

In line performance...

Vedanta reported a broadly in line operational performance wherein topline and EBITDA came in line with our estimates. Consolidated topline was at ₹ 21374 crore (down 3.7% YoY, 8.9% QoQ, broadly in line with our estimate: ₹ 22315 crore). Consolidated EBITDA for the quarter was at ₹ 5198 crore (down 15.3% QoQ, 17.3% YoY, broadly in line with our estimate of ₹ 5341 crore). The EBITDA margin was at 24.3% (down 400 bps YoY, 180 bps QoQ, in line with our estimate of 24.1%). Zinc International EBITDA was at ₹ 128 (vs. EBITDA of ₹ 391 crore in Q4FY19). Zinc international reported cost of production of US\$1597/tonne in Q1FY20 vs. US\$1488/tonne in Q4FY19. Aluminium business cumulative EBITDA (Balco + Vedanta Aluminium) came in at ₹ 179 crore (vs. EBITDA of ₹ 379 crore in Q4FY19). Muted aluminium prices adversely impacted the performance during quarter. Other income was at ₹ 380 crore (down 9.1% YoY. Ensuing PAT was at ₹ 1351 crore (down 48.3% QoQ, 21.6% higher than our estimate of ₹ 1229 crore).

Declining aluminium prices likely to impact future performance

During the quarter, blended cost of production (CoP) of the aluminium segment fell QoQ from US\$1810/tonne in Q4FY19 to US\$1764/tonne in Q1FY20. Despite the fall in CoP, on the back of the muted trend in aluminium prices, the blended EBITDA/tonne of the aluminium business declined from US\$131/tonne in Q4FY19 to US\$64/tonne in Q1FY20. Currently, LME aluminium prices are hovering at ~US\$1777/tonne (Q1FY20 average aluminium prices were at US\$1794/tonne). This does not augur well for the EBITDA/tonne of this segment.

Oil & gas: Q1FY20 average daily gross production declines YoY

With respect to the oil & gas segment, for Q1FY20, the average daily gross production was at 180059 boepd, down 8% YoY. Production declined on the back of natural decline and also due to maintenance activities carried out to enhance asset reliability for a smoother ramp up, going ahead. Going forward, the management expects to exit H1FY20E with an exit rate of ~200k boepd and exit H2FY20E with an exit rate of ~260-270,000 boepd. The management has guided at reaching average ~220,000 boepd in FY20.

Valuation & Outlook

Vedanta's earnings remain sensitive to movement in base metal prices. Base metal prices have witnessed volatility and declined primarily on account of uncertainty over global trade due to trade friction between the US and China. We value the stock on an SoTP basis and arrive at a target price of ₹ 150. We upgrade the stock from REDUCE to **HOLD**.



Particulars

Particular	Amount
Market Capitalisation	₹ 57993 Crore
Debt (FY19)	₹ 66225 Crore
Cash, Liquid Invests (FY19)	₹ 39269 Crore
EV	₹ 84949 Crore
52 week H/L	146 / 247
Equity capital	₹ 372 Crore
Face value	₹ 1

Key Highlights

- Vedanta's subsidiary Cairn India and Volcan Investment have agreed to entirely unwind structured investment entered into between them in December 2018 ahead of originally envisage schedule. This investment has delivered a net gain in excess of US\$100 million in eight months
- Upgraded stock to HOLD from REDUCE earlier

