

Retail Equity Research Vedanta Limited

Metals & Mining

BSE CODE: 500295

NSE CODE: VEDL

Bloomberg CODE: VEDL:IN

SENSEX: 80,905

BUY

12 Months Investment Period Rating as per Large Cap
CMP Rs. 455 TARGET Rs. 510 RETURN 12% ↑
(Closing: 21-08-24)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Robust performance, margin widens

Vedanta Ltd, a subsidiary of Vedanta Resources Ltd, has operations in several sectors such as oil and gas, zinc, lead, silver, copper, iron ore, steel, aluminum and power across India and other parts of the world.

- In Q1FY25, revenue increased 5.7% YoY to Rs. 35,239cr, driven by favourable prices across segments.
- EBITDA soared 54.9% YoY to Rs. 9,945cr. EBITDA margin expanded 890bps YoY on account of structural cost saving initiatives across businesses.
- Vedanta reported robust growth in profitability driven by enhanced operational efficiencies and steady growth in businesses. Going ahead, the company is expected to maintain margin growth on falling cost of production. Also, favourable market conditions and strategic expansions are expected to aid its future growth. Hence, we upgrade our rating to BUY on the stock with a revised target price of Rs. 510 based on 5.4x FY26E EV/EBITDA.

Steady revenue growth across segments

Vedanta's top line increased 5.7% YoY to Rs. 35,239cr in Q1FY25, primarily led by growth in aluminium, zinc, lead and silver operations. Revenue from aluminium operations grew 13.5% YoY on the back of higher commodity prices. Also, alumina production increased 36% YoY to 539 KT. Similarly, revenue from the zinc, lead and silver businesses rose 5.3% YoY. Mined metal production was 45% down YoY owing to lower tonne milled and zinc grades. Further, power and oil & gas revenue grew 6.4% YoY and 2.4% YoY, respectively, on healthy pricing. However, the copper segment revenue remained flat at Rs. 4,734cr.

Key concall and other highlights

- Vedanta Limited has successfully completed an offer for sale of its 3.31% stake in Hindustan Zinc, raising funds to reduce its debt and deleverage its balance sheet.
- The Balco expansion is scheduled to be commissioned this year in Q4FY25 (earlier expected in Q3FY25) and the operation is likely to commence from 1QFY26.
- The company's demerger into six independent companies is on track, as it has filed a demerger scheme with the NCLT, which is the last process in the demerger.

Efficient cost measures boost profitability

EBITDA soared 54.9% YoY to Rs. 9,945cr. EBITDA margin expanded 890bps YoY to 28.2%, as overall cost of production (CoP) declined ~20% YoY on the back of structural changes, easing of input commodity inflation, rise in output commodity prices and other initiatives. Reported PAT increased 54.0% YoY to Rs. 5,095cr, aided by higher EBITDA.

Valuation

Vedanta's aluminium, zinc, lead and silver businesses are expected to drive revenue growth in the near term on the back of favourable output commodity prices. With its cost-efficient strategies, the company is expected to maintain sustainable profitability, further supported by a reduction in input costs. In addition, a reduction in debt, strategic expansions and capital expenditures should boost its performance in the long term. Therefore, we upgrade our rating to BUY on the stock with a revised target price of Rs. 510 based on 5.4x FY26E EV/EBITDA.

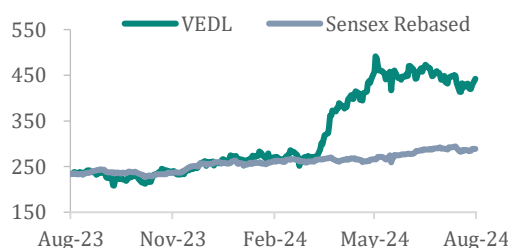
Company Data

Market Cap (cr)	Rs. 174,579
Enterprise Value (cr)	Rs. 257,122
Outstanding Shares (cr)	391
Free Float	43.0%
Dividend Yield	5.8%
52 week high	Rs. 507
52 week low	Rs. 208
6m average volume (cr)	1.9
Beta	1.2
Face value	Rs. 1

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	63.7	62.0	56.4
FII's	7.7	8.8	12.6
MFs/Insti	11.2	13.2	15.9
Public	14.0	12.7	11.5
Others	3.4	3.5	3.6
Total	100.0	100.0	100.0
Promoters' pledge	99.99	99.99	99.99

