

VEDANTA

Strong EBITDA growth

India Equity Research | Metals and Mining

Vedanta's Q4FY17 EBITDA, at INR73bn (highest in past 16 quarters), came in line with consensus primarily aided by stable LME aluminium (Al) and zinc (Zn) prices. Going forward, we expect quarterly EBITDA to sustain in the INR65-70bn range led by capacity ramp up at both divisions amidst stable LME prices following global supply-side constraints and low inventory. At CMP, the stock is trading at 3.6x FY19E, which is at a discount to global peers that are trading at 6-7x. We maintain 'BUY'. Our target price remains unchanged at INR288, implying exit multiple of 4.2x.

Powered by zinc and aluminium

Q4FY17 performance was driven by Zn and Al divisions, which combined comprise two-thirds of consolidated EBITDA. Vedanta availed benefits on both pricing and volume fronts. LME Zn and Al prices jumped 66%/22% at USD2,780/ USD1,851/t YoY. On volume front, capacity ramp up at Hindustan Zinc's (HZL) mines, Balco and Jharsuguda-II smelters contributed to growth. Going ahead, we expect capacity ramp up at Zn and Al divisions to offer operating leverage benefits to the company.

More sweeteners in store

Al EBITDA stood at USD447/t (highest in past 8 quarters) and we expect this to further improve as Vedanta ramps up production at the Lanjigarh alumina refinery. We expect cost savings of USD712mn until H1FY19, further improving margins. The company recorded free cash flow of INR133bn (equivalent to ~15% of current market cap). We expect another INR90-100bn free cash flow accretion over next 2 years, despite our assumption of declining commodity prices.

Outlook and valuations: Better times ahead; maintain 'BUY'

We believe Vedanta will benefit from capacity ramp up at its Al and Zn divisions as it will result in cumulative free cash flow of INR90-100bn through to FY19E. At CMP, the stock is trading at 3.6x FY19E EBITDA, which is at a discount to global peers and at lower quartile of its historic trading range. We maintain 'BUY/SO'. Our target price remains unchanged at INR288, implying exit multiple of 4.2x.

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: VDAN.BO, B: VEDL IN)

CMP	: INR 241
Target Price	: INR 288
52-week range (INR)	: 278 / 94
Share in issue (mn)	: 3,717.2
M cap (INR bn/USD mn)	: 895 / 13,976
Avg. Daily Vol.BSE/NSE('000)	: 13,879.9

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	62.9	62.9	62.9
MF's, FI's & BK's	7.0	7.0	6.9
FII's	16.3	16.8	16.4
Others	13.8	13.3	13.9
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals Index
1 month	(6.6)	2.0	1.7
3 months	(4.8)	7.2	(5.2)
12 months	136.8	20.0	(5.0)

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Financials

(INR mn)

Year to March	Q4FY17	Q4FY16	% Chg	Q3FY17	% Chg	FY17	FY18E	FY19E
Net revenues	236,914	168,646	40.5	203,912	16.2	761,713	827,689	892,380
EBITDA	73,501	35,161	109.0	58,670	25.3	213,319	259,517	284,222
Adjusted Profit	14,849	80,301	(81.5)	20,413	(27.3)	54,295	104,972	122,385
Adjusted Diluted EPS	4.8	(46.7)	NA	6.9	(30.9)	18.6	35.4	41.3
Diluted P/E (x)						16.0	8.5	7.8
EV/EBITDA (x)						5.8	4.2	3.6
ROAE (%)						12.8	15.4	14.4

Q4FY17 performance powered by Zn and Al divisions

Vedanta's Q4FY17 EBITDA, at INR73bn (highest level in past 16 quarters), was in line with consensus. Al EBITDA at USD447/t (including alumina - USD419/t) was at highest level in past 8 quarters. EBITDA growth was primarily led by ramp up in domestic Zn operations and Al capacity. LME Zn and Al prices were up 66% and 22% YoY, respectively.

Vedanta generated cash flow from operations and free cash flow of INR177bn and INR133bn, respectively.

