

## VEDANTA

METALS / MINING

23 MAY 2017

Quarterly Update

**BUY**

Target Price: Rs 278

### Tailwind from stronger commodities

**Q4EBITDA at Rs 74 bn**(up 110% YoY) was broadly in line with our and Bloomberg consensus estimates. The increase was mainly due to (a) higher Zinc LME price at USD 2,775 (up 65% YoY) and higher zinc volume at Hindustan Zinc at 260kt (up 35% YoY), (b) higher aluminum production at 353kt (up 56% YoY) and higher LME price (22% YoY), and (c) higher crude realization at USD 48/bl (up 69% YoY).

**Completion of Cairn's merger with Vedanta:** Shares of Cairn have been delisted from stock exchanges and shares of Vedanta Limited have been issued to Cairn's shareholders.

CMP : Rs 241  
Potential Upside : 15%

#### MARKET DATA

No. of Shares : 3,717 mn  
Free Float : 37%  
Market Cap : Rs 897 bn  
52-week High / Low : Rs 278 / Rs 94  
Avg. Daily vol. (6mth) : 12.4 mn shares  
Bloomberg Code : VEDL IB Equity  
Promoters Holding : 63%  
FII / DII : 16% / 7%

### Key highlights

- ♦ **Dividend policy:** The Board has approved a dividend policy for the company where Vedanta will pass through Hindustan Zinc's (HZL) regular dividend plus minimum 30% payout of attributable PAT (ex HZL's PAT)
- ♦ **Capex:** FY18 capex guidance at USD 1.2 bn which includes (1) USD 0.4 bn for Zinc India, (2) USD 0.2bn for Gamsberg, (3) USD 0.16 bn for Aluminum and Power business, and (4) USD 0.25 bn for oil & gas business. Capex in FY17 at USD 0.7bn against original guidance of USD 1 bn mainly due to lower spend in oil & gas business
- ♦ **Debt:** Excluding HZL'S debt (ST borrowings for dividend payment), total gross debt reduction in FY17 was Rs 41 bn  
(Continued on Page 2...)

**Recommendation:** We maintain our FY18/19 EPS estimate at Rs 31/37. Maintain **BUY** with a target price at Rs 278 (15% upside from CMP of Rs 241) based on SOTP valuation.

#### Financial summary (Consolidated)

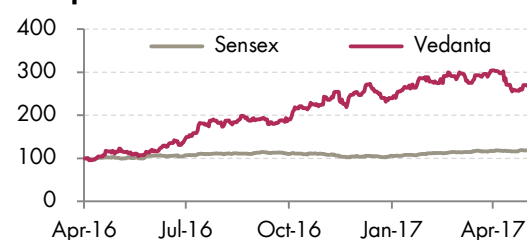
Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	639,312	716,750	868,657	999,251
EBITDA (Rs mn)	147,088	213,319	286,422	326,060
Adj PAT (Rs mn)	21,561	56,239	115,814	136,425
Con. EPS* (Rs)	-	-	30	35
EPS (Rs)	7	15	31	37
Change YOY (%)	(63)	108	106	18
P/E (x)	33	16	8	7
RoE (%)	6	11	19	20

Source: \*Consensus broker estimates, Company, Axis Capital

#### EBITDA by business

(Rs bn)	FY17	FY18E	FY19E
Copper & intl zinc ops	26	34	40
HZL	97	126	144
Cairn	42	55	58
VAL	7	16	21
<b>Total</b>	<b>213</b>	<b>286</b>	<b>326</b>

#### Price performance



### ...Key highlights (continued from page 1)

- ♦ **Aluminum production on rise:** Commissioning of pots at new BALCO and Jharsuguda smelters will increase production. Full effect of ramp-up likely to reflect from H2FY18. Q4FY17 production at 353kt (up 56% YoY)
- ♦ **Iron ore:** Sales volume at 3.0mnt in Q4FY17 (up 15% YoY). The company has achieved full year production cap in January at Goa (5.5 mnt) and Karnataka (2.3 mnt). Vedanta received further allocation in Goa and produced 2.6mnt during the quarter
- ♦ **Power:** All three units of 660MW power plant of TSPL became operational. Plant availability was 85% in Q4FY17 and 79% in FY17
- ♦ **Zinc India:** Mined metal production in Q4FY17 was 312 kt – the highest in record – up 35% YoY and 13% QoQ. The QoQ increase was due to higher production from Rampura Agucha open cast mine as per the mine plan whereas the YoY rise was mainly because of higher volume from underground mines. This is in line with the company's guidance for a higher mined metal production in FY17 (907 kt) vs. FY16 (889 kt). However, integrated/ refined metal production was lower mainly due to low availability of mined metal in H1FY17. Silver production is at record high of 139/453 tonne for Q4FY17 and FY17, up 14%/ 7% YoY
- ♦ **Oil & Gas:** EBITDA at Rs 11 bn was in line with our estimate. Cairn's realized crude price was at 11% discount to Brent's (7% in Q3). Management guided FY18 Rajasthan production at 165 kboepd with further potential upside from growth projects and net capex at USD 250mn
- ♦ **Zinc International:** Q4 production at 41kt, up by 8kt sequentially. COP decreased to USD 1,439/t from USD 1,615/t in Q3FY17 mainly on operating leverage. The company targets production from the 250kt Gamsberg Project by the mid of 2018

### Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	Mar-18E	Mar-17	% Chg
Net Sales	225,113	159,793	41	194,171	16	868,657	716,750	21.2
EBITDA	73,501	34,720	112	59,964	23	286,422	213,319	34.3
Other income	9,208	12,886	-	10,329	(11)	29,214	45,806	(36.2)
PBITD	82,709	47,606	74	70,293	18	315,635	259,125	21.8
Depreciation	16,037	15,629	3	15,203	5	83,877	62,915	33.3
Interest	15,035	15,380	(2)	15,082	(0)	40,581	58,550	(30.7)
PBT	51,637	16,598	211	40,009	-	191,178	137,660	38.9
Tax	20,604	(2,841)	-	8,968	-	38,236	37,783	1.2
Minority Interest/Associates	15,784	8,999	75	11,209	41	37,129	43,611	(14.9)
Adjusted PAT after minority	15,249	10,440	46	19,832	-	115,814	56,266	105.8
Extra ordinary income/ (exp.)	(1,144)	(122,252)	-	-	-	-	(1,144)	-
Reported PAT after minority	14,105	(111,813)	-	18,663	-	115,814	55,122	110.1
No. of shares (mn)	2,965	2,965	-	2,965	-	3,718	3,718	-
EBITDA margin (%)	33	22	-	31	-	33.0	29.8	-
PBITD margin (%)	37	30	-	36	-	36.3	36.2	-
EPS - annualized (Rs)	16	11	46	21	(23)	31.2	15.1	105.8

Source: Company, Axis Capital

**Exhibit 2: Commodity price assumptions**

(USD/ton)	FY17	FY18E	FY19E	CMP
LME Aluminium	1,687	1,800	1,900	1,870
LME Zinc	2,362	2,700	2,900	2,585
LME Lead	1,998	2,000	2,100	2,170
LME Copper	5,153	5,800	6,100	5,521
Silver price (USD/ounce)	17.7	20.0	20.0	16.4
Copper TcRc (Cent/lb)	22	22	21	21
Brent Crude (USD/brl)	50	60	60	49
USD/INR	67.2	67.0	68.7	64.0

Source: Bloomberg, Axis Capital

**Exhibit 3: Vedanta SOTP (FY19E)**

(Rs bn)	EBITDA	EV/EBITDA	EV	Net Debt	Equity Valuation	Attributable	Holco discount	Mkt cap of Vedanta
HZL	144	6.0	862	(234)	1,095	65%	20%	570
Oil & Gas	58	4.0	233	(140)	372	100%	0%	372
Vedanta (ex HZL and Oil & Gas)	124	5.5	684	603	43	100%	0%	43
<b>Total</b>	<b>326</b>		<b>1,778</b>	<b>230</b>	<b>1,511</b>			<b>985</b>
Dividend per share in FY18/FY19								13
<b>Target Price of VEDL (Rs)</b>								<b>278</b>
<b>CMP (Rs)</b>								<b>241</b>
<b>% upside</b>								<b>15</b>

Source: Company, Axis Capital

## Financial summary (Consolidated)

### Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	639,312	716,750	868,657	999,251
Other operating income	5,024	5,500	6,000	6,000
<b>Total operating income</b>	<b>644,336</b>	<b>722,250</b>	<b>874,657</b>	<b>1,005,251</b>
Cost of goods sold	(272,250)	(265,795)	(320,192)	(378,585)
Gross profit	372,086	456,455	554,465	626,666
<i>Gross margin (%)</i>	<i>58</i>	<i>64</i>	<i>64</i>	<i>63</i>
Total operating expenses	(224,997)	(243,136)	(268,043)	(300,606)
<b>EBITDA</b>	<b>147,088</b>	<b>213,319</b>	<b>286,422</b>	<b>326,060</b>
<i>EBITDA margin (%)</i>	<i>23</i>	<i>30</i>	<i>33</i>	<i>33</i>
Depreciation	(67,110)	(62,915)	(83,877)	(87,357)
<b>EBIT</b>	<b>79,978</b>	<b>150,404</b>	<b>202,545</b>	<b>238,704</b>
Net interest	(57,040)	(58,550)	(40,581)	(35,681)
Other income	34,820	45,806	29,214	18,429
<b>Profit before tax</b>	<b>57,758</b>	<b>137,660</b>	<b>191,178</b>	<b>221,451</b>
Total taxation	(4,330)	(37,783)	(38,236)	(44,290)
<i>Tax rate (%)</i>	<i>7</i>	<i>27</i>	<i>20</i>	<i>20</i>
Profit after tax	53,428	99,877	152,942	177,161
Minorities	(31,870)	(43,611)	(37,129)	(40,737)
Profit/ Loss associate co(s)	2	(27)	-	-
Adjusted net profit	21,561	56,239	115,814	136,425
<i>Adj. PAT margin (%)</i>	<i>3</i>	<i>8</i>	<i>13</i>	<i>14</i>
Net non-recurring items	(114,800)	(1,144)	-	-
Reported net profit	(93,239)	55,095	115,814	136,425

### Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	2,965	3,718	3,718	3,718
Reserves & surplus	387,440	601,284	621,785	726,020
Net worth	390,405	605,001	625,502	729,738
Borrowing	779,475	745,763	579,727	509,727
Other non-current liabilities	31,960	(54,084)	(54,084)	(54,084)
<b>Total liabilities</b>	<b>1,531,510</b>	<b>1,435,960</b>	<b>1,318,681</b>	<b>1,384,780</b>
Gross fixed assets	1,072,217	1,228,941	1,289,654	1,344,654
Less: Depreciation	(398,477)	(461,392)	(545,269)	(632,626)
Net fixed assets	673,739	767,549	744,385	712,029
Add: Capital WIP	269,911	275,567	269,854	269,854
Total fixed assets	943,650	1,043,116	1,014,239	981,882
Total Investment	2,170	729	729	729
Inventory	80,790	96,279	93,323	110,512
Debtors	25,500	34,093	33,109	38,112
Cash & bank	502,060	610,119	201,228	279,926
Loans & advances	269,270	131,040	310,031	357,159
Current liabilities	291,930	479,416	333,979	383,542
Net current assets	585,690	392,115	303,713	402,168
Other non-current assets	-	-	-	-
<b>Total assets</b>	<b>1,531,510</b>	<b>1,435,960</b>	<b>1,318,681</b>	<b>1,384,780</b>

Source: Company, Axis Capital

### Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	57,758	137,660	191,178	221,451
Depreciation & Amortisation	67,110	62,915	83,877	87,357
<i>Chg in working capital</i>	<i>(14,957)</i>	<i>301,634</i>	<i>(320,489)</i>	<i>(19,757)</i>
<b>Cash flow from operations</b>	<b>162,622</b>	<b>522,976</b>	<b>(43,089)</b>	<b>280,441</b>
<i>Capital expenditure</i>	<i>(54,779)</i>	<i>(47,040)</i>	<i>(55,000)</i>	<i>(55,000)</i>
<b>Cash flow from investing</b>	<b>(54,779)</b>	<b>(47,040)</b>	<b>(55,000)</b>	<b>(55,000)</b>
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>1,955</i>	<i>(33,712)</i>	<i>(166,036)</i>	<i>(70,000)</i>
<i>Dividend paid</i>	<i>(12,038)</i>	<i>(126,048)</i>	<i>(104,185)</i>	<i>(41,062)</i>
<b>Cash flow from financing</b>	<b>(67,123)</b>	<b>(218,310)</b>	<b>(310,802)</b>	<b>(146,743)</b>
Net chg in cash	40,720	257,626	(408,891)	78,698

### Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
<b>OPERATIONAL</b>				
FDEPS (Rs)	7	15	31	37
CEPS (Rs)	(9)	32	54	60
DPS (Rs)	4	2	25	8
Dividend payout ratio (%)	(13)	14	80	22
<b>GROWTH</b>				
Net sales (%)	(13)	12	21	15
EBITDA (%)	(33)	45	34	14
Adj net profit (%)	(63)	161	106	18
FDEPS (%)	(63)	108	106	18
<b>PERFORMANCE</b>				
RoE (%)	6	11	19	20
RoCE (%)	6	9	11	12
<b>EFFICIENCY</b>				
Asset turnover (x)	0.6	0.8	0.8	0.9
Sales/ total assets (x)	0.4	0.4	0.5	0.6
Working capital/ sales (x)	0.2	(0.1)	(0.1)	0.1
Receivable days	15	17	14	14
Inventory days	59	69	58	59
Payable days	214	344	207	206
<b>FINANCIAL STABILITY</b>				
Total debt/ equity (x)	1.1	1.0	0.8	0.6
Net debt/ equity (x)	0.4	0.2	0.5	0.3
Current ratio (x)	3.0	1.8	1.9	2.0
Interest cover (x)	1.4	2.6	5.0	6.7
<b>VALUATION</b>				
PE (x)	33	16	8	7
EV/ Net sales (x)	1.6	1.4	1.5	1.1
PB (x)	2	1	1	1
Dividend yield (%)	2	1	10	3
Free cash flow yield (%)	15	53	(11)	25

Source: Company, Axis Capital

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