

Vedanta

14 May 2023

RESULT UPDATE

Sector: Metals **Rating: BUY**
CMP: Rs 275 **Target Price: Rs 506**

Stock Info

Sensex/Nifty	62,027/18,314
Bloomberg	VEDL IN
Equity shares (mn)	3,717.5
52-wk High/Low	Rs 340/206
Face value	Rs 1
M-Cap	Rs 1,023bn/USD 12bn

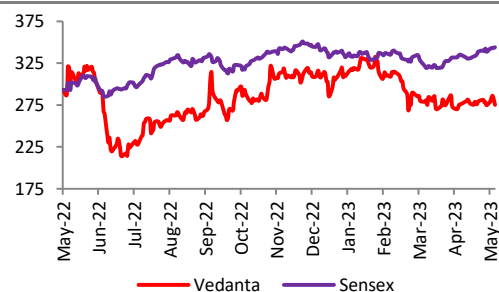
Financial Snapshot (Rs bn)

Y/E Mar	FY23	FY24E	FY25E
Net Sales	1,473	1,549	1,707
EBIDTA	344	497	578
PAT	108	205	247
EPS (Rs)	29	55	66
PE (x)	9.9	5.0	4.1
EV/EBITDA (x)	4.7	3.0	2.6
RoE (%)	19.8	54.7	75.3
RoCE (%)	39.9	64.9	78.8
Dividend yield (%)	36.9	24.0	29.0

Shareholding Pattern (%)

	Mar'23	Dec'22	Sep'22
Promoter	68.1	69.6	69.7
–Pledged	100.0	100.0	100.0
FII	7.9	7.9	8.1
DII	10.2	11.0	10.4
Others	13.8	11.5	11.8

Stock Performance (1-year)



Cash generation to remain elevated

Vedanta's (VEDL) 4QFY23 consolidated EBITDA at Rs 94.6bn (-30.6% YoY, +33.8% QoQ) was 6% above our estimate. Strong performance in the aluminium (+93% QoQ EBITDA) and Zinc International (+43% QoQ EBITDA) segments was offset by weak performance in the oil & gas (O&G) division which saw EBITDA decline by 16% QoQ. Cons. operating cash flow for FY23 remained strong at Rs 330bn (-5% YoY) despite a 23% YoY decline in cons. EBITDA in FY23. EBITDA to cash conversion (before WC changes) remained strong at 99% in line with the 3-year average of 100%. Management remains bullish on the overall commodities demand scenario and has stepped up groupwide capex by >40% to USD 1.7bn for FY24. FY23 Dividend payout of Rs 299bn (Rs 80/share) helped reduce debt at parent Vedanta Resources (VRL) by USD 2bn. We believe dividend is likely to remain elevated at Rs 60-80/share over FY24/25 driven by a sharp reduction in energy costs, especially for coal, implying a yield of 22-29% providing strong downside support. VEDL consumes >36mt of coal across its various business and the sharp 70% drop in coal prices is positive.

Maintain BUY: We adjust our FY23E/24E EBITDA by -6%/-9% respectively to reflect adjustments to our annual commodity price and cost assumptions. We value VEDL at 4.5x FY25E EV/EBITDA, with a revised target price of Rs 506/share (Rs 551 earlier). Maintain BUY. Over the near term, a) aluminium business volume ramp up by >35%, b) alumina capacity ramp up by >150%, c) captive coal mining >30mt (100% captivity), d) >100% increase in iron ore mining through new mines in Goa, Odisha, and Liberia, and e) higher output at FACOR, are positive for VEDL. Adverse commodity price swings due to aggressive rate tightening and its impact on demand pose key risks.

Key takeaways from the 4QFY23 earnings call and outlook

Debt and leverage: 4QFY23 closed with net debt higher by Rs 72bn (+18.9% QoQ) due to sustaining capex and dividend payout. In FY23, VEDL reduced debt at the holding company VRL by USD 2bn, out of its target of USD 4bn debt reduction over three years. The cash requirement for maturing debt of USD 2bn at VRL for the next fiscal is completely covered, according to the management.

Capacity expansion: BALCO capacity expansion has hit some hurdles in meeting the expected completion time due to delays in incoming technology and equipment from China and is now expected to be completed by 1QFY25. Alumina capacity expansion at Lanjigarh is ongoing with trains I and II (1.5mt each) expected to be commissioned by 2HFY24. VEDL commissioned a new 60ktpa (140ktpa currently) furnace at FACOR and further plans to augment it from 140kt to 450kt.

