

BSE SENSEX 34,842 S&P CNX 10,289



Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	VEDL IN
Equity Shares (m)	3,717
M.Cap.(INRb)/(USD\$b)	413.7 / 5.4
52-Week Range (INR)	180 / 60
1, 6, 12 Rel. Per (%)	11/-9/-23
12M Avg Val (INR M)	2377
Free float (%)	49.9

#### Financials & Valuations (INR b)

Y/E MARCH	2020E	2021E	2022E
Sales	831.7	735.2	853.7
EBITDA	194.1	163.1	216.9
Adj. PAT	32.6	21.2	47.1
EBITDA Margin (%)	23.3	22.2	25.4
Cons. Adj. EPS (INR)	8.8	5.7	12.7
EPS Gr. (%)	-52.7	-35.1	122.4
BV/Sh. (INR)	146.9	137.1	134.1

#### Ratios

Net D:E	0.7	0.8	0.7
RoE (%)	5.6	4.0	9.3
RoCE (%)	8.4	7.1	10.7
Payout (%)	53.4	298.5	144.7

#### Valuations

P/E (x)	12.7	19.5	8.8
P/BV (x)	0.8	0.8	0.8
EV/EBITDA(x)	5.4	6.7	4.5
Div. Yield (%)	3.5	12.8	13.8
FCF Yield (%)	31.6	22.3	22.9

\*Attributable EBITDA

#### Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	50.1	50.1	50.1
DII	18.8	18.6	18.7
FII	15.6	16.8	16.9
Others	15.5	14.4	14.3

FII Includes depository receipts

**CMP: INR111 TP: INR114 (+2%) Neutral**

## One step closer to delisting

### 84.3% of public shareholders vote in favor of delisting

- In a Special Resolution by postal ballot, 93.3% of all shareholders and 84.3% of public shareholders have approved to delist the shares of Vedanta (VEDL).
- As ensuing steps, VEDL would announce a reverse book building process for shareholders to tender the shares, resulting in the discovery of the final exit offer price.
- Earlier, on 12<sup>th</sup> May, the promoter group (led by Vedanta Resources Plc) had shared an Indicative Offer Price (IOP) of INR87.5/share. This implies a ~21% discount to CMP and ~41% discount to the FY20 book value per share. Price discovery is thus likely to happen at a higher level.
- We value VEDL at an SOTP-based target price of INR114/sh, built on the expectation of a volume uptick in the Zinc and Oil & Gas businesses as well as 5–10% higher commodity prices than currently prevailing. Maintain **Neutral**.

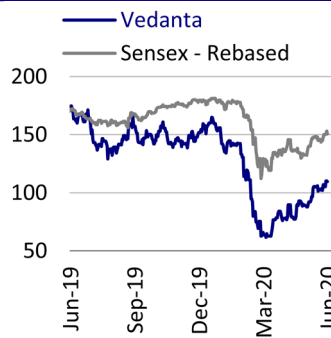
### Shareholders approve Special Resolution on delisting

- The shareholders of Vedanta Ltd accorded their approval to the Special Resolution passed by the Board of Directors of Vedanta Ltd on 18<sup>th</sup> May, 2020 to delist the shares of Vedanta Ltd.
- The Special Resolution was approved with 93.34% of votes in favor of the resolution and only 6.66% of votes in dissent. Among the public shareholders, 84.3% of votes were in favor of the resolution, against the statutory requirement of 66.66%.
- This is an approval to proceed with the Delisting Offer and is not a decision on the final exit offer price.

### Roadmap ahead – Delisting process

- Letter of Offer:** VEDL shall now make a public announcement and dispatch the Letter of Offer, along with a bid form, to Public Shareholders.
- Bidding Period:** The Bidding Period shall commence within seven working days of the public announcement and shall remain open for five working days. Shareholders may tender their bids within the Bidding Period.
- Discovery of final price:** The price at which Equity Shares through eligible bids take promoter holdings to 90% of paid-up equity capital would be determined as the final exit price.
- Option to accept/reject offer or make counter-offer:** Upon the discovery of the final exit offer price, the promoter group would have the option to either accept or reject the final exit offer price. In case the final exit offer price is not acceptable to the promoter group, it could make a counter-offer **within two working days** from the discovery of the final exit offer price.

