"Hindustan Zinc Limited Q2 FY17 Earnings Conference Call"

October 20, 2016

MANAGEMENT:	MR. SUNIL DUGGAL – CHIEF EXECUTIVE OFFICER, HINDUSTAN ZINC LIMITED MR. AMITABH GUPTA – CHIEF FINANCIAL OFFICER, HINDUSTAN ZINC LIMITED MS. EKTA SINGH -- INVESTOR RELATIONS, HINDUSTAN ZINC LIMITED

Moderator: Good Day, Ladies and Gentlemen and Welcome to the Q2 FY-'17 Earnings Conference Call of Hindustan Zinc Limited. 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, you may signal the 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. Ekta Singh -- Investor Relations, Hindustan Zinc. Thank you and over to you Ms. Singh.

Ekta Singh: Thank you, Margaret. Good Afternoon and thank you for joining us on Hindustan Zinc Second Quarter FY-2017 Results Call. For our call today, we have with us Mr. Sunil Duggal -- CEO of Hindustan Zinc and Mr. Amitabh Gupta -- our CFO. Mr. Duggal will present an update on Business Performance while Mr. Gupta will present Financial Performance, after which we will be happy to take your questions. Over to you Mr. Duggal.

Sunil Duggal: Thank you, Ekta and a warm welcome to all of you. Our performance in the second quarter was in line with the plan discussed with you in our last earnings call. We have reported good production volumes, and as the year is progressing you will see even better performance on volume, asset utilization and operational efficiencies.

To give you an update on operating performance for the quarter, mined metal production during the quarter increased by 51% to 192 kt from 127 kt in Q1 as per plan. The increase was primarily driven by higher ore production from Rampura Agucha open cast, where ore body got exposed after waste excavation in previous quarter. We achieved this increase in mined metal production despite unprecedented rains in Rajasthan. Compared to Q2 of previous year mined metal production was lower by 20% due to lower production from Rampura Agucha mine in accordance with the waste-ore sequence.

During the first 6-months of the year, I am pleased to inform that mined metal production from underground mine surged by 83% compared to previous year. As production from Rampura Agucha underground mine accelerated Sindesar Khurd mine increased by over 40% and Kayad nearly doubled from a year ago. This validates company's smooth transition to underground mining. Mined metal output in H1 was at 318 kt as compared to 472 kt in corresponding period previous year, which is in line with the plan. We are on track to meet the full year guidance for mined metal production to be higher than FY-2016 with second half being substantially better. Following the trend of mines metal production volumes, integrated zinc metal production during the quarter increased to 149 kt, which is up by 47% sequentially and was down 30% from a year ago.

During the first 6-months, integrated zinc metal production was at 250 kt lower by 37% from a year ago. Based on the ramp up plan of our mines we schedule major annual maintenances during this period of lower volume gearing up for busy second half. Integrated lead metal production during the quarter increased by 25% at 31 kt compared to previous quarter and was down 22% Y-o-Y in line with mined metal production. In H1 integrated lead production was lower by 17% from corresponding prior period again in line with mined metal availability.

Integrated silver metal production during the quarter was at 107 tonnes, an increase of 21% compared to previous quarter and marginally lower by a year ago. Integrated silver production increased by 6% Y-o-Y in H1 despite lower mine metal on account of significantly higher production from Sindesar Khurd mine. For the full year integrated silver production will be higher than FY-2016.

Coming to our ongoing expansion projects, I am pleased to say that company continued with high pace of mine development achieving 14,716 meters of total mine development across our underground mines during the quarter which is 12% higher from a year ago. With this the total mine development in the first 6-months of financial year reached 28,728 meters which is 14% higher than previous year.