Augmenting O&G capacity: VEDL signed off 10-year PSC extension in Rajasthan and future efforts will be focused on augmenting O&G reserves and exploration activities. It has identified offshore exploration wells in Northeast India which are likely to help step up output over the next few years. VEDL has guided USD 1.7bn growth capex for FY24, out of which USD 0.5bn will be dedicated towards O&G business.

Coal integration: The Jamkhani coal mine commenced operations ahead of schedule and the company will now focus on the operationalization of Kurloi North (8mtpa), Radhikapur (6mtpa), and Ghogharpalli (20mtpa) coal mines. Once operationalized, these mines will enable 100% coal security for VEDL.

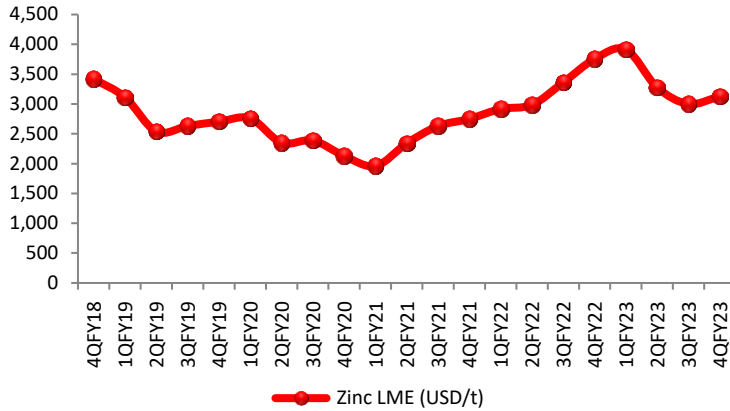
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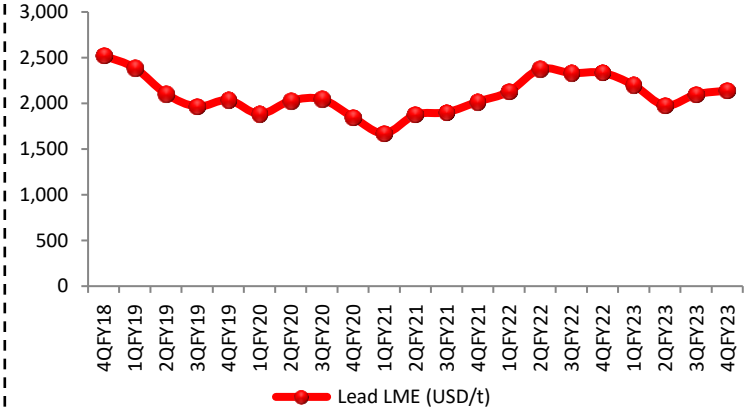
Exhibit 1: Quarterly snapshot (Consolidated)

(Rs bn)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Net revenues	398	386	367	341	379
<i>YoY change (%)</i>					<i>(4.8)</i>
<i>QoQ change (%)</i>					<i>11.2</i>
EBITDA	136	102	77	71	95
<i>YoY change (%)</i>					<i>(30.6)</i>
<i>QoQ change (%)</i>					<i>33.8</i>
EBITDA Margin (%)	34	26	21	21	25
Net earnings (adjusted)	55	44	20	34	5
<i>YoY change (%)</i>					<i>(90.0)</i>
<i>QoQ change (%)</i>					<i>(83.8)</i>

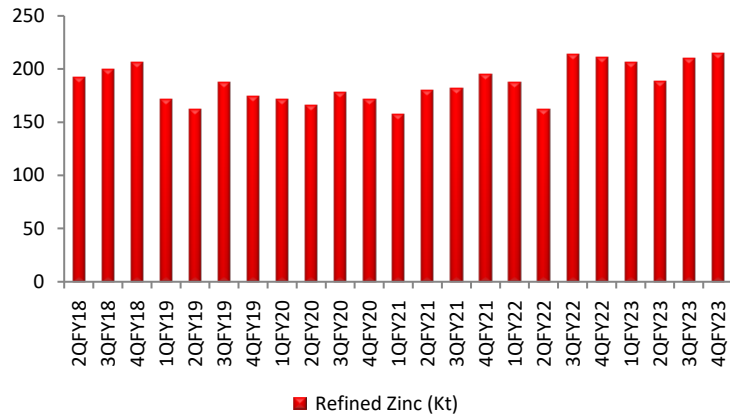
Source: Systematix Institutional Research

Exhibit 2: Zinc prices recover marginally during 4QFY23 (USD/t)

