signed an MOU with Epiroc for battery electric vehicles and this may start India's first mining company to use battery electric vehicles in underground mining. I would also like to take this opportunity to highlight that culture of continuous improvement across verticals for its instance to talk about our people practices we have dedicated programs running for talent identification and development especially focusing on young talent and diversity mentoring. We are aware of the importance of diversity at all levels and is reflected in our actions.

To quote an example our management committee and executed committee both have gender diversity about 40%. I am also elated to share that we have appointed India's first women underground mine manager and also one of our women employees is India's first women with first class certificate in both restricted and unrestricted category of mining. On learning and development side, we have tied up with IIM Udaipur and BITS, Pilani and around 118 executives were enrolled through Hindustan Zinc work integrated learning platform.

Talking about the culture of innovation and focus on digitization our teams are fully dedicated and focused on areas including process improvements, development work for future growth, minor metal recovery and waste to wealth initiatives. This is reflected in various projects ranging from improvement in recovery process through well detailed process audits and individual one ore type characterizations, ongoing geo metallurgical study at SK and RA mine on advanced drill core and metallurgical characterizations in addition conducting feasibility studies for 3% lead and silver recovery improvement by lead re-grinding at Rampura-Agucha mine.

On digitalization front, real time manpower and equipment tracking has resulted in 50% reduction in ramp jam durations and 10% reduction in cycle time for haulage predictive maintenance models for critical components of loader and trucks has improved reliability fleet by 2%. Other things like mill automation, tele-remote operation of loaders and drills and also making use of technology for effective de-watering, ventilation and power reliability has made our operations more efficient and safer.

Through all of these we have improved mine overall equipment effectiveness by 15% with zero harm. I truly believe that our constant endeavor to better ourselves every day on all fronts and proactive approach towards adapting global best practices to run our businesses and the culture of continuous improvement as well as out of the box thinking in everything that we do will help us stay ahead of the curve as a business and deliver through the good and tough cycles as well.

Turning to market update, investor interest in best metals remained buoyant with the rollout of first phase progression of vaccination programs globally. Wood-Mackenzie estimates zinc LME prices to average around $2,800 per ton in 2021. Rising manufacturing activity is providing a positive underlying narrative for investors. On the other hand the recovery in international trade has not been uniform. In comparison to December 2020 the bulk of the growth can be attributed to the growth of imports and exports in China and developed Asian nations.

There was little growth from the European Union and the rest of Asia and a modest decline for the United States and U.K. Last year, the largest supply changes were attributable to Chinese mines. This reflects the poor performance of the small mine sectors where several mines in these province failed to restart post environmental crackdowns and exacerbated by the COVID impact. LME-SHFE arbitrage grew with SHFE price spiking in January to March quarter due to supply tightness of Zinc concentrates as spot treatment cost fell to $70 per ton in March.

As per ILZSG, the world zinc mine production fell by 5.9% in 2020 which has led to concentrate deficit of 500 KT in the market. As for the zinc premium in Southeast Asia the combination improved demand and smelter directing shipment to China have tightened the market helping premiums to shift to the upper end of $90 to $110 range in the January to March period. Global exchange stocks ended at 389 kilo tons in March marginally higher than in February but remained at 10 days in terms of base of global consumption since December.

Coming to domestic market, even though India witnessed a sharp rise in infection since March 2021, economy and its manufacturing sector particularly appears to have **absorbed** much of the impact after severe lockdown last year after hitting a low of 27.4 in April 2020 the manufacturing PMI hit 54.6 in September and since then it has averaged 57 in the four months throughout the February 2021 pointing to a robust pace of expansion for the country's manufacturing sector.

The strength of the rebound activity has driven a rapid recovery in Indian steel production with crude steel production hitting 9.7 million tons in December and it is highest since the record high of just over 10 million tons in March 2019.

