

July 26, 2017

₹ 274

## Vedanta Ltd (VEDLIM)

### Shutdowns impact operations at VAL, TSPL...

- Vedanta reported a subdued set of Q1FY18 numbers wherein EBITDA and PAT were below our estimates
- Gross income from operations were at ₹ 19342 crore. After adjusting for excise duty, net operating income was at ₹ 18285 crore (up 26.7% YoY, down 18.8% QoQ, our estimate: ₹ 18648 crore)
- EBITDA came in at ₹ 4874 crore (up 39% YoY, down 33.7% QoQ), lower than our estimate of ₹ 5603 crore. Resultant EBITDA margin came in at 26.7% below our estimate of 30.1% (Q4FY17: 32.5% and Q1FY17: 24.7%). EBITDA during the quarter was impacted by lower-than-expected performance from Hindustan Zinc and operational outages at aluminium {Vedanta Aluminium (VAL)} and power operations [Talwandi Sabo Power (TSPL)]
- PAT came in at ₹ 1525 crore (up 124% YoY, down 48.7% QoQ)

### Maintains production guidance for aluminium despite outage...

During the quarter, the aluminium segment reported a subdued performance primarily due to outage at the 500 KT Jharsuguda Smelter-I wherein 228 of the 608 pots were impacted. While 35 pots have been restarted, the same is likely to be fully ramped up by Q3FY18. The outage related cost amounted to US\$40/tonne during the quarter. The other elements like higher input cost, rupee appreciation and other operational factors led to an increase in aluminium CoP to US\$1727/tonne (from US\$1492/tonne in Q4FY17). Going forward, the management has guided an aluminium production of 1.5-1.6 MT for FY18 with a CoP estimate of US\$1575-1600/tonne for H2FY18 (Q2FY18 CoP estimate: US\$1700/tonne). The management guided an exit production run-rate of 2 MT for FY18.

### Hindustan Zinc long term prospects remain intact...

Hindustan Zinc (HZL) has a huge reserve base, which provides strong earnings visibility. The total reserve and resource (R&R) as on March 31, 2017 was at 404.4 MT containing 36.09 MT of zinc-lead metal and 1032 million ounce (Moz) of silver. The overall mine life continues to be 25+ years. Secondly, HZL's smelting assets are in the lowest quartile on the global cost curve. The low cost advantage is attributable to the fully integrated nature of operations involving mines, smelter and captive power plants. HZL's smelters are logistically well placed in Rajasthan, near mines resulting into low transportation and shifting costs. Among all major base metals, zinc is the best placed backed by healthy fundamentals. As per the International Lead and Zinc Study Group (LZSG), the refined zinc market will remain in deficit to the tune of 226 KT in CY17, which is likely to provide support to the zinc prices. HZL has strong balance sheet, healthy cash flow, net cash status and healthy dividend yield, which augurs well.

### Performance to improve going forward; maintain HOLD...

Vedanta reported a subdued Q1FY18 performance on account of a lower-than-expected performance from Hindustan Zinc and outages at the company's power and aluminium operations. Going forward, the company has maintained its FY18 guidance for majority of divisions. We have a positive view on the company's domestic zinc business (HZL) on account of strong underlying fundamentals. Vedanta's prudent capital allocation strategy augurs well over a longer term horizon. We value the company using SOTP valuation and arrive at a target price of ₹ 285. We have a **HOLD** recommendation on the stock.

Rating matrix		
Rating	:	Hold
Target	:	₹ 285
Target Period	:	12 months
Potential Upside	:	4%

What's Changed?	
Target	Changed from ₹ 260 to ₹ 285
EPS FY18E	Changed from ₹ 29.4 to ₹ 27.6
EPS FY19E	Changed from ₹ 33.1 to ₹ 34.1
Rating	Unchanged

Quarterly Performance					
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	18,285.0	14,437.1	26.7	22,511.3	-18.8
EBITDA	4,874.0	3,506.4	39.0	7,350.1	-33.7
EBITDA (%)	26.7	24.3	237 bps	32.7	-599 bps
Rep .PAT	1,525.0	681.8	123.7	2,971.0	-48.7

Key Financials				
(₹Crore)	FY16	FY17	FY18E	FY19E
Net Sales	64434	72225	84109	90226
EBITDA (Core)	14709	21332	24632	27634
Adj Net Profit (Attrib)	2156	5627	10258	12681
Adj EPS (₹)	7.3	15.1	27.6	34.1

Valuation summary				
	FY16	FY17	FY18E	FY19E
PE (x)	37.8	18.2	10.0	8.1
Target PE (x)	39.2	18.9	10.3	8.4
EV/EBITDA (x)	9.7	5.3	4.6	3.9
P/BV (x)	2.3	1.7	1.5	1.3
RoNW (%)	4.8	9.3	15.0	16.0
RoCE (%)	6.5	12.1	14.2	15.3

Stock data	
Particular	Amount
Market Capitalisation	₹ 102231 Crore
Debt (FY17)	₹ 67342 Crore
Cash, Liquid Invests (FY17)	₹ 48318 Crore
EV	₹ 121255 Crore
52 week H/L	278 / 154
Equity capital	₹ 372 Crore
Face value	₹ 1

Price performance (%)				
Return %	1M	3M	6M	12M
Hindustan Zinc	15.0	21.5	42.6	121.7
Vedanta	6.6	8.2	50.8	268.8
Hindalco Ind	10.7	3.6	24.9	172.1