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19E	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	72,225	91,866	92,048	87,728	97,185	8%
EBITDA	21,332	25,164	23,103	25,315	28,142	7%
EBITDA Margin (%)	29.5	27.4	25.1	28.9	29.0	
Adj PAT	5,627	7,445	6,745	7,967	9,675	15%
EPS (₹)	15.1	20.0	18.1	21.4	26.0	
EV/EBITDA (x)	3.6	3.7	4.0	3.6	3.0	
RoCE (%)	11.1	15.4	11.9	13.1	15.0	
RoE (%)	9.3	11.7	10.8	11.8	13.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	21,374.0	22,135.0	22,206.0	-3.7	23,468.0	-8.9	Topline came in broadly in line with our
Other Income	380.0	625.0	418.0	-9.1	1,628.0	-76.7	Other income came in lower than our
Raw Material Expense	5,334.0	6,560.0	5,830.0	-8.5	6,766.0	-21.2	
Employee Expense	744.0	775.0	725.0	2.6	768.0	-3.1	
Power & Fuel	4,584.0	4,209.0	4,098.0	11.9	4,334.0	5.8	
Other op. Exp.	5,514.0	5,250.0	5,269.0	4.6	5,465.0	0.9	
EBITDA	5,198.0	5,341.0	6,284.0	-17.3	6,135.0	-15.3	EBITDA came in broadly in line with our
EBITDA Margin (%)	24.3	24.1	28.3	(400) bps	26.1	(180) bps	
Depreciation	2,155.0	1,925.0	1,796.0	20.0	2,258.0	-4.6	
Interest	1,341.0	1,525	1,546.0	-13.3	1,401.0	-4.3	
Exceptional item		-	-	NA	-	NA	
PBT	2,082.0	2,516.0	3,360.0	-38.0	4,104.0	-49.3	
Tax Outgo	138.0	629	1,112.0	-87.6	886.0	-84.4	
PAT	1,944.0	1,887.0	2,248.0	-13.5	3,218.0	-39.6	
Minority Interest & others	593.0	658.0	715.0	-17.1	603.0	-1.7	
Reported PAT	1,351.0	1,229.0	1,533.0	-11.9	2,615.0	-48.3	
Attributable PAT	1,351.0	1,229.0	1,533.0	-11.9	2,615.0	-48.3	PAT came in higher than our estimate

Key Metrics

Gross Production (bopd)	180,059.0	185,000.0	194,986.0	-7.7	187,063.0	-3.7	Gross production came in lower than our estimate
Net Production (bopd)	114,750.0	116,000.0	124,807.0	-8.1	118,135.0	-2.9	
Rajasthan Production (bopd)	149,153.0	150,000.0	164,040.0	-9.1	152,825.0	-2.4	
HZL, Zinc Sales (tonne)	167,500.0	164,937.0	172,000.0	-2.6	177,000.0	-5.4	Zinc sales volume came in higher than our estimate
HZL, Lead Sales (tonne)	50,000.0	49,982.0	42,000.0	19.0	52,000.0	-3.8	Lead sales volume came in marginally lower than our estimate
Zinc Int, Zinc-lead production (tonne)	60,000.0	57,500.0	25,000.0	140.0	54,000.0	11.1	
Aluminium Production (tonne)	471,000.0	475,000.0	482,000.0	-2.3	481,000.0	-2.1	
Electricity sales (million units)	3,523.0	3,500.0	3,315.0	6.3	3,336.0	5.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue	88,971	87,728	-1.4	100,749	97,185	-3.5
EBITDA	25,687	25,315	-1.5	28,131	28,142	0.0
PAT after Minority Interest	7,922	7,967	0.6	9,263	9,675	4.4
EPS (₹)	21.3	21.4	0.6	24.9	26.0	4.4