Table 1: Quarterly segmental summary

	Q4FY17	Q4FY16	Y-o-Y (%)	Q3FY17	Q-o-Q (%)
Copper					
Production (MT)	102,000	102,000	0.0	102,000	0.0
Revenues (INR mn)	64,980	54,860	18.4	51,860	25.3
EBITDA (INR mn)	4,340	5,320	(18.4)	4,470	(2.9)
Aluminium					
Production (MT)	353,000	225,000	56.9	319,000	10.7
Revenues (INR mn)	43,170	28,610	50.9	35,840	20.5
EBITDA (INR mn)	9,900	3,650	NA	6,500	52.3
HZL					
Zn production (MT)	215,000	154,000	39.6	205,000	4.9
Revenues (INR mn)	61,740	30,450	102.8	49,240	25.4
EBITDA (INR mn)	37,450	12,820	NA	27,290	37.2
EBIT (INR mn)	29,452	7,666	NA	21,255	38.6
Capital Employed (INR mn)	117,283	111,105	5.6	131,223	(10.6)
Power					
SEL sales (MU)	952	1,906	(50.1)	879	8.3
Balco sales (MU)	0	0	NA	0	NA
Revenues (INR mn)	15,090	12,980	16.3	15,320	(1.5)
EBITDA (INR mn)	4,660	4,020	15.9	4,340	7.4
Zinc International					
Zn-Pb Production (KT)	41	42	(2.4)	33	24.2
Revenues (INR mn)	5,040	5,620	(10.3)	5,870	(14.1)
EBITDA (INR mn)	1,380	790	74.7	2,020	(31.7)

Source: Company, Edelweiss research

Q4FY17 Earnings conference call: Key highlights

Macros

1. Management expects supply constraints in Zn reflected in low refining margins and 9-year low inventory level to maintain LME prices.
2. They expect government's push for infrastructure growth and encouraging regulatory development particularly in mining sector to be beneficial for Vedanta.

Zn division

1. Management expressed confidence that Zn consumption would rise in India due to increasing urbanisation.

2. They expect mined metal production at Zinc India to reach 1.2mn tonnes by FY20. Zn and lead production in FY18 is expected to be ~950kt and silver production in excess of 500 tonnes.
3. Management mentioned SK and Zawar mines expansion along with associated facilities are progressing ahead of schedule and expected to be completed in FY18 and mid-2017, respectively.
4. Average Zn Cost of Production (CoP) is expected to be marginally higher as compared to FY17, based on current levels of coal and commodity prices.
5. Management mentioned that the Gamsberg project is on target for first production by mid-2018. COP/t is expected to be USD1,000-1,500/t.
6. They mentioned that Skorpion pit expansion is on schedule and ore extraction will commence by H2FY18. This is expected to increase mine life by 3 years.

Oil & Gas

Core fields delivered as expected, with 190kbpd gross (Rajasthan production at 162kbpd out of which Mangala EOR stood at 56kbpd in Q4FY17 and offshore production stood at 28kbpd).

RDG gas production: Q4FY17 production fell to 21mmscfd due to a technical issue between the transporter and customers, which has since been resolved and gas sales have normalized and restored at 32mmscf/d.

Operating cost: Water flood opex stood 17% lower YoY at USD4.3/bbl, blended opex declined 5% YoY at USD6.2/bbl.

Capex outlook: Restarted the capex cycle, with projects competitive even at USD40/bbl Brent.

Progress on key projects

- 1) RDG gas project (capex: USD440mn): P1 will bring production to 40-45mmscfd and P2 to 100mmscfd by H1CY19.
- 2) Mangala infill (capex: USD40mn): Commencing 15 well program with production expected in Q2FY18.
- 3) Bhagyam EOR (USD100mn): Successfully completed injectivity test; revised FDP submitted to Joint Venture
- 4) Aishwariya EOR (USD60mn): Commenced polymer injectivity test in 3 wells; FDP submitted to Joint Venture
- 5) Aishwariya Barmer hill (USD195mn): 30% reduction in project capex to USD195mn for EUR of 32mmbbls. There is tremendous resource potential of 1.4bn bbls in Barmer hills.

Exploration activities:

2 wells in KG offshore block

FY18 production outlook at 165kbpd, with potential upside from growth projects. Net capex estimated at USD250mn in FY18 (90% development, 10% exploration).