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## Variance analysis

	Q1FY18	Q1FY18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Revenue	18,285.0	18,647.6	14,437.1	26.7	22,511.3	-18.8	The topline came in below our estimates
Other Income	1,055.0	1,338.4	1,093.5	-3.5	920.8	14.6	
Raw Material Expense	6,134.0	5,967.2	4,973.4	23.3	6,778.2	-9.5	
Employee Expense	581.0	606.0	578.5	0.4	591.3	-1.7	
Power & Fuel	2,501.0	2,368.0	2,206.8	13.3	2,985.2	-16.2	
Other op. Exp. & exchange loss / (gain) net	4,195.0	4,102.5	3,172.0	32.3	4,806.5	-12.7	
EBITDA	4,874.0	5,603.9	3,506.4	39.0	7,350.1	-33.7	The EBITDA was impacted by lower-than-expected performance from HZL and operational disruption at aluminium and power operations
EBITDA Margin (%)	26.7	30.1	24.3	237 bps	32.7	-599 bps	The resultant EBITDA margin was lower than our estimate
Depreciation	1,386.0	1,609.9	1,492.0	-7.1	1,603.7	-13.6	
Interest	1,592.0	1,519.1	1,393.1	14.3	1,503.5	5.9	
Exceptional item	-	-	(66.8)	LP	(114.4)	0.0	
PBT	2,951.0	3,813.3	1,648.0	79.1	5,049.3	-41.6	
Tax Outgo	681.0	953.3	491.4	38.6	2,060.4	-66.9	
PAT	2,270.0	2,860.0	1,156.7	96.3	2,988.9	-24.1	
Minority Interest & others	745.0	604.9	541.7	37.5	0.8	NA	
Attributable PAT	1,525.0	2,255.1	615.0	148.0	2,988.0	-49.0	
Adjusted PAT	1,525.0	2,255.1	681.8	NA	2,971.0	-48.7	PAT came in lower than our estimate
<b>Key Metrics</b>							
Gross Production (bopd)	187,203.0	188,501.6	196,861.0	-4.9	184,584.0	1.4	
Net Production (bopd)	119,473.0	122,338.2	125,391.0	-4.7	117,926.0	1.3	
Rajasthan Production (bopd)	159,351.0	165,500.0	166,943.0	-4.5	157,338.0	1.3	
HZL, Zinc Sales (tonne)	190,000.0	207,000.0	158,000.0	20.3	217,000.0	-12.4	Zinc sales volume was below our estimate
HZL, Lead Sales (tonne)	34,000.0	33,500.0	41,000.0	-17.1	47,000.0	-27.7	
Zinc Int, Zinc-lead production (tonne)	32,000.0	34,000.0	42,000.0	-23.8	41,000.0	-22.0	
Copper Production (tonne)	90,000.0	97,000.0	102,000.0	-11.8	103,000.0	-12.6	
Aluminium Production (tonne)	352,000.0	315,000.0	234,000.0	50.4	353,000.0	-0.3	
Electricity Sales (million units)	1,838.0	3,548.0	3,391.0	-45.8	3,462.0	-46.9	Electricity sales were lower than our estimate

## Change in estimates

(₹ Crore)	FY17	Old	FY18E New	% Change	Old	FY19E New	% Change	Comments
Revenue	72225	82396	84109	2.1	87915	90,226.5	2.6	Marginally upward revised the topline estimates for both years
EBITDA	21332	24806	24632	-0.7	27083	27,634.2	2.0	Marginally downward revised the EBITDA estimate for FY18E, upward revised for FY19E
EBITDA Margin (%)	29.5	30.1	29.3	-82 bps	30.8	30.6	-18 bps	EBITDA margin estimate revised downward marginally by 82 bps for FY18E and by 18 bps for FY19E
PAT	5627	10930	10258	-6.1	12310	12,681.3	3.0	Downward revised the PAT estimate for FY18E, upward revised for FY19
EPS (₹)	15.1	29.4	27.6	-6.1	33.1	34.1	3.1	

Source: Company, ICICIdirect.com Research

## Assumptions

	Current		Earlier		Comments
	FY18E	FY19E	FY18E	FY19E	
HZL, Zinc Sales (tonne)	800368	814770	800368	814770	Maintained estimates
HZL, Lead Sales (tonne)	150313	185000	150313	185000	Maintained estimates
Silver sales(kgs)	440531	555000	440531	555000	Maintained estimates
Copper Production (tonne)	364500	372600	364500	372600	Maintained estimates
Aluminium Production (tonne)	1654500	1654500	1654500	1654500	Maintained estimates
Electricity Sales (million units)	18901	22681	18901	22681	Maintained estimates
LME Zinc (US\$/tonne)	2800	2700	2700	2700	Upward revised FY19, Zinc estimates
LME Lead (US\$/tonne)	2300	2288	2100	2288	Upward revised FY19, LME Lead estimates
LME Aluminium (US\$/tonne)	1850	1900	1800	1850	Upward revised estimates
LME Copper (US\$/tonne)	5500	5500	5500	5500	Maintained estimates
Realisation (\$/bbl)	47.5	49.7	47.5	49.7	Maintained estimates
Brent Prices (\$/bbl)	53	55	53	55	Maintained estimates
USD:INR	65.0	65.0	65.0	65.0	Maintained estimates