With India's economy getting up to a robust start in 2020 the strong performance of India's steel sector seen in the latter part of 2020 should be sustained in to 2021 which is likely to drive domestic consumption of zinc. Silver price has risen strongly achieving an intra year gain of 32% as the pandemic led to surge of safe haven investment demand. Because of Covid related lockdowns by several major producers especially in Mexico, Peru and China silver mine production is expected to fall by over 5% in year 2021.

Demand is expected to increase dramatically as the easy manufacturing activity picks up. Turning to update on operational performance I am happy to share that we have continued our winning streak from last quarter and touched a few milestones both at quarterly and annual level.

Feather on the cap was the highest ever annual silver production of 706 metric tons which also included recovered WIP, which was stuck in the circuit during COVID shutdown. We also saw an ever highest annual ore and mine metal production supported by our proactive mine planning driven by increased use of technology and better targeting. Even for the quarter, we had highest ever ore and refined metal production. It is also noteworthy that we met and exceeded our promised volume and cost of production guidance for the fiscal year. This was a result of detailed planning and forecasting as well as out of the box solutions offered on various operational challenges posed by the pandemic.

Our foresightedness on market demand recovery scenario pricing environment and adaptive approach to selling that is striking a delicate balance between domestic and international sales has helped us to deliver in these uncertain times. All these while also successfully managing our cost at lower levels. Our annual cost of production is at the lowest level since we transitioned in to underground mining operations in March 2018. During this time we have also upgraded our mines in terms of safety practices, automation, connectivity and productivity as well as made our operations more sustainable through use of waste and water improve metal recovery and ensure our R&R remains a life of 25 years throughout this growth journey.

During the quarter, our mine metal production was up 15% year-on-year to 288 kilo tons on account of higher ore production partly offset by lower overall grade. Sequentially MIC production was up 18% on account of higher ore production and better overall grades. For the full year, MIC production was up 6% year-on-year to 972 KT primarily on account of higher ore production with overall grade almost maintained at the same level. This was despite losing 18 days equivalent of production in the fiscal year 2021 due to lockdown and other workforce related restrictions to combat Covid-19.

Integrated metal production was 256 kilotons for the quarter up 16% year-on-year and up 9% sequentially, in line with the higher mined metal availability and higher closing MIC inventory. Integrated zinc production was 195 kilotons up 14% year-on-year and 7% sequentially. Integrated lead production was 61 kilotons up 24% year-on-year and 16% sequentially in line with higher mined metal availability.

Integrated silver production was 203 tons, up 21% from a year ago in line with higher lead production partly offset by lower grades of Sindesar Khurd mine while it was up 11% sequentially on account of higher lead production and better grades at the same mine.

For the full year, metal production was up 7% to 930 KT and silver production was higher by 16% to a record 706 tons in line with higher lead production and better silver grades at SK. Most important of all, at the current run rate of 1.2 million ton per annum we are well positioned to deliver our future growth with confidence and higher preparations to handle any road blocks on the way. Coming to an update on our projects I am happy to share that shaft integration at Rampura-Agucha mine is complete.This has improved the accessibility of the shaft section, alternate emergency evacuation, ease in mine equipment deployment at lower levels, phase charging with emulsion explosives, field drilling with long feed jumbo. During the quarter, RKD circuit of Fumer was also commissioned and it is now in operation.

Delay is primarily on final commissioning of complete plant. This is on account of restrictions around travel outside of China which is something we are trying to resolve. However, given the first evolving situation with COVID-19 infections in the country, we expect to commission the complete Fumer plant by second quarter of the year.

Turning to reserve and resources, I am happy to share that at current run rate of production, we have extended the reserve's life closer to 9.5 years, almost 10 years from 8 years earlier. While maintaining total mine life basis reserve and resources at 25 years. Before I hand over the call to Vinaya for an update on financial performance I would like to present our production guidance for the fiscal year 2020. We expect mined metal and refined metal production for the year to be in the range of 1,025 kilotons to 1,050 kilotons each while salable silver production is expected to be approximately 720 tons. With this I handover to Vinaya to update on the financial performance.