Al

1. Capacity ramp up at Jharsuguda plant is progressing as per schedule. However, the expected production loss from outage at Jharsuguda plant is likely to be 80-90kt in FY18.
2. At Jharsuguda-II, first line comprising 81 pots is operational and full ramp up is expected to be completed by Q3FY18, second line was fully ramped up and capitalised in Q4FY17, third line ramped up in December and will operate at full capacity by Q3FY18.
3. Management expects production in FY18 to be 1.5-1.6mn tonnes.
4. COP/t is expected to be USD1,475-1,500 and bauxite production from mines at Balco is estimated to be 1.8-2.0mn tonnes which should take care of almost full requirement of that plant.
5. Management expects impact of higher power cess on Jharsuguda-1 smelter to be USD55-60/t of Al.

Power

1. In Q4FY17, TSPL's availability was at 85% with all 3 units operational. Despite the plant outage, management is targeting to achieve 75% availability in FY18.
2. Lower domestic coal prices resulted in better profitability.
3. The company has 6.2mt of coal supply tied through linkages. Coal from these linkages commenced from November 2016 with 1.36mn tonnes coal received in Q4FY17.

Copper

1. Byproduct prices declined in Q4FY17. Hence, the TcRC charges for full year FY17 was lower at US\$21/lb.
2. The company is planning to double capacity of Tuticorin smelter to 800ktpa. Details of the same will be shared later.

Iron ore

1. Vedanta produced 10.2mn tonnes of iron ore owing to additional allocation of 2.6mn tonnes in Goa.
2. Management expects to produce 7.8mn tonnes based on current allocations. However, the company is working with the respective state governments for obtaining additional allocation.
3. Discount of Goa iron ore to international (62%) has increased to almost 45% currently (38% in Q3FY17). In Q4FY16, the discount was as low as 11%. Management added there is inventory hangover in China, which is preventing prices from going up.
4. Management expects demand for low grade iron ore to increase in China as players look to further lower their costs due to the recent fall in steel prices.

Debt and capital expenditure

1. Consolidated debt stood at USD715bn as against cash and liquid investments of USD634bn. Consolidated debt excludes operational buyers credit of INR112bn that has been classified as trade payable pursuant to adoption of IND-AS.

2. Net debt fell by INR35bn compared to Q3FY17. At VAL and Talwandi Sabo, debt increased by INR3bn as Vedanta capitalised the capacities. At HZL, debt has risen as Vedanta has availed temporary debt to partially fund the dividend payout.
3. The company generated free cash flow of INR 133bn. Capex in FY17 comprised INR 53bn as project capex and INR7.6bn as sustenance capex.
4. It expects to incur capex of USD1.2bn in FY18.

Cost savings

1. Vedanta has made cumulative cost savings of USD712mn in past 8 quarters.
2. The company hopes to achieve cost saving of USD1.3bn (originally targeted for FY19), ahead of schedule.

Q3FY17 Earnings conference call: Key highlights

Macro

1. Management expects supply constraints in base metals to continue in CY17 as well.
2. Management mentioned that after a tepid CY15, metal prices increased YoY in CY16 with commodity basket relevant for Vedanta growing 106% YoY.

Zn division

1. Management expressed confidence that Zn will continue to do well in CY17 as well and is best placed base metal in view of supply shortage.
2. Management expects mined metal production at Zn India to be slightly higher in FY17 compared to last year. However, integrated Zn production is expected to be slightly lower.
3. Average Zn Cost of Production is expected to be marginally higher as compared to CY16.
4. Management expects FY17 sales volume at 160KT with Q4FY17 COP likely at USD1,200-1,250/t.
5. Management mentioned that 75% of project capex for Gamsberg project is committed and production is expected to commence from mid-CY18. Management expects ramp up to take 9-12 months.
6. The project is expected to reach full capacity by mid-FY19. COP expected is USD1,000-1,150/t.

Al

1. Capacity ramp up at Jharsuguda plant is progressing as per schedule. Quarterly production run rate is at 319kt.
2. At Jharsuguda-II, first line is currently impacted by transformer failure in mid-Jan. Currently, 80 pots are operating and full ramp up is expected by Q1FY18. In case of second line, 84 pots have been capitalised until December 2016; balance expected to be capitalised by Q2FY18. In case of third line, 42 pots are operating, full ramp up is expected by Q2FY18.
3. Management expects production in FY17 to be around 1.0-1.1mt. For FY18, management expects production rate to increase to 2mt by FY18.
4. MJP Ingot premium declined to USD75/t in Q3FY17 and has recovered to USD98/t in January.