## Stock Performance (1-year)



- **Post-offer announcement:** The promoter group is required to announce within five working days from the closure of the Bidding Period regarding: a) the success of the Delisting Offer along with the final exit price or b) the failure of the Delisting Offer.
- **Payment of consideration:** If the Delisting Offer is successful, the promoter would be required to pay the consideration to Public Shareholders within 10 working days of the closure of the Bidding Period.
- **Final application:** Following payment of the consideration, the company would make the final application to the Stock Exchanges. Upon receipt of their approval, the Equity Shares would be delisted.
- **Rights of remaining Public Shareholders:** The remaining Public Shareholders may tender their Equity Shares to the promoter up to a period of one year from the date of delisting and, in such case, the promoter would accept the Equity Shares at the final exit offer price. Continuing Public Shareholders shall have the rights to vote and receive dividend (as and when declared).

## Valuation and view

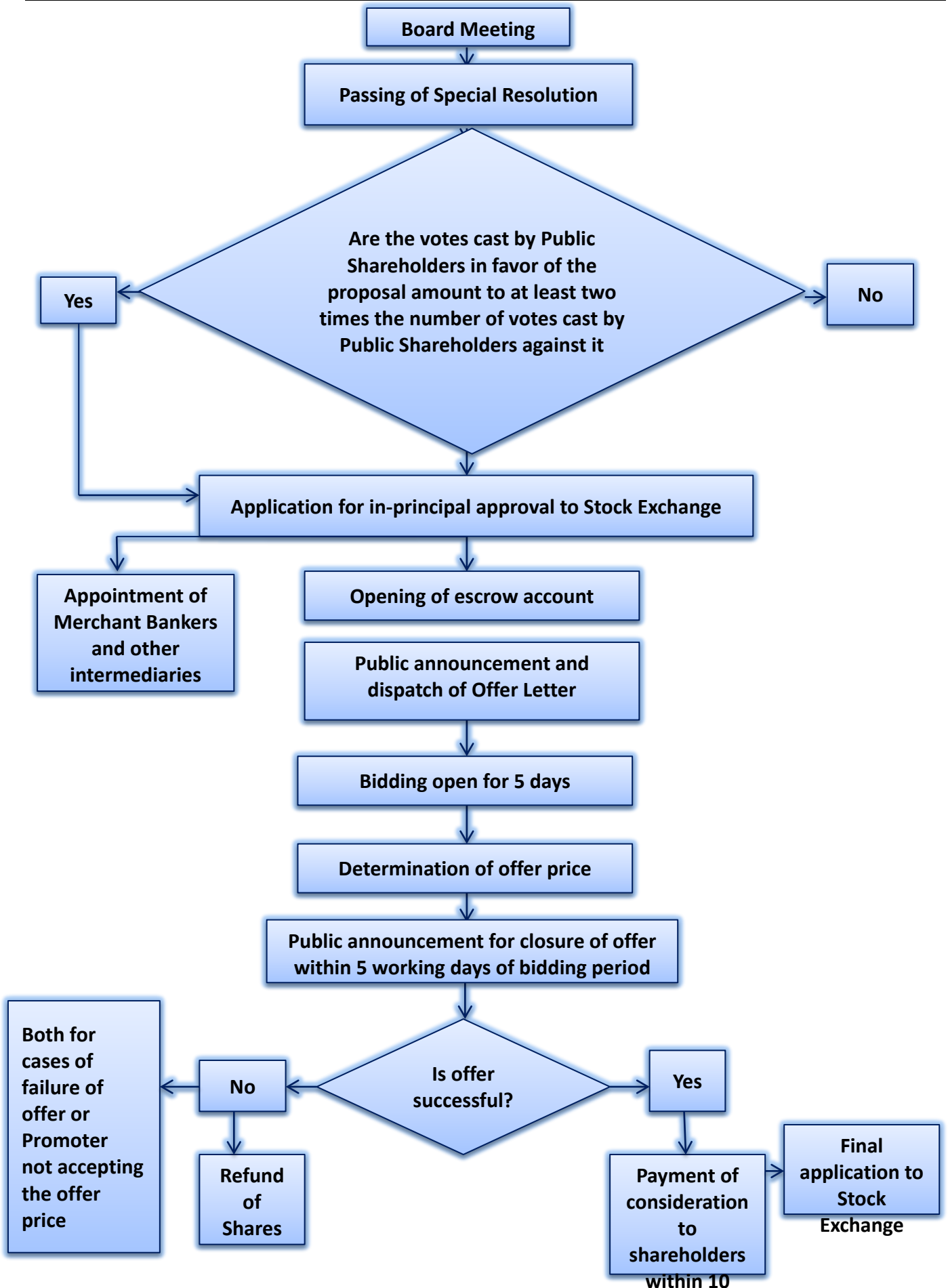
- We believe Metal prices have bottomed out, and we have factored marginal recovery from current levels in FY22. VEDL's cost reduction in Aluminum, the completion of capacity expansion in Zinc, and expected ramp-up in Oil & Gas are expected to drive earnings growth in FY22, negating the impact of weak commodity prices.
- We have currently built-in a dividend payment of INR14/sh and INR15/sh in FY21 and FY22, respectively, implying 13–14% dividend yield.
- We value Vedanta on an SOTP basis to arrive at a target price of INR114/sh. Maintain **Neutral**.

