

VEDANTA

Deleveraging continues despite EBITDA miss

India Equity Research | Metals and Mining

Vedanta's (VEDL) Q1FY18 EBITDA at INR 48.7bn missed consensus by 8% due to higher cost at zinc (Zn) India and aluminium (Al) divisions. Going forward, we expect the performance to improve on operating leverage benefits at Al and Zn divisions amidst firm LME prices. It is noteworthy that despite the EBITDA miss, VEDL pruned gross debt by INR62bn in Q1FY18, followed by another INR25bn in Q2FY18. At CMP, the stock is trading at 3.9x FY19E EBITDA, at a discount to global peers, which are trading at 6-7x. Taking cognizance of the higher overall cost of production (COP)/t guidance for Al operations, lower realisation at iron ore division and revised USD:INR estimate (66 instead of 67), we trim FY18/FY19E EBITDA 3%/2% and our TP to INR309 (earlier INR315), implying an exit multiple of 4.4x. Our recommendation is also based on expectation of dividend yield of ~6.5% over the next 2 years. Maintain 'BUY'.

EBITDA miss due to higher cost at Zn-India and Al divisions

VEDL's Q1FY18 EBITDA missed consensus estimate due to higher COP/t at Zn-India and Al divisions. Going forward, we envisage relief on cost front due to: 1) volume ramp up at Zn-India (refer [Hindustan Zinc - Minor blip; bigger picture intact; result update Q1FY18; Buy](#)); and 2) operating leverage benefits at Jharsuguda-I post pots coming on stream in Q3FY18. Higher production at the oil & gas division and robust performance of Zn-International are expected to further boost performance.

Expect efficient capital allocation due to deleveraging and dividend

Debt of INR87bn has been repaid so far in FY18. Further, we peg dividend yield at 6-7% over next 2 years following the company's stated dividend policy. We perceive deleveraging and dividend payment as a sound capital allocation policy and value accretive for shareholders.

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

We believe, VEDL is likely to benefit from capacity ramp up at Al and Zn divisions amidst stable prices. This is estimated to result in free cash flow of INR100-120bn each in FY18 and FY19. This, in our view, will be largely utilised towards deleveraging / dividend distribution. Taking cognizance of Q1FY18 performance we trim FY18E/FY19E EBITDA 3%/2% and TP to INR309, implying an exit multiple of 4.4x FY19E EBITDA. We maintain 'BUY/SO'.

Financials

(INR mn)

Year to March	Q1FY18	Q1FY17	% Chg	Q4FY17	% Chg	FY17	FY18E	FY19E
Net revenues	193,420	153,100	26.3	236,914	(18.4)	761,713	829,597	918,077
EBITDA	48,740	34,420	41.6	73,501	(33.7)	213,319	265,439	290,496
Adjusted Profit	15,250	7,540	102.3	27,426	(44.4)	54,295	100,484	115,457
Adjusted Diluted EPS	4.1	2.5	61.3	8.9	(54.0)	18.6	27.0	31.1
Diluted P/E (x)						14.5	10.1	8.8
EV/EBITDA (x)						5.5	4.7	3.9
ROAE (%)						12.8	14.9	14.5

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 274
Target Price	: INR 309
52-week range (INR)	: 278 / 154
Share in issue (mn)	: 3,717.2
M cap (INR bn/USD mn)	: 1,019 / 15,832
Avg. Daily Vol.BSE/NSE('000)	: 16.1

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
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 Metal Index
1 month	15.8	4.1	1.7
3 months	16.5	7.1	(5.2)
12 months	59.3	15.4	(5.0)

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Q1FY18 performance impacted by higher cost

VEDL's Q1FY18 EBITDA at INR48.7bn (up 42% YoY) was marginally lower compared to consensus. AI's EBITDA at USD271/t (down compared to USD447/t in Q4FY17) was at the same level as Q2FY17 due to one-off power outages and higher input cost. EBITDA was also impacted by lower production at Zn-India as per the mining plan.

We are upbeat on the debt reduction of INR87bn achieved so far in Q1FY18. We believe, given the potential free cash generation of INR100-120bn each over the next 2 years, there is further possibility of debt reduction.

Management's target is to contain COP/t of AI division at USD1,575-1,600 in H2FY18 owing to ramp up of captive alumina production. Also, Zn-India's cost is expected to dip due to production ramp up.