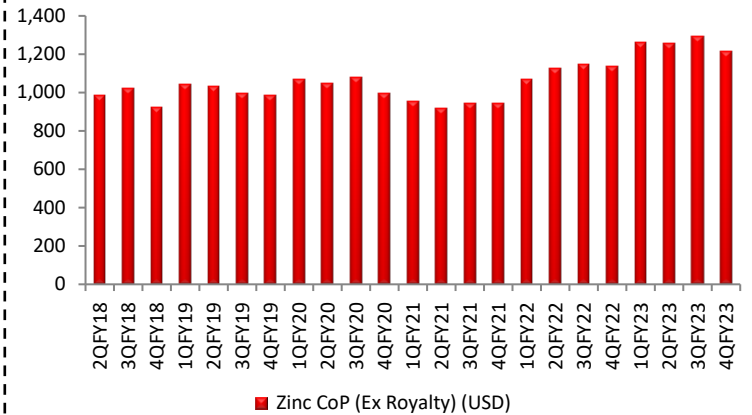
Source: Company, Systematix Institutional Research

Exhibit 3: Lead prices level up (USD/t)

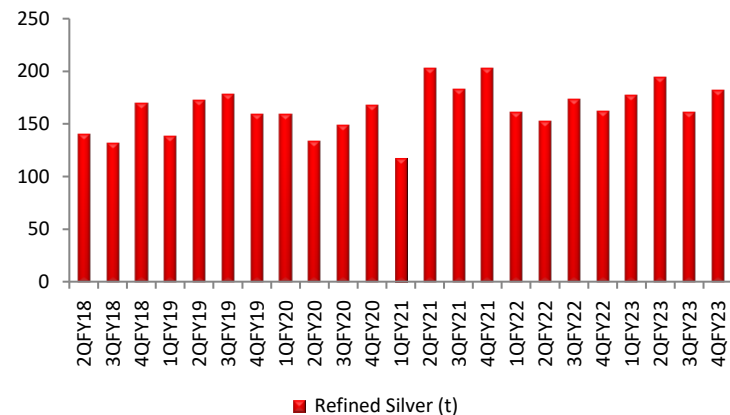
Source: Company, Systematix Institutional Research

Exhibit 4: Zinc India: Volumes higher QoQ

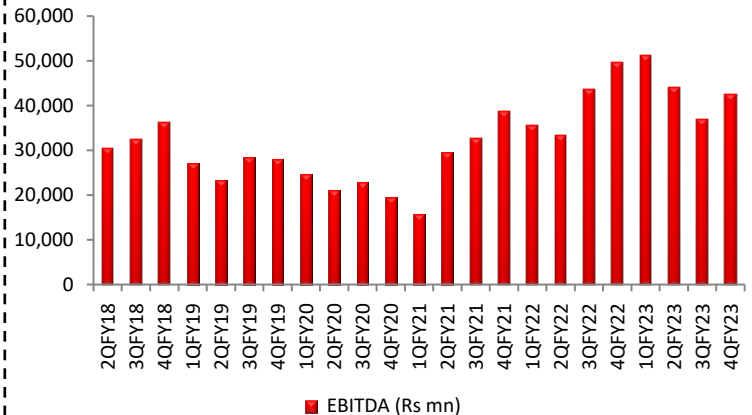
Source: Company, Systematix Institutional Research

Exhibit 5: Zinc India: Costs drop marginally (USD/t)

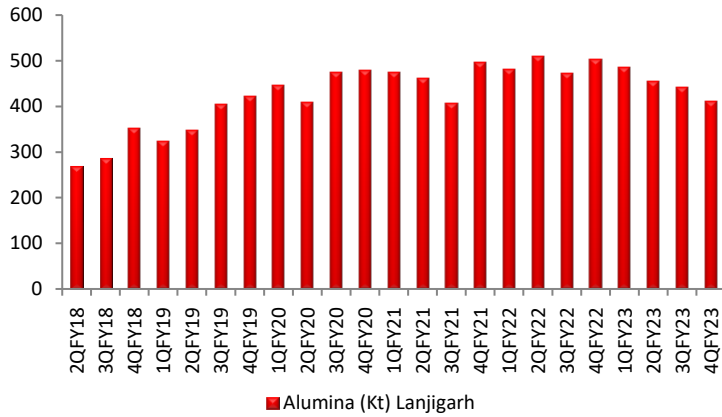
Source: Company, Systematix Institutional Research