As you would be aware, we had conceptualized stage V in late 2014 with the objective of mitigating the risk of any delays in ramp up of Rampura Agucha underground mine. Stage-V extended the life of the open cast mine to 2019-20 while deepening the pit by an additional 50 meters. However, recently we have experienced that concurrent mining at this ore body was causing pit wall instability in the open cast and leading to geo-technical challenges, hampering mine development work in the underground. After deliberation with internal and international technical experts, we have decided to modify Stage-V by limiting the incremental pit depth to 30 meters. This is projected to be a better economical model with lower waste-ore ratio and mitigating risk. The modified Stage-V will also provide a fresh impetus to accelerating mine development at Rampura Agucha underground mine in a more focused, consistent and safer manner. Ore production from Stage-V commenced during the quarter and is now being accelerated to complete by March 2018. Despite this modification, with acceleration of production from Sindesar Khurd mine, we remain confident of reaching our full capacity of 1.2 mt MIP as per plan. The main shaft sinking at Rampura Agucha is progressing well and has reached the depth of 920 meters against the final depth of 950 meters. Winder erection is at advanced stage of completion and pre-equipping work of main shaft commenced during the quarter. At Sindesar Khurd mine where shaft sinking work is already complete, we commenced preparatory work for head gear erection of main shaft during the quarter while up-ramp development work is progressing well. The ongoing mill expansion of 1.5 mtpa capacity and power upgradation projects are on track for commissioning by end of this financial year at the site. We are looking to expand this mine from current 3.75 mt which was originally envisaged to 4.5 mtpa soon by ramping up production from declines. At Zawar mine the decline development at three of our four mines is progressing very well and will debottlenecking along with associated power and infrastructure projects are at advanced stage and plan to be completed by end of this financial year.

To give you an update on the market, the uptrend in Zinc prices continued during the quarter on the back of strong fundamentals and we expect this rally to continue in the near term. Treatment charges for zinc and lead concentrate dropped even below $100 per tonne in September for the first time in many years. On account of concentrated supply tightness, consequently, the LME prices have turned bullish as anticipated. As per latest reports, refined metal was in deficit by 1,81,000 tonnes in January to August period in stark contrast to last year surplus of 205 kt. Mine supply is falling at a faster pace than the fine production suggesting that zinc concentrate stockpiles are being drawn down. Global demand has been steady with strong demand seen from galvanizer in China and Europe. Zinc demand in domestic market meanwhile has also started to inch up amidst firming trend from global market and after China release data showing the first rise in factory grade prices for more than 4-years now. Zinc demand is majorly dependent on steel market as 70% of zinc in Indian scenario goes into galvanizing of steel. Since introduction of MIP, its extension in October and imposition of various anti-dumping duties on steel products, the domestic steel companies are in a better position than their global counterparts.

In accordance with the recent SEBI guidelines, the Board of Directors have approved the Company's dividend policy which entails a minimum dividend of 30% of net worth or 5% of net worth whichever is higher. The detail policy will soon be available on company's website. Considering the Special Golden Jubilee Dividend paid in April, no interim dividend is being paid in this quarter.

Now, I will hand over to our CFO Mr. Amitabh Gupta who will take you through the financials in detail.

Amitabh Gupta: Good Afternoon to all. Subsequent to the adoption of Indian Accounting Standard or IndAS from the current financial year one, excise duty is now included in sales and reported as gross sale. Accordingly, historical revenue has also been restated.

Secondly, like in the previous year and in accordance with IndAS the company has temporarily capitalized excess ore burden of Rs.141 crores during the quarter and Rs.330 crores in the entire H1. This will more closely relate the costs to actual production volume and is expected to substantially reverse in the second half of the year where waste excavation will be lower. This methodology reduces the volatility in CoP across quarters; however, increased volumes in the second half will benefit CoP favorably and should keep it in line with previous year's CoP.

Thirdly, as mentioned in the last earnings call, we have changed the method of depreciation on plant and machinery from straight line method to written down value method to better reflect remaining useful life. This has resulted in higher depreciation by Rs.175 crores during the quarter and Rs.346 crores in H1.

Further, IndAS allows capitalization of mark-to-market gain on corporate bonds to reduce volatility in P&L. Accordingly, Rs.12 crores was routed directly through reserve instead of P&L during the quarter, this corresponding figure for H1 was total Rs.78 crores.