5. As a consequence of lower bauxite cost and various cost initiatives, Balco's EBITDA has improved to INR177mn compared to a loss a year ago.

Power

1. In Q3FY17, TSPL's availability was at 77% with all 3 units capitalised. For Q4FY17, availability of 80% is targeted.
2. Lower domestic coal prices have resulted in better profitability.
3. The company has 6.2mt of coal supply tied through linkages. Coal from these linkages will progressively come in FY18.

Copper

1. Byproducts prices declined in Q3FY17. Hence, the TcRC charges for the full year FY17 are expected to be lower at US\$21/lb.
2. The company is planning to double capacity of Tuticorin smelter to 800ktpa. Details of the same will be shared later.

Iron ore

1. In January, management has achieved full year production cap at Goa (5.5mt) and Karnataka (2.3mt).
2. Management is currently discussing with Karnataka government to increase the ceiling. The company has been allocated further quantity of 3mt in Goa for FY17.
3. Realisation of Goa iron ore improved to USD41/t from USD35/t. However, the discount to higher grade fines also widened.

Debt and capital expenditure

1. Current consolidated debt at USD9.6bn against cash and liquid investments of USD7.9bn. Consolidated debt excludes operational buyer's credit of INR1.1bn that has been classified as trade payable pursuant to adoption of IND-AS.
2. Net debt fell by INR20bn compared to Q2FY17. While net cash at Cairn and HZL has gone up, debt at other entities remained stable. At VAL, debt increased by INR2bn as the company capitalised AI pots.
3. Management mentioned that inter-company loan of USD0.3bn was repaid to Vedanta Plc in Q3FY17 and balance tranche of USD0.1bn was repaid in January. Hence, there is no inter-company loan at the moment.
4. Capital expenditure for FY17 is likely to be USD0.8bn.

Cost savings

1. The company has made cumulative cost savings of USD545mn in past 7 quarters.
2. Hopes to achieve target cost saving of USD1.3bn (originally targeted for FY19), months ahead of schedule.

Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net revenues	236,914	168,646	40.5	203,912	16.2	761,713	827,689	892,380
Dec/(inc) in stock	1,269	2,530	(49.8)	(7,630)	(116.6)	(12,290)	-	-
Raw material	66,513	56,646	17.4	61,713	7.8	231,085	286,214	316,324
Staff costs	5,913	5,338	10.8	6,188	(4.5)	23,393	24,563	25,791
Power, fuel & water	29,852	20,526	45.4	27,817	7.3	102,325	-	-
Other expenses	59,866	48,447	23.6	57,153	4.7	203,880	257,396	266,043
Total expenditure	163,413	133,485	22.4	145,242	12.5	548,393	568,172	608,158
EBITDA	73,501	35,161	109.0	58,670	25.3	213,319	259,517	284,222
Depreciation	16,037	20,821	(23.0)	15,811	1.4	62,915	78,494	77,195
EBIT	57,464	14,340	300.7	42,858	34.1	150,404	181,023	207,028
Other income	9,208	13,080	(29.6)	10,142	(9.2)	45,806	42,805	40,329
Interest	15,035	15,621	(3.8)	15,082	(0.3)	58,550	52,809	52,289
Add: Exceptional items	(1,144)	(336,454)	NA	-	-	1,144	-	-
Profit before tax	50,493	(324,655)	(115.6)	37,918	33.2	136,516	171,020	195,068
Provision for taxes	20,604	(113,615)	(118.1)	6,437	220.1	37,783	47,664	54,579
Minority interest	15,775	(72,643)	(121.7)	11,048	42.8	43,584	18,385	18,103
Associate profit share	(8)	3	NA	(20)	NA	(27)	-	-
Reported net profit	14,105	(138,394)	(110.2)	20,413	(30.9)	55,122	104,972	122,386
Adjusted Profit	14,849	80,301	(81.5)	20,413	(27.3)	54,295	104,972	122,385
Diluted shares (mn)	2,965	2,965		2,965		2,965	2,965	2,965
Adjusted Diluted EPS	4.8	(46.7)	(110.2)	6.9	(30.9)	18.6	35.4	41.3
Diluted P/E (x)	-	-		-		16.0	8.5	7.8
EV/EBITDA (x)	-	-		-		13.1	8.8	4.8
ROAE (%)	-	-		-		12.8	15.4	14.4
As % of net revenues	-	-		-		-	-	1
Raw material	28.6	35.1		26.5		28.7	34.6	35.4
Employee cost	2.5	3.2		3.0		3.1	3.0	2.9
Power & fuel	12.6	12.2		13.6		13.4	-	-
Other expenses	25.3	28.7		28.0		26.8	31.1	29.8
EBITDA	31.0	20.8		28.8		28.0	31.4	31.8
Reported net profit	6.0	(82.1)		10.0		7.2	12.7	13.7
Tax rate	40.8	35.0		17.0		27.7	27.9	28.0

