

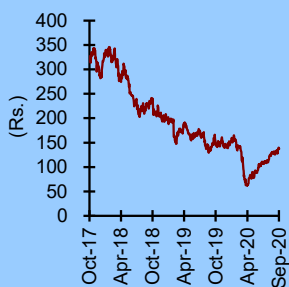
Q1FY21 result review  
and reco change**Metals**

Target price: Rs120

**Shareholding pattern**

	Dec '19	Mar '20	Jun '20
Promoters	50.1	50.1	50.1
Institutional investors	35.1	34.0	34.0
MFs and other	11.3	10.9	11.3
Banks & FIs	6.6	6.6	6.6
Insurance Cos.	0.8	0.8	0.8
FII's	16.4	15.7	15.3
Others	14.8	15.9	15.9

Source: BSE India

**Price chart****INDIA****Vedanta****REDUCE**

Downgrade from HOLD

**Rs137****Aluminium drives Q1FY21 beat**

Vedanta reported higher than expected Q1FY21 numbers. Aluminium EBITDA constituted ~72% of the EBITDA beat. The segment's EBITDA/te surprised at US\$360/te, of which US\$101/te was on account of RPO liability reversal. Adjusted for RPO liability, costs reached US\$1343/te, down ~US\$110/te QoQ and ~US\$420/te YoY. Power contributed ~12% of the EBITDA beat, which can be attributed to 97% Talwandi Sabo (TSPL) PAF, while sales from TSPL was only 643mn units (down 76% YoY). TSPL receivables reduced in FY20. There has been significant cost reduction in Zinc International (22% YoY and 24% QoQ) and currency depreciation of the host countries played a big part. Production at Gamsberg is still at 25kte as at June. Covid lockdown makes assessment difficult for Rajasthan assets. The delisting process is underway; US\$300mn again has been extended as an intercompany loan to Vedanta resources. Downgrade to **REDUCE from Hold.**

- **Cost reduction in aluminium business results in significant beat.** Cost of production (CoP) reduced from US\$1,764/te to US\$1,268/te YoY. This was helped by RPO liability reversal of US\$101/te. Alumina production costs in aluminium dropped by ~US\$54/te QoQ, power costs fell by ~US\$100/te QoQ while other hot metal and conversion costs were down ~US\$40/te QoQ. CoP in Jharsuguda reduced by 13% QoQ while that in BALCO shrunk 11% QoQ. While cost reduction directionally is more pronounced in Jharsuguda (QoQ), BALCO EBITDA increased by 76% QoQ while VAL EBITDA declined 5% QoQ. Hopefully, Vedanta holds on to the improvement in BALCO.
- **Zinc International witnessed meaningful cost reduction.** CoP for Zinc International reduced by US\$435/te QoQ, which largely explains the US\$394/te QoQ improvement in EBITDA/te. This is despite ~US\$170/te QoQ reduction in LME zinc and lead prices and sales dropping by ~40% QoQ to 35kte in Q1FY21. Gamsberg production run rate has gone back to Feb'20 level.
- **Rajasthan oil and gas production failed to reach its potential given Covid impact.** Rajasthan production fell 14% YoY. There has been a substantial reduction in the company's operating costs in Rajasthan (from US\$10/boe to US\$6.9/boe), but how much of it can be sustained in subsequent quarters remains to be seen.
- **Iron ore and steel operations were in line with expectations.** Iron ore witnessed 41% QoQ decline in revenues as sales fell 17%. EBITDA was in-line at Rs1.85bn. Higher iron ore prices helped EBITDA/te for the segment despite ~56% QoQ reduction in iron ore volumes. While Electrosteel (ESL) could maintain its sales volumes QoQ, its product mix suffered – Q1FY21 being more billet-heavy as TMT and wire-rod sales declined substantially. Thus realisation/te was down 16% QoQ and EBITDA/te down from Rs8,787/te to Rs3,311/te QoQ.
- **Downgrade to REDUCE from Hold.** US\$300mn has been extended as an intercompany loan to VRL from overseas sub; US\$1.05bn is the total commitment.