Table 1: Quarterly segmental summary

	Q1FY18	Q1FY17	Y-o-Y (%)	Q4FY17	Q-o-Q (%)
Copper					
Production (MT)	90,000	100,000	(10.0)	103,000	(12.6)
Revenues (INR mn)	50,480	46,540	8.5	64,980	(22.3)
EBITDA (INR mn)	2,130	4,410	(51.7)	4,340	(50.9)
Aluminium					
Production (MT)	352,000	244,000	44.3	353,000	(0.3)
Revenues (INR mn)	42,360	27,580	53.6	43,170	(1.9)
EBITDA (INR mn)	5,280	2,660	98.5	9,900	(46.7)
HZL					
Zn production (MT)	194,000	101,000	92.1	215,000	(9.8)
Revenues (INR mn)	44,770	24,420	83.3	61,740	(27.5)
EBITDA (INR mn)	23,690	10,740	120.6	37,450	(36.7)
EBIT (INR mn)	18,150	5,815	NA	29,452	(38.4)
Capital Employed (INR mn)	130,810	120,574	8.5	117,283	11.5
Power					
SEL sales (MU)	564	890	(36.6)	952	(40.8)
Balco sales (MU)	0	0	NA	0	NA
Revenues (INR mn)	7,330	11,820	(38.0)	15,090	(51.4)
EBITDA (INR mn)	1,100	3,430	(67.9)	4,660	(76.4)
Zinc International					
Zn-Pb Production (KT)	32	43	(25.6)	41	(22.0)
Revenues (INR mn)	8,010	4,530	76.8	5,040	58.9
EBITDA (INR mn)	3,210	2,490	28.9	1,380	132.6

Source: Company, Edelweiss research

Q1FY18 Earnings conference call: Key highlights

Macros

- Management expressed confidence that Zn and Al appear to be on strong footing after a long time owing to supply constraints.
- Zn inventory is at a 7-year low with low treatment margins reflecting the underlying concentrate shortage.
- Company expects government's push for infrastructure to be the key catalyst for Al and Zn demand in the country.

Overall

- Management reiterated that deleveraging and shareholders' returns remain the priority for the company.
- Management mentioned that at net debt/EBITDA of 0.8x, the company is well placed among peers with sufficient headroom to pursue growth opportunities.

Zn division

- Management expects 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.
- Management mentioned Rampur Agucha mine ramp up is progressing well; equipping of second shaft is complete and production is expected to commence in Q3FY19.
- Zawar mine expansion has been upgraded to 2.7mtpa and expected to be completed in Q2FY18.
- Management mentioned that the Gamsberg project is on target for first production by mid-2018. It would take 9-12 months to ramp up the mine to full capacity. First phase is expected to have mine life of 13 years. Work on second phase (180-200ktpa) is expected to commence in 18-24 months.
- They mentioned that in case of Black Mountain Mining (BMM), the deep shaft will ramp down in next 3-4 years; however, Swartberg project (rich in lead and silver) will aid maintain production.
- Management expressed confidence that international Zn operations would also be an integrated mining complex with Zn from Gamsberg and lead and silver from Swartberg.

Oil & Gas

- **Core fields delivered as expected**, with 187kbpd gross (Rajasthan production at 159kbpd out of which Mangala EOR stood at 56kbpd in Q1FY18 and offshore production at 28kbpd). Production has been commenced from 2 more satellite fields- Kaam West-2 and Guda.
- **Operating cost:** Water flood opex stood 5.5% lower QoQ at USD4.3/bbl, blended opex declined 1% QoQ at USD6.2/bbl.
- **Capex outlook:** New projects remain competitive even at USD40/bbl Brent.
- **FY18 production outlook at 165kbpd**, with potential upside from growth projects. Net capex is estimated at USD250mn in FY18 (90% development, 10% exploration).
- Oil & gas EBITDA also included a one-off benefit of cost recovery.

Aluminium

- Pot outage of 500kt at Jharsuguda-I smelter impacted 228 out of 608 pots. As of now, 35 pots have been restarted. Full ramp up is expected by Q3FY18.
- At Jharsuguda-II, 187 pots in first line and 152 pots in third line are operational. Second line is fully operational. Management expects production in FY18 to be 1.5-1.6mn tonnes.
- COP/t is expected to be USD1,575-1,600/t and bauxite production from mines at Balco is estimated to be 1.8-2.0mn tones, which should take care of almost full requirements of that plant.
- Management expects to reduce operating costs by USD85/t in subsequent quarters of which USD40/t is related to outage and USD45/t relates to pot relining and other such expenses.