## Exhibit 1: SOTP valuation

	EBITDA			EV			Metal	Volumes (kt/kbpd)			Prices (USD/t or bbl)		
	FY20	FY21E	FY22E	EBITDA (x)	FY22E	Per Share		FY20	FY21E	FY22E	FY20E	FY21E	FY22E
				(INR b)									
<b>VEDL (ex HZL)</b>													
Copper	-3	-3	-3				Copper	78	80	80	5,862	5,788	5,800
Aluminum	20	29	41	5.0	207	56	Aluminum	1,922	1,770	1,921	1,750	1,575	1,700
Iron ore	9	7	8	5.0	41	11	Iron ore	6,300	4,500	4,500	56	56	56
Steel	6	7	10	5.0	48	13	Steel	1,178	1,060	1,200	513	466	487
Power(TSPL)	12	12	12	DCF	81	22							
Power(other)	4	4	5	5.0	26	7							
Zinc-Int	4	0	2	5.0	11	3	Zinc	241	218	284	2,408	2,050	2,100
Oil&Gas	60	29	43	2.5	108	29	Oil-kbpd	173	166	184	61	40	50
Sub. Tot.	112	84	119	6.2	522	140							
Less: Net Debt					581	156	USD/INR				70.9	75.0	76.0
<b>Equity Value</b>					<b>-59</b>	<b>-16</b>							
<b>Hind. Zinc</b>													
HZL	88	84	103	6.0	617	146	Zinc	680	704	815	2,408	2,050	2,100
Less: Net Debt					-207	-49	Lead	181	203	235	1,953	1,700	1,850
<b>Equity Value</b>					<b>825</b>	<b>195</b>	Silver	587	693	779	42	47	47
<b>VEDL SOTP (INR b)</b>						<b>195</b>							
HZL@64.9% (10% Hold co discount)					482	129							
VEDL (ex HZL)					-59	-16							
<b>Equity value</b>					<b>423</b>	<b>114</b>							
<b>Target price (INR/sh)</b>					<b>114</b>	<b>114</b>							
DPS					14.2								