Market Cap	Rs509bn/US\$6.9bn	<b>Year to March</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Reuters/Bloomberg	VDAN.BO /VEDL IN	Revenue (Rs mn)	920,480	844,470	755,468	1002,770
Shares Outstanding (mn)	3,717.2	Net Income (Rs mn)	67,450	42,010	33,845	57,576
52-week Range (Rs)	166/60	EPS (Rs)	18.1	11.3	9.1	15.5
Free Float (%)	49.9	% Chg YoY	(9.4)	(37.7)	NM	NM
FII (%)	15.3	P/E (x)	7.2	11.5	14.3	8.4
Daily Volume (US\$'000)	38,789	CEPS (Rs)	40.2	35.7	34.2	41.0
Absolute Return 3m (%)	27.6	EV/E (x)	3.9	3.9	4.1	3.0
Absolute Return 12m (%)	(9.2)	Dividend Yield	13.1	3.0	10.6	13.4
Sensex Return 3m (%)	(10.6)	RoCE (%)	12.0	9.1	7.8	13.0
Sensex Return 12m (%)	(13.5)	RoE (%)	10.7	7.2	6.3	11.0

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**Table 1: Vedanta's consolidated Q1FY21 result review***(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
<b>Net sales</b>	<b>159,730</b>	<b>209,982</b>	<b>(23.9)</b>	<b>197,550</b>	<b>(19.1)</b>
Total expenditure	119,800	156,871	(23.6)	152,030	(21.2)
<b>EBITDA</b>	<b>39,930</b>	<b>53,111</b>	<b>(24.8)</b>	<b>45,520</b>	<b>(12.3)</b>
<i>Cairn India</i>	4,910	17,319	(71.6)	8,690	(43.5)
<i>Zinc India</i>	15,540	23,643	(34.3)	19,450	(20.1)
<i>Zinc International</i>	660	3,159		(610)	
<i>Power business</i>	4,000	3,144	27.2	4,580	(12.7)
<i>Aluminium business</i>	13,050	2,538	414.2	11,370	14.8
<i>Copper</i>	(630)	(690)	NM	(680)	NM
<i>Iron Ore</i>	1,850	1,599	15.7	3,490	(47.0)
<i>Steel</i>	1,010	2,400	(57.9)	2,680	(62.3)
<i>Others</i>	(460)	-	NM	(3,450)	NM
Other income	10,250	6,500	57.7	6,270	63.5
Interest	12,520	14,010	(10.6)	10,640	17.7
PBDT	37,660	45,601	(17.4)	41,150	(8.5)
Depreciation	17,330	22,580	(23.3)	22,520	(23.0)
Extraordinary expenses	-	-		171,320	
<b>PBT</b>	<b>20,330</b>	<b>23,021</b>	<b>(11.7)</b>	<b>(152,690)</b>	<b>NM</b>
Tax	5,110	6,906		(31,860)	
Reported profit after tax	15,220	16,115	(5.6)	(120,830)	NM
Net Profit after Minority					
Interest	10,330	10,894	(5.2)	(125,210)	NM
<b>Adj net profit</b>	<b>10,330</b>	<b>10,894</b>	<b>(5.2)</b>	<b>(19,130)</b>	<b>NM</b>

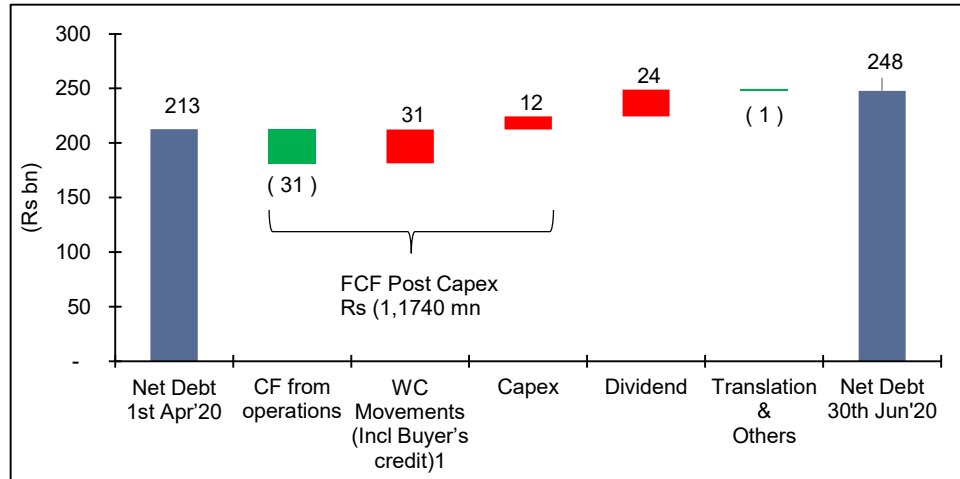
Source: Company data, I-Sec research; refer to summary financials for annual numbers

