"Hindustan Zinc Limited Q2 & First Half FY22 Earnings Conference Call"

October 22, 2021

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Moderator: Ladies and gentlemen, good day and welcome to Hindustan Zinc Limited Q2 and first half FY22 earnings conference call.

As a reminder, all the participants' 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 for an operator by pressing '*' and then '0' on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shweta Arora, head of investor relations. Thank you and over to you, Ms. Arora.

Shweta Arora: Good afternoon everyone. I welcome each one of you for Hindustan Zinc 2nd quarter and 1st half FY22 Results Call. Today on the call, we have with us our CEO – Mr. Arun Misra and our recently appointed interim CFO – Mr. Sandeep Modi.

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

I 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 and your family are staying safe and following all the necessary precautions as well as taken doses of vaccination to fight the spread of Covid-19 pandemic in the country. It gives me satisfaction to report fatality-free operations during the quarter. Nothing is more important to us than the safety of our people and we as a leadership team reiterate our commitment and vision to ensure all employees go home safely. Hindustan Zinc safety team continuously drives various initiatives to meet our vision and working committee is identifying critical areas for improvement to address any potential risks. It is heartening to see that the shared vision of holistic, inclusive, and sustainable growth that we have set as a leadership team for the company is yielding desired results.

Progressing well on our water positive journey, Debari Zinc smelter commissioned zero liquid discharge plant as part of water recycling. Kayad Mines have received FIMI Bala Gulshan Tandon award for excellence for the year 2020-2021 for the longest accident-free period and national safety award from DGMS. This reinforces our commitment to safety of our people. Our Chanderiya Lead Zinc Smelter was given the most innovative project award for restoration of Jarofix Yard at the CII National Award for environmental best practices 2021. Also at India ESG leadership awards, Hindustan Zinc won in overall environment category as well as greenhouse gas emission reduction category.

I am also delighted to report the bold steps that Hindustan Zinc is taking on sustainability part. We have committed to net zero emission by 2050 and published our first task force on climate-related financial disclosure, also known as TCFD report. We have also joined the task force on nature-related financial disclosure, also known as TNFD, to tackle nature-related risks proactively. I am also proud to represent Hindustan Zinc and participate in person at the British High Commission Conference of the Parties, also known as COP26 next week at Glasgow. I am proud to announce that we won industry leadership award at the prestigious S&P Global Platts global metal awards 2021.

As a group, our core value and priority is to give back to society, and our CSR team has doubled up efforts during these trying times and carefully balanced both the ongoing long-term core initiatives as well as health and Covid-related support to the villages and communities surrounding our operations. I am happy to share that Hindustan Zinc has won the CSR Leadership Award 2021 presented by World CSR Day for transforming the lives of communities nearby. Our Samadhan program received an appreciation from FICCI for commendable work under the food security and agriculture category.

Turning to market update:

Zinc prices continued the momentum gained in quarter 1 FY22 and crossed the $3000 mark on multiple occasions. Though the prices retreated briefly in the face of macroeconomic worries, about the softening global economy. Over the last 1 year, we have seen global zinc supply facing uncertainty in the form of Covid-related stoppages to later logistical challenges due to bottlenecks at major ports which caused long delays and shortage of containers to ship concentrate. More recently, the industry is also dealing with coal shortage. Earlier, China announced curtailment of power supply to energy intensive sectors which also impacted output. Energy crisis which started from China quickly spread to Europe which is also facing rising natural gas prices. We have seen big players such as Nyrstar announcing curtailing production up to 50% at three of its European smelters because of rising electricity costs. All the supply side constraints are pushing zinc prices higher and partly also helping to offset rising input energy cost for low-cost players such as Hindustan Zinc.

Talking about LME exchange stocks:

At their current levels, i.e., at the end of September, they are only sufficient to meet 7.5days of global demand which is one of the lowest levels for the current calendar year. We feel relatively low stocks, supply side disruptions, and robust demand will continue to put upward pressure on spot metal premiums globally. Despite the supply chain and energy-related constraints, manufacturing activity in North America and Europe remains buoyant, always below the peak, seen earlier in the year. End-use demand in most of the world's major economies remains robust.

On the domestic front:

India's manufacturing PMI stood on the higher side of 52 during the quarter suggesting a strong confidence of the market on the economic progression. Quarter 2 of this year saw a continuation of the Indian manufacturing sector’s recovery. New orders continue to rise during the quarter suggesting favorable market conditions. As government spending continues in infrastructure, highways, electrification, and transmission projects, the major demand for zinc came from the structural segment followed by the alloy segment which after a dull year exhibited strong recovery as automobile demand improves.