Power

- TSPL's availability for FY18 is expected at above 70%. Currently, all 3 units have restarted and running at availability of 90%.
- Management mentioned that temporary disruption in coal supply from the mines near Jharsuguda resulted in higher power costs.
- The company has 8.2mt of coal supply tied through linkages. Management expects coal cost to reduce following ramp up of linkage coal.

Copper

- Byproduct prices declined in Q1FY18. Hence, the TcRC charges for FY18 were lower at US\$20.8/lb.
- Management mentioned that copper production was lower at 90kt as they advanced maintenance shutdown of 11 days to coincide with the period of low concentrate availability. A further 4 days of shutdown was taken due to equipment failure. Management expects full year production at 400kt.
- The company is evaluating a plan to double capacity of Tuticorin smelter to 800ktpa.

Iron ore

- Vedanta produced 3.24mt of iron ore. Sales volume is lower owing to steep discount to higher grade iron ore.
- Discount of Goa iron ore to international (62%) has increased to almost 45% currently. Management mentioned they are beneficiating the ore from Karnataka to ensure grade improvement and hence better prices.
- The company has achieved 50% of allocated cap in Karnataka and is working with the respective state governments for obtaining additional allocation.

Steel plant

- Vedanta has signed an MoU with the Jharkhand government to set up a 1mtpa steel plant.
- The plant will be largely based on the Goa operating model and produce ductile iron pipe catering to the local market.
- The plant will beneficiate the locally available iron ore for feedstock.

Debt and capital expenditure

- There was deleveraging of INR 87bn, largely funded by cash flow generated in Q4FY17.
- Interest cost stood at 7.8% as compared to 8.2% in last quarter. Management expressed confidence that overall cost of funding is expected to be 20-25bps lower as compared to last year.
- Management mentioned that the company has benefitted from competitively priced capital market instruments and reduction in bank term loans has been to the extent of 80-100bps as compared to last year.
- Consolidated debt stood at USD674bn as against cash and liquid investments of USD483bn. Consolidated debt excludes operational buyers' credit of INR112bn that has been classified as trade payable pursuant to adoption of IND-AS.
- Net debt has risen by INR9bn due to dividend payout.
- The company generated free cash flow of INR4.1bn. Capex in FY17 stood at INR1.1bn. Almost INR3.3bn of cash was utilised for funding working capital, bulk of which would be unwound during the year.
- Management maintained its guidance of USD1bn as capex for the entire year.

Cost savings

- Vedanta has made cumulative cost savings of USD856mn in past 9 quarters.
- The company hopes to achieve cost saving of USD1.3bn (originally targeted for FY19), ahead of schedule.

Q4FY17 Earnings conference call: Key highlights**Macros**

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

Zn division

- Management expressed confidence that Zn consumption would rise in India due to increasing urbanisation.
- 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.
- 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.
- 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.
- 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.
- 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 21mmmscf/d due to a technical issue between the transporter and customers, which has since been resolved and gas sales have normalized and restored at 32mmmscf/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

- RDG gas project (capex: USD440mn): P1 will bring production to 40-45mmmscf/d and P2 to 100mmmscf/d by H1CY19.
- Mangala infill (capex: USD40mn): Commencing 15 well program with production expected in Q2FY18.
- Bhagyam EOR (USD100mn): Successfully completed injectivity test; revised FDP submitted to Joint Venture
- Aishwariya EOR (USD60mn): Commenced polymer injectivity test in 3 wells; FDP submitted to Joint Venture
- Aishwariya Barmer hill (USD195mn): 30% reduction in project capex to USD195mn for EUR of 32mmmbbls. 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

- 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.
- 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.
- Management expects production in FY18 to be 1.5-1.6mn tonnes.
- 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.
- Management expects impact of higher power cess on Jharsuguda-1 smelter to be USD55-60/t of Al.

Power

- 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.
- Lower domestic coal prices resulted in better profitability.
- 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

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

Iron ore

- Vedanta produced 10.2mn tonnes of iron ore owing to additional allocation of 2.6mn tonnes in Goa.
- 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.
- 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.
- 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

- 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.
- 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.
- The company generated free cash flow of INR 133bn. Capex in FY17 comprised INR 53bn as project capex and INR7.6bn as sustenance capex.
- It expects to incur capex of USD1.2bn in FY18.