Source: Company, ICICIdirect.com Research

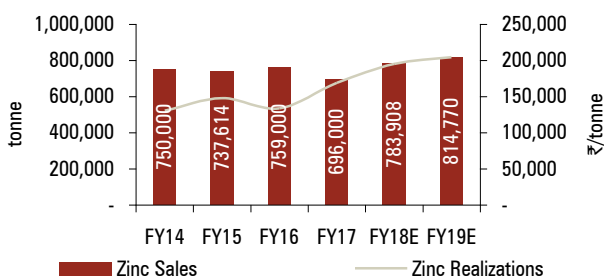
## Company Analysis

### Hindustan Zinc (HZL)

- Integrated mine metal production during the quarter was at 233 KT, up 845 YoY. Integrated zinc-lead production was at 228 KT, up 81% YoY, while integrated silver production was up 305 YoY to 115 MT. The increase was primarily on account of higher volumes from all mines, higher zinc grade and depletion of opening inventory of ore
- The increase in integrated zinc-lead production was in line with availability of mined metal, supported by smelter efficiencies. The integrated silver production increased primarily due to higher grade and volume from Sindesar Khurd Mine
- The zinc metal cost of production before royalty was at ₹ 62698/tonne (US\$973), up 2% YoY (6% in dollar terms). The increase was due to a substantial increase in coal & commodity prices and lower acid realisations, offset by higher volumes
- The company has maintained the volume guidance for FY18 of ~950 KT (refined zinc-lead production) and 500 MT silver production. The dollar CoP (excluding royalty) in FY18 is expected to be marginally higher compared to FY17 based on current levels of coal and input commodity prices. For FY18, the management indicated that the tax rate is expected to be slightly higher than MAT
- The capital mine development increased 82% YoY and 28% QoQ to 8828 metre
- At Rampura Agucha during the quarter, equipping of the main shaft was completed while the winder is likely to be commissioned in the current quarter. The order for ventilation fans has been placed with commissioning targeted by end of FY18, in line with return air drive development. We expect production from the shaft to start in Q3FY19
- Sindesar Khurd mine main shaft headgear erection is complete and preparatory works for equipping is in progress. The commissioning of the winder system is expected by Q1FY19 while production from the shaft is expected to start in Q2FY19. During the quarter, the company awarded order to L&T for a new mill of 1.5 MTPA capacity, to take total capacity to 5.8 MTPA. Excavation work for the mill has begun in full swing with targeted commissioning by Q2 next year
- At Zawar mine raise, boring machines were mobilised for ventilation raises at Balaria & Mochia mines and work commenced. The Zawar mill debottlenecking project has now been upgraded to 2.7 MTPA, and is likely to be completed by Q2FY18. The associated power upgradation project was completed during the current quarter. The company is now upgrading the Zawar mine to the status of a mega mining complex. The same is based on revised R&R potential and has increased the focus on the exploration programme
- The fumer project is progressing as per schedule and is expected to be completed by mid-FY19. All long lead items have been ordered and civil works is in full swing
- The company's net cash and cash equivalents were at ₹ 16,998 crore as on June 30, 2017 (excluding ₹ 6,959 crore of short-term commercial paper). Gross investments were at ₹ 23,957 crore in high quality debt instruments
- The management indicated that the company repaid ~₹ 1000 crore of commercial papers during the quarter

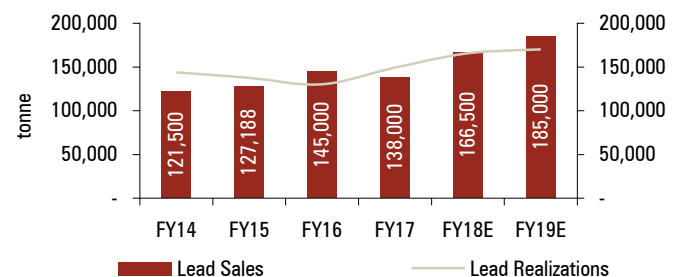
- The e-auction coal catered to ~40-45% of the company's requirement during the quarter (against nil last year). The current e-auction prices are ~10% lower than the landed costs of imports
- The company is focusing on value addition and has launched new zinc alloy during the quarter. The value addition is likely to provide a premium of ~US\$25/tonne to the realisation. The management believes that in the next three to five years the company should be able to convert all slabs to value added products
- The management indicated that it may plan to further expand capacity to 1.5 MT post completing its current phase of expansion to 1.2 MT by 2020. Further expansion to 1.5 MTPA may take another three to five years
- The ore grade quality during the quarter was at ~8.4% compared to 11.1% in Q4FY17 and 6.98% in Q1FY17. Accordingly, the cost of production is likely to remain similar in Q2FY18 and is likely to improve from Q3FY18
- The management indicated that zinc exports constitute ~30% of total volumes. Further, domestic realisations remain at a premium of around US\$100-120 per tonne over exports
- Going forward, the tax rate is likely to be marginally higher than MAT

**Exhibit 1: Zinc sales & realisation trend**



Source: Company, ICICIdirect.com Research

**Exhibit 2: Lead sales & realisation trend**



Source: Company, ICICIdirect.com Research

### Cairn - Oil & Gas

- For Q1FY18, gross average production was at 187203 boepd. Rajasthan production came in at 159351 boepd while the offshore production came in at 27852 boepd
- The RJ Mangala EOR production stable at 56k boepd in Q1
- The company commenced production from two more satellite fields viz Kaam West-2 and Guda
- The Rajasthan Q1FY18 waterflood operating cost at US\$4.3/boe was down 5.5% QoQ. The blended cost including EOR was at US\$6.2/boe down 1.2% QoQ.

### FY18 outlook

- Rajasthan production is expected at 165 kboepd with further potential upside from growth projects
- For FY18, net capex estimate is US\$250 million
  - 90% for development including EOR, tight oil and tight gas projects

- 10% for exploration and appraisal

### **Key projects**

#### RDG gas project

- Phase-1: 40-45 mmscfd by Q2FY18
- Phase-2: Gas production of 100 mmscfd and condensate production of 5 kboepd by H1CY19
  - Drilling rig contract awarded, tendering for new gas processing terminal is underway.