Source: MOFSL

### Flow Chart on Delisting Process



## Financials and Valuations

Income Statement							INR m	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	
<b>Net Sales</b>	<b>6,42,618</b>	<b>7,22,250</b>	<b>9,18,660</b>	<b>9,20,480</b>	<b>8,31,710</b>	<b>7,35,172</b>	<b>8,53,732</b>	
Total Expenses	4,91,102	5,08,931	6,67,020	6,89,450	6,37,600	5,72,054	6,36,804	
<b>EBITDA</b>	<b>1,51,516</b>	<b>2,13,319</b>	<b>2,51,640</b>	<b>2,31,030</b>	<b>1,94,110</b>	<b>1,63,118</b>	<b>2,16,928</b>	
As % of Net Sales	23.6	29.5	27.4	25.1	23.3	22.2	25.4	
<b>EBITDA attribute</b>	<b>1,29,080</b>	<b>1,75,512</b>	<b>2,03,274</b>	<b>1,89,064</b>	<b>1,59,848</b>	<b>1,31,549</b>	<b>1,76,172</b>	
DDA	85,724	62,915	62,830	81,920	90,930	88,517	94,441	
<b>EBIT</b>	<b>65,791</b>	<b>1,50,404</b>	<b>1,88,810</b>	<b>1,49,110</b>	<b>1,03,180</b>	<b>74,602</b>	<b>1,22,487</b>	
Finance cost	57,781	58,550	57,830	56,890	49,770	46,162	44,455	
Other income	44,436	45,806	35,740	40,180	25,100	24,154	21,654	
<b>PBT</b>	<b>52,446</b>	<b>1,37,660</b>	<b>1,66,720</b>	<b>1,32,400</b>	<b>78,510</b>	<b>52,594</b>	<b>99,686</b>	
Tax	-1,06,776	37,783	57,430	38,620	-31,000	15,778	29,906	
Rate (%)	-203.6	27.4	34.4	29.2	-39.5	30.0	30.0	
<b>PAT</b>	<b>1,59,221</b>	<b>99,877</b>	<b>1,09,290</b>	<b>93,780</b>	<b>1,09,510</b>	<b>36,816</b>	<b>69,780</b>	
EO expense (Income)	3,37,847	1,144	-8,230	-3,200	1,56,940			
<b>PAT (after EO)</b>	<b>-1,78,626</b>	<b>98,733</b>	<b>1,17,520</b>	<b>96,980</b>	<b>-47,430</b>	<b>36,816</b>	<b>69,780</b>	
Minority interests	-55,919	43,584	33,500	26,330	19,200	15,632	22,660	
Share in Asso.	2	-27	0	0	-9	-3	-4	
<b>Attrib. PAT (after MI &amp; asso)</b>	<b>2,15,143</b>	<b>56,266</b>	<b>75,790</b>	<b>68,998</b>	<b>32,617</b>	<b>21,181</b>	<b>47,117</b>	
Change (YoY %)	261.6	-73.8	34.7	-9.0	-52.7	-35.1	122.4	