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-2.6%	65.1%	91.3%
Absolute Sensex	-19.3%	-18.2%	-8.0%
Relative Return*	16.7%	83.4%	99.3%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	141,793	150,613	161,664
Growth (%)	(2.5)	6.2	7.3
EBITDA	35,219	42,434	49,779
EBITDA Margin (%)	24.8	28.2	30.8
Adj. PAT	1,436	13,187	17,972
Growth (%)	(86.7)	818.3	36.3
Adj. EPS	3.8	35.2	48.0
Growth (%)	(86.7)	818.3	36.3
P/E	66.9	12.7	9.3
P/B	3.1	5.8	4.9
EV/EBITDA	5.0	6.1	5.3
ROE (%)	24.5	64.9	70.2
D/E	1.7	1.7	1.4

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Revenue	35,239	33,342	5.7	34,937	0.9
EBITDA	9,945	6,420	54.9	8,768	13.4
EBITDA margins	28.2	19.3	890bps	25.1	310bps
Depreciation	2,731	2,550	7.1	2,743	(0.4)
EBIT	7,214	3,870	86.4	6,025	19.7
Interest	2,222	2,110	5.3	2,415	(8.0)
Other Income	934	546	71.1	584	59.9
Exceptional Items	-	1,780	n.m.	(201)	n.m.
Share of profit from Associate	-	-	-	2	-
PBT	5,926	4,086	45.0	3,995	48.3
Tax	831	778	6.8	1,720	(51.7)
Reported PAT	5,095	3,308	54.0	2,275	124.0
Minority Interest	1,489	668	122.9	906	64.3
PAT att. to shareholders	3,606	2,640	36.6	1,369	163.4
Adjustments	-	(1,780)	n.m.	201	n.m.
Adj. PAT	3,606	860	319.3	1,570	129.7
No. of shares	371.7	371.7	0.3	371.7	1.1
Adj. EPS (Rs.)	9.6	2.3	319.2	4.2	127.8

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	150,371	159,701	150,613	161,664	0.2	1.2
EBITDA	42,758	47,597	42,434	49,779	(0.8)	4.6
Margins (%)	28.4	29.8	28.2	30.8	(20bps)	100bps
Adj. PAT	13,360	16,134	13,187	17,972	(1.3)	11.4
Adj. EPS	35.7	43.1	35.2	48.0	(1.3)	11.4

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	131,192	145,404	141,793	150,613	161,664
% change	51.0	10.8	(2.5)	6.2	7.3
EBITDA	45,073	34,464	35,219	42,434	49,779
% change	64.8	(23.5)	2.2	20.5	17.3
Depreciation	8,919	10,597	10,744	10,967	11,335
EBIT	36,154	23,867	24,475	31,467	38,444
Interest	4,797	6,225	9,465	9,507	9,719
Other Income	1,832	2,634	5,353	2,805	3,226
PBT	33,189	20,276	20,363	24,765	31,950
% change	92.8	(38.9)	0.4	21.6	29.0
Tax	9,255	5,770	12,826	6,191	7,987
Tax Rate (%)	27.9	28.5	63.0	25.0	25.0
Reported PAT	23,934	14,506	7,537	18,574	23,962
PAT att. to common shareholders	19,027	10,574	4,239	13,187	17,972
Adjustments	768	217	(2,803)	-	-
Adj PAT	19,795	10,791	1,436	13,187	17,972
% change	61.2	(45.5)	(86.7)	818.3	36.3
No. of shares (cr)	371.7	371.7	371.7	391	391
Adj EPS (Rs.)	52.4	28.9	3.8	35.2	48.0
% change	59.1	(44.9)	(86.7)	818.3	36.3
DPS (Rs.)	45.0	101.5	41.1	33.5	45.6

BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	15,355	9,254	4,327	3,214	4,792
Accounts Receivable	4,946	4,014	3,607	4,142	4,850
Inventories	14,313	15,012	13,001	12,346	13,291
Other Cur. Assets	33,724	32,227	30,989	23,670	22,232
Investments	151	514	987	1,488	1,989
Gross Fixed Assets	249,913	269,077	281,781	296,842	313,009
Net Fixed Assets	91,990	93,768	96,715	98,536	100,778
CWIP	14,230	17,001	20,331	22,364	24,601
Intangible Assets	3,125	4,504	4,806	5,046	5,400
Def. Tax (Net)	5,085	7,074	2,689	2,167	2,796
Other Assets	15,463	12,009	13,355	14,021	16,122
Total Assets	198,382	195,377	190,807	186,995	196,849
Current Liabilities	48,267	64,039	57,059	54,326	47,975
Provisions	3,386	3,426	3,105	3,136	3,167
Debt Funds	53,583	66,628	72,235	76,569	80,685
Other Liabilities	10,442	11,857	16,339	7,611	8,161
Equity Capital	372	372	372	372	372
Reserves & Surplus	65,011	39,051	30,350	28,248	33,764
Shareholder's Fund	65,383	39,423	30,722	28,620	34,136
Minority Interest	17,321	10,004	11,347	16,733	22,724
Total Liabilities	198,382	195,377	190,807	186,995	196,849
BVPS (Rs.)	173	106	82	76	91

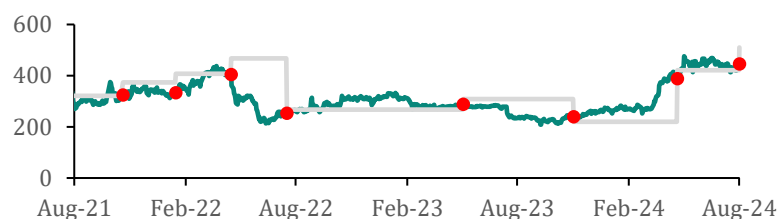
CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	32,853	25,103	18,281	29,540	35,298
Non-cash adj.	6,876	3,363	15,821	3,565	1,280
Changes in W.C	(4,766)	4,599	1,552	314	(1,021)
C.F. Operation	34,963	33,065	35,654	33,419	35,557
Capital exp.	(10,305)	(13,654)	(16,557)	(15,061)	(16,166)
Change in inv.	4,707	8,990	1,090	993	246
Other invest.CF	3,345	3,971	1,781	-	0
C.F - Investment	(2,253)	(693)	(13,686)	(14,068)	(15,920)
Issue of equity	-	-	(200)	-	-
Issue/repay debt	(4,048)	12,736	4,815	4,334	4,117
Dividends paid	(19,349)	(41,149)	(20,500)	(15,289)	(12,456)
Other finance.CF	(5,506)	(5,729)	(10,207)	(9,507)	(9,719)
C.F - Finance	(28,903)	(34,142)	(26,092)	(20,463)	(18,059)
Chg. in cash	3,817	(1,770)	(4,124)	(1,113)	1,578
Closing cash	15,355	9,254	4,327	3,214	4,792

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	34.4	23.7	24.8	28.2	30.8
EBIT margin (%)	27.6	16.4	17.3	20.9	23.8
Net profit mgn.(%)	14.5	7.3	3.0	8.8	11.1
ROE (%)	36.6	36.8	24.5	64.9	70.2
ROCE (%)	26.5	20.6	21.4	25.8	27.9
W.C & Liquidity					
Receivables (days)	13.6	9.9	9.2	9.9	10.8
Inventory (days)	91.7	72.0	68.9	64.8	66.6
Payables (days)	66.5	52.9	53.5	54.0	54.7
Current ratio (x)	1.0	0.7	0.7	0.6	0.7
Quick ratio (x)	0.6	0.3	0.2	0.2	0.3
Turnover & Leverage					
Gross asset T.O (x)	0.5	0.6	0.5	0.5	0.5
Total asset T.O (x)	0.7	0.7	0.7	0.8	0.8
Int. coverage ratio (x)	7.5	3.8	2.6	3.3	4.0
Adj. debt/equity (x)	0.6	1.3	1.7	1.7	1.4
Valuation					
EV/Sales (x)	1.6	1.2	1.2	1.7	1.6
EV/EBITDA (x)	4.6	4.9	5.0	6.1	5.3
P/E (x)	7.7	9.5	66.9	12.7	9.3
P/BV (x)	2.3	2.6	3.1	5.8	4.9

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
5-May-22	BUY	468
5-Aug-22	HOLD	267
23-May-23	HOLD	308
21-Nov-23	REDUCE	220
10-May-24	HOLD	421
21-Aug-24	BUY	510

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/Neutral			

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/Neutral:** 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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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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