Under IndAS cumulative custom duty benefit of Rs.611 crores arising against EPCG Scheme has been capitalized as fixed asset under the new accounting standards and corresponding liability was also created, making it balance sheet neutral. Same is being amortized adding Rs.25 crores in both depreciation line and other income line, making it profit and loss neutral also. The corresponding figure for H1 was Rs.48 crores.

Finally, a sum of Rs.148 crores for lease hold land has been regrouped from fixed assets to other non-current assets, again in accordance with IndAS, there is no impact on P&L. The net impact of all these accounting changes is very small, reducing the profit for the quarter by Rs.46 crores and H1 by Rs.94 crores. During the quarter, revenues were Rs.3,820 crores, an increase of 38% from Q1 due to higher volumes and metal prices. Revenues were lower by 10% from a year ago on account of lower volumes partly offset by higher zinc and silver prices and rupee depreciation. In H1 revenue was Rs.6,595 crores, up by 19% from a year ago. The zinc metal cost of production per tonne before royalty during the quarter was at Rs.54,186 or $809, down 12% from previous quarter and up 8% year-on-year which is 5% in dollar terms. The sequential reduction in CoP was mainly on account of higher volumes while the Y-o-Y increase was attributed primarily to lower average grades due to change in mining mix, higher mine development and planned lower production. Cost reduction initiatives for operational and commercial efficiencies were partly offset by higher petroleum product prices and lower asset prices. The above revenue and CoP resulted in an EBITDA of Rs.2,077 crores, up 84% sequentially and down 6% year-on-year. On a sequential basis, the EBITDA increase was accentuated by write-back and lower provisions in power and fuel by Rs. 126 crores during the quarter which was substantially on account of excess provisions for renewable power obligations. For 6-month period, EBITDA was lower by 18% in line with production, partly offset by higher silver and zinc prices and rupee depreciation. The net profit during the quarter was at Rs. 1,902 crores, up 83% quarter-on-quarter in line with EBITDA increase and down 15% year-on-year. For the 6-month period net profit was lower by 30% at Rs.2,939 crores. The year-on-year decrease for Q2 and H1 was due to higher depreciation and lower investment income on account of smaller corpus despite higher mark-to-mark gain. As of September 30th, 2016, the company's cash and cash equivalents was Rs.27,066, of which Rs.22,726 was invested in mutual funds and Rs.4,331 crores in corporate bonds. The net cash was lower at Rs.25,166 crores due to temporary borrowings.

With this I will now request Mr. Duggal to sum up today's discussion.

Sunil Duggal: So now to sum up, surge in Zinc and Silver prices continued and we anticipate this rally to sustain as we ramp up our volumes. Our production is ramping up as the year progresses and mined metal and silver volumes for the year will be higher than the previous year. We have undertaken several cost reduction initiatives which will ensure stable CoP in the current year. We are on track to reach 1.2 mtpa capacity of mined metal in the coming 3-years with all our expansion projects progressing satisfactorily. With this I open the floor for Questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Mitesh Jain from Axis Capital. Please go ahead.

Mitesh Jain: I have two questions: #1, can you give us a number like what is the YTD in this year, what is the Zinc mine supply growth in terms of concentrate or in terms of mined metal whatever number you have, also, the demand growth for refined Zinc? Question #2 to Mr. Gupta, we have seen the cash surplus, corpus has gone down like because of the special dividend and all and also the yields are falling in the market, but despite that the quarterly other income is very high like similar levels Rs.770 crores. So if you can elaborate what is the reason for the same?

Amitabh Gupta: So I will answer the second question first; special dividend in the first week of April reduced the corpus by about Rs.12,200 crores including dividend distribution tax; however, despite the lower corpus we have had very significant mark-to-market gain in this quarter and in the previous quarter. So we have had two very good quarters because of the falling interest rates. Some part of our treasury investments are in longer duration products including tax bond, etc., So when the interest rate scenario falls, you end up with mark-to-market gain similar to what you see in bank income. So I would expect a run rate of closer to Rs.550 to Rs.600 crores per quarter, but these are exceptionally good quarters.