#### Key oil projects

- Mangala Infill: 15 well drilling campaign commencing from end July 2017, first oil expected from Q2FY18
- Liquid handling: Upgrading infrastructure to support incremental oil volumes in phased manner
- Bhagyam EOR: Polymer injection in select wells for incremental volumes.
- Aishwariya EOR: Successfully completed the injectivity test. FDP under discussion with JV Partner
- Aishwariya Barmer Hill: Production from appraisal wells commenced from July 2017, Phase-2 project execution to begin in FY18

### **Exploration**

- Studies contract awarded for shallow oil prospects and deep gas prospects with the objective of enhancing the prospect resource base in the Barmer Basin at Rajasthan

### **Zinc International**

- Q1FY18 production was at 32 KT. The Skorpion production was at 14 KT while the BMM production was at 18 KT
- The cost of production (CoP) at US\$1690/tonne was higher QoQ, driven by lower production at Skorpion due to planned shut down at the acid plant in June 2017
- In terms of projects, for the Skorpion pit 112 extension, work has commenced in April 2017, while outsourced mining; ore extraction from H2FY18. This has potential to increase mine life by three years
- For FY18, the management has guided at production of ~160 KT, and CoP at ~US\$1500/tonne

### **Gamsberg project**

- The company has made significant progress at the 250 KT Gamsberg project. It is on target for first production by mid CY18 and on budget for a capex target of US\$400 million. The critical milestone of completion of the North Access Ramp has been achieved while north pit pre-stripping has been fully ramped up. With major contractors mobilised, site activities including civil, power lines and water lines are in full swing. Waste pre-stripping is progressing as per plan. The first phase is expected to have a mine life of 13 years

### **Aluminium business**

- The alumina and aluminium production during the quarter was at 303 KT and 352 KT, respectively
  - The aluminium CoP was at US\$1727/tonne, higher QoQ primarily on account of higher input and power cost and rupee appreciation
  - The Alumina CoP was at US\$312/tonne vs. US\$408/tonne for imported alumina



- 500 KT Jharsuguda I smelter: outage in April 2017 impacted 228 of the 608 pots; 35 pots restarted, full ramp up is likely by Q3 FY18
- Ramp up at 1.25 MT Jharsuguda II smelter:
  - First line 187 pots operational, full ramp up by Q3FY18
  - Second line fully ramped up and capitalised in Q4FY17
  - Third line 152 operational, full ramp up by Q3FY18
  - Fourth line under evaluation
- 325 BALCO II fully operational and capitalised in Q1

#### **FY18 Outlook**

- Aluminium production 1.5-1.6 MT (excluding trial run). Alumina production at 1.5-1.6 MT
- CoP estimated at US\$1575-1600/tonne for H2FY18, Q2 CoP estimated at US\$1700/tonne
- Bauxite production from BALCO mines is estimated at 1.8-2 MT
- The company is working with Odisha State Government on allocation of bauxite

#### **Copper business**

- Production during the quarter was at 90 KT, advanced the maintenance shutdown to balance concentrate market disruptions
  - Global concentrate supply has recovered/normalised
- Tc/RCs lower at 20.8 c/lb; ~80% of concentrate requirements is sourced through longer term agreements
- Net cost of conversion higher YoY due to lower volumes, higher input prices and lower acid credits
- FY18 production estimated at 400 KT
- The company is evaluating expansion of 400 KTPA smelters

#### **Iron ore segment (erstwhile Sesa Goa)**

- Production and sales volume for the quarter was at 3.24 MT and 2.32 MT, respectively
- Lower sales at Goa due to low pricing & widening of discounts from benchmark grade
  - Beneficiation and blending in process to improve realisation and margins
- Karnataka achieved ~50% of allocated annual mining cap in Q1
  - Lower sales on muted e-auctions
  - Beneficiation of ore resulted in stronger prices: ~US\$24/tonne
- FY18 production allocation: 5.5 MT at Goa and 2.3 MT at Karnataka
  - The company is engaged with respective state government for additional allocation

#### **Power business**

- Plant was out of production for two months due to fire at coal conveyor in April 2017
- All three units restarted in end of June 2017 are currently running at availability of 90%+ for FY18
- The plants are targeting availability of 70%+ for FY18
- Other IPPs
  - Balco 600 MW: Stable PLF of 68%
  - Jharsuguda 600 MW: PLF at 47%
  - Malco 1000 MW: Under care & maintenance from May 26 2017

#### **Coal outlook**

- Higher production by Coal India has resulted in reduced reliance on imports
  - Temporary disruptions in domestic coal supply during Q1 led to increase in power cost
- Coal linkage of 2 MT secured in July. In addition to 6 MT linkage secured in Q2FY17
  - Domestic linkages to contribute to long term coal security at competitive prices

#### Other Highlights

- The company achieved a cumulative cost and marketing savings of US\$856 million over the last nine quarters
- The company is benefiting from competitively priced capital market instruments. The bank term loan interest has reduced 80-100 bps
- As of June 30 2017, cash & liquid investments are at US\$7.5 billion with undrawn committed lines of US\$1.1 billion
- The company awaits the final approval of Sebi for listing of the redeemable preference share

Exhibit: 5 Debt profile (₹ crore)						
Company	30-Jun-17			31-Mar-17		
	Debt	Cash & LI	Net Debt	Debt	Cash & LI	Net Debt
Vedanta Standalone	42,711	16,698	26,013	43,233	2,316	40,917
Cairn India	-	-	-	-	27,646	(27,646)
Zinc India	6,959	23,967	(17,008)	7,908	32,166	(24,258)
Zinc International	-	614	(614)	-	907	(907)
Cairn India Holdings Limited	4,155	6,759	(2,604)	-	-	-
BALCO	4,765	102	4,663	4,925	63	4,862
Talwandi Sabo	8,029	70	7,959	8,012	191	7,821
Twin Star Mauritius Holdings Limited and	723	108	615	7,491	182	7,309
Vedanta Consolidated	67,342	48,318	19,024	71,569	63,471	8,098