Vinaya Jain: Thank you, Arun for the kind introduction and good afternoon everyone. It gives me immense pleasure to begin my journey at Hindustan Zinc at a time when the company is all set hosting its next phase of growth and taking leaps towards new age mining practices. We will continue our endeavor to improve business efficiencies and reduce cost through enhanced use of technology, digitalization efforts, data driven decision making and most importantly investment in people capabilities.

Most of the cost optimization initiatives deployed across our operation units are already visible in our financial performance and yielding desired results. We will continue to strengthen the foundation of our operations with unwaivering focus to deliver on financial excellence and generate value for all stakeholders in these uncertain times. Coming to an update on financial performance for the fourth quarter and fiscal year 2021.

Revenue from operations during the quarter was at record Rs. 6,725 crores, an increase of 56% year-on-year led by higher metal and silver volumes as well as higher zinc, lead and silver prices. Zinc sales volumes increased 15% year-on-year and lead by 29% year-on-year in line with higher production and robust demand.

Sequentially revenue was up 14% primarily driven by higher metal and silver volumes and higher zinc, lead and silver prices; higher metal premium partly offset by rupee depreciation. Zinc LME prices were sequentially up 5% while lead prices were up 6%. Zinc, lead and silver sales volumes improved sequentially as well as from a year ago. For the full year revenue was up 20% to a record Rs. 22,071 crores lead by higher metal and silver volume and higher silver prices further aided by rupee depreciation.

Zinc cost of production before royalty COP during the year was $945 per metric ton lower by 5% year-on-year both in INR and USD terms and sequentially down 1% in INR terms. The year-on-year decline in COP is primarily due to higher volumes, lower power cost, higher sulphuric acid credit and lower cement cost partly offset by higher met coke and diesel costs. For the full year zinc COP excluding royalty was $954 lower by 9% year-on-year.

This was the lowest recorded COP since the transition to underground mining operations. The full year COP decreased because of higher production volume, lower met coke and power costs, lower cement cost, partly offset by higher diesel cost and onetime Covid related expenses and donations. Overall the COP for the quarter and FY benefitted from ongoing structural cost reduction initiatives partly offset by increase in mine development.

As outlined by Arun earlier, we are proud to share that for the fiscal year we are at the lowest cost in dollar terms since we transitioned to a fully underground mine operation. I would like to reiterate that focused cost saving measures on all fronts including operational, contractual, procurement and fixed costs has resulted in sustained reduction of cost resulting record EBITDA for the quarter were Rs. 3,825 crores nearly doubled versus last year same quarter and up 17% sequentially on account of higher prices, volume and well managed operating cost.

EBITDA for the full year was Rs. 11,739 crores up 33% from a year ago primarily on account of higher volumes, rise in LME prices, rupee depreciation and lower power cost and met coke cost. Net profit for the quarter was Rs. 2,481 crores up 85% year-on-year and 13% sequentially due to lower income and higher taxes because of income mix change. For the full year net profit was Rs. 7,980 crores up 17% where the impact of higher EBITDA was partly offset by lower investment income due to declining interest rate environment.

Tax rate for the year was at an average of approximately 24.5%. The higher level versus previous year was mainly due to onetime reversal of differed tax liability in previous fiscal year and also due to change in income mix this fiscal year in light of lower interest rate environment. Coming to our cost and CAPEX guidance for the fiscal year 2022, we expect zinc COP below $1,000 per ton for the fiscal year which is inclusive of higher mine development expenditure to support future volume growth.

We are keeping guidance and change given the uncertain environment amidst Covid-19 pandemic and expectations of upward pressure on input commodity prices. CAPEX for the year is expected to be around $100 million. We will continue to have a focused approach to spending and exercise caution in all uncertain business environment. With this I open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Mr. Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: So I have two questions. The first one is on the guidance part. So if I look at your guidance of mined metal and finished metal production which is between 1.025 metric tons and 1.050 metric tons so if I look at the run rates which is running at almost 288 KT the mined metal production rates so I think the guidance is little bit conservative over there both in terms of mined metal as well as silver production.