Sunil Duggal: To your question, no 1, it is not a negative number, I would say, there was a marginal growth from Q1 to Q2, and if we see from H1 of corresponding period, the demand has gone up by around 200 kt as per our information. But what we are seeing is that the deficit of the metal from the first 9-months of the previous year and the first 9-months of this year, the deficit has gone up. So because of the deficit going up and we also have the data with us which shows that concentrate supply tightening is much more than the finished goods. Because it is a cycle, so as the concentrate supply tightening is going up, which is also reflected as I spoke that now spot TCs are less than $100, how these smelters will survive, somebody would wonder, and the only way the smelters can survive is to ask for premium. So we are also hoping that going forward the premium should also trend up.

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

Sumangal Nevatia: A couple of questions: First, as per your guidance, we produced close to 600,000 tons of mined metal production in second half. So now our stated spending capacity is 1 mt which would not be sufficient. So in second half, can we push the smelters to produce the entire mined metal production or will we explore the option of selling concentrate in markets?

Sunil Duggal: No. How much we have produced in year one and if we take the equivalent metal for H2 it is around 570 KT and if we also take the recovery, although what you are saying that we will have to produce at a run rate between 1.1 mt to 1.2 mt. So to explain we have to split between the zinc capacity and the lead capacity. So the lead capacity is sufficient for us to produce the higher metal. What we are also seeing that as the mine mix is changing, we are getting a slightly higher lead compared to the zinc and we have also maintained that the ramp up of our Sindesar Khurd mine is faster than the originally envisaged, the original ultimate capacity was 3.75 mt which we achieved in the last quarter of the last year, but now currently we are in the process of ramping up of this mine and the environment clearance we are also taking. So as far as zinc capacity is concerned, we spoke a couple of quarters back that we are in the process of debottlenecking of our hydro-smelters. So some debottlenecking has taken place and we are in a stabilization phase and we are confident that whatever MIC production will be there in the H2 will be able to balance it out and convert it into the finished goods.

Sumangal Nevatia: So to what capacity can we expand the SK mine from 3.75 to what capacity?

Sunil Duggal: 4.5 mt.

Sumangal Nevatia: That is expected to happen this year?

Sunil Duggal: We are expecting that in the final quarter we should have a run rate for that. We are preparing ourselves. We are exempted from the public hearing and the final presentation to MoEF is there in this current month and we are expecting that we will get the clearance in the month of December. So we are preparing ourselves in case we are able to produce at a much higher rate because we have been performing better in Sindesar Khurd mine than we ourselves have thought at some point of time. So with that excitement we are preparing ourselves.

Sumangal Nevatia: Second question, now as we prune the depth of RA open cast, I understand overall 1.2 mt mined metal production target is on track. But in the interim, say sometime in 2018-19, there could be a significant dip in RA production for say one or two quarters. So is it possible to quantify what could be the impact with the change in mining plan?

Sunil Duggal: We have taken this action because earlier we had planned Stage-5 to de-risk the delay in ramp up. It is not that we have completely shut the plan. We have modified Stage-5 into between Stage-4 and Stage-5, so we will produce part of the ore from Stage-5 and it will give the ore next year also. But in the meantime what we are seeing is that we are able to ramp up underground mine well. If you see from the last year to this year volume, there is a change, we are currently at a run rate of around 1.2 mt from underground mine and in H2 we are thinking that this run rate will increase to 1.8 mt to 2 mt. So with this excitement I am hopeful that we will be able to produce better from our underground mine going forward and with the addressal of the geo-tech issues, we will be able to produce better numbers and as I said for the SK mine in the current year we are hopeful that we will exit with the run rate more than 4 mt and next year also we are excited that we will be able to reach to 4.5 mt. With the revised plan like this and Zawar also we have said that earlier we were not developing the declines, now the decline development is at full swing because we are quite bullish and excited with the LME numbers. So with this plan we have reworked the revised plan and are on track to produce 1.2 mt in next 3-years, but in an interim also we have addressed the issues internally and we are confident that the ramp up plan on the curve we had originally planned will be same with the revised cut V.