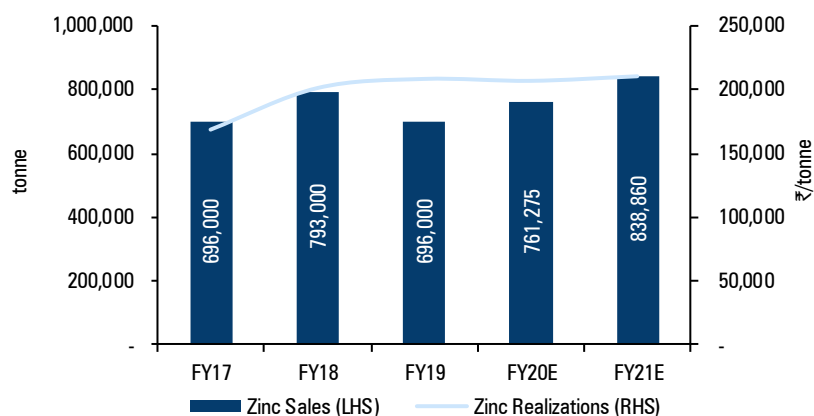
Source: Company, ICICI Direct Research

Conference Call Highlights

- The management is anticipating a seasonally weak period from July to September 2019 and expects a pick-up in demand in H2FY20
- Cairn India holding, an overseas subsidiary of Vedanta and Volcan Investment, have agreed to entirely unwind the structured investment entered between them in December 2018 ahead of the originally envisage schedule. This investment has delivered a net gain in excess of US\$100 million in the eight month period it was held. The company is expected to receive the cash proceeds on settlement of this transaction on August 13, 2019
- In the oil & gas business, production has been reduced by 8% YoY for the quarter. The reasons include natural declines and proactive maintenance, which are being carried out to enhance asset reliability for a smoother ramp up in subsequent quarters
- Aluminium cost of production was at \$1764 a tonne, with a reduction of 8% YoY. Captive alumina production at Lanjigarh was the highest ever at 446,000 tonnes (up 37% YoY). The Lanjigarh refinery cost of production was at US\$284/tonne, the lowest in the last two years. The linkage coal materialisation improved to ~72% from an average of ~66% in FY19
- Ramp up at the Gamsberg mine is on track and operating at 330000 tonnes per month with available stockpile of 1 million tonnes (MT). The management is aiming to deliver 250,000 tonne per annum zinc exit production run rate by end of Q4FY20
- With respect to the Zinc International vertical, refined zinc production at Skorpion was at 18000 tonnes (up 76% YoY) while mined metal production at Black Mountain Mine (BMM) was at 19000 tonnes (up 24% YoY). Mined metal production at Gamsberg during the quarter was at 23000 tonnes
- Depreciation charges during the quarter was higher due to capitalisation of capacities as volumes ramped up at Gamsberg. A similar run rate is expected to be continued in FY20
- With respect to the oil & gas vertical, the company is executing partnerships with global companies with key partners like Halliburton, Schlumberger, GE-Baker, Hughes, Petrofac, L&T, etc
- With regard to the capex chalked out in the oil vertical, the company is targeting an IRR in excess of 20% at oil price at US\$40/barrel
- In the next 90 days the company plans to increase its stake in Electrosteel from ~90% currently to 100%. The outflow for the same is expected to be ~₹ 200 crore

Financial story in charts

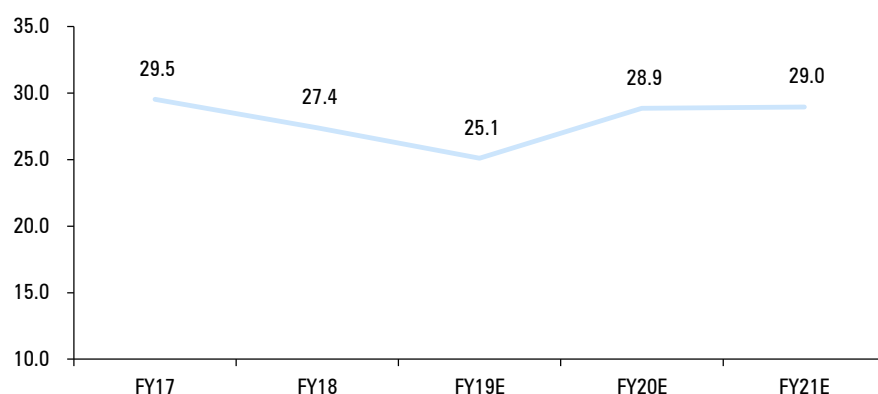
Exhibit 3: HZL's zinc sales volume and realisation trend



Zinc sales volume is expected to grow at a CAGR of ~10% during FY19-FY21E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in consolidated EBITDA margins...