Source: Company

### Key takeaways from annual report FY17...

- Vedanta titled its annual report FY17 as 'Stronger, Smarter and Sustainable'.
  - The title highlights the financial and operational performance during FY17 that enabled the company to emerge stronger
  - The company's approach towards innovation, technology and production has made it smarter
  - While with sustainability at the core of its business strategy the company has become sustainable
- Vedanta in its investment case explained its capital allocation plan, which is underpinned by world class assets and operational excellence to deliver strong, stable and long life cash flows. The company highlights its investment in growth oriented projects is nearing completion and will result in an even improved cash flow generation in years to come. The management as well as the board has emphasised that shareholder returns is the clear focus area
- The company's cost saving programme, which is currently underway, has already achieved a cumulative savings of US\$712 million in the last two years and is progressing ahead of its original plan to achieve cost savings of US\$1.3 billion by H1FY19
- The company has managed to be market leader in India's zinc industry, primary aluminium market and refined copper market with share of 72%, 40% and 35% respectively. The company is also India's largest private sector iron ore exporter and is responsible for 26% of India's crude oil production
- The company operations remain fundamentally strong and generate superior free cash flows. The strong cost optimisation programme has also begun to yield result. Further, the consistent focus on deleveraging the balance sheet has led to reduction in gross debt and a net debt/EBITDA level of 0.4x (lowest/strongest among the Indian and global peer). Crisil upgraded the credit rating to Crisil AA/Stable, which underlines the focus on building a strong balance sheet
- With its FY17 results, the company announced a dividend policy of 30% of attributable PAT (ex-Hindustan Zinc PAT) and a pass through of HZL's regular dividend. The dividend outlay during FY17 was at ₹ 21000 crore (comprising ₹ 7000 crore from Vedanta and ₹ 14000 crore by Hindustan Zinc)
- Vedanta contributed nearly ₹ 40000 crore in FY17 to the country's exchequer



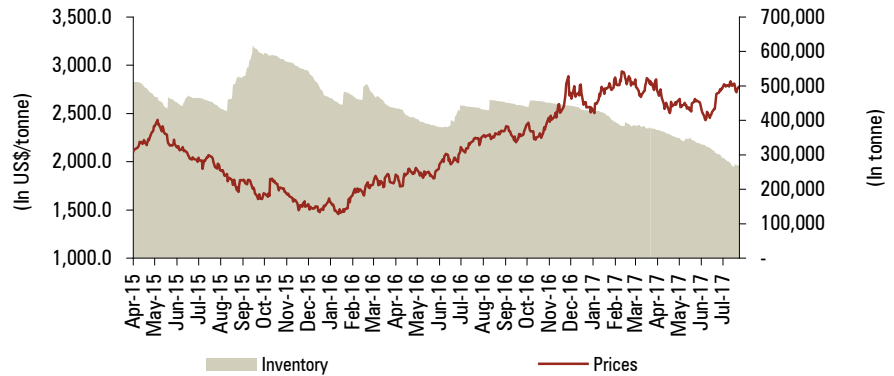
### Metal pricing trend

LME prices of all four major base metals registered an up-tick sequentially. All four base metals witnessed increase in prices QoQ and YoY.

On a quarterly average basis, in Q1FY18, zinc prices were at US\$2591/tonne, up 35% YoY. As on July 24, 2017 the zinc prices were at \$2784/tonne.

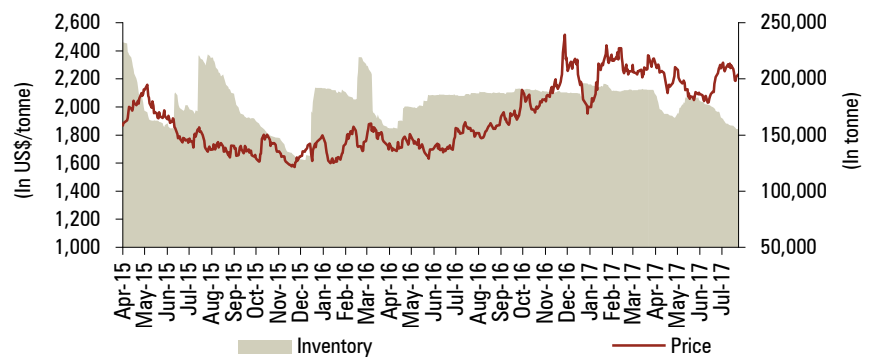
As per ILZSG, after increasing 3.1% in 2016, global demand for refined zinc metal is forecast to rise by 2.6% to 14.30 million tonnes (MT) in 2017. The global zinc mine metal output is forecast to rise 2.6% to 14.08 MT in 2017. Regarding the global market balance, despite the expected increase in zinc mine supply, the group continues to expect global demand for refined zinc metal to comfortably exceed supply in 2017. The extent of the deficit is forecast at 226,000 tonnes

**Exhibit 6: LME zinc prices & inventory levels**



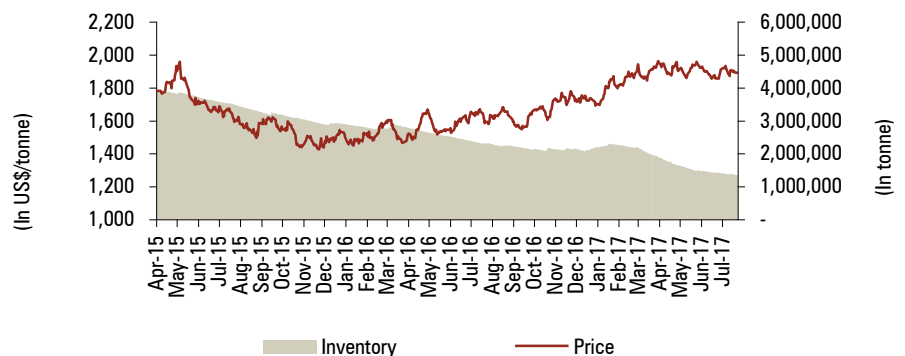
Source: Bloomberg, ICICIdirect.com Research