In terms of cost of production also there have been three consecutive quarters when cost of production has been below 950 and the guidance says that it would be below 1,000. So can we assume that cost of production would be below 950 for the year as a whole? That is the first question.

Arun Misra: Okay so should I answer the first question. So as far as on the volume numbers are concerned on the metal and silver both yes, we exiting at a very good rate in Q4 and as we entered into April we were forced to kind of correct our expectations more in view of the current circumstances however that does not rule out of us correcting the guidance as we experienced this Q1 fully.

We are aware of the situation that we are facing on the ground. The vastness of the pandemic that is around us and the kind of fatalities we are seeing all around our society. So taking that into account we have tried to limit our expectations for the year. However I am open that once the quarter is finished if really the situation improves we should be able correct.

Amit Dixit: And on cost of production?

Arun Misra: And the cost of production we will continue with the same guidance of remaining below 1,000. Yes, our ambition remains doing better than last year as ever.

Amit Dixit: The second question is on the grade essentially, so what was the grade in this quarter and how does it compare with the last one?

Arun Misra: Sandeep, would you take that?

Sandeep: Can you repeat your question?

Amit Dixit: I was asking about what was the grade of material in this quarter and how does it compare with the last one?

Sandeep: So this quarter the grade was 7.41 and in the last quarter year-on-year it was, last Q3 was 7.06.

Amit Dixit: 7.06?

Sandeep: Yes, it was in the Q3, 7.06. Q4, 7.41.

Moderator: Thank you. The next question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh: The project CAPEX stands at roughly $100 million. Now there were plans earlier to increase the capacity from 1.2 million tons to 1.35 million tons and eventually to 1.5 million tons. But we do not seem to see any progress in F21 and even the project guidance for FY22 suggest that these projects seem to be stalled. What is the latest update on these expansion projects?

Arun Misra: So if I may clarify none of the projects have stalled. 1.35 million tons is very much on the drawing board. It requires us to increase your reserve and resource. So FY21 we spent time and money on increasing our reserve and resource through our exploration and we have come to about roughly at about 10 years kind of a reserve which gives us confidence because to increase the mine capacity we have to get the mine plan approved and to get the mine plan approved one is to have six years from the proposed mining quantity as a reserve.

So that is the task we are finishing. Also it requires lot of environmental clearances so we are in the process of environmental clearances for some of the mines. Design and drawing for the expansion to 1.35 million tons is nearing completion and anytime between quarter 2 or quarter 3 we will approach Board and post approval we will make it public.

Pinakin Parekh: So sir, just to clarify to go from 1.2 million tons run rate to 1.35 million tons run rate there is not material CAPEX required at the smelting level. Is just that the mine legal approval is more of a regulatory overhang?

Arun Misra: No, both mine and smelter both are required including legal, environment clearance as well as debottlenecking and expansion projects.

Pinakin Parekh: So the actual spending it looks will be more in FY23 and FY24 sir?

Arun Misra: It will come in next year, yes.

Pinakin Parekh: And sir, just to clarify from the project guidance of 1.05 million tons for FY22 versus the run rate of 1.2 million tons the only issue essentially is the Covid environment, right and if that were not the case then you will have 1.2 million tons guidance for FY22?

Arun Misra: We would do that surely.

Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Sir, I have a question on the net debt. If I look at the reduction in debt sequentially you almost had close to about a Rs. 5,000 crores of reduction but if I just add the PAT and depreciation it comes to lower than that. So have we had some working capital released in this quarter?

Arun Misra: Vinaya, would you like to take that?

Vinaya Jain: Yes. So yes, we have had the working capital released during the quarter. And this is a constant endeavor by us to make the operations more streamlined and that is towards that. So we have streamlined our inventories and as well as our debtors.