Change in Estimates

	FY18E			FY19E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	827,689	815,129	1.5	892,380	902,188	(1.1)	
EBITDA	259,517	257,733	0.7	277,360	285,782	(2.9)	
EBITDA Margin	31.4	31.6		31.1	31.7		
Adjusted Profit	104,972	110,157	(4.7)	115,522	114,361	1.0	
After Tax							
Net Profit Margin	14.9	15.8		15.0	14.7		
Capex	74,000	74,000	0.0	74,000	74,000	0.0	

Company Description

VEDL is a subsidiary of Vedanta Resources, the London-listed metals and mining group. VEDL is a globally leading diversified resources company with presence in oil & gas (through 58.9% stake in Cairn India), zinc-lead-silver (through 64.9% stake in HZL and 100% stake in erstwhile zinc-lead business of Anglo American), copper, iron ore, aluminium and commercial power (largely in standalone business but in subsidiaries as well). The company was formed through the merger of Sterlite Industries into Sesa Goa along with acquisition of additional 38.8% stake in Cairn which was consummated in August 2013 and announced in February 2012. Cairn has stakes in the following producing blocks: 70% in Rajasthan RJ-ON-90/1, 22.5% in Ravva and 40% in Cambay block CB-OS/2. In its largest field in Rajasthan, the gross proved & probable Hydrocarbons Initially In Place (HIIP) stands at 6 bnboe. The MBA fields have gross ultimate oil recovery of over 1 bnbbbls from primary, secondary and Enhanced Oil Recovery (EOR) methods. VEDL is the largest non-ferrous metals player in India with presence across all key base metals, viz. aluminium (0.8mtpa), copper (0.4mtpa) and zinc lead (1.0mtpa). The company entered the nonferrous metals sector as a pure play copper producer and through several strategic acquisitions acquired aluminium as well as zinc-lead assets. VEDL has ventured into commercial power generation business in India. It has a 2,400MW power plant (in Orissa) and is in the midst of adding another 1,980MW capacity (in Punjab). The company has iron ore mining assets in Goa and Karnataka (with reserves/resources of 433mt).

Investment Theme

VEDL's portfolio of resources business provides advantages of scale, diversification and strong balance sheet. The company benefits from ownership of low cost, cash rich oil & gas (Cairn) and zinc-lead-silver (HZL) businesses. It has globally competitive unit production costs in zinc, led by its quality captive mines. This aspect will help the company better withstand margin pressures during price downturns. In addition, ramp-up of the 2,400MW power plant in Orissa and 1,980MW power plant in Punjab will boost power generation volumes. In FY17, we also expect iron ore volumes from Goa to ramp up post revocation of export duty and ramp-up in BALCO's aluminium business. Key potential triggers for the stock are the merger of Cairn, acquisition of Gol's residual stakes in BALCO and HZL (not considered in our estimates and valuation).