**Exhibit 7: LME lead prices & inventory levels**



Source: Bloomberg, ICICIdirect.com Research

**Exhibit 8: LME aluminium prices & inventory levels**



Source: Bloomberg, ICICIdirect.com Research

On a quarterly average basis, in Q1FY18, aluminium prices were at US\$1905/tonne, up 21.2% YoY and 2.8% QoQ. As on July 24, 2017, aluminium prices were at \$1891/tonne

## Outlook and valuation

Vedanta reported a subdued Q1FY18 performance on account of a below expected performance from Hindustan Zinc and outages at the company's power and aluminium operations. Going forward, the company has maintained its FY18 guidance for a majority of divisions. We have a positive view on the company's domestic zinc business (HZL) on account of strong underlying fundamentals. Vedanta's prudent capital allocation strategy augurs well over a longer term horizon. We value the company using SOTP valuation and arrive at a target price of ₹ 285. We have a **HOLD** recommendation on the stock.

**Exhibit 9: Valuation matrix**

	Sales (₹ Crore)	YoY Growth (%)	EPS (₹)	YoY Growth (%)	PE (x)	EV/EBITDA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY15	73364.1	11.6	19.8	-9.2	13.9	6.8	1.5	10.9	11.3
FY16	64433.6	-12.2	7.3	-63.3	37.8	9.7	2.3	4.8	6.5
FY17E	72225.0	12.1	15.1	108.1	18.2	5.3	1.7	9.3	12.1
FY18E	84109.1	16.5	27.6	82.3	10.0	4.6	1.5	15.0	14.2
FY19E	90226.5	7.3	34.1	23.6	8.1	3.9	1.3	16.0	15.3

Source: Company, ICICIdirect.com Research

**Exhibit 10: Per share value**

Valuation (₹ Crore)	FY19E
Standalone Entity EV @ 6x EV/EBITDA + Cairn Assets + TSPL	93,542
Zinc India EV @ 7x EV/EBITDA	67,905
Zinc International EV @ 5.5x EV/EBITDA	4,358
BALCO EV @ 6x EV/EBITDA	3,830
Net Debt (Standalone + BALCO + Others)	(63,548)
Equity Value	106,088
Target Price / Share (₹/share)	285

Source: Company, ICICIdirect.com Research

Zinc India's value derived by giving 20% holding company discount to the ~65% stake

## Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

## Key events

Date	Event
Sep-16	The shareholders of Vedanta Resources Plc approve the merger of Vedanta and Cairn India. However, the deal to go through would require approval from Vedanta and Cairn India's shareholders
Jan-17	Vedanta Resources (parent company of Vedanta Ltd) raises foreign bonds of US\$1 billion at 6.375% for a period of five years. Vedanta intends to use the net proceeds from this offering primarily to fund its offer to purchase for cash any and all of its outstanding US\$750 million 9.50% bonds due 2018 and US\$1.2 billion 6.00% bonds due 2019 and to repay its other existing indebtedness. The bonds were privately placed
Feb-17	As per media sources, Vedanta chalks out plans to invest ~US\$10 billion in the next three or four years to expanding business across verticals
Mar-17	The National Company Law Tribunal, Mumbai Bench (Tribunal), approves the merger between Vedanta and Cairn India. The company awaits certified copy of the
Mar-17	The Board of Directors of Vedanta approves a second interim dividend for FY17 of ₹ 17.70 per equity. The record date for the purpose of payment of dividend is April 12, 2017. Further, the board also approves a dividend of ₹ 17.70 per equity share to shareholders of Cairn India, who will become shareholders of the company pursuant to the scheme of arrangement between Vedanta and Cairn India. The dividend would be paid to Cairn India shareholders as on a record date to be fixed after the scheme becomes effective. The total amount of dividend payout including that to Cairn shareholders is ₹ 6,580 crore
Apr-17	Vedanta completes the Cairn India merger effective April 11. It fixes April 27 as the record date for determining the list of Cairn India shareholders to whom equity and preference shares would be allotted under the arrangement. Shareholders of Cairn India will get one equity share of Vedanta with four redeemable preference shares, carrying a coupon of 7.5%. As part of the deal, Cairn India shareholders will receive an interim dividend of ₹ 17.7 per share. Though Cairn India as a legal entity ceases to exist, Vedanta said it will preserve the Cairn brand for the oil & gas production business
May-17	Crisil upgrades long-term credit rating assigned to Vedanta's debt instruments and preference share issue to Crisil AA with a stable outlook from Crisil AA-/Positive earlier. The short-term credit rating of Crisil A1+ was reaffirmed. The rating upgrade reflects better-than-expected operational performance and Crisil's expectation of a meaningful deleveraging of balance sheet with access to Cairn India's cash