Lead prices fell during the quarter, but fundamentally we see OEM battery consumption, replacement demand, and electric bike batteries to remain intact. Silver market in India has seen some headwinds in the quarter of this year, majorly going to increase in premiums. The increase in premiums is being caused due to the increasing demand and decreasing price. Onset of imports from the international market is another development which is being observed since the end of July due to low global prices as compared to domestic prices.

As we are increasingly seeing focused shifting to green energy in India in line with global practices, we foresee a strong pickup in the industrial demand of silver for renewable power projects such as solar cell manufacturing. As we have seen some recent merger and acquisition activities from reputed corporate houses on green energy, we progressively expect more investment to come into this space.

Coming to the update on operational performance:

During the quarter, mined metal production was 248,000 tonnes, up 4% year-on-year on the account of higher ore treatment at Rampura Agucha, Zawar, and Rajpura Dariba mines supported by improvement in recovery which has been partly offset by lower mining grades. Sequentially, mined metal production grew by 12% mainly due to higher ore treatment at Sindesar Khurd and Kayad mines and improvement in mining grades and recovery.

On a half yearly basis, H1 of this year, mined metal production was 470,000 tonnes, up 7% year-on-year in line with the higher ore treatment at Rampura Agucha and Zawar mines and Rajpura Dariba mines and increased recovery offset by a slight dip in overall mining grades.

Integrated metal production was 209kt for the quarter, down 12% sequentially on account of extended shutdown at one of the roasters at Chanderiya smelter for repairs and overall structural components. We lost close to 25kt due to the roaster maintenance work shutdown. The shutdown which was originally planned for 60 days, however, was finished in 52 record days. Integrated zinc production was 162,000 tonnes, down 14% quarter-on-quarter and integrated lead production for the quarter was 47kt, down 4% sequentially. Integrated silver production was 152 tonnes, down 5% quarter-on-quarter in line with lower lead production.

I am proud of our teams at Hindustan Zinc who with their mettle continued to successfully overcome formidable challenges ranging from pandemic, operational, and other macro challenges like energy crisis. They in turn have strengthened the backbone of our operations through effective systems and planning and have set the stage right for us to deliver 1 million production mark.

Coming to project update:

We are awaiting public hearing date for Doswada Zinc Plant. Once that is cleared, we will proceed for environment clearance process and all other statutory approvals from state and central governments. Also, we will continue to engage with technology partners for closure of best-in-class technology. After all the necessary approvals within that system and from the governments, teams will start the groundwork. Due to the ongoing Covid-19 related restrictions on visa for Chinese nationals, we expect fumer commissioning to be completed by the end of this fiscal year.

Before I hand over the call to Sandeep for an update on financial performance, I would like to reiterate our production guidance for the fiscal year 2022.

We maintain our mined metal and refined metal production guidance for the fiscal year in the range of 1025 to 1050 kT each and saleable silver production at 720 tonnes.

With this, I hand over to Sandeep to update on the financial performance.

Sandeep Modi: Good afternoon everyone. Coming to an update on the financial performance for the 2nd quarter and 1st half year ended September 2021:

Revenue from operations during the quarter was at Rs. 6,122 crores. This is an increase of 8% Y-o-Y led by higher zinc LME and lead LME. We also had a higher premium as well. This got partly offset by lower metal and silver volume. Zinc and LME prices were up 28% and 25% Y-o-Y respectively. Sequentially, revenue decreased 6% primarily due to the lower metal and silver volumes and lower silver prices. It got partly offset by higher zinc and lead LME prices and higher premium.

Zinc volume was sequentially down by 12% and lead was down 4% in line with the lower production due to the maintenance shutdown. Zinc cost of production before royalty during the quarter was $1,124 per tonne. In the INR terms, Rs. 83,208, higher by 22% Y-o-Y and up 5% sequentially. The COP has been affected by higher input commodity prices like coal, diesel, met coke, and higher revenue mine development. It got partly offset benefitted from the operational efficiencies and metal recovery. Sequentially, maintenance shutdown and lower metal volume also weighed on the cost of production.