Consolidated EBITDA margins to hover at ~29% over next couple of years

Source: Company, ICICI Direct Research

Exhibit 5: Entity wise cash and debt position

Company	30-Jun-19			31-Mar-19		
All figures in ₹ Crores	Debt	Cash & LI	Net Debt	Debt	Cash & LI	Net Debt
Vedanta Standalone	40,171	4,147	36,024	42,204	8,269	33,935
Cairn India Holdings Ltd	-	6,167	(6,167)	2,624	8,326	(5,702)
Zinc India	18	18,280	(18,262)	2,538	19,512	(16,974)
Zinc International	415	682	(267)	415	926	(511)
BALCO	4,537	36	4,501	4,416	436	3,980
Talwandi Sabo	8,895	125	8,770	8,665	262	8,403
Vedanta Star Ltd & Others	5,481	1,337	4,144	5,363	1,538	3,825
Vedanta Consolidated	59,517	30,774	28,743	66,225	39,269	26,956

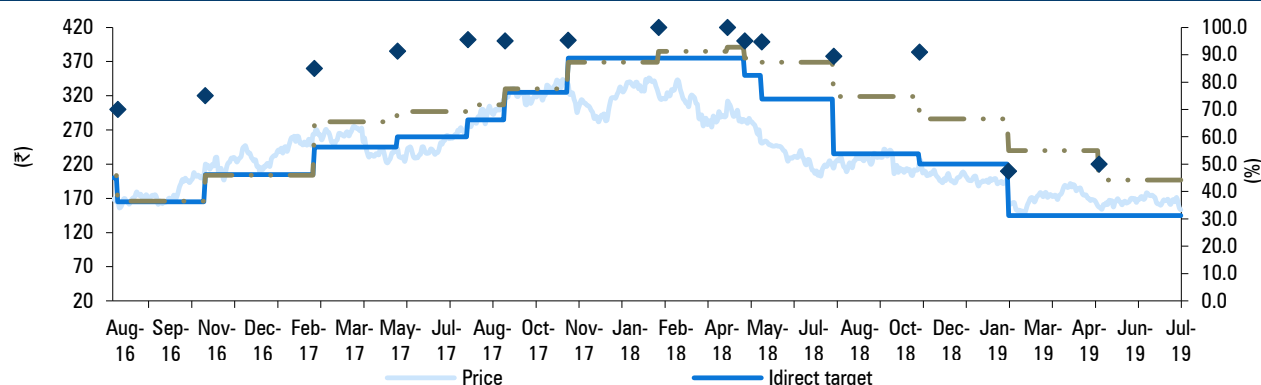
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Sales	YoY Growth	EPS	YoY Growth	PE	EV/EBITDA	P/BV	RoNW	RoCE
	(₹ Crore)	(%)	(₹)	(%)	(x)	(x)	(x)	(%)	(%)
FY17	72225	12.1	15.1	108.1	10.3	3.6	1.0	9.3	11.1
FY18	91866	27.2	20.0	32.3	7.8	3.7	0.9	11.7	15.4
FY19	92048	0.2	18.1	-9.4	8.6	4.0	0.9	10.8	11.9
FY20E	87728	-4.7	21.4	18.1	7.3	3.6	0.9	11.8	13.1
FY21E	97185	10.8	26.0	21.4	6.0	3.0	0.8	13.1	15.0

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (M)	Change (M)
1	Vedanta Resources Ltd	31-03-2019	36.81	1,362.7	0.0
2	Finsider International Co., Ltd.	31-03-2019	10.84	401.5	0.0
3	Life Insurance Corporation of India	31-03-2019	6.39	236.6	0.0
4	ICICI Prudential Asset Management Co. Ltd.	31-03-2019	4.96	183.6	14.9
5	HDFC Asset Management Co., Ltd.	31-03-2019	2.60	96.3	-9.0
6	The Vanguard Group, Inc.	30-06-2019	1.61	59.7	0.0
7	BlackRock Institutional Trust Company, N.A.	30-06-2019	1.53	56.7	0.3
8	PTC Cables Pvt. Ltd.	31-03-2019	1.15	42.7	0.0
9	Dimensional Fund Advisors, L.P.	31-05-2019	1.08	40.1	0.0
10	HSBC Global Asset Management (Hong Kong) Limited	31-03-2019	1.01	37.2	-2.4