Sumangal Nevatia: Now, what is the current silver grades in SK mine and how is it expected to change or increase as per the mining sequence if you can just quantify in terms of pots per million?

Sunil Duggal: The parts per million grade varies somewhere between 100 PPM to 120 PPM from month-to-month. We also told that we found the different lenses in SK mine because of which we were able to ramp up the mine. There are lenses which are of marginal grade, and there are lenses which are of very high grade, it depends upon the sequence from which lense we are mining and the overall weighted average grade is calculated based on that. But there is additional lense which is coming into sequence in the next quarter which has a much higher grade than the present average grade and the grade of silver is also going up as we are going deeper. So overall average grade from SK mine will go up as we progress and go deeper, that is our indication.

Sumangal Nevatia: Is it possible to quantify from 120, how it will move in coming years?

Sunil Duggal: I will not be able to give you the exact numbers right at this point of time, but it will steadily go up.

Moderator: Thank you. The next question is from the line of Ravi Shankar from Credit Suisse. Please go ahead.

Ravi Shankar: Is there some predictability in how this provisioning for excess ore burden removal would be done? So in this year we know that 2H would see the reversal of around Rs.330 crores. But how should we view this going forward, if you could throw any light on this?

Amitabh Gupta: So basically IndAS has now adopted what is the fixed standard on open cast mining. So there is a global average. Whenever the waste-to-ore ratio goes above that average that expenditure gets deffered, and whenever the actual waste-to-ore ratio comes below that norm the same gets reversed. So what we are expecting is in Q1 we had huge amount of waste and very little ore, so there was a significant capitalization in the first half of the year Q1 and Q2, in Q3 and Q4 a substantial part of that will get reversed. So that will give us a much more stable CoP and reduce the volatility from the set.

Ravi Shankar: But going forward so it all depends on how the lens sort of cut?

Amitabh Gupta: The mining ore sequences.

Moderator: Thank you. The next question is from the line of Jigar Mistry from HSBC. Please go ahead.

Jigar Mistry: Two questions: First on cost. Mr. Gupta, now in order to achieve similar cost profile as last year excluding CoP, the interplay of the mine provisionals reversing and the fact that higher fixed cost will be absorbed, how low that $806/ton number could go into H2?

Sunil Duggal: We have stated in our guidance that our CoP will be very stable relative to previous year. So obviously if my current year's CoP is $809 currently and previous quarter it was $918, so let us say about $850, that means I will have to do close to $750 in the next second half of the year, which we are well positioned for.

Jigar Mistry: Sir, looking at the grade mix for the next year essentially higher production from lower head grade mines, at given commodity and diesel prices, do you think that $800/ton level is something that one could look at for 2018 as well?

Sunil Duggal: I think what you are saying are the factors which are responsible for cost. The cost is calculated based on the volume, the cost depends on the commodity prices, cost depends on the internal efficiencies, cost depends upon the commercial efficiencies. So we have done a lot of work on our commercial efficiency and the operational efficiency. On the operational efficiency, I would say that it all depends on the mine development cost. Internally and externally we have done lot of benchmarking. Depending on that we are trying to optimize the support cost. So overall I would like to say that the internal efficiency we are working and the commodity prices is anybody's guess because the way the coal and coke is going it can land up into a bit of a trouble. But with the volume going up, with the internal efficiencies, and with the headwind of the commodity prices, we are confident that we will be able to keep the cost stable. But the advantage going forward is that although grades are going down, as the shaft will get commissioned in the next 2-years, the hauling distance from the ore body to the surface will decrease because in that case we do not have to haul the ore through the decline, the ore will come out through the shaft, so it will reduce the operational cost to a large number. With the debottlenecking of the smelters, we have decided not to put up a new smelter with the increased availability of the mined metal, so this has also improved the productivity. So with all these measures we are confident that we will be able to hold on the cost in the coming years.