EBITDA for the quarter was Rs. 3,332 crores. It was up 13% Y-o-Y and down 6% sequentially. The drop was driven by lower volume and higher cost primarily on account of input commodity inflation. I am happy to share that on H1 basis, we delivered a record high H1 EBITDA of Rs. 6,890 crores, an increase of 51% Y-o-Y. This was driven by higher zinc and lead LME prices, higher premium as well as higher silver prices.

While an uncertain macro environment where we are facing headwinds in the form of input commodity inflation led by global energy shortages, tailwinds in the form of higher LME is acting as a hedge to protect our margins. In addition, our continued efforts on operational efficiencies and recoveries are also supportive of lower cost.

Net profit for the quarter was Rs. 2,017 crores, up 4% Y-o-Y and 2% sequentially. This increase was mainly driven by recovery in metal prices and lower ETR. Net profit for the H1 FY22 was Rs. 4000 crores which is Y-oY up 21%. Moreover, effective tax rate for the quarter was approximately 30%; in the H1, 32%. Basis the projection, our ETR guidance for the full year remained unchanged at 32%.

Our cash tax rate would be 17% as we have met credit available. Once we move to the new tax regime from FY23-24 onwards, our tax rate will be around 25%.

Coming to our cost and CAPEX guidance for the full year:

In the previous quarter, we had cautioned against the risk to cost from rising input commodity prices. In light of the same, we would like to revise our cost guidance upwards. For the fiscal year 22, zinc cost of production is expected to remain below $1,075 per tonne which was from $1,000 per metric ton earlier. Project CAPEX guidance for the year remains unchanged and is expected to be approximately $100 million.

With this, I open the floor for your questions.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: I have 2 questions. The first one is on the coal sourcing. Currently, what is the split between linkage and imports? And what is the likely increase in power and fuel cost in Q3 FY22 as a result of imported coal prices, we know where they are?

Sandeep Modi: Our mix of the linkage and non-linkage coal which is the import is 25% is the linkage and around 75% is the import. That is the overall mix for the coal. The likely increase in the coal cost which is a resulting into our cost guidance which I said about $1075 per tonne is largely on account of the input commodity prices. In the Q3 and Q4, almost $50 cost increase is coming on account of the coal cost increase.

Amit Dixit: The second question is a database question essentially. What is the export quantum - you can express in proportion - in Q2 and what it is likely to be in Q3?

Arun Misra: We typically export roughly around anywhere between 10 kT to 14 kT per month is the export depending upon the production volume. However, in the Q2, since our overall metal production was lower, overall, we tried to maximize the domestic component and in fact our domestic share went up in Q2 in spite of lower production and that has resulted in additional earnings.

Amit Dixit: What would be the proportion in Q3? Will it come back to 10 to 14 kT per month or is there some other thought behind it?

Arun Misra: It depends on the volume. Typically, Indian market has an absorption capacity of 45 kT to 50 kT zinc production and if we produce 65 kT zinc in order to produce 90 kT plus metal, in that 14 to 15 kT export will come back which is the normal case in our case for a 90 kT production in a month.

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

Sumangal Nevatia: My first question is with respect to the production. In the first 6 months, we have seen a lot of issues with respect to roasters at Chanderiya and shutdown at Dariba smelter. One is, if you could share if these issues are behind? I know you have already reiterated the full-year guidance, but then, in the 4th quarter, do we expect to run at full-rated capacity at around 1.2 mtpa? And what would be your confidence level for next year? Whether we can deliver as per our rated capacity at 1.2 mtpa which would mean a very significant growth from FY22 levels?

Arun Misra: Absolutely. I also share your views. We were actually slated for 1.2 million tonne delivery this year. However, we never anticipated the second wave of Covid which affected us badly in the beginning of the year, that was in quarter 1, and then it was subsequently followed by disruption in the supply chain across Europe. So, most of the equipment which we tried to introduce this year as a replacement which were scheduled to arrive in quarter 2 have not yet arrived and are expected in quarter 3. And that's why we took the decision when the roaster there was a breakdown in Chanderiya where the shutdown got extended for the dome failure, we preponed the shutdown which was there in H2 into the same quarter 2 assuming that most of the new equipment will arrive in this quarter and then we will be in full throttle as far as operations are concerned, and the current level of operation that I see, I can say from December onwards, we should be able to demonstrate our capacity of delivering 1.2 mtpa and we will reach that mark in quarter 4 surely but we should demonstrate a monthly capacity even before that.

Sumangal Nevatia: Mr. Misra, this is more of the delays and we don't see any structural issue of grade slippage or something to deter us from achieving 1.2 million tonnes. Is that the right understanding?