Balance Sheet (Consolidated)							INR m	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	
Share Capital	2,965	3,718	3,720	3,720	3,720	3,720	3,720	
Reserves	4,37,427	6,01,284	6,31,360	6,19,250	5,42,630	5,06,241	4,95,073	
<b>Net Worth</b>	<b>4,40,392</b>	<b>6,05,001</b>	<b>6,35,080</b>	<b>6,22,970</b>	<b>5,46,350</b>	<b>5,09,961</b>	<b>4,98,793</b>	
Minority Interest	3,65,611	1,39,279	1,59,570	1,52,270	1,71,120	1,62,283	1,84,942	
Total Loans	8,12,934	9,06,308	7,25,200	8,35,360	7,47,233	7,20,631	6,90,631	
Deferred Tax Liability	-52,679	-54,084	-8,560	10,090	-40,040	-37,410	-32,426	
<b>Capital Employed</b>	<b>15,66,258</b>	<b>15,96,505</b>	<b>15,11,290</b>	<b>16,20,690</b>	<b>14,24,663</b>	<b>13,55,464</b>	<b>13,41,941</b>	
Gross Block	15,06,034	16,41,342	18,09,670	21,76,030	21,82,280	22,65,242	23,66,122	
Less: Accum. Deprn.	7,28,375	7,74,935	8,47,730	11,84,830	12,75,760	13,64,277	14,58,718	
<b>Net Fixed Assets</b>	<b>7,77,659</b>	<b>8,66,407</b>	<b>9,61,940</b>	<b>9,91,200</b>	<b>9,06,520</b>	<b>9,00,965</b>	<b>9,07,404</b>	
Capital WIP	2,79,260	1,76,709	1,61,400	2,22,360	1,68,370	1,53,783	1,38,883	
Investments	488	729	1,640	48,910	950	947	943	
<b>WC. Assets</b>	<b>8,09,719</b>	<b>8,71,531</b>	<b>6,73,660</b>	<b>7,23,210</b>	<b>6,91,490</b>	<b>6,32,666</b>	<b>6,40,600</b>	
Inventory	80,117	96,279	1,19,670	1,31,980	1,13,350	1,00,708	1,16,950	
Account Receivables	25,279	34,093	53,160	76,700	58,080	50,354	58,475	
Cash and Bank Balance	5,70,460	6,10,119	3,37,520	3,65,430	3,71,600	3,33,143	3,16,716	
Loans and advances	1,33,864	1,31,040	1,63,310	1,49,100	1,48,460	1,48,460	1,48,460	
<b>WC. Liability &amp; Prov.</b>	<b>3,00,867</b>	<b>3,18,871</b>	<b>2,87,350</b>	<b>3,64,990</b>	<b>3,42,667</b>	<b>3,32,897</b>	<b>3,45,890</b>	
Trade payables	62,124	71,288	84,260	92,360	90,337	80,567	93,560	
Provisions & Others	2,38,743	2,47,583	2,03,090	2,72,630	2,52,330	2,52,330	2,52,330	
<b>Net WC. Assets</b>	<b>5,08,852</b>	<b>5,52,660</b>	<b>3,86,310</b>	<b>3,58,220</b>	<b>3,48,823</b>	<b>2,99,769</b>	<b>2,94,711</b>	
Misc Exp								
<b>Appl. of Funds</b>	<b>15,66,258</b>	<b>15,96,505</b>	<b>15,11,290</b>	<b>16,20,690</b>	<b>14,24,663</b>	<b>13,55,464</b>	<b>13,41,941</b>	