Jigar Mistry: On the realized premia for this quarter, now actually the way it is reported last quarter before excise this quarter with excise, how much do you think there was a fall sequentially in the zinc premia?

Amitabh Gupta: About $15 to $20, very marginal.

Jigar Mistry: But in a generic statement with TCs below 100 and say zinc premia at around 200, the company would be rather indifferent between selling concentrates and converting them, right?

Sunil Duggal: No, that is not our philosophy, we believe in integrated production because we have internal integration which we are able to do and the company is positioned in such a manner that the locations of the smelters and the mines is very close.

Jigar Mistry: No, no, that was not my point sir, my point was that today the pricing would not make sense for setting up a new smelter?

Sunil Duggal: That is why we have decided that we want to debottleneck but after all these smelters also have to run. If you see globally that if the smelters will not be able to survive, ultimately they will shut down the smelter, it will further tighten the supply in the market. But ultimately if they have to extract their cost, they have to extract the cost from the premium and I have a personal belief that going forward the premiums will tighten up. Our smelters are still profitable even at these TCs, Jigar.

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

Abhishek Poddar: One question on tax rate. I understand that 80IC benefit for the Haridwar unit, you are already in 30% tax slab. So is it going to end by FY18 and do we again see a step up in tax rate from FY19, is that understanding correct?

Amitabh Gupta: No, that is not correct, firstly, we must understand Hindustan Zinc's tax rate, it is a mix of multiple benefits. So I would expect the tax rate to remain fairly in late teens to early 20s for the next couple of years because there are three or four types of incentives we enjoy. Firstly, 20% of our profit before tax comes from treasury income and treasury income virtually becomes tax free, the way we plan it out in terms of our taxes. So, that is one major incentive that we have for lowering the tax rate. Then there are these geographic incentives which are incidentally 5-years and 5-years, so first 5-years, 100% which period has now expired, but we have another 5-years of 30%. So that will continue. Thirdly, there are incentives on power, through CPP all our power units enjoy significant benefits tax shield. Finally, we have some wind power income as well which is tax-free. So it is a multitude of things. I would expect our current tax rates to continue, low-teens and maybe just near MAT or below MAT.

Abhishek Poddar: So the location-based incentives would at least continue for 4-5-years more you are saying?

Amitabh Gupta: That is right in another 3-4-years.

Abhishek Poddar: On the mining plan, there was a detail discussion on this. Just a small clarification that you have mentioned that in March '18 your RA open cast production is going down. So in FY'19 what kind of challenges you see in terms of mining ramp up, you did explain that SK mine and Rampura Agucha underground mine will ramp up, but would you still be seeing some flat to kind of production or how have we planned it? The production coming out of shaft, when do you expect that to start coming from RA mine?

Sunil Duggal: Both the shafts Rampura Agucha and SK mine will get commissioned in the year 2019. So, although these will get commissioned, but these will get stabilized as the time will progress. As I told you that we have better plans for other mines and what we have also internally seen is that we will keep our trajectory up as the year is in progress and as per our calculation, our mined metal capacity would reach 1.2 mt in the year '19-20.

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

Amit Dixit: I had a couple of questions: The first one is regarding power and fuel expenses that you have mentioned that it has been reduced due to the reversal of excess provision. So how much provision is due to come in the ensuing quarters? The second is any guidance on CAPEX for FY'17 and FY'18?

Amitabh Gupta: As far as our view is concerned, we had a reversal in this quarter of about Rs.126 crores, so you should add another Rs.126 crores to this quarter's number; however, this was relatively low volume quarter, so I would expect closer to Rs.325 crores in this particular head on a normal production volume. As far as CAPEX guidance is concerned, $250-275 million is what is our annual run rate and that includes both sustaining CAPEX and project CAPEX.

Sunil Duggal: But this year the CAPEX will be slightly higher between 300 to 350 million because we are increasing our chance and we are commissioning both the mills SK mine and Zawar mine.

