

Retail Equity Research

Vedanta Limited

Metals & Mining

BSE CODE: 500295

NSE CODE: VEDL

Bloomberg CODE: VEDL:IN

SENSEX: 60,068

BUY

12 Months Investment period Rating as per Large Cap

 CMP Rs. 312 TARGET Rs. 374 RETURN 20% ↑
 (Closing: 04-11-21)

KEY CHANGES:
TARGET ↑
RATING ↔
EARNINGS ↑

Strong fundamentals; Promising growth

Vedanta Limited is a diversified resources company with interests in Zinc-lead-silver, oil and gas, aluminum, power, steel, copper and iron ore. It is also one of the largest resources company in India.

- Revenue grew 44.4% YoY to Rs. 30,048cr due to higher demand and supported by rise in prices of major commodities. Growth was witnessed across all segments, with Aluminum revenue rising +89.5% YoY, Zinc & Lead - India +15.7% YoY and Oil & Gas +73.6% YoY.
- EBITDA recorded was the highest at Rs. 10,363cr, driven by improved commodity pricing and higher volumes.
- Increase in volumes and prices along with cost optimization measures should help the company in achieving strong operational performance in the long-term. We reiterate our BUY rating on the stock with a revised target price of Rs. 374 based on 4.5x FY23E EV/EBITDA.

Record volumes continue to drive growth in topline

For Q2FY22, revenue grew 44.4% YoY to Rs. 30,048cr, largely driven by higher volumes across the business segments. The company registered sustained margins that benefitted from commodity price hikes, despite higher costs. Aluminum revenue grew significantly by 89.5% YoY to Rs. 12,119cr and the company also recorded the highest ever aluminium production of 570kt in Q2FY22 with LME prices of USD 2,648/mt. Revenue for Zinc, Lead and Silver, increased by 13.4% YoY to Rs. 6,941cr, led by Zinc and Lead - India (+15.7% YoY to Rs. 4,914cr) and Zinc International (+65.2% YoY to Rs. 1,044cr). Oil & Gas revenue rose to Rs. 2,892cr (+73.6% YoY), as oil price registered a massive spike of 71.0% YoY to USD 73.5/bbl.

EBITDA grows on improved pricing and operational efficiencies

EBITDA for Q2FY22 grew 58.7% YoY to Rs. 10,363cr and EBITDA margin increased 310bps YoY to 34.5%, primarily attributed to increased commodity prices and higher volumes in the Aluminum segment. However, this was partially offset by lower volumes in the Zinc and Iron ore business and higher COP impacted by high commodity inflation. Overall, Adj. PAT increased to Rs. 4,661cr (vs. Rs. 743 in Q2FY21).

Key concall highlights

- Net debt as of September 30, 2021 stood at Rs. 20,389cr with the NET/EBITDA was at 0.5x which was the lowest in four years.
- The company declared a first interim dividend of Rs. 18.5 per share, amounting to a total of Rs. 6,855cr in Q2FY22.
- Regarding Lanjigarh Expansion, EC was received for 6 Mnt in Q2FY22. Similarly, environmental authorizations for expansion of Zawar mines from 4.8 Mtpa to 6.5 Mtpa was granted.

Valuation

The company posted the highest-ever quarterly revenue and EBITDA in Q2FY22 due to a spike in demand, increase in production activities, and recovery in prices. The long-term outlook remains positive as the company is focusing on ramping up production across all the business verticals. It is also well positioned to benefit from the favorable regulatory environment and gain operational efficiencies through the adoption of digitalization and technology. We reiterate our BUY rating on the stock with a revised target price of Rs. 374 based on 4.5x FY23E EV/EBITDA.

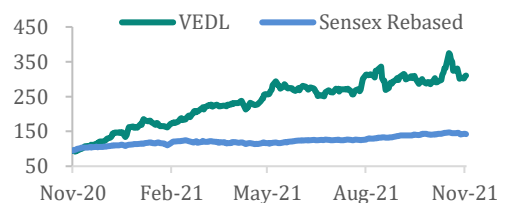
Company Data

Market Cap (cr)	Rs. 115,493
Enterprise Value (cr)	Rs. 158,036
Outstanding Shares (cr)	371.7
Free Float	34.0%
Dividend Yield	3.1%
52 week high	Rs. 386
52 week low	Rs. 92
6m average volume (lac)	0.9
Beta	1.1
Face value	Rs. 1

Shareholding %	Q4FY21	Q1FY22	Q2FY22
Promoters	55.1	65.2	65.2
FII's	16.3	10.3	8.7
MFs/Insti	12.0	10.9	12.3
Public	11.9	11.1	11.3
Others	4.8	2.5	2.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-0.7%	21.3%	227.6%
Absolute Sensex	11.1%	22.7%	48.5%
Relative Return*	-11.7%	-1.4%	179.1%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	86,863	110,934	113,261
Growth (%)	4.0	27.7	2.1
EBITDA	27,342	41,716	42,970
EBITDA Margin (%)	31.5	37.6	37.9
Adj. PAT	12,280	17,945	18,407
Growth (%)	14.5	46.1	2.6
Adj. EPS	32.9	48.1	49.4
Growth (%)	13.8	46.1	2.6
P/E	6.9	6.5	6.3
P/B	1.4	1.5	1.3
EV/EBITDA	4.9	3.8	3.6
ROE (%)	18.6	23.4	20.9
D/E	0.6	0.5	0.4