Arun Misra: Overall, if you look at the grades compared to last year, these are almost similar if you look at quarter-on-quarter. Annual-wise, we are still slightly worse than what it was last year but the development target that we have taken for ourselves will liberate better grade ore in the coming H2. Our H1 plan was also for typically in the mine planning. Compared to H1, H2 grades are better. And we are looking to that, and H2 should provide better grades, should provide better numbers, and should also demonstrate our capability of 1.2 million and I am sticking to that.

Sumangal Nevatia: Just a follow-up; this Fumer project, we were delaying the commissioning by months. Earlier, it was September, then October, then November, and now it has been pushed to the end of FY22. Things have opened up and there have been issues of visa, etc., for the Chinese officials still there and that is why we are delaying by another 6 months?

Arun Misra: Correct. The visa issue remains the same. That's what is also affecting us. However interested we are for commissioning, but we are unable to get the same thing done in absence of the experts visiting us. So, we have to wait till quarter 4. At the same time, I can assure on the production front since we have got enough of MIC in stock because of higher mined-metal production in this quarter compared to metal production, we will be full on as far as H2 is concerned and any commissioning of fumer will only give benefit for the 1st quarter of next year.

Sumangal Nevatia: Sir, my second question is with respect to the capital allocation. Generally, in the last 2-3 years, we have been giving a big interim dividend around 1H results and this time also, there was a board meeting scheduled, but suddenly overnight, it was canceled. Any thoughts on that? Secondly, there are media reports suggesting that we might look to take on Zinc International business from the parent. Any thoughts on that media speculation if you could share?

Arun Misra: We are just into the festive season and going into Christmas, I think good news is there for all. We need to just wait for that and good news will of course arrive at the right time and I am very optimistic about the festive season delivering good news for us as far as dividend is concerned. The other part is Zinc International. I have also commented earlier in our annual general meeting with respect to a question from a respected shareholder that should Hindustan Zinc look at South Africa and in particular ZI. Of course, we have to grow inorganically as well and the targets do include ZI as well as other facilities around the globe. I will rest my comments there. Whenever we are matured on that thought process and we have due approvals from all the relevant agencies, we will come back and would be sharing the good news with you.

Moderator: The next question is from the line of Raashi Chopra from Citigroup. Please go ahead.

Raashi Chopra: Sir, just to clarify, you mentioned that the power cost will be higher by $50 in the second half. Just kind of tallying it with the guidance that you have, which is 1075 for the full year versus 1095 in the first half. Apart from higher volumes, where are you expecting cost savings to more than offset the power increase?

Sandeep Modi: If you see my cost structure, almost whatever the volume driven would be there, volume will be helping offsetting this coal cost increase and apart from this, acid prices are also there. So, we have better realization in case of acid prices. These are the 2 factors apart from the operational efficiency or recovery improvement and what Misra Ji has also said about the ore grade, that will also help me to reduce my cost. With that, we should be able to meet the below $1075. And we also had some exceptional item of the shutdown cost in the Other Expenses category which was in the H1, especially in the Q2. Now, leaving behind everything and we don't have any planned shutdown in the H2, we should not be having such shutdown cost also.

Raashi Chopra: Sir, can you quantify the exceptional amount, please?

Sandeep Modi: one-off item in the part of the Other Expenses, i.e., shutdown cost was there, which would not be there in the H2.

Raashi Chopra: What was the grade in this quarter?

Arun Misra: Grade in this quarter was 7.12. It was better than last quarter of 6.91, I guess.

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

Pinakin Parekh: Sir, my first question is that if tomorrow the visa issue is not resolved, would it be fair to say that the fumer will not come into line by the FY22 deadline that has been mentioned?

Arun Misra: We are desperately looking for alternative expertise available in the globe who have done similar commissioning. I am hoping that if this visa issue doesn't get resolved and in the next 3 to 4 months' time we are also able to locate experts who have commissioned fumers of similar mix and we have confidence in their expertise, then surely we will go for that.

Pinakin Parekh: Sir, by the time you make alternate arrangements and it gets pushed out into FY23, what would be the volume impact on the guidance that we have given this year so far?

Arun Misra: This guidance that we have given, we are not factoring anything for the fumer as such because we had anticipated that Fumer commissioning perhaps would get delayed because of the Covid and all that. We are intact on our volume guidance with or without fumer. We will deliver that guidance.

