

April 19, 2018

Vedanta (VEDLIM)

₹ 307

NCLT approves Electrosteel resolution plan

Vedanta to infuse ₹ 5320 crore; hold 90% stake in Electrosteel Steel...

The National Company Law Tribunal (NCLT), Kolkata Bench, has approved the terms of the resolution plan submitted by Vedanta, to acquire Electrosteel Steels under the Insolvency and Bankruptcy Code (IBC) 2016. Pursuant to the resolution plan, a wholly-owned subsidiary of Vedanta, will subscribe to the share capital of Electrosteel for an aggregate amount of ₹ 1805 crore and provide additional funds of ₹ 3515 crore by way of debt. Upon implementation of the resolution plan, Vedanta will hold ~90% of the paid-up share capital of Electrosteel while the remaining 10% of share capital will be held by Electrosteel's existing shareholders and financial creditors who will receive shares in exchange for the debt owed. The funds received by Electrosteel (₹ 5320 crore) will be used to fully settle the debt obligations of the existing financial creditors. The completion of the transaction is subject to regulatory approval including approval from the Competition Commission of India (CCI) and Securities and Exchange Board of India (Sebi). Vedanta's management has indicated the transaction will not have a material impact on the earnings for FY19 with returns being generated in following years.

About Electrosteel Steel

Electrosteel, incorporated in 2006, owns and operates an integrated steel plant and ductile iron pipe plant near Bokaro, Jharkhand. The current installed capacity is at 1.5 million tonne (MT) with a potential to expand to 2.5 MT. The company's product profile includes pig iron, billets, TMT bars, wire rods and ductile iron pipes. For 9MFY18, the company reported revenues of ₹ 2440.4 crore and a loss of ₹ 866.5 crore.

Exhibit 1: Electrosteel financial performance over the years

		FY15	FY16	FY17
Total Operating Income	₹ Crore	1,831.2	2,597.7	2,541.2
EBITDA	₹ Crore	12.9	69.0	51.6
EBITDA Margin	%	0.7	2.7	2.0
PAT	₹ Crore	(624.0)	(368.0)	(1,463.5)
Networth	₹ Crore	1,092.8	895.4	(567.8)
Total Debt	₹ Crore	9,477.4	8,807.9	7,616.1

Source: CapitaLine, ICICIdirect.com Research

Steel business to complement Vedanta's iron ore segment; maintain BUY

Vedanta's acquisition of Electrosteel paves the way for vertical integration given the company owns iron ore mines with deposits of 10 MT in Jharkhand having proximity to the said steel plant. However, the mines are yet to be operationalised. At the current capacity of 1.5 MT, the acquisition is valued at US\$564/tonne. Vedanta is likely to expand the steel capacity to 2.5 MT through capex of ~US\$150-200 million. Factoring in the same, the acquisition value draws down to EV/tonne of ~US\$400/tonne. We believe the fortunes of the steel business, going forward, will depend on an effective turnaround strategy and the pace at which the company ramps up capacity utilisation levels. Prima facie, the acquisition looks positive for the company. However, the additional capex incurred coupled with working capital requirement will determine the final EV/tonne. Thus, we maintain our earlier assumptions/estimates. Vedanta has a healthy balance sheet and prudent capital allocation strategy, which augurs well over a longer term horizon. We maintain our **BUY** recommendation on the stock with a target price of ₹ 375.

Rating matrix	
Rating	: Buy
Target	: ₹ 375
Target Period	: 12 months
Potential Upside	: 23%

What's Changed?	
Target	Unchanged
EPS FY18E	Unchanged
EPS FY19E	Unchanged
EPS FY20E	Unchanged
Rating	Unchanged

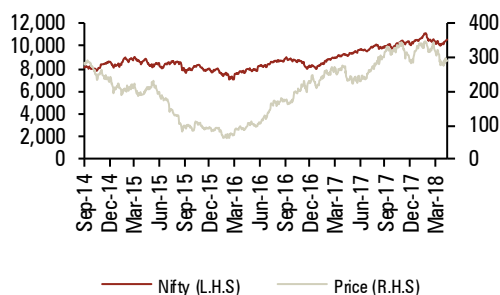
Key Financials				
(₹Crore)	FY17	FY18E	FY19E	FY20E
Net Sales	72,225	84,057	97,627	105,212
EBITDA (Core)	21,332	24,163	29,153	31,717
Adj Net Profit (Attrib)	5,627	9,388	13,359	15,252
Adj EPS (₹)	15.1	25.3	35.9	41.0

Valuation summary				
	FY17	FY18E	FY19E	FY20E
PE (x)	20.2	12.1	8.5	7.4
Target PE (x)	24.7	14.8	10.4	9.1
EV/EBITDA (x)	5.7	5.0	3.9	3.5
P/BV (x)	1.9	1.7	1.4	1.2
RoNW (%)	9.3	13.9	16.9	16.6
RoCE (%)	12.1	13.9	16.5	16.9

Stock data	
Particular	Amount
Market Capitalisation	₹ 113384 Crore
Debt (FY17)	₹ 67342 Crore
Cash, Liquid Invests (FY17)	₹ 48318 Crore
EV	₹ 132408 Crore
52 week H/L	356 / 218
Equity capital	₹ 372 Crore
Face value	₹ 1

Price performance (%)				
Return %	1M	3M	6M	12M
Hindustan Zinc	2.7	4.9	0.1	18.5
Vedanta	-5.8	-10.9	-12.2	26.5
Hindalco Ind	9.5	-4.4	-11.8	32.1

Share Price Chart



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