Source: Company, ICICIdirect.com Research

## Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Vedanta Resources PLC	31-Mar-17	36.66	1,362.7	0.0
2	Finsider International Co., Ltd.	31-Mar-17	10.80	401.5	0.0
3	Life Insurance Corporation of India	31-Mar-17	3.12	115.8	0.0
4	The Vanguard Group, Inc.	30-Jun-17	1.38	51.3	17.7
5	Birla Sun Life Asset Management Company Ltd.	30-Jun-17	1.21	45.0	1.7
6	BlackRock Institutional Trust Company, N.A.	30-Jun-17	1.15	42.9	0.3
7	Shalika (Bhadram Janhit)	31-Mar-17	1.15	42.7	0.1
8	HDFC Asset Management Co., Ltd.	30-Jun-17	1.11	41.2	-0.2
9	Dimensional Fund Advisors, L.P.	30-Apr-17	0.72	26.8	0.0
10	Templeton Asset Management Ltd.	31-Mar-17	0.57	21.0	-31.3

Source: Reuters, ICICIdirect.com Research

## Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	62.9	62.9	62.9	62.9	50.1
FII	15.3	16.4	16.8	16.3	17.7
DII	7.3	6.8	7.0	7.1	13.5
Others	14.5	13.9	13.3	13.7	18.7

## Recent Activity

Buys			Sells		
Investor Name	Value (M)	Shares(M)	Investor Name	Value (M)	Shares(M)
The Vanguard Group, Inc.	68.3	17.7	Templeton Asset Management Ltd.	-132.8	-31.3
UTI Asset Management Co. Ltd.	8.5	2.3	Lyxor Asset Management	-19.5	-5.3
Mirae Asset Global Investments (India) Pvt. Ltd.	8.0	2.2	BNP Paribas Asset Management Asia Limited	-14.2	-3.4
Birla Sun Life Asset Management Company Ltd.	6.6	1.7	Nuveen LLC	-3.5	-0.9
Caisse de Depot et Placement du Quebec	4.6	1.5	T. Rowe Price Associates, Inc.	-2.9	-0.7

Source: Reuters, ICICIdirect.com Research

## Financial summary

Profit and loss statement (₹ crore)				
(Year-end March)	FY16	FY17	FY18E	FY19E
Net Sales	63931.2	72225.0	84109.1	90226.5
Other Operating Income	502.4	0.0	0.0	0.0
<b>Total operating Income</b>	<b>64,433.6</b>	<b>72,225.0</b>	<b>84,109.1</b>	<b>90,226.5</b>
Growth (%)	-12.6	12.1	16.5	7.3
Total Operating Expenditure	49,724.7	50,893.1	59,476.7	62,592.3
<b>EBITDA</b>	<b>14,708.8</b>	<b>21,331.9</b>	<b>24,632.4</b>	<b>27,634.2</b>
Growth (%)	-33.3	45.0	15.5	12.2
Depreciation & Amortization	6,710.9	6,291.5	6,439.6	6,676.0
Interest	5,704.5	5,855.0	4,861.1	3,971.6
Other Income	3,482.2	4,580.6	5,362.5	5,743.6
PBT	5,775.7	13,766.0	18,694.3	22,730.1
Exceptional Items	-11,479.6	-114.4	0.0	0.0
Total Tax	433.0	3,778.3	3,738.9	4,546.0
<b>PAT before MI</b>	<b>-6,136.9</b>	<b>9,873.3</b>	<b>14,955.4</b>	<b>18,184.1</b>
Growth (%)	LP	-260.9	51.5	21.6
Minorities, Associates, etc	-3186.5	-4361.1	-4697.6	-5502.8
<b>PAT after MI</b>	<b>-9,323.4</b>	<b>5,512.2</b>	<b>10,257.9</b>	<b>12,681.3</b>
Growth (%)	LP	LP	86.1	23.6
<b>Adjusted PAT after MI</b>	<b>2,156.2</b>	<b>5,626.6</b>	<b>10,257.9</b>	<b>12,681.3</b>
Growth (%)	LP	160.9	82.3	23.6
Adj EPS (₹)	7.3	15.1	27.6	34.1

Source: Company, ICICIdirect.com Research

Balance sheet (₹ crore)				
(Year-end March)	FY16	FY17	FY18E	FY19E
<b>Liabilities</b>				
Equity Capital	296.5	371.8	371.8	371.8
Reserve and Surplus	44,375.8	60,128.4	68,211.5	78,718.0
<b>Total Shareholders funds</b>	<b>44,672.3</b>	<b>60,500.1</b>	<b>68,583.2</b>	<b>79,089.8</b>
Total Debt	77,952.0	71,569.0	67,319.0	65,069.0
Deferred Tax Liability	3,195.9	2,083.7	2,083.7	2,083.7
Non-control. Interest, MI & oth	33,060.0	21,191.0	21,191.0	21,191.0
<b>Total Liabilities</b>	<b>158,880.2</b>	<b>155,343.8</b>	<b>159,176.9</b>	<b>167,433.4</b>
<b>Assets</b>				
Gross Block	132,406.7	131,570.6	139,570.6	147,570.6
Less: Acc Depreciation	38,638.4	44,929.9	51,369.5	58,045.5
<b>Net Block</b>	<b>93,768.3</b>	<b>86,640.7</b>	<b>88,201.1</b>	<b>89,525.1</b>
Capital WIP	6,229.5	17,670.9	17,670.9	17,670.9
<b>Total Fixed Assets</b>	<b>99,997.8</b>	<b>104,311.6</b>	<b>105,872.0</b>	<b>107,196.0</b>
Investments	46,529.4	46,962.1	47,949.5	48,949.5
Inventory	8,079.1	9,627.9	12,674.0	13,595.8
Debtors	2,550.1	3,409.3	4,608.7	4,943.9
Loans, Adv. & Oth. Cu. assets	27,145.0	13,104.0	19,587.8	21,071.6
Cash	3,768.3	14,215.8	9,926.7	10,790.5
<b>Total Current Assets</b>	<b>41,542.6</b>	<b>40,357.0</b>	<b>46,797.2</b>	<b>50,401.8</b>
Creditors	26,321.3	41,432.3	46,087.2	43,259.3
Provisions	2,868.3	2,346.6	2,846.6	3,346.6
<b>Total Current Liabilities</b>	<b>29,189.6</b>	<b>43,778.9</b>	<b>48,933.8</b>	<b>46,605.9</b>
<b>Net Current Assets</b>	<b>12,353.0</b>	<b>-3,421.9</b>	<b>-2,136.6</b>	<b>3,796.0</b>
Others Assets	0.0	7,492.0	7,492.0	7,492.0
<b>Application of Funds</b>	<b>158,880.2</b>	<b>155,343.8</b>	<b>159,176.9</b>	<b>167,433.4</b>