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor Name	Value (M)	Shares (M)	Investor Name	Value (M)	Shares (M)
ICICI Prudential Asset Management Co. Ltd.	39.7	14.9	HDFC Asset Management Co., Ltd.	-24.0	-9.0
Florida State Board of Administration	14.7	5.5	Aditya Birla Sun Life AMC Limited	-22.3	-8.8
Caisse de Depot et Placement du Quebec	15.0	5.2	Neuberger Berman, LLC	-11.8	-4.9
Kotak Mahindra Asset Management Company Ltd.	5.7	2.2	Schroder Investment Management (Hong Kong) Ltd.	-6.8	-2.6
IDFC Asset Management Company Private Limited	3.5	1.4	HSBC Global Asset Management (Hong Kong) Limited	-6.4	-2.4

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19
Promoter	50.14	50.14	50.14
Others	49.86	49.86	49.86
Total	100	100	100

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Net Sales	91866.0	92048.0	87728.4	97184.7
Other Operating Income	0.0	0.0	0.0	
Total operating Income	91,866.0	92,048.0	87,728.4	97,184.7
Growth (%)	27.2	0.2	-4.7	10.8
Total Operating Expenditure	66,702.0	68,945.0	62,413.8	69,042.4
EBITDA	25,164.0	23,103.0	25,314.5	28,142.3
Growth (%)	18.0	-8.2	9.6	11.2
Depreciation & Amortization	6,283.0	8,192.0	8,030.7	8,432.2
Interest	5,783.0	5,689.0	5,868.2	5,574.8
Other Income	3,574.0	4,018.0	2,089.7	2,194.2
PBT	16,672.0	13,240.0	13,505.3	16,329.5
Exceptional Items	2,897.0	320.0	0.0	
Total Tax	5,877.0	3,862.0	2,701.1	3,265.9
PAT before MI	13,692.0	9,698.0	10,804.3	13,063.6
Growth (%)	38.7	-29.2	11.4	20.9
Minorities, Associates, etc	-3350.0	-2633.0	-2837.6	-3388.7
PAT after MI	10,342.0	7,065.0	7,966.7	9,674.9
Growth (%)	87.6	-31.7	12.8	0.0
Adjusted PAT after MI	7,445.0	6,745.0	7,966.7	9,674.9
Growth (%)	32.3	-9.4	18.1	21.4
Adj EPS (₹)	20.0	18.1	21.4	26.0

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	10,342.0	7,065.0	7,966.7	9,674.9
Add: Depreciation	6,283.0	8,192.0	8,030.7	8,432.2
(Inc)/dec in Current Assets	-7,471.8	-2,165.0	-4,651.0	-2,590.8
Inc/(dec) in CL and Provisions	-6,702.9	10,915.0	2,121.5	4,533.9
Others	4,552.0	1,865.0	0.0	0.0
CF from operating activities	7,002.3	25,872.0	13,467.9	20,050.2
(Inc)/dec in Investments	18,262.1	-4,365.0	500.0	0.0
(Inc)/dec in Fixed Assets	-14,305.4	-17,214.0	-10,000.0	-10,000.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	3,956.7	-21,579.0	-9,500.0	-10,000.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-18,719.7	2,046.0	1,000.0	-7,000.0
Dividend paid & dividend tax	-9,220.9	-8,275.6	-2,796.3	-3,395.9
Inc/(dec) in Sec. premium	1,886.5	0.0	0.0	0.0
Others	6,095.7	5,089.3	-3,989.3	0.0
CF from financing activities	-19,958.4	-1,140.3	-5,785.6	-10,395.9
Net Cash flow	-8,999.4	3,152.7	-1,817.7	-345.7
Opening Cash	14,215.8	5,216.4	8,369.1	6,551.4
Closing Cash	5,216.4	8,369.1	6,551.4	6,205.7