Pallav Agarwal: The other question was on if I just compute the physical premiums for Zinc has there been some sequential decline in premiums because lead seems to be okay but I think this zinc there is seems to be a reduction in physical premium?

Vinaya Jain: Can you repeat that question it is not clear?

Pallav Agarwal: Sir, I am talking about the physical premiums the LME plus physical premium the realization that we have in this quarter there seems to be a reduction from Q3 in the physical premium. So is that a correct thing or I am missing something over there?

Vinaya Jain: Not really. It has been in the same range.

Moderator: Thank you. The next question is from the line of Kirtan Mehta from BOB Capital. Please go ahead.

Kirtan Mehta: I just had couple of questions arising from the current strong market environment. While the guidance shows to continue with disciplined production approach, are there any opportunity is being internally evaluated to accelerate mine production in the incident to utilize the current strong environment?

And the second question is about the current market environment has been give right to sort of a very significant cash flow. So are the main plan would be the return of this cash flow to the shareholders or are there any other growth plan under consideration?

Arun Misra: So the first part is yes, the market was very strong. As you are exiting quarter 4 in fact one of the highest numbers that we produced in quarter 4 also supported by the market however going into April for the first 15 days we are seeing kind of a little of a slowdown in the domestic market and we are seeing logistical disruptions because of various localized lockdowns controls also people being too afraid specifically drivers logistics we are seeing some of that impact but yes if it turns around I hope it turns around by May.

If it turns around we are perfectly geared up to produce and service the market. In fact this particular month also I will not be surprised if we have a little bit of an extra stock at the end of the month because the market is not able to absorb the logistics and not permitting. The whole country and the society's focus being primarily towards Covid and that is everybody is fighting for.

And the second part on the cash flow Vinaya, would you like to take?

Vinaya Jain: Yes, let me take that. So just to reiterate the second question was on dividend payments what we intend to do with that?

Kirtan Mehta: Yes, the question is about how would you plan to utilize the cash flow which is coming in, would it be primarily returned to the shareholders or are there any other growth plan under consideration as well?

Vinaya Jain: So historically you can see that we have both invested back into the business and we have returned money to the shareholders and nothing is going to change going forward. So this is what we intend to do going forward as well.

Moderator: Thank you. The next question is from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: I had one question. Have your mix between domestic and exports sales changed quarter-over-quarter and what is the kind of price differential or realization differential between domestic and exports?

Arun Misra: So to answer the first part of the question, yes, it has changed. While the quarter one if you can recall we were primarily forced to export because of the lack of progress of opening up of the industries in the domestic sector. As the quarter moved we changed especially zinc domestic versus export it favor towards more domestic and I am happy to report that overall we have achieved 80% of domestic market in the zinc by our own supplies. So that is one plus point inspite of the high exports in the beginning we still finished at 80% of the domestic market.

It also shows that domestic market did not expand to the extent it should have. So we have been able to capture bigger part of that. As far as differential in earnings are concerned I would not be putting a number just to that but yes, higher proportion of domestic helps us to increase our margins better otherwise if we had exported everything.

Indrajit Agarwal: In the first couple of weeks of April have you seen again exports increasing with domestic market is being weak because of pandemic?

Arun Misra: No, we are still primarily on the domestic market in April. However, that absorption rate in the domestic market is lower than what it was in quarter 4.

Moderator: Thank you. The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: One question. Is it possible to share any update with respect to the Supreme Court hearings which was going on? I know we are not directly a related party but given that we will have good information on that subject?

Arun Misra: On which subject?

Sumangal Nevatia: The Supreme Court hearings which were going on with respect to divestment of government stake?

Arun Misra: Okay, so since it is in the sub judice so as and when it comes to a conclusion then perhaps it will be better to discuss about it.

Sumangal Nevatia: But sir, is it possible to share at what stage is it is the hearings concluded, is the final verdict pending or the hearings are going on? Any update we can share?