Source: Company, ICICIdirect.com Research

Cash flow statement (₹ crore)				
(Year-end March)	FY16	FY17	FY18E	FY19E
Profit after Tax	-9,323.4	5,512.2	10,257.9	12,681.3
Add: Depreciation	6,710.9	6,291.5	6,439.6	6,676.0
(Inc)/dec in Current Assets	-1,041.5	11,633.1	-10,729.3	-2,740.8
Inc/(dec) in CL and Provisions	9,000.7	14,589.3	5,154.9	-2,327.9
Others	-135.5	-22,949.6	0.0	0.0
<b>CF from operating activities</b>	<b>5,211.2</b>	<b>15,076.6</b>	<b>11,123.0</b>	<b>14,288.5</b>
(Inc)/dec in Investments	-7,136.7	-432.7	-987.4	-1,000.0
(Inc)/dec in Fixed Assets	-10,009.5	-6,123.0	-8,000.0	-8,000.0
Others	12,156.6	9,863.0	0.0	0.0
<b>CF from investing activities</b>	<b>-4,989.6</b>	<b>3,307.3</b>	<b>-8,987.4</b>	<b>-9,000.0</b>
Issue/(Buy back) of Equity	0.0	75.3	0.0	0.0
Inc/(dec) in loan funds	200.0	-6,383.0	-4,250.0	-2,250.0
Dividend paid & dividend tax	-2,029.4	-8,459.7	-2,174.7	-2,174.7
Inc/(dec) in Sec. premium	2,149.8	18,700.1	0.0	0.0
Others	-2,562.6	-11,869.0	0.0	0.0
<b>CF from financing activities</b>	<b>-2,242.2</b>	<b>-7,936.4</b>	<b>-6,424.7</b>	<b>-4,424.7</b>
<b>Net Cash flow</b>	<b>-2,020.6</b>	<b>10,447.5</b>	<b>-4,289.1</b>	<b>863.8</b>
Opening Cash	5,789.0	3,768.3	14,215.8	9,926.7
<b>Closing Cash</b>	<b>3,768.3</b>	<b>14,215.8</b>	<b>9,926.7</b>	<b>10,790.5</b>

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
<b>Per share data (₹)</b>				
Adj EPS	7.3	15.1	27.6	34.1
Cash EPS	29.9	32.1	44.9	52.1
BV	120.2	162.7	184.5	212.7
DPS	5.9	19.5	5.0	5.0
Cash Per Share	10.1	38.2	26.7	29.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	22.8	29.5	29.3	30.6
PBT / Total Operating income	9.0	19.1	22.2	25.2
PAT Margin	3.3	7.8	12.2	14.1
Inventory days	44.9	53.5	55.0	55.0
Debtor days	14.2	18.9	20.0	20.0
Creditor days	146.2	230.1	200.0	175.0
<b>Return Ratios (%)</b>				
RoE	4.8	9.3	15.0	16.0
RoCE	6.5	12.1	14.2	15.3
RoIC	6.7	12.8	14.4	15.7
<b>Valuation Ratios (x)</b>				
P/E	37.8	18.2	10.0	8.1
EV / EBITDA	9.7	5.3	4.6	3.9
EV / Net Sales	2.2	1.6	1.3	1.2
Market Cap / Sales	1.3	1.1	1.0	0.9
Price to Book Value	2.3	1.7	1.5	1.3
<b>Solvency Ratios</b>				
Net Debt/EBITDA	1.9	0.5	0.4	0.2
Net Debt / Equity	0.6	0.2	0.1	0.1
<b>Current Ratio</b>	<b>1.4</b>	<b>0.9</b>	<b>1.0</b>	<b>1.1</b>

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (Metals & Mining)

Company	CMP			M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	TP (₹)	Rating	(₹ Cr)	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E		
Coal India	262	280	Hold	162355	14.9	18.8	20.3	17.8	14.2	13.1	9.3	8.0	7.0	33.5	37.9	37.4	37.8	39.2	37.2		
Hindalco	214	225	Hold	47747	8.4	18.2	23.5	23.4	10.8	8.4	7.6	6.8	5.7	6.9	7.4	8.6	4.1	8.1	9.5		
Hindustan Zinc	278	310	Buy	117413	19.7	23.6	26.5	14.2	11.9	10.6	9.7	7.7	6.1	26.9	33.4	31.8	27.0	26.8	25.2		
JSW Steel	214	215	Buy	51668	14.3	18.8	20.8	13.5	10.2	9.3	7.2	6.7	6.3	13.3	14.5	14.5	15.3	17.4	16.4		
Vedanta	275	285	Hold	81538	15.1	27.6	34.1	18.2	10.0	8.1	5.3	4.6	3.9	12.1	14.2	15.3	9.3	15.0	16.0		
Tata Steel	549	550	Buy	162630	42.2	47.0	64.2	11.5	10.3	7.5	7.4	7.2	6.0	9.4	9.4	11.1	10.8	13.8	16.2		

Source: Company, ICICIdirect.com Research

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Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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