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Revenue	30,048	20,804	44.4	28,105	6.9	58,153	36,491	59.4
EBITDA	10,363	6,531	58.7	9,871	5.0	20,234	10,524	92.3
EBITDA margins	34.5	31.4	310bps	35.1	(60bps)	34.8	28.8	600bps
Depreciation	2,118	1,938	9.3	2,124	(0.3)	4,242	3,671	15.6
EBIT	8,245	4,593	79.5	7,747	6.4	15,992	6,853	133.4
Interest	1,066	1,312	(18.8)	1,182	(9.8)	2,248	2,564	(12.3)
Other Income	673	651	3.4	739	(8.9)	1,412	1,676	(15.8)
Exceptional Items	(46)	95	n.m.	(134)	65.7	(180)	95	n.m.
PBT	7,806	4,027	93.8	7,170	8.9	14,976	6,060	147.1
Tax	1,994	2,369	(15.8)	1,888	5.6	3,882	2,880	34.8
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	1,197	820	46.0	1,059	13.0	2,256	1,309	72.3
Reported PAT	4,615	838	450.7	4,224	9.3	8,839	1,871	372.4
Adjustments	46	(95)	n.m.	134	(65.7)	180	(95)	n.m.
Adj. PAT	4,661	743	527.3	4,358	7.0	9,019	1,776	407.8
No. of shares	372.8	372.4	0.1	373.5	(0.2)	372.8	372.4	0.1
Adj. EPS (Rs.)	12.5	2.0	526.8	11.7	7.2	24.2	4.8	407.4

Segment Revenue

Segments (Cr)	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Zinc, Lead and Silver	6,941	6,123	13.4	7,442	(6.7)	14,383	10,349	39.0
- Zinc & Lead - India	4,914	4,249	15.7	5,217	(5.8)	10,131	7,456	35.9
- Silver - India	983	1,242	(20.9)	1,106	(11.1)	2,089	1,887	10.7
- Zinc - International	1,044	632	65.2	1,119	(6.7)	2,163	1,006	115.0
Oil & Gas	2,892	1,666	73.6	2,485	16.4	5,377	3,055	76.0
Aluminium	12,119	6,395	89.5	10,263	18.1	22,382	12,438	79.9
Copper	3,560	2,904	22.6	3,499	1.7	7,059	4,281	64.9
Iron Ore	1,492	878	69.9	1,576	(5.3)	3,068	1,517	102.2
Power	1,276	1,860	(31.4)	1,225	4.2	2,501	2,878	(13.1)
Others	1,832	1,011	81.2	1,641	11.6	3,473	2,040	70.2
Intersegment	(64)	(33)	(48.4)	(26)	(59.4)	(90)	(67)	34.3
Total Sales	30,048	20,804	44.4	28,105	6.9	58,153	36,491	59.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	100,672	99,995	110,934	113,261	10.2	13.3
EBITDA	36,404	34,881	41,716	42,970	14.6	23.2
Margins (%)	36.2	34.9	37.6	37.9	140bps	300bps
Adj. PAT	14,917	13,930	17,945	18,407	20.3	32.1
Adj. EPS	40.0	37.4	48.1	49.4	20.3	32.1

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	90,901	83,545	86,863	110,934	113,261
% change	(2.2)	(8.1)	4.0	27.7	2.1
EBITDA	23,131	20,746	27,342	41,716	42,970
% change	(8.2)	(10.3)	31.8	52.6	3.0
Depreciation	8,220	9,152	7,662	8,222	8,358
EBIT	14,911	11,594	19,680	33,494	34,612
Interest	5,689	4,977	5,210	5,946	4,287
Other Income	4,338	(14,876)	2,743	3,934	1,967
PBT	13,560	(8,259)	17,213	31,483	32,292
% change	(30.7)	(160.9)	(308.4)	82.9	2.6
Tax	3,862	(3,516)	2,180	7,871	8,073
Tax Rate (%)	28.5	42.6	12.7	25.0	25.0
Reported PAT	7,065	(6,664)	11,602	17,945	18,407
Adj*	(320)	17,386	678	-	-
Adj PAT	6,745	10,722	12,280	17,945	18,407
% change	(9.4)	59.0	14.5	46.1	2.6
No. of shares (cr)	372.1	370.2	372.7	372.7	372.7
Adj EPS (Rs.)	18.1	29.0	32.9	48.1	49.4
% change	(10.9)	59.8	13.8	46.1	2.6
DPS (Rs.)	18.9	3.9	9.5	15.0	17.0
CEPS (Rs.)	40.2	53.7	53.5	70.2	71.8