Key Risks

- Fall in zinc prices or premiums.
- Decline in LME aluminium price or premiums
- Cairn: Exploration failure, reinvestment of cash generated into low return assets
- HZL: Lack of volume growth or increase in cash cost
- Lower than expected average tariffs.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.0	5.8	5.8
USD/INR (Avg)	65.0	67.5	67.0	67.0
Sector				
Aluminium LME (USD/t)	1,591.0	1,600.0	1,675.0	1,675.0
Zinc LME (USD/t)	1,829.0	2,300.0	2,400.0	2,400.0
Lead LME (USD/t)	1,768.0	2,000.0	2,000.0	2,000.0
Copper Tc/Rc (c/lb)	22.0	24.0	24.0	24.0
Company				
HZL-Zn production (tpa)	758,938	724,754	789,285	847,690
HZL-PB production (tpa)	145,000	153,550	160,950	166,500
HZL-Ag production (tpa)	425,000	488,750	513,188	525,000
SA-Cu production (tpa)	372,600	392,850	400,000	400,000
BALCO-Al production(tpa)	332,000	387,000	533,250	533,250
BALCO-Power sales (MU)	133	133	-	-
VAL-Al production (tpa)	592,000	786,000	785,000	950,000
Intl Zn production (tpa)	189	172	172	190
Intl PB production (tpa)	35	3	1	1
SEL-Power sales (MU)	7,319	5,803	5,803	5,803
HZL-Zn premium (USD/t)	214	359	350	350
HZL-PB premium (USD/t)	232	298	298	298
BALCO tariff (INR/unit)	3.5	3.5	3.5	3.5
SEL tariff (INR/unit)	3.1	3.2	3.3	3.3
HZL-mfg cost (INR/t)	52,060	69,742	66,492	67,262
BALCO-Power cost (INR/u)	3.3	3.5	3.5	3.5
VAL-Alumina cost (INR/t)	15,422	28,078	27,973	32,465
VAL-Smelting cost(INR/t)	64,560	75,928	73,751	84,988
Intl Zinc-cost (USD/t)	1,345	1,109	1,400	1,400
SEL-Fuel cost (INR/unit)	1.6	2.3	2.4	2.4
Employee exp growth (%)	(15.7)	(4.8)	5.0	5.0
Increase in SG&A exp (%)	17.4	8.3	(15.9)	6.0
Avg. Interest rate (%)	7.6	8.9	9.1	9.1
Depreciation rate (%)	8.8	5.5	6.1	5.4
Tax rate (%)	37.4	27.7	27.9	27.9
Dividend payout (%)	(14.3)	139.6	79.6	67.8
Net borrowings (INR mn)	112,175	193,396	34,828	(81,697)
Capex (INR mn)	35,488	54,000	74,000	74,000
Debtor days	16	14	14	14
Inventory days	138	147	139	139
Payable days	177	289	273	273
Cash conversion cycle	(22)	(127)	(120)	(120)

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	679,927	761,713	827,689	892,380
Materials costs	217,931	231,085	286,214	316,324
Employee costs	24,583	23,393	24,563	25,791
Total operating expenses	528,412	548,393	568,172	615,021
EBITDA	151,516	213,319	259,517	277,360
Depreciation	85,724	62,915	78,494	77,195
EBIT	65,791	150,404	181,023	200,165
Add: Other income	44,435.6	45,805.9	42,805.25	40,328.94
Less: Interest Expense	57,781	58,550	52,809	52,289
Profit Before Tax	(285,402)	136,516	171,020	188,205
Less: Provision for Tax	(106,776)	37,783	47,664	54,579
Extraordinary item	(337,847)	(1,144)	-	-
Minority interest	(55,919)	43,584	18,385	18,103
Associate profit share	2	(27)	-	-
Reported Profit	(122,705)	55,122	104,972	115,522
Adjusted Profit	29,100	55,949	104,972	115,522
Shares o /s (mn)	3,717	3,717	3,717	3,717
Basic EPS (INR)	7.8	15.1	28.2	31.1
Diluted shares o/s (mn)	3,717	3,717	3,717	3,717
Adjusted Diluted EPS	7.8	15.1	28.2	31.1
Dividend per share (DPS)	4.1	17.7	18.0	18.0
Dividend Payout Ratio(%)	(14.3)	139.6	79.6	67.8
Tax rate (%)	37.4	27.7	27.9	27.9

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	77.7	72.0	68.6	68.9
Depreciation	12.6	8.3	9.5	8.7
Interest Expense	8.5	7.7	6.4	5.9
EBITDA margins	22.3	28.0	31.4	31.1
Net Profit margins	(3.9)	13.1	14.9	15.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	(7.8)	12.0	8.7	7.8
EBITDA	(31.3)	40.8	21.7	6.9
Adjusted Profit	(42.9)	92.3	87.6	10.1
EPS	(42.9)	92.3	87.6	10.1

