

# VEDANTA

## EBITDA miss; prospects intact

India Equity Research | Metals and Mining

Vedanta's (VEDL) Q2FY18 EBITDA, at INR56.7bn (up 21% YoY), missed consensus estimate by 4% due to higher costs at zinc (Zn) India and aluminium (Al) divisions. However, going ahead, we expect costs to reduce availing operating leverage benefits at Zn-India and elimination of one-off costs of USD75/t in Al division. Additionally, firm Zn prices and volume ramp up at Zn-India, international and Al divisions are expected to boost earnings. Despite the Q2FY18 EBITDA miss, VEDL has cut gross debt by INR92bn YTD FY18. Net debt (excluding acceptances) as on Q2FY18 end stood lower at INR155bn versus INR192bn a quarter back. At CMP, the stock is trading at 4.2x FY19E EBITDA. We maintain 'BUY' with unchanged TP of INR425, implying exit multiple of 5.0x FY19E. Our recommendation is also based on expectation of dividend yield of ~5% over next 2 years.

### EBITDA miss, but better performance in store

EBITDA missed consensus estimate due to higher COP/t at Zn- India and Al divisions. Going ahead, we expect better performance on: 1) Lower cost at Zn-India (refer [Hindustan Zinc - Robust volumes perk up EBITDA; result update Q2FY18; BUY](#)); 2) One-off jump in power cost (up to USD75/t) to be largely eliminated as ash pond incident is settled ([Vedanta - Partial revocation of power plant closure a welcome relief; company update; 'BUY'](#)); 3) Zn-International to gain from operating leverage amidst high Zn prices; and 4) Oil & Gas division production expected to rise as EOR projects deliver returns.

### Focus on deleveraging continues

VEDL has trimmed its gross debt by INR115bn YTD FY18. Net debt came 18% lower QoQ to INR15.6bn due to free cash flow generation of INR46bn in Q2FY18. Average cost of borrowings too dipped by 70-80bps due to improved credit profile, resulting in lower interest cost at INR13.8bn.

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

Despite EBITDA miss in Q2FY18, we believe VEDL will benefit from firm base metal prices and operating leverage. Deleveraging will also further enhance shareholders' value. At CMP, the stock trades at 4.2x FY19E EBITDA. Maintain 'BUY/SO' with unchanged TP of INR425, implying exit multiple of 5.0x FY19E EBITDA.

#### Financials

(INR mn)

Year to March	Q2FY18	Q2FY17	% Chg	Q1FY18	% Chg	FY17	FY18E	FY19E
Net revenues	215,900	167,790	28.7	193,420	11.6	761,713	910,073	1,010,289
EBITDA	56,690	46,730	21.3	48,740	16.3	213,319	299,332	326,203
Adjusted Profit	19,701	14,242	38.3	15,250	29.2	54,295	107,442	121,791
Adjusted Diluted EPS	5.6	4.8	17.1	4.1	37.1	18.6	28.9	32.8
Diluted P/E (x)						18.0	11.8	10.4
EV/EBITDA (x)						6.4	4.9	4.2
ROAE (%)						12.8	17.6	16.6

#### 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 341
Target Price	: INR 425
52-week range (INR)	: 345 / 192
Share in issue (mn)	: 3,717.2
M cap (INR bn/USD mn)	: 1,267 / 19,602
Avg. Daily Vol.BSE/NSE('000)	: 12,386.2

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	50.2	50.1	62.9
MF's, FI's & BK's	13.1	13.3	7.0
FII's	17.9	17.7	16.3
Others	18.7	18.8	13.8
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	Stock	Nifty	#N/A
1 month	8.4	6.5	1.7
3 months	21.3	3.4	(5.2)
12 months	56.2	22.4	(5.0)

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**Q2FY18 EBITDA miss primarily due to high AI division cost**

VEDL reported YoY EBITDA growth in all divisions, except in AI and iron ore divisions. Despite the EBITDA miss, we see following positives: 1) Ramp up at Zn International division amidst firm Zn prices; 2) Copper division gathering pace after the maintenance shut-down in Q1FY18 resulting in EBITDA growth of 84% QoQ; 3) TSPL has restarted operations after outage in Q1FY18 with 85% availability in Q2FY18; and 4) Ramp up at AI division resulting in highest ever quarterly volume.

Going ahead, we expect COP/t of AI division to decline from current levels of USD1,857/t as domestic coal situation improves and operating leverage benefits flow in.