Arun Misra: I would refrain from commenting on that. So let us leave it at that it is under Supreme Court and more over it is more with the shareholders. So let it come out first from there and then we will share.

Sumangal Nevatia: Just one small clarification. Sir, in the past in a very strong commodity environment we have hedged some bit of volumes in zinc and lead. I think it was in 2017 or 2018 last. So any thought of doing something similar or our principles that commodity exposure will be kept with the shareholders is that something which will continue?

Arun Misra: Would you please repeat that question I did not get you?

Sumangal Nevatia: Sir, I wanted to know whether we would be looking to hedge any part of our volumes zinc and lead like we have done I think in 2018 in the past?

Arun Misra: I think we are not yet reached that point of decision as of now. The trend that we see in the domestic market see the world over if you look at currently the western part of the world is undergoing vaccination at a very fast rate and the return of the markets will be much faster than the eastern part of the world. Southeast Asian market is still protected. India has bit of a thing because of the last one month events that are unfolding.

I hope that after the government has opened up the vaccination from 2 May onwards till 18 years of age and if we can really do a good job on vaccinations throughout the month of May I do not find any reason why we will not be able to bounce back and specially Indian industry can export to the western world which by that time would have come back to normal. So I see good prospects in Q1 itself. I do not see that we have a situation where we have to hedge our metals as of now. Anything additionally if Sandeep or Vinaya want to add?

Vinaya Jain: Yes, let me add to this. So as a policy we do not hedge. We retain the commodity exposure. Although we do hedge at the average monthly LME prices. That is all otherwise we do not really hedge our sales.

Sumangal Nevatia: So we have a policy of not hedging so it is not a dynamic decision or something which is subject to market outlook by the policy.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Sir, couple of questions. One is we have indicated project CAPEX of $100 million. Sir, what is the maintenance CAPEX that we should look at for modeling purpose? Would it be around $200 million around about?

Arun Misra: So Vinaya, would you like to take that?

Vinaya Jain: Yes, maintenance CAPEX roughly in the range of $150 million to $200 million.

Ritesh Shah: Sir, secondly there is no comments on the Gujarat Greenfield smelter and the fertilizer plant that the company was exploring. Sir, any thoughts on these two particular variables on capital allocation?

Arun Misra: So we have in the last board meeting this $100 million that we are saying CAPEX has some provision for seeding expenditure for these two projects as well. We are aggressively working on the drawing board to finalize one, the scope of the project. Second, the business case. Third the engineering design and cost estimation for both Doswada plant which is in Gujarat on a standalone smelter and second fertilizer plant at Chanderiya and third is overall mine volume expansion from 1.2 million tons to 1.35 million tons.

I expect from the three projects the first two, that is Gujarat and fertilizer their project should be over next another three to four months and then the moment that estimations are all ready and engineering design is ready we are in a position to place order. We will come to Board take approval and then go public on the numbers.

Ritesh Shah: Sir, my second question pertains to R&R. You have indicated an increase to 448. I checked in the annual report it was around 400 million tons last year. So it is a commendable job over here. Sir, the question over here is recently there was a MMDR amendment pertaining to saved leases I am assuming this number does not get impacted because of the MMDR amendment but there were lot of leases like SK North, SK South. So what is the legal standpoint of the company over here?

Arun Misra: So these leases these numbers are purely bound by the mine leases where we have the full right to access and then we can explore. So this no way comes across the leases which are under dispute or which are under the legal cases or under 10(a)2(b) cases. So if I say that way then these numbers are all protected and these are all firmed up in our mining leases. And balance some of the leases where we had prospective licenses given before and later on the MMDR Act underwent changes we are in the legal recourse and in our opinion we are fully protected by the Court decisions that have been taken till date.

Ritesh Shah: Sir, lastly let me just try my luck. Just specific question to what Sumangal had asked. Sir, can you give clarity on exactly what is being heard in the Supreme Court right now basically what is it that has been contested? If you can give a broad idea about that I do not want the case specific but say particular two variables that is something which has been talked about?