Moderator: Thank you. The next question is from the line of Abhijeet from ICICI Securities. Please go ahead.

Abhijeet: Just wanted to understand that the final target of reaching 1.2 mt of mined metal by FY20, what are the more near-term roadmap for that as in over the next two years if you can chart out some numbers? Second thing is that what is the target for mined ore out of Rampura Agucha over the next 2-years particularly in FY18 if you can again help with the numbers there?

Sunil Duggal: What I said that we have modified Stage-V, that means the deepening of the open pit has been reduced from 50 meters to 30 meters, earlier we had planned that we will deepen the pit from 370 meters to 420 meters, now, we will deepening it to 420 meters. In the current year, it will deliver the ore as per the plan. Part of the ore is coming from stage IV and part of the ore is coming from Stage-V. Next year we will have the modified Stage-V ore. When the shaft will get commissioned, we will get part of the ore from the shaft which would also help us to ramp up our production and we are expecting that in '19-20 the shaft will be in full swing. As I also said, we have been able to ramp up some of our mines better than the originally envisaged capacity, especially the Sindesar Khurd mine, now when we are going full blast for ramping up our Zawar mine, so two together and the better progress now we have started getting in the underground, year-on-year volume will keep growing from the present volume and with this the robustness will come in '19-20 when both the shafts will operate in full swing and the year in which we will produce 1.2 mt.

Abhijeet: So basically the growth is more back-ended towards FY'20 if I can understand.

Sunil Duggal: No, it is not back-ended I would say. We are saying that 3.75 we were supposed to reach in SK mine in '17-18 originally, we did that last year itself. So now we are going for further expansion of this mine and in the current year we are expecting 4 mt of run rate, next year we will ramp up further. We had taken cut V to derisk but if the derisking is coming through ramp up of other mines and the Rampura Agucha underground is behaving better, I would not say it is a back-ended plan.

Abhijeet: So you can help me with some idea on Rampura Agucha, for example, last year we milled 4.65 mt of ore from Rampura Agucha, that is the data which I have. So is it going to be lower than 4.65 mt in FY'18 and by what extent if you can give some sense on that?

Sunil Duggal: No, it is not like that, it is a combination of the open cast and the underground. You do not have to see the milling. If you want to see the robustness of the plan, you have to see that how much we have done from the underground and how much we have done from the open cast.

Last year from underground we did 0.4 mt, current year we are doing 1.4 mt and in H2 we have already started doing better. So you have to split between the underground and the open cast. The current year from the open cast we are doing 3.2 mt, next year we will do somewhere between 1.7 mt to 2 mt which is a left out ore from the open cast, but if you have to see the robustness of the transition plan, you have to add on the number of all the underground mines and you have to see that how the individual mines is ramping up. I said in my talk track that in first six months of this financial year the number from the underground mine compared to last year are better by 83% and six months-to-six months period or quarter-to-quarter period if this ramp up is progressing like this, it gives you a lot of confidence because there are hardly any mines in the ore which will ramp up from year-to-year in such a market.

Abhijeet: I think previously there was some question on the silver grade from Sindesar Khurd. There also if we see your FY'16 annual report as far as your reserves is concerned, it states almost 187 grams per ton, for resource it was showing as close to 138, so basically for reserve this 187 is not something which you get out, how do I look at it as in reserve should have been a better indicator of the grade, right, or no?

Sunil Duggal: No, this is basically global grade, a combination of all the lenses and over the years we have also done lot of exploration in the mine and there are three lenses which are added – one is SK2, another is called SK6, third is called SK14. All these three lenses have the different grades. So the global grade which was 180 PPM at some point of time, mighthave changed at this point of time because if we have to take out the additional volume, the additional lenses are also to be treated, these are separate standalone mines, so the grade changes. Two of these lenses are marginal grade, one of these lenses is a high grade, and in the original lense or the original mine the grade is going up as we are going deeper.

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

Ritesh Shah: My first question is you indicated on SK mine that will be increasing our output from 3.75 to 4.5 and this is only through decline. Is my understanding correct?