**Table 1: Quarterly segmental summary**

	Q2FY18	Q2FY17	Y-o-Y (%)	Q1FY18	Q-o-Q (%)
<b>Copper</b>					
Production (MT)	106,000	97,000	9.3	90,000	17.8
Revenues (INR mn)	62,370	46,860	33.1	50,480	23.6
EBITDA (INR mn)	3,920	3,700	5.9	2,130	84.0
<b>Aluminium</b>					
Production (MT)	400,000	295,000	35.6	352,000	13.6
Revenues (INR mn)	52,120	30,270	72.2	42,360	23.0
EBITDA (INR mn)	4,570	4,000	14.3	5,280	(13.4)
<b>HZL</b>					
Zn production (MT)	193,000	149,000	29.5	194,000	(0.5)
Revenues (INR mn)	51,970	34,000	52.9	44,770	16.1
EBITDA (INR mn)	30,010	19,790	51.6	23,690	26.7
EBIT (INR mn)	22,730	14,236	59.7	18,150	25.2
Capital Employed (INR mn)	132,900	121,768	9.1	130,810	1.6
<b>Power</b>					
SEL sales (MU)	93	605	(84.6)	564	(83.5)
Balco sales (MU)	132	549	(76.0)	551	(76.0)
Revenues (INR mn)	14,310	13,850	3.3	7,330	95.2
EBITDA (INR mn)	3,660	3,800	(3.7)	1,100	NA
<b>Zinc International</b>					
Zn-Pb Production (KT)	42	39	7.7	32	31.3
Revenues (INR mn)	8,530	6,850	24.5	8,010	6.5
EBITDA (INR mn)	3,890	3,390	14.7	3,210	21.2

Source: Company, Edelweiss research

## Q2FY18 Earnings conference call: Key highlights

### Macros

- Management expressed confidence that China's initiative to cut production during winters to curb pollution and growth will be a key mover of base metal prices.
- They mentioned that 87% of Vedanta's Q2FY18 EBITDA was generated by the commodities where demand growth of 2% CAGR is expected through to 2030.

### Overall

- Management reiterated that deleveraging and shareholders' returns remain the company's priority.
- They mentioned that at net debt/EBITDA of 0.6x, VEDL is well placed among peers with sufficient headroom to pursue growth opportunities.

### Zn division

- Management reiterated mined metal production at Zn 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.
- Rampur Agucha mine shaft service winder has been commissioned and production from the shaft is expected to commence in Q3FY19.
- At Sindesar Khurd (SK) mine as well, production from shaft is expected to start from Q3FY19 as shaft equipping has commenced. Total milling capacity at SK will go up to 5.8mtpa by Q2FY19 post commissioning of the new mill.
- 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. Excavation of 50% of waste rock of total pre-stripping work has been completed.
- Skorpion's Pit 112 extension project is expected to extend mine life by another 3 years and reserves by 3mt (9.7% grade).
- At International Zn, there is continued focus on the exploration program across locations with total capex commitment in excess of USD10mn.

### Oil & Gas

- Commenced 15 wells in-fill drilling campaign at Mangla with first well brought in September'17. A total of 4 wells are online currently.
- **Operating cost:** Water flood opex stood at USD4.4/bbl, blended opex declined at USD6.3/bbl inline with previous quarter.
- Management reiterated that new projects would generate IRR in excess of 20% even at USD40/bbl Brent.
- RDG gas project: Phase 1 of 40-45mmscfd will commence from Nov 2017 and Phase 2: Gas production of 100mmscfd and condensate production of 5kboepd by H1CY19.
- **FY18 production outlook at 165kbpd**, with potential upside from growth projects in H2FY18. Net capex is estimated at USD250mn in FY18 (90% development, 10% exploration).

### Aluminium

- Pot outage of 500kt at Jharsuguda-I smelter impacted 228 out of 608 pots. As of now, 121 pots have been restarted. Full ramp up is expected by Q3FY18.
- At Jharsuguda-II, 301 pots in first line and 156 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 USD1,850-1,900/t in Q3FY18 due to higher input cost. However, Q4FY18 COP/t is expected to be much lower as domestic coal availability improves.
- Management expects to reduce operating costs by USD75/t in subsequent quarters of which USD47/t relate to power import and USD28/t relates to pot outages.
- They are working with Odisha government on bauxite allocation.
- They expect alumina prices to come down by Q4FY18 as supply situation in China improves.

### Power

- TSPL's availability was 87% in Q2FY18. Currently, all 3 units have restarted. Expected availability for FY18 is at 75%.
- Management mentioned that coal linkage of 8mtpa was secured in Tranche 1 & 2. However, there is curtailment of linkage due to coal unavailability as Coal India is diverting material to IPPs.
- They are dealing with the current challenges in coal supply by importing coal and working towards better materialisation of linkages. However, management expects the challenges to be resolved by Q4FY18.