Moderator: The next question is from the line of Vishal Chandak from DAM Capital Advisors. Please go ahead.

Vishal Chandak: Sir, my question is with regard to Zinc International. I just wanted to understand do we really have any synergies with Zinc International or it would just be a means of acquiring because ultimately we give dividend and dividend goes to the parent and instead of paying dividend we acquire an asset from the parent and from there onwards the dividend moves through the parent entity ultimately? How does the Zinc International fit into our entire scheme of things? I understand expansion at Rajasthan is the primary opportunity and then probably the Gujarat plant can also come up but Zinc International is a little difficult to understand. If you could just help us on that?

Arun Misra: I don't think I have said anything to indicate that I am right now getting into the Zinc International as an acquisition firmly. I have only said that if another geography has to be seen, South Africa does provide an alternative geography. Now, the question of Zinc International, whenever they come, I am sure that proper due diligence, valuation, related approvals, and something on the solid foundation on which I can present to you. By saying that since Zinc International is part of our group company structure and I am, as also a Zinc person being part of many discussions, all I can tell you is Zinc International has a resource base of about 30 to 32 million tonnes which is equivalent to Hindustan Zinc. That should give us a comfort if that were to happen, but nevertheless, if Hindustan Zinc has to grow, it should look at a property which allows it to remain in the first decile on the cost curve, which uses its expertise of converting resource into reserve which it's huge experience of exploration in base metal. And third, it rests on its expertise of high metal recovery from the reserve in the smelting process. If these 3 attributes are there, I am satisfied that perhaps it would have the right synergy with Hindustan Zinc. This particular entity of ZI is concerned, till the time we are firm about what we have to talk about or we are committing or we are considering, until that time I would not be able to address that question. I would treat it purely hypothetical.

Vishal Chandak: Just let me rephrase it once more. If I look at any overseas acquisition done by any commodities player in India, whether it is on the steel or nonferrous, generally, we have seen that it has been EPS dilutive to the shareholders. In that light, would you still want to pursue anything that would be more accretive or better than Hindustan Zinc's current assets at Rajasthan itself? If you were to just compare between ZI and the existing assets that we have?

Arun Misra: Again you are dragging me to comparing on a particular entity. I cannot comment on that, but nevertheless, those are all - whatever you are saying - are the right things to be talked about and they should also always form part of a due diligence and part of the valuation exercise. Ultimately, in the business, how much do I pay for how much value to be created in the future. Rest all are internal matters of calculation. As a shareholder from outside, I will look at each money that I invest, how much money that investment can bring back. As long as these 2 equations are satisfied, I am okay. Rest all are internal calculations. You can keep on arguing which is better where, right?

Vishal Chandak: Sir, my second question was with respect to the Gujarat project. If you could just update us on what about the likely timelines over there?

Arun Misra: We are awaiting a new date for public hearing. Once the new date is announced, then our team on the ground will work for that public hearing to be successful. Frankly speaking, any greenfield projects in India do have some hiccups to start with. We have also had a hiccup of public hearing not being held successfully. Let the public hearing get the first success. Once that happens, we will buy the confidence of the society around and then we will think about design and declaring to you when, how much, where, and who will do that. All that will fall in place.

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

Rahul Jain: Sir, on the volume side, you are sticking to a guidance but it does look very aggressive at this stage given how the 1st half has gone through. And you are saying by your interest in the international assets, are you trying to imply that the growth opportunities in Rajasthan are not so exciting anymore?

Arun Misra: Growth opportunity in Rajasthan is attractive. It's not that it's not attractive provided that option has to be physically in place. Right now if you look at Rajasthan, all the other blocks surrounding our mines are the blocks between Gujarat and Rajasthan on the border areas where the GSI data shows so they are potentially high reserves of zinc and lead and some of the places also lead and silver. The question is when does the government bring them out for allocation either through the auction route or any other method and through the PL cum ML which perhaps is the only route for base metal that one would get a combined license of PL and ML and get it. Now, the question is, whenever that comes, Hindustan Zinc would be in the best place to go for it and get a new block. Till the time new blocks come, which also would take anywhere between 5 to 6 years to development of underground projects and then delivering numbers. We are also flushed with cash as far as cash reserves are concerned. If the cash reserve is to grow and get earning more than whatever it is earning on the treasury side, then a new investment has to be thought of, and logically, if I have to think as a CEO, zinc material available elsewhere, wherever the mine is currently at a concentrate stage, that means I don't have to prove the reserve or explore and mine the reserve which is already there and it is available in the concentrate stage, my future investment will be only smelter, then it will be a quick startup, quick investment, and cash return for the investment that I make. And my shortlisting of tentative targets will be based on that.