Sunil Duggal: Yes, this is only through decline.

Ritesh Shah: Once we have the shafts which will be commissioned as you indicated by FY'18-19, what is the cumulative production which can be expected – so is it like we can continue to mine through decline and we can also have a shaft in operation, is it technically possible?

Sunil Duggal: We have two declines at SK mine, not one, the shaft also coming up. So the shaft capacity of 4.5 mt and if we are able to mine 4.5 mt from the decline, it throws the opportunity.

Ritesh Shah: So it can be cumulative 9 mt potentially FY19-20 in a hypothetical scenario it is a possibility?

Sunil Duggal: No, it could be a theoretical figure, but cannot be mathematics, but it throws you the opportunity, you have to take care of many other things in the mine -- mine infrastructure, ventilation, other facilities also you have to see.

Ritesh Shah: Just wanted to understand, when we say that we are equipping shafts and we will be commissioning it by FY'18-19, what are the milestones that can be used as monitorables from our end?

Sunil Duggal: The biggest milestone which we achieved was we sank the shaft to the ultimatum, that was the major milestone. Now, we are equipping the shaft, we are putting the head gear and it is like putting up the bucket elevators or the lifts through which you have to take out the materials. The other milestone was we had to put a ventilation raise bore. So the ventilation raise bore was recently completed last quarter. So these are the two major milestones which have been achieved – one is the sinking, another is the ventilation. When two things are available, we are sinking the shaft. We said in our press that we are going up the ramp; one is that in a conventional way you go down the ramp, that means you require the standby passage through which you can come out from the deep level. So we are putting up the decline through which we are taking out the ore, but to use the opportunity when we sunk our ventilation-based, we saw that it is possible for us to work on the up-ramp. So we are working up-ramp and down-ramp, both. So this will be the another milestone in which we will be able to connect the ramp from the upper level and the lower level. Fourth is shipping the shaft. We have always done better than the plan specially SK shaft, because the sinking happened six months before time and who knows, if we have the opportunity going forward, we may be able to commission the shaft earlier.

Ritesh Shah: Sir, my second question is, it is a known fact that grades are declining. So are there any measures that we are taking to enhance the recovery, in the annual report we have mentioned about installing femurs, so sir any progress on this front?

Sunil Duggal: Yes, you are absolutely right, we are working a lot on improving the recovery both in mines and the smelters. The primary work is taking place in mines. If you would say the additional metal in the H1 compared to the last year, has come out from the better recoveries from the concentrate, that means the mills in the mines. The silver recovery in the mines have also improved. There are a lot of innovative projects which we are doing in the mines to improve the recovery. As you rightly said, we have to put up the femur to recover the silver through the zinc route. Actually, traditionally in all our smelters, we recover the silver which comes through the lead route except pyro smelter. So whatever silver goes into the zinc concentrate goes bids. The first femur we are about to order and I think in the next 18 months' time this will start functioning and then balance few femurs also we will have to put up, that means the remaining two hydro smelters, we will be able to put all these three femurs, it will show us an opportunity of taking out around 75 to 100 tons from zinc route of additional silver.

Ritesh Shah: So basically this will add to our annual guidance what we have given, so this can be over and above at, correct?

Sunil Duggal: Once the femur is installed, yes.

Ritesh Shah: Last year same time around we had Glencore which actually shutdown one of its mines and after that the zinc prices had spiked. Now, zinc prices are at elevated level. So, how do you see this -- do you think likes of Glencore can actually reactivate the mines which had shut, a broader comment if you would like to comment on please?

Sunil Duggal: It is not proper for me to comment on somebody's internal matter, but on a broader thinking I would say that the supply has tightened up and looks like the smelter supply is tightening up, the prices should look up in the coming quarters.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Ms. Ekta Singh for closing comments.

Ekta Singh: Thank you for joining our call today. If you have any further questions, please feel free to reach out to me.

Sunil Duggal: Thank you.

Amitabh Gupta: Thank you.

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