### Copper

- Record production of 106kt on improved operational efficiencies.
- Management mentioned that conversion cost was lower QoQ due to the benefit of operating leverage.
- 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 was lower owing to steep discount to higher grade iron ore.
- Management mentioned they are beneficiating the ore from Karnataka to ensure grade improvement and hence better prices. However, the price of ore from Karnataka was USD24/t in Q2FY18.
- The company is expected to achieve 100% of production allocation in Karnataka by Q3FY18 and is working with the respective state governments for obtaining additional allocation.

**Debt and capital expenditure**

- YTD FY18, there was deleveraging of INR115bn and net debt/EBITDA is currently at 0.6x, the lowest among peers. Additionally, management has refinanced INR19bn of high cost debt.
- Interest cost stood at lower than 8%. Management mentioned that overall cost of funding is down 40-50bps as compared to last quarter.
- Consolidated debt stood at USD558bn as against cash and liquid investments of USD402bn. Consolidated debt excludes operational buyers' credit that has been classified as trade payable pursuant to adoption of IND-AS.
- The company generated free cash flow of INR4.1bn. Capex guidance for the year is reiterated at USD1.0-1.1bn.

**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.

## Financial snapshot

(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	YTD18	FY18E	FY19E
Net revenues	215,900	167,790	28.7	193,420	11.6	409,320	910,073	1,010,289
Dec/(inc) in stock	(2,930)	(1,020)	NA	(3,190)	NA	(6,120)		
Raw material	80,000	48,890	63.6	64,530	24.0	144,530	316,128	364,858
Staff costs	6,530	5,500	18.7	5,810	12.4	12,340	24,563	25,791
Power, fuel & water	34,530	22,590	52.9	25,010	38.1	59,540	-	-
Other expenses	41,080	45,100	(8.9)	52,520	(21.8)	93,600	270,050	293,437
Total expenditure	159,210	121,060	31.5	144,680	10.0	303,890	610,741	684,086
EBITDA	56,690	46,730	21.3	48,740	16.3	105,430	299,332	326,203
Depreciation	14,260	15,570	(8.4)	13,860	2.9	28,120	78,429	77,151
EBIT	42,430	31,160	36.2	34,880	21.6	77,310	220,903	249,052
Other income	8,760	13,750	(36.3)	10,550	(17.0)	19,310	35,348	33,303
Interest	13,840	14,510	(4.6)	15,920	(13.1)	29,760	57,144	57,978
Add: Exceptional items	1,860	-		-		1,860	-	-
Profit before tax	39,210	30,400	29.0	29,510	32.9	68,720	199,107	224,377
Provision for taxes	9,350	5,450	71.6	6,810	37.3	16,160	55,809	65,069
Minority interest	8,950	10,710	(16.4)	7,450	20.1	16,400	35,856	37,517
Associate profit share	-	2	(100.0)	-		-	-	-
Reported net profit	20,910	14,242	46.8	15,250	37.1	36,160	107,442	121,791
Adjusted Profit	19,701	14,242	38.3	15,250	29.2	34,951	107,442	121,791
Diluted shares (mn)	3,717	2,965		3,717		3,717	3,717	3,717
Adjusted Diluted EPS	5.6	4.8	17.1	4.1	37.1	9.4	28.9	32.8
Diluted P/E (x)							11.8	10.4
EV/EBITDA (x)							4.9	4.2
ROAE (%)							17.6	16.6

## As % of net revenues

Raw material	35.7	28.5		31.7		33.8	34.7	36.1
Employee cost	3.0	3.3		3.0		3.0	2.7	2.6
Power & fuel	16.0	13.5		12.9		14.5	-	-
Other expenses	19.0	26.9		27.2		22.9	29.7	29.0
EBITDA	26.3	27.9		25.2		25.8	32.9	32.3
Reported net profit	9.7	8.5		7.9		8.8	11.8	12.1
Tax rate	23.8	17.9		23.1		23.5	28.0	29.0