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	371.8	371.8	371.8	371.8
Reserve and Surplus	63,136.0	61,925.4	67,095.7	73,374.7
Total Shareholders funds	63,507.8	62,297.1	67,467.5	73,746.5
Total Debt	64,179.3	66,225.3	67,225.3	60,225.3
Deferred Tax Liability	4,077.7	4,483.7	4,733.7	4,733.7
Non-control. Interest, MI & ot	15,956.7	21,046.0	17,056.7	17,056.7
Total Liabilities	147,721.4	154,052.1	156,483.1	155,762.1
Assets				
Gross Block	147,406.9	158,524.9	167,224.9	177,224.9
Less: Acc Depreciation	51,212.9	59,404.9	67,435.6	75,867.8
Net Block	96,194.0	99,120.0	99,789.3	101,357.0
Capital WIP	16,140.0	22,236.0	23,536.0	23,536.0
Total Fixed Assets	112,334.0	121,356.0	123,325.3	124,893.0
Investments	28,700.0	33,065.0	33,565.0	33,565.0
Inventory	11,967.0	13,198.0	16,824.6	18,638.2
Debtors	5,315.0	7,670.0	7,210.6	7,987.8
Loans, Adv. & Oth. Cu. asset	16,331.0	14,910.0	16,393.8	16,394
Cash	5,216.4	8,369.1	6,551.4	6,205.7
Total Current Assets	38,829.4	44,147.1	46,980.4	49,225.5
Creditors	36,355.0	40,190.0	42,061.5	46,595.4
Provisions	721.0	7,801.0	8,051.0	8,051.0
Total Current Liabilities	37,076.0	47,991.0	50,112.5	54,646.4
Net Current Assets	1,753.4	-3,843.9	-3,132.2	-5,420.9
Others Assets	4,934.0	3,475.0	2,725.0	2,725.0
Application of Funds	147,721.4	154,052.1	156,483.1	155,762.1

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
Adj EPS	20.0	18.1	21.4	26.0
Cash EPS	36.9	40.2	43.0	48.7
BV	170.8	167.6	181.5	198.4
DPS	21.2	17.0	6.4	7.8
Cash Per Share	14.0	22.5	17.6	16.7
Operating Ratios (%)				
EBITDA Margin	27.4	25.1	28.9	29.0
PBT / Total Operating income	18.1	14.4	15.4	16.8
PAT Margin	8.1	7.3	9.1	10.0
Inventory days	66.4	70.0	70.0	70.0
Debtor days	29.5	30.0	30.0	30.0
Creditor days	201.9	185.0	175.0	175.0
Return Ratios (%)				
RoE	11.7	10.8	11.8	13.1
RoCE	15.4	11.9	13.1	15.0
RoIC	15.4	12.4	13.5	15.4
Valuation Ratios (x)				
P/E	7.8	8.6	7.3	6.0
EV / EBITDA	3.7	4.0	3.6	3.0
EV / Net Sales	1.0	1.0	1.0	0.9
Market Cap / Sales	0.5	0.5	0.5	0.5
Price to Book Value	0.9	0.9	0.9	0.8
Solvency Ratios				
Net Debt/EBITDA	1.2	1.1	1.1	0.7
Net Debt / Equity	0.5	0.4	0.4	0.3
Current Ratio	1.0	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Coal India	221	225	Hold	137184	28.3	28.9	29.9	7.8	7.6	7.4	4.3	5.2	5.0	86.4	67.7	61.4	66.2	54.6	48.3
Hindalco	199	200	Hold	44317	24.7	22.1	23.1	8.1	9.0	8.6	5.2	5.3	5.1	10.3	9.3	9.2	9.6	7.8	7.5
Hind Zinc	223	275	Hold	94218	18.8	19.0	21.6	11.8	11.7	10.3	7.4	6.6	5.2	29.2	27.0	26.6	23.7	20.5	20.2
JSW Steel	240	224	Reduce	57600	31.5	16.2	20.4	7.6	14.8	11.8	5.5	7.9	7.3	17.6	11.1	11.9	21.7	12.1	13.7
NMDC	114	125	Hold	34906	15.2	14.1	13.1	7.5	8.1	8.7	4.5	4.8	4.9	25.3	21.0	18.2	17.9	14.5	12.6
Vedanta	156	150	Hold	57829	18.1	21.4	26.0	8.6	7.3	6.0	4.0	3.6	3.0	11.9	13.1	15.0	10.8	11.8	13.1
Tata Steel	461	475	Hold	55518	78.6	55.9	61.1	6.0	8.5	7.8	5.3	5.9	5.6	13.4	10.8	10.8	13.0	9.4	9.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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