Cost savings

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

Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	193,420	153,100	26.3	236,914	(18.4)	761,713	829,597	918,077
Dec/(inc) in stock	(3,190)	(4,910)	NA	1,269	NA	(12,290)	-	-
Raw material	64,530	53,970	19.6	66,513	(3.0)	231,085	283,393	325,150
Staff costs	5,810	5,790	0.3	5,913	(1.7)	23,393	24,563	25,791
Power, fuel & water	25,010	22,070	13.3	29,852	(16.2)	102,325	-	-
Other expenses	52,520	41,760	25.8	59,866	(12.3)	203,880	256,202	276,640
Total expenditure	144,680	118,680	21.9	163,413	(11.5)	548,393	564,158	627,581
EBITDA	48,740	34,420	41.6	73,501	(33.7)	213,319	265,439	290,496
Depreciation	13,860	15,500	(10.6)	16,037	(13.6)	62,915	78,459	77,173
EBIT	34,880	18,920	84.4	57,464	(39.3)	150,404	186,980	213,323
Other income	10,550	12,710	(17.0)	9,208	14.6	45,806	35,348	33,303
Interest	15,920	13,930	14.3	15,035	5.9	58,550	57,144	57,978
Add: Exceptional items	-	-		(1,144)	(100.0)	1,144	-	-
Profit before tax	29,510	17,700	66.7	50,493	(41.6)	136,516	165,184	188,649
Provision for taxes	6,810	4,120	65.3	8,240	(17.4)	37,783	45,971	54,708
Minority interest	7,450	6,040	23.3	15,775	(52.8)	43,584	18,729	18,484
Associate profit share				(8)	(100.0)	(27)		
Reported net profit	15,250	7,540	102.3	26,469	(42.4)	55,122	100,484	115,457
Adjusted Profit	15,250	7,540	102.3	27,426	(44.4)	54,295	100,484	115,457
Diluted shares (mn)	3,718	2,965		2,965		2,965	3,717	3,717
Adjusted Diluted EPS	4.1	2.5	61.3	8.9	(54.0)	18.6	27.0	31.1
Diluted P/E (x)						14.5	10.1	8.8
EV/EBITDA (x)						5.5	4.7	3.9
ROAE (%)						12.8	14.9	14.5

As % of net revenues

Raw material	31.7	32.0		28.6		28.7	34.2	35.4
Employee cost	3.0	3.8		2.5		3.1	3.0	2.8
Power & fuel	12.9	14.4		12.6		13.4	-	-
Other expenses	27.2	27.3		25.3		26.8	30.9	30.1
EBITDA	25.2	22.5		31.0		28.0	32.0	31.6
Reported net profit	7.9	4.9		11.2		7.2	12.1	12.6
Tax rate	23.1	23.3		16.3		27.7	27.8	29.0

Change in Estimates

	New	FY18E Old	% change	New	FY19E Old	% change	Comments
Net Revenue	829,597	839,132	(1.1)	918,077	908,469	1.1	Revised estimates factoring-in
EBITDA	265,438	273,421	(2.9)	290,496	295,497	(1.7)	Q1FY18 earnings and as per our
EBITDA Margin	32.0	32.6		31.6	32.5		revised USD:INR assumptions.
Adjusted PAT	100,484	108,780	(7.6)	115,456	122,642	(5.9)	
Net Profit Margin	14.4	15.2		14.6	15.6		
Capex	75,169	74,000	1.6	75,169	74,000	1.6	