## 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, 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 1,980MW power plant in Punjab will boost power generation volumes. In FY19, we expect ramp up of Zinc-India's production and Jharsuguda-2 smelter. Key potential triggers for the stock are success of enhanced oil recovery measures at Cairn, acquisition of Gol's residual stakes in BALCO and HZL and grant of bauxite and/or dolomite mining licenses. (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
<b>Macro</b>				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
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)	65.5	67.1	65.0	66.0
<b>Sector</b>				
Aluminium LME (USD/t)	1,591.0	1,688.0	1,975.0	1,925.0
Zinc LME (USD/t)	1,829.0	2,366.0	2,950.0	2,900.0
Lead LME (USD/t)	1,768.0	2,005.0	2,300.0	2,225.0
Copper Tc/Rc (c/lb)	22.0	24.0	24.0	24.0
<b>Company</b>				
HZL-Zn production (tpa)	758,938	671,990	789,285	847,690
HZL-PB production (tpa)	151,576	144,294	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	1,000,000
Intl Zn production (tpa)	189	172	172	219
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	357	370	350
HZL-PB premium (USD/t)	232	298	313	313
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)	51,684	70,363	67,251	67,719
BALCO-Power cost (INR/u)	3.3	3.5	3.5	3.5
VAL-Alumina cost (INR/t)	15,619	24,264	27,492	34,373
VAL-Smelting cost(INR/t)	64,560	75,928	78,118	96,929
Intl Zinc-cost (USD/t)	1,345	1,109	1,400	1,200
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	(11.8)	8.7
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	28.0	28.0
Dividend payout (%)	(11.8)	111.4	67.9	56.4
Net borrowings (INR mn)	107,318	218,131	25,293	(111,054)
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	910,073	1,010,289
Materials costs	217,931	231,085	316,128	364,858
Employee costs	24,583	23,393	24,563	25,791
Total operating expenses	528,412	548,393	610,741	684,086
EBITDA	151,516	213,319	299,332	326,203
Depreciation	85,724	62,915	78,429	77,151
EBIT	65,791	150,404	220,903	249,052
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	199,107	224,377
Less: Provision for Tax	(106,776)	37,783	55,809	65,069
Extraordinary item	(337,847)	(1,144)	-	-
Minority interest	(55,919)	43,584	35,856	37,517
Associate profit share	2	(27)	-	-
Reported Profit	(122,705)	55,122	107,442	121,791
Adjusted Profit	29,100	55,949	107,442	121,791
Shares o /s (mn)	2,965	2,965	3,717	3,717
Basic EPS (INR)	9.8	18.9	28.9	32.8
Diluted shares o/s (mn)	2,965	2,965	3,717	3,717
Adjusted Diluted EPS	9.8	18.9	28.9	32.8
Dividend per share (DPS)	4.1	17.7	18.0	18.0
Dividend Payout Ratio(%)	(11.8)	111.4	77.7	64.3
Tax rate (%)	37.4	27.7	28.0	28.0

### Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	77.7	72.0	67.1	67.7
Depreciation	12.6	8.3	8.6	7.6
Interest Expense	8.5	7.7	6.3	5.7
EBITDA margins	22.3	28.0	32.9	32.3
Net Profit margins	(3.9)	13.1	15.7	15.8

### Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	(7.8)	12.0	19.5	11.0
EBITDA	(31.3)	40.8	40.3	9.0
Adjusted Profit	(42.9)	92.3	92.0	13.4
EPS	(42.9)	92.3	53.2	13.4

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	702,063	823,854	
Shareholders' funds	440,392	605,001	705,780	827,571	
Minority Interest	365,611	139,279	175,135	212,652	
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	
<b>Sources of funds</b>	<b>1,572,389</b>	<b>1,556,147</b>	<b>1,690,542</b>	<b>1,816,849</b>	
Gross Block	1,386,994	1,528,301	1,678,301	1,828,301	
Net Block	662,983	758,344	829,916	902,765	
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	1,039,856	1,037,873	
Non current investments	166,619	167,527	167,527	167,527	
Cash and Equivalents	570,460	610,119	769,957	873,304	
Inventories	80,117	96,279	145,033	133,476	
Sundry Debtors	25,279	34,093	36,842	41,904	
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	221,037	214,543	
Trade payable	161,624	184,591	289,036	257,598	
Other Current Liab	218,299	249,558	218,799	218,799	
Total Current Liab	379,923	434,149	507,835	476,397	
Net Curr Assets-ex cash	(221,609)	(264,615)	(286,797)	(261,855)	
<b>Uses of funds</b>	<b>1,572,389</b>	<b>1,556,147</b>	<b>1,690,542</b>	<b>1,816,849</b>	
BVPS (INR)	148.5	204.0	189.9	222.6	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	(122,705)	55,122	107,442	121,791	
Add: Depreciation	85,724	62,915	78,429	77,151	
Interest (Net of Tax)	36,164	42,346	41,127	41,727	
Others	127,565	1,429	9,862	20,465	
Less: Changes in WC	(77,021)	(17,959)	(22,183)	24,943	
Operating cash flow	203,769	179,770	259,043	236,191	
Less: Capex	54,119	54,360	75,169	75,169	
<b>Free Cash Flow</b>	<b>149,650</b>	<b>125,410</b>	<b>183,874</b>	<b>161,022</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Vedanta	19,602	10.4	9.1	4.5	3.8	17.6	16.6
Hindalco Industries	9,404	10.8	9.8	6.8	6.2	11.3	11.1
National Aluminium Co Ltd	2,784	18.5	16.1	11,624.3	9,686.9	9.2	9.1
Median	-	10.8	9.8	6.8	6.2	11.3	11.1
AVERAGE	-	13.2	11.7	3,878.5	3,232.3	12.7	12.3