## Financials and Valuations

Cash Flow Statement	INR m						
	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EBITDA	1,51,516	2,13,319	2,51,640	2,31,030	1,94,110	1,63,118	2,16,928
Non cash exp. (income)	-254	1,559	7,460	11,360	19,610		
(Inc)/Dec in Wkg. Cap.	39,820	-7,404	-29,842	-8,210	5,377	10,597	-11,369
Tax paid	-24,513	-20,438	-31,980	-26,130	-11,350	-13,148	-24,922
<b>CF from Op. Activity</b>	<b>1,66,568</b>	<b>1,87,036</b>	<b>1,97,278</b>	<b>2,08,050</b>	<b>2,07,747</b>	<b>1,60,567</b>	<b>1,80,638</b>
(Inc)/Dec in FA + CWIP	-54,975	-55,010	-73,670	-88,720	-77,060	-68,375	-85,980
<b>Free Cash Flow</b>	<b>1,11,593</b>	<b>1,32,026</b>	<b>1,23,608</b>	<b>1,19,330</b>	<b>1,30,687</b>	<b>92,192</b>	<b>94,658</b>
(Pur)/Sale of Investments	19,262	26,986	13,561	41,920	42,230		
Interest & Dividend Income	10,547	11,451	14,150	9,140	8,480	24,154	21,654
Investment in subsidiaries	1	-30,138	-8,590	-68,910	-4,680	24,154	21,654
Others							
<b>CF from Inv. Activity</b>	<b>-25,165</b>	<b>-46,712</b>	<b>-54,549</b>	<b>-1,06,570</b>	<b>-31,030</b>	<b>-44,221</b>	<b>-64,326</b>
Equity raised/(repaid)	0	-1,010	-2,020	-1,440	-1,070		
Debt raised/(repaid)	12,278	91,499	-1,89,598	1,06,480	-1,01,507	-30,000	-30,000
Dividend (incl. tax)	-32,218	-1,29,355	-1,68,120	-1,17,920	-14,440	-78,641	-58,284
Interest paid	-57,966	-61,501	-56,770	-60,090	-53,220	-46,162	-44,455
Others	1,380	-299	1,180	-600	-310		
<b>CF from Fin. Activity</b>	<b>-76,526</b>	<b>-1,00,665</b>	<b>-4,15,328</b>	<b>-73,570</b>	<b>-1,70,547</b>	<b>-1,54,802</b>	<b>-1,32,739</b>
<b>(Inc)/Dec in Cash</b>	<b>64,878</b>	<b>39,660</b>	<b>-2,72,599</b>	<b>27,910</b>	<b>6,170</b>	<b>-38,457</b>	<b>-16,427</b>
Add: Opening Balance	5,05,582	5,70,460	6,10,119	3,37,520	3,65,430	3,71,600	3,33,143
adjustments							
<b>Closing Balance</b>	<b>5,70,460</b>	<b>6,10,119</b>	<b>3,37,520</b>	<b>3,65,430</b>	<b>3,71,600</b>	<b>3,33,143</b>	<b>3,16,716</b>
<b>Ratios</b>							
<b>Y/E March</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
<b>Basic (INR)</b>							
<b>EPS</b>	<b>72.6</b>	<b>15.1</b>	<b>20.4</b>	<b>18.5</b>	<b>8.8</b>	<b>5.7</b>	<b>12.7</b>
Cash EPS	101.5	32.1	37.3	40.6	33.2	29.5	38.1
BV/Share	148.5	162.7	170.7	167.5	146.9	137.1	134.1
DPS	5.9	19.5	21.2	18.9	3.9	14.2	15.3
Payout (%)	9.7	154.2	124.9	122.0	53.4	298.5	144.7
<b>Valuation (x)</b>							
P/E				6.0	12.7	19.5	8.8
Cash P/E				2.7	3.3	3.8	2.9
P/BV (incl.-goodwill)				0.7	0.8	0.8	0.8
EV/Sales				1.0	1.0	1.2	0.9
EV/EBITDA				5.0	5.4	6.7	4.5
Dividend Yield (%)				17.0	3.5	12.8	13.8
<b>Return Ratios (%)</b>							
EBITDA Margins	23.6	29.5	27.4	25.1	23.3	22.2	25.4
Net Profit Margins	33.5	7.8	8.3	7.5	3.9	2.9	5.5
RoE	41.9	9.7	12.2	11.0	5.6	4.0	9.3
RoCE (pre-tax)	6.3	12.4	14.5	12.1	8.4	7.1	10.7
RoIC (pre-tax)	5.5	15.2	17.5	12.3	8.9	7.2	12.0
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	0.7	0.9	1.0	0.9	0.9	0.8	0.9
Receivable (Days)	14	17	21	30	25	25	25
Inventory (Days)	46	49	48	52	50	50	50
Trade payable (Days)	35	36	33	37	40	40	40
<b>Leverage Ratio (x)</b>							
Current Ratio	2.7	2.7	2.3	2.0	2.0	1.9	1.9
Interest Cover Ratio	1.9	3.4	3.9	3.3	2.6	2.1	3.2
Net Debt/EBITDA	1.6	1.4	1.5	2.0	1.9	2.4	1.7
Net Debt/Equity	0.6	0.5	0.6	0.8	0.7	0.8	0.7

# NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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