**Table 2: Vedanta's standalone Q1FY21 result review***(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
<b>Net sales</b>	<b>67,820</b>	<b>86,170</b>	<b>(21.3)</b>	<b>84,560</b>	<b>(19.8)</b>
Total Expenses	55,780	76,250	(26.8)	67,630	(17.5)
<b>EBITDA</b>	<b>12,040</b>	<b>9,920</b>	<b>21.4</b>	<b>16,930</b>	<b>(28.9)</b>
Finance costs	8,000	8,810	(9.2)	7,280	9.9
Other Income	47,260	1,900	2,387.4	1,840	2,468.5
<b>Profit before dep and taxes</b>	<b>51,300</b>	<b>3,010</b>	<b>1,604.3</b>	<b>11,490</b>	<b>346.5</b>
Depreciation	5,960	7,940	(24.9)	8,200	(27.3)
Profit before ex items	45,340	(4,930)		3,290	
Ex items (Income)		-		1,26,970	
Taxes	15,700	(2,430)		(20,820)	
<b>Profit after taxes</b>	<b>29,640</b>	<b>(2,500)</b>		<b>(1,02,860)</b>	

Source: Company data, I-Sec research

Chart 1: Net debt bridge for FY20



Source: Company data, I-Sec research

Table 3: Aluminium cost breakup

(US\$/te, year ending March 31)

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
LME	1859	1793	1761	1752	1690	1497
Ingot premium	52	54	61	59	62	64
Value addition	99	92	83	67	72	40
<b>Total realisation</b>	<b>2,010</b>	<b>1,939</b>	<b>1,905</b>	<b>1,878</b>	<b>1,824</b>	<b>1,601</b>
Alumina costs	-784	-712	-697	-625	-571	-517
Power costs	-637	-652	-774	-698	-560	-469
Other hot metal costs	-388	-400	-381	-368	-320	-281
Conversion costs and others	-70	-111	-81	-90	-34	26
<b>EBITDA</b>	<b>131</b>	<b>64</b>	<b>-28</b>	<b>97</b>	<b>339</b>	<b>360</b>

Source: Company data, I-Sec research

## Zinc International – CoP surprises

**Table 4: Zinc International result review**

(Rs mn, year ending March 31)

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
Production (kte)	38	60	(36.7)	57	(33.3)
CoP (US\$/te)	1,349	1,724	(21.8)	1,784	(24.4)
Sales (Rs mn)	3,740	8,240	(54.6)	7,330	(49.0)
EBITDA (Rs mn)	660	1,280	(48.4)	-610	NA

Source: Company data, I-Sec research

- Q1FY21 production stood at 38kte: BMM at 12kte. Q1FY21 CoP was US\$1,349/te, 24% lower QoQ.
- Gamsberg production stood at 25kte down 17% QoQ. **Gamsberg CoP was US\$1327/te, down 11% QoQ.**

## Power – EBITDA reconciliation becomes difficult

**Table 5: Power business result review**

(Rs mn, year ending March 31)

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
Sales (mn units)	1843	3,523	(40.2)	2,107	(12.5)
Realisation (Rs/unit)	3.56	3.61	(4.4)	3.45	3.2
CoP (Rs/unit) ex TSPL	2.06	2.28	(0.4)	2.27	(9.3)
Sales (Rs mn)	10180	15,930	(24.4)	12,040	(15.4)
EBITDA (Rs mn)	4000	3,600	27.2	4,580	(12.7)

Source: Company data, I-Sec research

- TSPL sales dropped 41% QoQ and 76% YoY.
- TSPL realisation (Rs2/unit in Q1FY21) and cost of generation (Rs1.08/unit in Q1FY21) were both down QoQ.
- Substantial difference between calculated and reported EBITDA highlight the heightened provisional EBITDA from Talwandi Sabo.