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, 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	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
Sector				
Aluminium LME (USD/t)	1,591.0	1,689.0	1,775.0	1,775.0
Zinc LME (USD/t)	1,829.0	2,366.0	2,500.0	2,550.0
Lead LME (USD/t)	1,768.0	2,368.0	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	353	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	66,666	67,417
BALCO-Power cost (INR/u)	3.3	3.5	3.5	3.5
VAL-Alumina cost (INR/t)	15,619	24,264	24,108	26,578
VAL-Smelting cost(INR/t)	64,560	75,928	74,734	86,296
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	(16.3)	8.0
Avg. Interest rate (%)	7.6	8.5	8.7	8.7
Depreciation rate (%)	7.6	4.3	4.9	4.4
Tax rate (%)	37.4	27.7	27.8	27.8
Dividend payout (%)	(11.8)	111.4	83.4	67.8
Net borrowings (INR mn)	107,318	218,131	67,133	(57,444)
Capex (INR mn)	54,119	54,360	75,169	75,169
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	829,597	918,077
Materials costs	217,931	231,085	283,393	325,150
Employee costs	24,583	23,393	24,563	25,791
Total operating expenses	528,412	548,393	564,158	627,581
EBITDA	151,516	213,319	265,439	290,496
Depreciation	85,724	62,915	78,459	77,173
EBIT	65,791	150,404	186,980	213,323
Add: Other income	44,435.6	45,805.9	35,348.12	33,303.22
Less: Interest Expense	57,781	58,550	57,144	57,978
Profit Before Tax	(285,402)	136,516	165,184	188,649
Less: Provision for Tax	(106,776)	37,783	45,971	54,708
Extraordinary item	(337,847)	(1,144)	-	-
Minority interest	(55,919)	43,584	18,729	18,484
Associate profit share	2	(27)	-	-
Reported Profit	(122,705)	55,122	100,484	115,456
Adjusted Profit	29,100	55,949	100,484	115,456
Shares o /s (mn)	2,965	2,965	3,717	3,717
Basic EPS (INR)	9.8	18.9	27.0	31.1
Diluted shares o/s (mn)	2,965	2,965	3,717	3,717
Adjusted Diluted EPS	9.8	18.9	27.0	31.1
Dividend per share (DPS)	4.1	17.7	18.0	18.0
Dividend Payout Ratio(%)	(11.8)	111.4	83.4	67.8
Tax rate (%)	37.4	27.7	27.8	27.8

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	77.7	72.0	68.0	68.4
Depreciation	12.6	8.3	9.5	8.4
Interest Expense	8.5	7.7	6.9	6.3
EBITDA margins	22.3	28.0	32.0	31.6
Net Profit margins	(3.9)	13.1	14.4	14.6

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	(7.8)	12.0	8.9	10.7
EBITDA	(31.3)	40.8	24.4	9.4
Adjusted Profit	(42.9)	92.3	79.6	14.9
EPS	(42.9)	92.3	43.3	14.9

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	695,104	810,561	
Shareholders' funds	440,392	605,001	698,822	814,278	
Minority Interest	365,611	139,279	158,009	176,493	
Short term borrowings	183,994	413,139	413,139	413,139	
Long term borrowings	493,784	302,551	269,551	236,551	
Total Borrowings	677,778	715,690	682,690	649,690	
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	1,572,389	1,556,147	1,666,456	1,767,397	
Gross Block	1,386,994	1,528,301	1,678,301	1,828,301	
Net Block	662,983	758,344	829,886	902,713	
Capital work in progress	279,260	176,709	101,878	27,046	
Intangible Assets	114,676	108,062	108,062	108,062	
Total Fixed Assets	1,056,918	1,043,116	1,039,826	1,037,822	
Non current investments	166,619	167,527	167,527	167,527	
Cash and Equivalents	570,460	610,119	728,118	819,694	
Inventories	80,117	96,279	120,045	128,153	
Sundry Debtors	25,279	34,093	30,570	40,990	
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	189,777	208,305	
Trade payable	161,624	184,591	239,992	247,152	
Other Current Liab	218,299	249,558	218,799	218,799	
Total Current Liab	379,923	434,149	458,791	465,951	
Net Curr Assets-ex cash	(221,609)	(264,615)	(269,014)	(257,645)	
Uses of funds	1,572,389	1,556,147	1,666,456	1,767,397	
BVPS (INR)	148.5	204.0	188.0	219.1	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	(122,705)	55,122	100,484	115,456	
Add: Depreciation	85,724	62,915	78,459	77,173	
Interest (Net of Tax)	36,164	42,346	41,241	41,842	
Others	127,565	1,429	(7,378)	1,317	
Less: Changes in WC	(77,021)	(17,959)	(4,399)	11,369	
Operating cash flow	203,769	179,770	217,204	224,419	
Less: Capex	54,119	54,360	75,169	75,169	
Free Cash Flow	149,650	125,410	142,035	149,251	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		203,769	179,770	217,204	224,419
Investing cash flow		(78,628)	27,106	38,460	36,415
Financing cash flow		(113,081)	(123,490)	(168,425)	(169,259)
Net cash Flow		12,061	83,386	87,239	91,576
Capex		(54,119)	(54,360)	(75,169)	(75,169)
Dividend paid		(32,218)	(96,726)	(78,281)	(78,281)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	(3.2)	12.8	14.9	14.5
ROACE (%)	7.0	13.3	14.8	15.5
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	1.8	2.0	2.2
Gross Debt/EBITDA	4.5	3.4	2.6	2.2
Gross Debt/Equity	0.8	1.0	0.8	0.7
Adjusted Debt/Equity	0.8	1.0	0.8	0.7
Net Debt/Equity	0.1	0.1	(0.1)	(0.2)
Interest Coverage Ratio	1.1	2.6	3.3	3.7