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	15,285	2,488	19,264	26,167	26,765
Non-cash adj.	9,710	17,749	6,287	9,420	9,394
Changes in W.C	(1,241)	(937)	(1,571)	475	(616)
C.F. Operation	23,754	19,300	23,980	36,061	35,543
Capital exp.	(8,817)	(7,669)	(6,718)	(9,984)	(10,760)
Change in inv.	(2,572)	964	4,648	(5,000)	(5,000)
Other invest.CF	859	811	(4,680)	-	-
C.F - Investment	(10,530)	(5,894)	(6,750)	(14,984)	(15,760)
Issue of equity	(140)	(107)	-	-	-
Issue/repay debt	7,699	(8,358)	(2,757)	(3,033)	(4,000)
Dividends paid	(11,792)	(1,444)	(9,122)	(3,534)	(6,882)
Other finance.CF	(6,009)	(5,638)	(5,686)	(5,946)	(4,287)
C.F - Finance	(10,242)	(15,547)	(17,565)	(12,512)	(15,169)
Chg. in cash	2,918	(2,141)	(335)	8,565	4,614
Closing cash	8,369	12,502	16,629	25,194	29,809

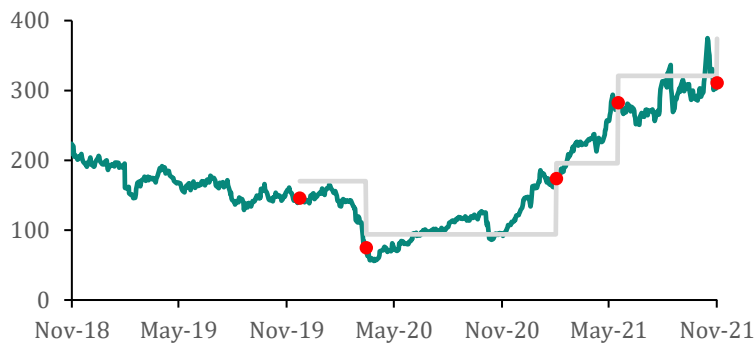
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	8,369	12,502	16,629	25,194	29,809
Accounts Receivable	3,982	2,697	3,491	5,047	5,663
Inventories	13,198	11,335	9,923	11,093	11,778
Other Cur. Assets	34,279	30,986	26,149	32,685	39,501
Investments	4,891	95	156	156	156
Gross Fixed Assets	213,186	205,693	207,100	217,084	227,844
Net Fixed Assets	95,515	88,022	89,429	90,669	92,672
CWIP	22,236	16,837	13,880	13,880	13,880
Intangible Assets	3,605	2,630	3,475	3,996	4,396
Def. Tax (Net)	3,475	6,889	5,860	11,806	12,110
Other Assets	12,493	11,629	16,705	18,705	20,980
Total Assets	202,043	183,622	185,697	213,232	230,944
Current Liabilities	53,659	50,246	47,426	56,389	60,843
Provisions	2,596	2,828	3,132	3,195	3,259
Debt Funds	57,703	49,800	49,660	46,627	42,627
Other Liabilities	10,561	9,001	8,063	9,527	9,383
Equity Capital	372	372	372	372	372
Reserves & Surplus	61,925	54,263	61,906	76,317	87,842
Shareholder's Fund	62,297	54,635	62,278	76,689	88,214
Minority Interest	15,227	17,112	15,138	20,805	26,617
Total Liabilities	202,043	183,622	185,697	213,232	230,944
BVPS (Rs.)	167	148	167	206	237

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	25.4	24.8	31.5	37.6	37.9
EBIT margin (%)	16.4	13.9	22.7	30.2	30.6
Net profit mgn.(%)	7.8	(8.0)	13.4	16.2	16.3
ROE (%)	11.3	(12.2)	18.6	23.4	20.9
ROCE (%)	11.0	9.5	15.5	23.2	22.0
W.C & Liquidity					
Receivables (days)	15.8	11.6	14.5	16.4	18.0
Inventory (days)	107.3	104.3	95.6	90.0	93.6
Payables (days)	141.0	156.2	76.1	90.0	93.6
Current ratio (x)	0.8	0.9	1.0	1.1	1.2
Quick ratio (x)	0.5	0.6	0.6	0.8	0.9
Turnover & Leverage					
Gross asset T.O (x)	0.5	0.4	0.4	0.5	0.5
Total asset T.O (x)	0.5	0.4	0.5	0.6	0.5
Int. coverage ratio (x)	2.6	2.3	3.8	5.6	8.1
Adj. debt/equity (x)	0.7	0.7	0.6	0.5	0.4
Valuation					
EV/Sales (x)	1.4	0.9	1.5	1.4	1.4
EV/EBITDA (x)	5.7	3.7	4.9	3.8	3.6
P/E (x)	9.8	2.0	6.9	6.5	6.3
P/BV (x)	1.1	0.4	1.4	1.5	1.3

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
25-Nov-19	BUY	170
17-Mar-20	BUY	94
3-Feb-21	BUY	196
19-May-21	BUY	321
8-Nov-21	BUY	374

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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