## Aluminum – lower costs help EBITDA beat

**Table 6: Aluminium business**

(Rs mn, year ending March 31)

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
Aluminium Production (te)	4,76,000	4,46,000	6.7	4,79,000	(0.6)
Aluminium CoP (US\$/te)	1,268	1,764	(28.1)	1,451	(12.6)
Jharsuguda CoP (US\$/te)	1,234	1,755	(29.7)	1,422	(13.2)
Revenue (Rs mn)	60,430	68,340	(11.6)	63,780	(5.3)
EBITDA (Rs mn)	13,050	1,790	629.1	11,370	14.8

Source: Company data, I-Sec research

- Aluminium CoP was at US\$1,268/te, down 13% QoQ and 28% YoY; Lanjigarh production at 476kte was down 1% QoQ and up 7% YoY.
- Lanjigarh CoP at US\$218/te was down 16% QoQ and 23% YoY.

## Copper – no resolution yet

**Table 7: Copper business**

(Rs mn, year ending March 31)

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
Cathode production (te)	17,000	16,000	(3.0)	26,000	(34.6)
Sales (Rs mn)	13,770	17,770	(22.5)	22,560	(39.0)
EBITDA (Rs mn)	(630)	(660)	NA	(680)	NA

Source: Company data, I-Sec research

## Zinc India – CoP marginally down YoY

**Table 8: Zinc India business**

(Rs mn, year ending March 31)

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
Refined Zinc production (kte)	1,57,000	1,72,000	(8.7)	1,72,000	(8.7)
Zinc CoP ex royalty (US\$/te)	1,019	1,067	(4.5)	997	2.2
Sales (Rs mn)	38,520	48,710	(20.9)	42,930	(10.3)
EBITDA (Rs mn)	15,540	24,290	(36.0)	19,450	(20.1)

Source: Company data, I-Sec research

- Silver production for Q1FY21 stood at 117te, down 26% YoY and 31% QoQ due to delayed stabilisation of DSC lead smelter and increase in WIP, which was partly offset by higher silver grades.

## Iron ore – EBITDA/te improved despite ~56% decline in sales volume

**Table 9: Iron ore**

(Rs mn, year ending March 31)

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
Iron Ore sales (mnte)	1.0	1.2	(16.4)	2.3	(55.7)
Pig Iron production (kte)	109	178	(38.8)	148	(26.4)
Sales (Rs mn)	6,390	7,970	(19.8)	10,730	(40.4)
EBITDA (Rs mn)	1,850	1,140	62.3	3,490	(47.0)

Source: Company data, I-Sec research

Karnataka sales stood at 0.4mnte, down 64% YoY and 74% QoQ, while pig iron sales were at 108kte, down 37% YoY and 32% QoQ.

## Steel – Lockdown and subdued demand impacted margins

**Table 10: Steel business**

(Rs mn, year ending March 31)

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
Production (kte)	2,67,000	3,23,000	(17.3)	3,20,000	(16.6)
Sales (Rs mn)	9,510	11,040	(13.9)	11,260	(15.5)
EBITDA (Rs mn)	1,010	1,970	(48.7)	2,680	(62.3)
EBITDA/te (Rs)	3,783	6,099	(38.0)	8,375	(54.8)

Source: Company data, I-Sec research

- Steel production at 267kte in Q1FY21 was down 17% YoY. Sales for the quarter stood at 305kte in Q1FY21, up 12% YoY.
- Q1FY21 EBITDA/te was Rs3,311/te, down QoQ from Rs8,787/te.