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	2,965	3,718	3,718	3,718	
Reserves & Surplus	437,427	601,284	699,593	815,115	
Shareholders' funds	440,392	605,001	703,310	818,832	
Minority Interest	365,611	139,279	157,664	175,767	
Short term borrowings	188,850	388,403	388,403	388,403	
Long term borrowings	493,784	302,551	269,051	235,551	
Total Borrowings	682,634	690,955	657,455	623,955	
Long Term Liabilities	56,100	75,340	106,099	106,099	
Def. Tax Liability (net)	32,508	20,837	20,837	20,837	
Sources of funds	1,577,245	1,531,412	1,645,364	1,745,490	
Gross Block	1,064,786	1,215,653	1,365,653	1,515,653	
Net Block	662,983	758,344	829,851	902,656	
Capital work in progress	279,260	176,709	100,709	24,709	
Intangible Assets	114,676	108,062	108,062	108,062	
Total Fixed Assets	1,056,918	1,043,116	1,038,622	1,035,427	
Non current investments	166,619	167,527	167,527	167,527	
Cash and Equivalents	570,460	610,119	735,186	818,212	
Inventories	80,117	96,279	122,198	119,263	
Sundry Debtors	25,279	34,093	30,421	39,135	
Loans & Advances	819	792	792	792	
Other Current Assets	52,100	38,370	38,370	38,370	
Current Assets (ex cash)	158,314	169,534	191,781	197,561	
Trade payable	161,624	184,591	244,218	229,702	
Other Current Liab	213,443	274,293	243,534	243,534	
Total Current Liab	375,066	458,884	487,752	473,236	
Net Curr Assets-ex cash	(216,752)	(289,350)	(295,971)	(275,676)	
Uses of funds	1,577,245	1,531,412	1,645,364	1,745,490	
BVPS (INR)	118.5	162.8	189.2	220.3	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	(122,705)	55,122	104,972	115,522	
Add: Depreciation	85,724	62,915	78,494	77,195	
Interest (Net of Tax)	36,164	42,346	38,091	37,716	
Others	258,308	3,456	(16,366)	(7,653)	
Less: Changes in WC	(402,667)	(72,446)	(6,621)	20,295	
Operating cash flow	660,158	236,285	211,811	202,485	
Less: Capex	35,488	54,000	74,000	74,000	
Free Cash Flow	624,671	182,285	137,811	128,485	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Vedanta	13,976	8.5	7.8	3.8	3.2	15.4	14.4
Hindalco Industries	6,948	8.0	7.3	6.5	5.9	11.4	11.1
National Aluminium Co Ltd	2,003	19.5	19.5	6.6	6.2	6.2	5.9
Median	-	8.5	7.8	6.5	5.9	11.4	11.1
AVERAGE	-	12.0	11.5	5.6	5.1	11.0	10.5

Source: Edelweiss research

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow	660,158	236,285	211,811	202,485	
Investing cash flow	8,948	68,782	47,086	44,610	
Financing cash flow	(178,344)	(126,454)	(164,589)	(164,070)	
Net cash Flow	490,763	178,613	94,308	83,025	
Capex	(35,488)	(54,000)	(74,000)	(74,000)	
Dividend paid	(17,583)	(76,976)	(78,281)	(78,281)	

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	(3.2)	12.8	15.4	14.4
ROACE (%)	7.0	13.4	15.2	15.3
Inventory Days	138	147	139	139
Debtors Days	16	14	14	14
Payable Days	177	289	273	273
Cash Conversion Cycle	(22)	(127)	(120)	(120)
Current Ratio	1.9	1.7	1.9	2.1
Gross Debt/EBITDA	4.5	3.2	2.5	2.2
Gross Debt/Equity	0.8	0.9	0.8	0.6
Adjusted Debt/Equity	0.8	0.9	0.8	0.6
Net Debt/Equity	0.1	0.1	(0.1)	(0.2)
Interest Coverage Ratio	1.1	2.6	3.4	3.8

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	0.4	0.5	0.5	0.5
Fixed Asset Turnover	0.9	0.9	0.9	0.9
Equity Turnover	0.8	1.0	1.0	1.0