Source: Edelweiss research

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		203,769	179,770	259,043	236,191
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	129,078	103,347
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	17.6	16.6
ROACE (%)	7.0	13.3	17.0	17.4
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	2.3
Gross Debt/EBITDA	4.5	3.4	2.3	2.0
Gross Debt/Equity	0.8	1.0	0.8	0.6
Adjusted Debt/Equity	0.8	1.0	0.8	0.6
Net Debt/Equity	0.1	0.1	(0.1)	(0.2)
Interest Coverage Ratio	1.1	2.6	3.9	4.3

## Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	0.4	0.5	0.6	0.6
Fixed Asset Turnover	0.9	0.9	1.0	1.0
Equity Turnover	0.8	1.0	1.1	1.1

## Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	9.8	18.9	28.9	32.8
Y-o-Y growth (%)	(42.9)	92.3	53.2	13.4
Adjusted Cash EPS (INR)	44.2	45.6	50.0	53.5
Diluted P/E (x)	34.7	18.1	11.8	10.4
P/B (x)	2.3	1.7	1.8	1.5
EV / Sales (x)	2.2	1.8	1.6	1.4
EV / EBITDA (x)	9.8	5.9	4.5	3.8
Dividend Yield (%)	1.2	5.2	5.3	5.3

## Additional Data

### Directors Data

Anil Agarwal	Chairman Emeritus	Navin Agarwal	Executive Chairman
Kuldip Kaura	Interim CEO	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 – Top 10

	Perc. Holding		Perc. Holding
Life Insurance Corp of India	7.25	Cairn UK Holdings Limited	4.95
Vanguard Group	2.16	Dimensional Fund Advisors LP	1.63
HDFC Asset Management Co Ltd	1.43	Blackrock	1.36
Birla Sun Life Asset Management	1.27	PTC Cables Pvt Ltd	1.15
Shalika Bhadram Janhit	1.15	HSBC	0.77

*\*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	HOLD	SP	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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Head of Research

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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
02-Nov-17	<b>Hindalco Industries</b>	Novelis Q2FY18: Yet another impressive quarter; <i>Company Update</i>	271	Buy
01-Nov-17	<b>Metals &amp; Mining</b>	Non ferrous: The rally still has legs!; <i>Sector Update</i>		
30-Oct-17	<b>Tata Steel</b>	Minor blip; bigger picture intact; <i>Result Update</i>	718	Buy

### Distribution of Ratings / Market Cap

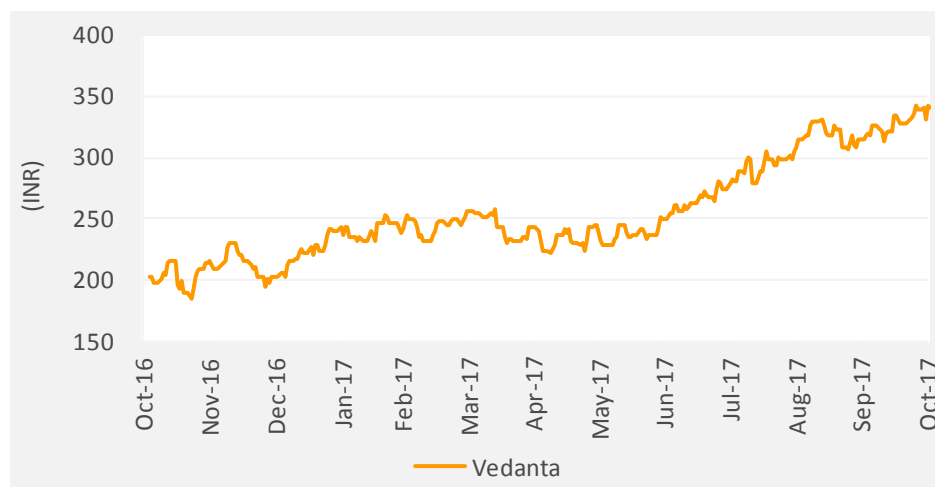
#### Edelweiss Research Coverage Universe

	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
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

### One year price chart



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