## Oil & Gas: Production impacted by delay in growth projects

**Table 11: Oil and gas**

(Rs mn, year ending March 31)

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
Avg daily gross prod. (boepd)	1,58,779	1,80,059	(11.8)	1,60,838	(1.3)
Avg daily working int prod. (boepd)	98,528	1,14,570	(14.0)	1,01,565	(3.0)
Avg realisation (US\$/boe)	28	65	(56.2)	47	(39.4)
Sales (Rs mn)	13,890	31,310	(55.6)	24,040	(42.2)
EBITDA (Rs mn)	4,910	18,250	(73.1)	8,690	(43.5)

Source: Company data, I-Sec research

Rajasthan operating costs stood at US\$6.9/boe in Q1FY21 vs US\$10.0/boe in Q4FY20.

Lower production can be attributed to delay in execution on growth projects due to nationwide lockdown.

## Entity-wise net debt and debt maturity profile

**Table 12: Vedanta (consolidated): Entity-wise cash and debt***(Rs bn)*

	Jun'20			Mar'20			Jun'19		
	Debt	Cash & LI	Net Debt	Debt	Cash & LI	Net Debt	Debt	Cash & LI	Net Debt
Vedanta Limited Standalone (excluding Cairn India)	332	41	292	389	50	339	402	41	360
Cairn India Holdings	37	77	(40)	37	78	(41)	-	62	(62)
Zinc India	50	205	(155)	6	223	(216)	0	183	(183)
Zinc International	4	3	1	4	6	(1)	4	7	(3)
BALCO	44	6	38	46	4	42	45	0	45
Talwandi Sabo	72	1	71	61	1	60	89	1	88
Others	47	6	41	49	18	31	55	13	41
<b>Vedanta Limited Consolidated</b>	<b>586</b>	<b>338</b>	<b>248</b>	<b>592</b>	<b>379</b>	<b>213</b>	<b>595</b>	<b>308</b>	<b>287</b>

Source: Company data, I-Sec research

## Valuation methodology and key risks

Vedanta has highlighted the SEBI approved book value (ex the revaluation reserves) of Rs89.3/share. Accordingly, our target price of Rs120/share is at ~1.3x FY20 P/B. Given the through-cycle RoE profile for the entity, our target price is more than fair in our view. Downgrade to **REDUCE**.

## Financial summary

Table 13: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Op. Income (Sales)</b>	<b>920,480</b>	<b>844,470</b>	<b>755,468</b>	<b>1,002,770</b>
Operating Expenses	689,450	637,600	567,382	739,636
<b>EBITDA</b>	<b>231,030</b>	<b>206,870</b>	<b>188,086</b>	<b>263,134</b>
% margins	25.1	24.5	24.9	26.2
Depreciation and amortisation	81,920	90,930	93,295	95,113
Gross Interest	56,890	49,770	40,000	40,000
Other Income	40,180	25,100	18,897	20,021
<b>EBIT</b>	<b>189,290</b>	<b>141,040</b>	<b>113,688</b>	<b>188,042</b>
Extraordinaries	(3,200)	173,860	-	-
<b>PBT</b>	<b>135,600</b>	<b>(82,590)</b>	<b>73,688</b>	<b>148,042</b>
Less: Taxes	38,620	(35,160)	15,921	64,289
<b>PAT</b>	<b>96,980</b>	<b>(47,430)</b>	<b>64,222</b>	<b>90,209</b>
Minority interest	26,330	19,200	30,417	32,673
Profit from share of associate	-	(10)	40	40
PAT after minority	70,650	(66,640)	33,845	57,576
<b>Adjusted PAT</b>	<b>67,450</b>	<b>42,010</b>	<b>33,845</b>	<b>57,576</b>