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)	9.8	18.9	27.0	31.1
Y-o-Y growth (%)	(42.9)	92.3	43.3	14.9
Adjusted Cash EPS (INR)	44.2	45.6	48.1	51.8
Diluted P/E (x)	27.9	14.5	10.1	8.8
P/B (x)	1.8	1.3	1.5	1.3
EV / Sales (x)	1.9	1.5	1.5	1.2
EV / EBITDA (x)	8.5	5.5	4.7	3.9
Dividend Yield (%)	1.5	6.5	6.6	6.6

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Vedanta	15,832	10.1	8.8	4.3	3.5	14.9	14.5
Hindalco Industries	7,672	-	-	3.4	3.0	9.3	9.2
National Aluminium Co Ltd	2,122	12.2	11.2	6.7	6.5	10.5	10.5
Median	-	10.1	8.8	4.3	3.5	10.5	10.5
AVERAGE	-	7.4	6.7	4.8	4.3	11.6	11.4

Source: Edelweiss research

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	Wholtime Director	Arun Kumar	Chief Financial Officer
Anuradha Dutt	Non-Executive Independent Director		

Auditors - Deloitte Haskins & Sells

Holding – Top 10

	Perc. Holding		Perc. Holding
Life Insurance Corp of India	7.25	Dimensional Fund Advisors LP	1.78
Vanguard Group	1.47	HDFC Asset Management Co Ltd	1.35
Blackrock	1.29	Birla Sun Life Asset Management	1.21
Shalika Bhadram Janhit	1.15	Reliance Capital Trustee Co Ltd	0.63
ICICI Prudential Asset Mgmt Co	0.38	UTI Asset Management Co Ltd	0.36

**as per last available data*

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

**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	SO	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

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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
20-Jul-17	Hindustan Zinc	Minor blip; bigger picture intact; <i>Result Update</i>	280	Buy
18-Jul-17	Metals & Mining	Sustained deficit a positive for Zinc prices; <i>Sector Update</i>		
13-Jul-17	Vedanta	Oil and Gas division: At inflection point?; <i>Company Update</i>	260	Buy

Distribution of Ratings / Market Cap

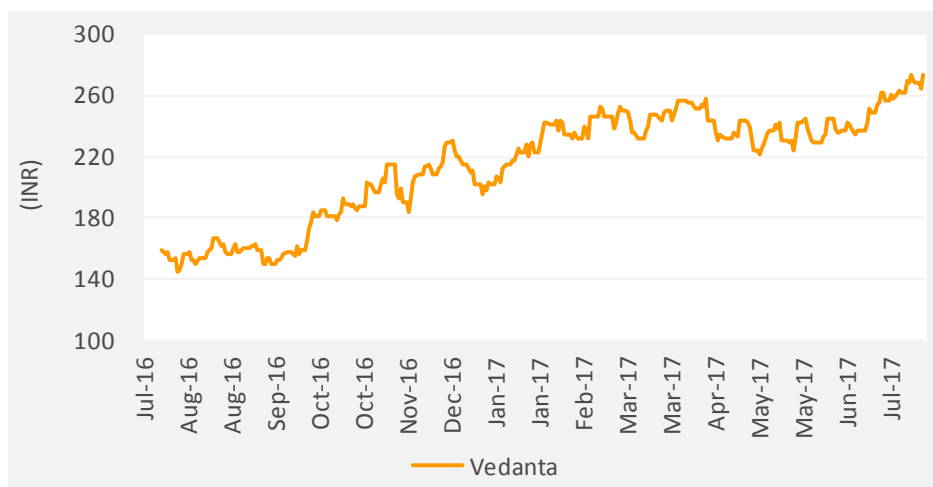
Edelweiss Research Coverage Universe

	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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