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	7.8	15.1	28.2	31.1
Y-o-Y growth (%)	(42.9)	92.3	87.6	10.1
Adjusted Cash EPS (INR)	35.3	36.4	49.4	51.8
Diluted P/E (x)	30.8	16.0	8.5	7.8
P/B (x)	2.0	1.5	1.3	1.1
EV / Sales (x)	2.0	1.6	1.3	1.1
EV / EBITDA (x)	9.1	5.8	4.2	3.6
Adjusted EV/EBITDA (x)	4.8	13.1	8.8	4.8
Dividend Yield (%)	1.7	7.3	7.5	7.5

Additional Data

Directors Data

Anil Agarwal	Chairman Emeritus	Navin Agarwal	Executive Chairman
Tom Albanese	Chief Executive Officer	Lalita D. Gupte	Non-Executive Independent Director
Ravi Kant	Non-Executive Independent Director	Naresh Chandra	Non-Executive Independent Director
Tarun Jain	Wholetime Director	Arun Kumar	Chief Financial Officer
Anuradha Dutt	Non-Executive Independent Director		

Auditors - Deloitte Haskins & Sells

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Twinstar holdings It	34.44	Finsider internation	10.8
Life insurance corp	7.25	Franklin resources	1.42
Blackrock	1.21	Westglobe ltd	1.19
Shalika bhadram janh	1.15	Hdfc asset managemen	1.12
Birla sun life asset	1.11	Vanguard group	1.05

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
12 Apr 2017	Pravin Agarwal	Buy	18500.00
10 Nov 2016	Ankit Agarwal	Sell	36400.00
30 Jun 2016	Naivedya Agarwal	Buy	41000.00
30 Jun 2016	Naivedya Agarwal	Buy	40650.00
22 Jun 2016	Ankit Agarwal	Sell	48800.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Coal India	BUY	SO	M	Hindalco Industries	BUY	SO	M
Hindustan Zinc	BUY	SO	L	Jindal Steel & Power	BUY	SO	M
JSW Steel	REDUCE	SP	H	NMDC	HOLD	SP	M
Steel Authority of India	REDUCE	SU	M	Tata Steel	BUY	SU	M
Vedanta	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



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Coverage group(s) of stocks by primary analyst(s): Metals and Mining

Coal India, Hindalco Industries, Hindustan Zinc, Jindal Steel & Power, JSW Steel, NMDC, Steel Authority of India, Tata Steel, Vedanta

Recent Research

Date	Company	Title	Price (INR)	Recos
12-May-17	Metals & Mining	Anti-dumping duty: Marginally positive; <i>EdelFlash</i>		
12-May-17	Metals & Mining	European steel results bode well for Corus' Q4FY17; <i>Sector Update</i>		
10-May-17	Metals & Mining	Likely power duty hike: Aluminium players at risk; <i>EdelFlash</i>		

Distribution of Ratings / Market Cap

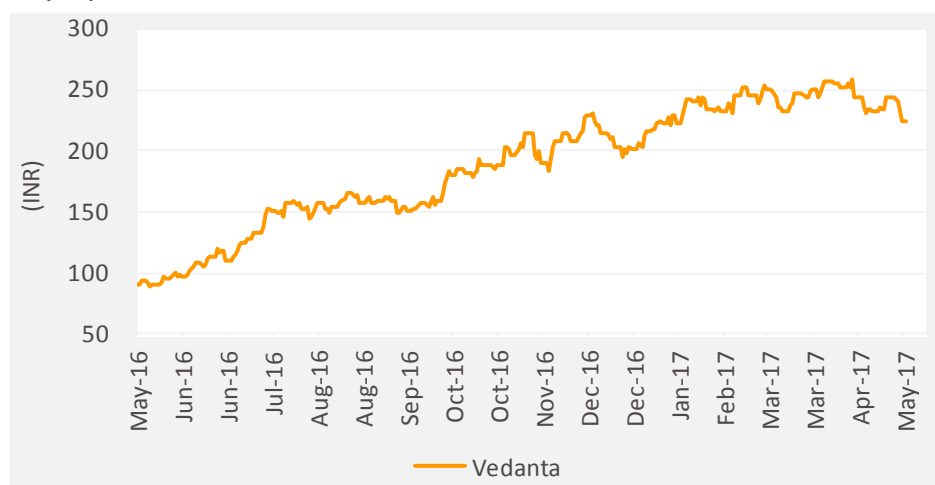
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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