Rahul Jain: Basically, I think what we understand now from here on that we are kind of really at a peak production level. In the next 2-3 years, probably this is what the numbers we should look at?

Arun Misra: No, surely my vision for the future is from 1.2, we should look at first sustaining because we have not yet delivered 1.2. We need to deliver 1.2 sustainably for at least 2 to 3 years before we can make the next jump to 1.35 million tonnes if possible from the current resources. At the same time, if I have to go for…. overall ambition would be Hindustan Zinc should be of a capacity of 2 million tonne kind of producer across the globe. Anywhere if I can add another 0.5 million tonne through inorganic process anywhere in the world, that would help me take the company to a globally 2 million tonne kind of capacity.

Rahul Jain: Your current volume run rate sounds more like where the numbers every time the guidance is very high and is really not met for quite a long time now and so essentially it's kind of is it like a very mature phase or even what you said about these new blocks which you get, you will essentially have to pay a premium, right? So, I don't think much would be left on the plate, right? We have seen for lot of the iron ore options and other options. It's not really very value accretive, right? In that sense, you would want to increase our dividend? Is that not an option with you?

Arun Misra: Dividend is always as per the policy. That option can never be ruled out. That's always there, but picking plainly from the business sense of investment and earning more returns from the money that we have, then perhaps expansion into a frontier where concentrate is available and only smelting and quick conversion is possible, then I would surely look at that, and at the same time, on the auction and premium that you spoke up, it depends upon the competition. Now, who would be there to develop a mine with 600-700 meters depth is a question that all of us need to ask. We are in the best place possible and we should have that advantage as far as bidding is concerned.

Rahul Jain: Sir, also you said that in Zawar you got some extension. How much is that going to add here?

Arun Misra: No, I said that in Zawar, we have got some intersection. As you explore, every time you drill - intersection means you find more ore. That is how in our R&R, we add resource. Then we convert it into reserve. In Zawar we have the lease area which is huge and only in that more explorations are going on, if I look at future, Zawar production can go up from 4 million tonne to 8 million tonne kind of ore production and in Rajpura Dariba mine, the production has to go up from 1.5 million to 4 million tonnes. These are the potential places for more exploration, addition of resources, and opening up new frontiers as far as mining is concerned. That is more to give some guarantee that 1.2 million tonnes will not be a flash in a pan. It should be there steady for the next 4 or 5 years if not more.

Moderator: The next question is from the line of Noel from Ashika Group. Please go ahead.

Noel: Regarding the higher cost of production that we have seen, an increase of about $54 per tonne quarter-on-quarter. Regarding that, I just wanted to know you had mentioned that the increase is mostly due to the higher coal cost, right?

Sandeep Modi: You are talking about the quarter 2. In the quarter 2, if you recall, I said that there were 2 reasons. One is about the coal cost obviously and the diesel which is the commodity input cost has being putting the pressure. However, since in the quarter 2 the metal production was also lower, that has also impacted the cost of production, and we have a maintenance shutdown. These are the 3 primary reasons for the overall cost increase.

Noel: But generally, if we are looking at sensitivity of cost of production to higher coal prices, say if the thermal coal prices sustain again upwards by $20 to $30, how would that move the overall cost of production assuming that there is no production-related difficulty?

Sandeep Modi: If you see our cost guidance, I would say that to the extent we foresee this fast-evolving situation, we have revised already our cost guidance. However, it remains to be seen how quickly and proactively various authorities and industry bodies around the world would resolve this at local and global level. In turn, how this delicate trilogy of coal, natural gas, and oil, balance itself out of in the short to medium term because if this is left unattended, it has the potential to snowball into something big which may even dent the overall economic growth. So, I would leave at this juncture from the overall cost guidance and this point of view.

Moderator: The next question is from the line of Vikas Singh from PhillipCapital. Please go ahead.

Vikash Singh: Sir, previously a couple of quarters back, we were guiding that apart from 1.2 million tonnes, we would be concurrently doing CAPEX for 1.35 million tonnes as well - at least the mine development things. Looking at our current project CAPEX of just 100 million, just wanted to understand what happens to that project? Have we kept it on a backburner for the time being or is it still going on and initial CAPEX is very low?