Source: Company data, I-Sec research

Table 14: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	353,420	359,730	348,670	346,880
of which cash & cash eqv.	83,690	125,020	127,996	86,173
Total Current Liabilities & Provisions	391,250	357,120	368,491	384,749
<b>Net Current Assets</b>	<b>(37,830)</b>	<b>2,610</b>	<b>(19,820)</b>	<b>(37,869)</b>
Investments	330,650	247,530	247,530	247,530
Marketable	281,740	246,580	246,580	246,580
<b>Net Fixed Assets</b>	<b>1,177,510</b>	<b>1,048,590</b>	<b>1,036,795</b>	<b>1,049,682</b>
CWIP	222,360	168,370	169,670	169,670
Goodwill	36,050	26,300	26,300	26,300
Other non-current assets	122,800	154,070	154,070	154,070
<b>Total Assets</b>	<b>1,629,180</b>	<b>1,479,100</b>	<b>1,444,875</b>	<b>1,439,713</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>783,140</b>	<b>704,500</b>	<b>657,070</b>	<b>626,477</b>
Other liabilities	70,800	57,130	57,130	57,130
Minority Interest	152,270	171,120	201,537	234,210
Equity Share Capital	3,720	3,720	3,720	3,720
Face Value (Rs)	1	1	1	1
Reserves & Surplus	619,250	542,630	525,418	518,176
<b>Net Worth</b>	<b>622,970</b>	<b>546,350</b>	<b>529,138</b>	<b>521,896</b>
<b>Total Liabilities</b>	<b>1,629,180</b>	<b>1,479,100</b>	<b>1,444,875</b>	<b>1,439,713</b>

Source: Company data, I-Sec research

Table 15: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating CF before WC change</b>	<b>216,260</b>	<b>202,370</b>	<b>178,620</b>	<b>205,301</b>
Working Capital Changes	21,280	(9,390)	25,406	(23,774)
Capital Commitments	(140,170)	(78,470)	(81,500)	(108,000)
<b>Free Cashflow</b>	<b>40,480</b>	<b>64,740</b>	<b>82,525</b>	<b>33,527</b>
<b>Cashflow from Financing activities</b>				
Inc (Dec) in Borrowings	76,990	(83,580)	(47,430)	(30,593)
Dividend paid	(117,920)	(14,400)	(51,057)	(64,817)
Extraordinary Items	-	-	-	-
<b>Chg. in Cash &amp; Bank balance</b>	<b>29,820</b>	<b>(21,430)</b>	<b>2,976</b>	<b>(41,823)</b>

Source: Company data, I-Sec research

Table 16: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
Recurring EPS	18.1	11.3	9.1	15.5
Reported EPS	19.0	(17.9)	9.1	15.5
Recurring Cash EPS	40.2	35.7	34.2	41.0
Dividend per share (DPS)	17.0	3.9	14	17
Book Value per share (BV)	167.5	146.9	142.2	140.3
Adj. BV per share (ABV)	157.8	139.8	135.2	133.2
<b>Growth Ratios (%)</b>				
EBITDA	(7.1)	(10.5)	(9.1)	39.9
Diluted Recurring EPS	(9.4)	(37.7)	NM	NM
Diluted Recurring CEPS	8.8	(11.0)	(4.4)	20.1
<b>Valuation Ratios</b>				
P/E	7.2	11.5	14.3	8.4
P/CEPS	3.2	3.6	3.8	3.2
P/BV	0.8	0.89	0.91	0.93
EV / EBITDA	3.9	3.9	4.1	3.0
EV / FCF	22.3	12.6	9.3	23.2
<b>Operating Ratios</b>				
Other Income / PBT (%)	29.6	(30.4)	25.6	13.5
Effective Tax Rate (%)	28.5	42.6	21.6	43.4
NWC / Total Assets (%)	(2.3)	0.2	(1.4)	(2.6)
Inventory Turnover (days)	189.0	194.6	207.5	194.6
Receivables (days)	30.4	25.1	24.1	24.0
Payables (days)	405.7	362.5	414.7	326.1
Net D/E Ratio (x)	0.7	0.6	0.5	0.6
<b>Profitability Ratios (%)</b>				
Recurring Net Income Margins	7.3	5.0	4.5	5.7
RoCE	12.0	9.1	7.8	13.0
RoNW	10.7	7.2	6.3	11.0
Dividend Payout Ratio	89.6	NM	NM	112.7
Dividend Yield	13.1	3.0	10.6	13.4
EBITDA Margins	25.1	24.5	24.9	26.2

Source: Company data, I-Sec research

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