Arun Misra: No, the hearing if you all know that if you follow Supreme Court hearings, hearing is not on argument over whether A is right or B is right. Argument continue as newer things come up which can be the very basics that premise of disinvestment to whether further disinvestment is in the rights of the government not in the rights of the government and there are other stakeholders as well.

So I would not like to get into specifics of that but I believe that the Supreme Court will close that matter and government is also in an urgency to further disinvest all the successful disinvestment cases also at the cases which are sick units and they want to disinvest. I see the government had approached Supreme Court that they need quick judgment on the need for disinvestment. So I will leave it at that and hope that Supreme Court closes the matter soon.

Moderator: Thank you. The next question is from the line of Rahul Jain from Systematix. Please go ahead.

Rahul Jain: Sir, if I see your guidance on silver it appears to be a bit modest given that we had a disruption in the first half of last year. And this fumer commissioning so what could be your run rate say six months down the line?

Arun Misra: So if I just 720 tons and if I compare last year our 706 tons out of that 706 tons if you look back that year before last we closed abruptly all the silver plants and lead plants everything closed abruptly because of Covid. So lot of silver was stuck up in the circuit and most of it got recovered and in fact lot of WIP material we could recover in the process which also added to that 706 number. If I look at the realistic levels in the jump so we are taking at 720 is perhaps about 60 tons to 70 tons which should be good enough commensurate with the metal numbers I am talking about.

Rahul Jain: So this fumer plant commissioning is not adding much is it?

Arun Misra: No, fumer we are hoping that fumer currently the part which we have commissioned is adding more zinc so the zinc oxide which is produced during our furnace operations in Dariba that zinc oxide goes into this part of the fumer and we recover zinc out of it which has been an innovation in the way we operate. Second part is the silver production and lead silver production from fumer that part of the fumer will be commissioned.

I expect that if this current problems are all over then somewhere by H2 this balance part of the fumer would be commissioned and some metals have been factored will be factored in our guidance going forward. So that is why I said I am keeping my options opened by next quarter when I have a chance to revise the guidance I will surely do looking at the progress.

Rahul Jain: And sir, how deep have we gone in the mine and given the topography that you have encountered because I am sure you would be so the cost structure say two years down the line also are likely to be in a similar range?

Arun Misra: If most of the developmental work as we go deep into the mine the principle focus is at least three to four levels must be open up in one mine and that has been target. That is why last year we did a fantastic highest ever development about 98 kilometers of development in the mines and this year we want to do more than that. About 40 kilometers to 50 kilometers more than that development we would like to do.

That is why it is adding to the bit of a cost but once these developments are over mines are matured going forward that need of development will be less and it will be more of an extraction and retreating mines. And in that case the cost will further likely to come down by FY23 onwards.

Rahul Jain: And structurally we also would maintain our policy on smelting all the ore that we produce or we are also open to tolling outside given the high LME prices?

Arun Misra: Tolling I do not know whether we can get a facility for zinc, lead tolling. That is why our coastal smelter is basically fixed on with a lot of concentrate is floating around in the world and to tap that. But on the other part we are committed to smelting all the concentrate that we produce.

So that is where our entire expansion work of 1.35 million tons that goes around is only around that. That entire concentrate has to be smelted. There is no chance of selling any concentrate or sending any concentrate to any standalone smelter outside.

Rahul Jain: But there is nothing which stops you from doing that right if I am not mistaken?

Arun Misra: No, nothing stops but we do not want to do that. We want to smelt all the concentrate that we want to do.

Moderator: Thank you very much. In the interest of time we will take that as the last question. I would now like to hand the conference back to Ms. Shweta Arora for closing comments.

Shweta Arora: Thank you everyone for joining us on the call today. For any follow up questions or clarifications, please feel free to reach out to the Investor Relations team. Thank you.

Moderator: Thank you very much. On behalf of Hindustan Zinc Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.