Arun Misra: If you look at our exploration, we have actually been adding. We are focusing first on converting resource to reserve and adding more resource because if you want to do 1.35 million tonnes, since the mining volumes that will go up, you need to file for a revision of mining plan. And for every mining plan revision, they require 5 years of reserves to be proven first. So, first priority for 1.35 million when we back calculate, we have focused on R&R increase across the mines. Part of the increase of Zawar mine from 4 to 8 million tonnes and the Rajpura Dariba expansion, SK Mines from 6 to 7 million tonnes, starting of some old blocks after due clearance, Bamania Kalan like that or getting older prospecting license and mining license from SK North and SK South. Those are the actions that have to be frozen first before we can start declaring about 1.35 million tonnes. It’s not on the backburner, as I said clearly, if Hindustan Zinc has to become a 2 million player in India, it has to be 1.5 million, 0.5 million has to be inorganically elsewhere in the world. And for 1.5 million, currently at 1.2 million, the growth has to come in 2 stages - 1.2 to 1.35 and then 1.35 to 1.5. I am hoping in between, there will be addition of leases which will give me more resource and reserve to support this theory of my ambition of higher production to 1.5 million tonnes.

Vikash Singh: Sir, my second question is pertaining to recently we had some shutdowns in Europe in terms of zinc capacities because of soaring energy prices. Any expectation from our side in terms of more supply cuts which could still benefit us or with recent some correction in the power prices, there is a risk of these supplies coming back? Any thoughts on that?

Arun Misra: We are watching over the situation very very closely. 1) Whether that expected cut down in production finally fructifies, materializes, how much would be the exact drop? 2) World shipping logistics as well as container availability and port congestion are a matter of concern. As the world is coming out of Covid, suddenly we find direction of material movement all across the globe has completely changed from what it used to be earlier primarily because 1) Sudden realization or withdrawal of many American companies out of China and shifting of production bases, 2) We find that the delay in the port which is holding that container, releasing of ships from ports are not allowing free flow of material across the globe. So, even if we want to serve at this point in the European market, perhaps the high logistics cost or delivery timeline commitment would be a key challenge for us to serve that market. However, with saying that, we look at the upward push on prices for us would be one way to counter the upward push of commodity prices which is on the input side but the situation what you said is, yes, something we are looking at very closely, but using that market for our supplies may not be as remunerative as it would be if we are only supplying to domestic.

Moderator: The next question is from the line of Amit Dixit from Edelweiss Financial Service. Please go ahead.

Amit Dixit: I had a couple of questions. Can you tell us about the capital mine development in the quarter?

Arun Misra: Capital mine development in the quarter was about 12 km. It was about 12 km this quarter, almost same as that of the quarter 1 of this year but about 2 km more than quarter 2 of last year.

Amit Dixit: The second question is, just wanted to pick up from Vikas' question actually. As you mentioned in your opening remarks also that there is like Nyrstar has temporarily idled some of its refining capabilities. Since we are also dependent on imported coal, do we see any threat on the imported or domestic coal availability that might impede our smelting operations? Do we see a threat as of now?

Arun Misra: As of now, on the supply side, we have tied up with supply and fully protected till about February or early March next year. This business plan year, we don't see much threat, and the way the dynamics are playing, we will see some intervention from the big coal producing nations going forward, and I am hopeful that the situation will come back to control. Availability is not a concern just as of now. We will have to make do with savings on other fronts as Sandeep has narrated. Although there will be a price from the coal's side, we will try to make gains by working with better grade of ore, better recovery as well as cost of water. We have preponed the shutdowns of H2 to H1. The cost has already got absorbed. So, the planned cost of H2 will be avoided. At the same time, we would aim at more recovery from the other income sources that we have which is acid sales or other residues that we sell, we will make more recoveries on that front. Those are the levers that we have in our hand to counter in case the coal cost becomes too high.

Amit Dixit: Just a follow up on this. Have you seen coal availability from Coal India improving in October so far?

Arun Misra: I guess, more than the availability, the current issue is that domestic power plants or energy sector plants have a priority and rake allotment of transportation would be again a bottleneck because every power plants are at different locations where logistics and turnaround times are different. Government has a clear focus on energy - priority first on the energy sector. We come in the metal producing sector. So, that priority does impact the amount of domestic coal available to us.

Moderator: The next question is from the line of Ashish Kejriwal from Centrum Broking Ltd. Please go ahead.

Ashish Kejriwal: Sir, this question is on coal cost only. When you are talking about $50 increase in zinc production cost on account of coal, are you taking into account both international coal supply which we have till February as well as disruption in the domestic coal market because now Coal India is not giving it in October? Incorporating these 2 reasons, we are saying that $50 increase will be in the 3rd quarter as well as in the 4th quarter?

Sandeep Modi: I am saying that compared to the overall H1 whatever my cost was $1,096, I am assuming this approximately $50 cost increase them and this captures both the import coal price increase and some pressure on the lesser materialization of the coal from the domestic which is obviously the situation, as Misra Ji has said, with everyone who is in the non-power sector.

Ashish Kejriwal: So, this $50 will be in the 3rd quarter itself?

Sandeep Modi: It will be in the sequential manner, but I am putting overall from the H2 point of view. When I revise my guidance for the overall $1075, this is built up into that.

Ashish Kejriwal: Secondly, in terms of volume guidance, though you are maintaining the volume guidance, but in any of the earlier quarters historically, we have not seen that kind of volume in a quarter. Is it possible to share that in a quarter, how much maximum you can produce?

Arun Misra: I would say that in the March of last year, we exited at 1.2 million capacity because of high mining volume as well as smelting. Our aim is to recreate that in quarter 3. The enablers that we look for that is all the equipment that we placed order, this year's business plan was supposed to be delivered in quarter 2 have got postponed. So, quarter 3 would have more new equipments in place. Second, ambient temperatures are less. Typically, mine operates at the highest productivity when the weathers are good and comfortable. We have also finished all our infrastructure work related to ventilation in mines. We have commissioned new air-chilling plant in SK Mines. Those investments that we had planned are already in place. All that gives us confidence that both quarter 3 and quarter 4 will be exceptional quarters and we would have better volumes so that that gives us confidence of maintaining the guidance.

Ashish Kejriwal: Volume-wise definitely it is going to be there, but do you think that we can do 300 kT in a quarter which is in 3rd quarter because we already have some data on October. That confidence still you are seeing that 300 kT can be done in a quarter?

Arun Misra: At the end, the effort will always be there for that. In case of 1.2 million ultimately boils down to 300 kT per quarter has to be delivered, right? The attempt is there and we will see how it pans out.

Moderator: Ladies and gentlemen, we will take the last question from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Sir, you had mentioned that this quarter, we sold more in the domestic market rather than the export market because our volumes were low. Is that reflecting in the premiums that we realize? because sequentially I think there has been an increase of both zinc and lead premiums. Is that something that has happened or played out in the 2Q?

Sandeep Modi: Yes, it is the reflection in my premium because in the domestic, I sell I get a duty factor and also we have the excess exports premiums. I can't disclose the numbers but it is a reflection in my overall revenue increase.

Pallav Agarwal: Just on that, with auto volumes coming down, are we seeing any impact of that on our lead demand? because lead primarily goes into batteries. Is that impacting our demand or not really?

Arun Misra: If you look at my change in operating strategy in H2, it is operate the Pyro in zinc and lead more whereas in H1, we were operating the Pyro in lead more. So, comparatively, my zinc production will be up and my lead delivery will remain at the current level - somewhere around 17-18 kT per month and so that absorption is not a very difficult target to achieve. We have not seen yet any impact on the auto battery side, but also you would appreciate more and more EV vehicles are being launched which also run on a combination of lithium battery as well as lead acid battery, primarily lithium battery being used for the motor drive whereas the lead acid battery is being used for the window drives and auxiliary power consumption. We see a shift towards EV would also result in more lead acid batteries. So, that demand will be intact. As of now, I can assure you there is no indication for us to see that there is a drop in demand as far as auto customers are concerned.

Pallav Agarwal: Sir, do you think if we produce less of lead, will that impact our silver volumes? because most of our silver production is linked to the lead production. Will the silver guidance be lowered because of that?

Arun Misra: It's a balanced operation. The guidance that has been given, we will stick to that and we will ensure that the grades are such that we produce that.

Moderator: I now hand the conference over to Ms. Shweta Arora for closing comments.

Shweta Arora: With this, I close today's call. On behalf of Hindustan Zinc, I wish you and your family a very happy and safe festive season ahead. For any followup questions on results, please feel free to reach out to the investor relations team.

Moderator: On behalf of Hindustan Zinc Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.