Exhibit 6: Zinc India: Silver output trend

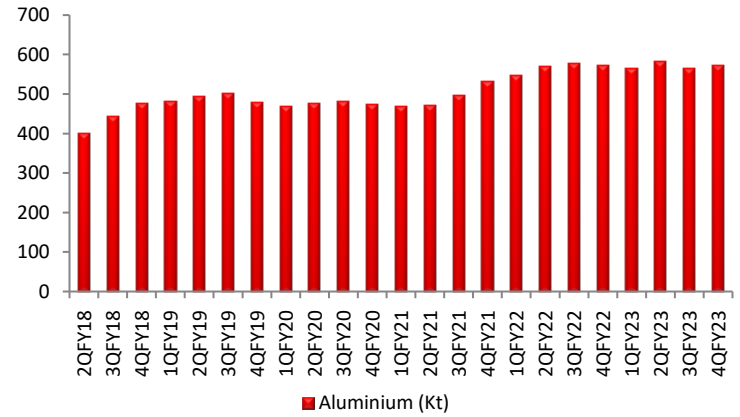
Source: Company, Systematix Institutional Research

Exhibit 7: Zinc India: EBITDA increases

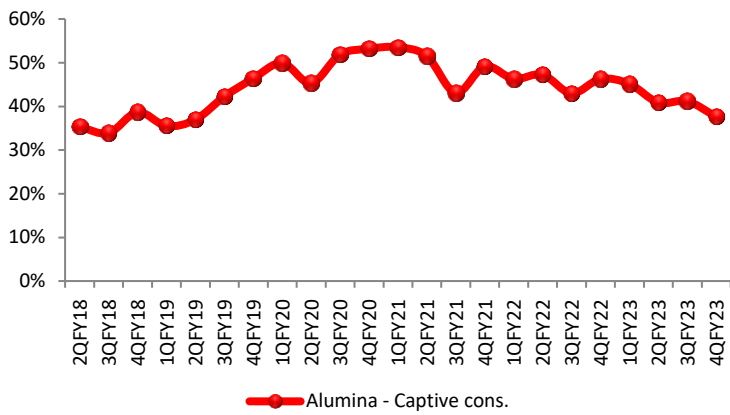
Source: Company, Systematix Institutional Research

Exhibit 8: Alumina volume declines during 4QFY23

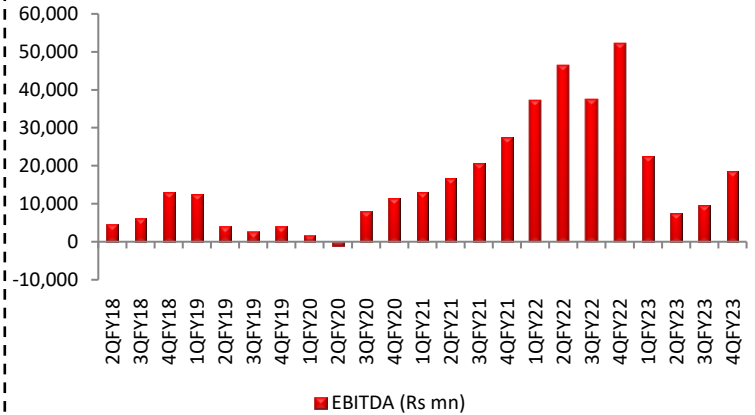
Source: Company, Systematix Institutional Research

Exhibit 9: Aluminium output running at full capacity

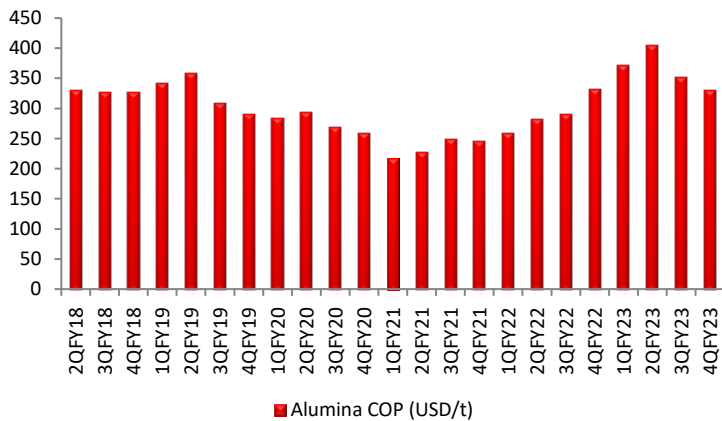
Source: Company, Systematix Institutional Research

Exhibit 10: Share of captive alumina

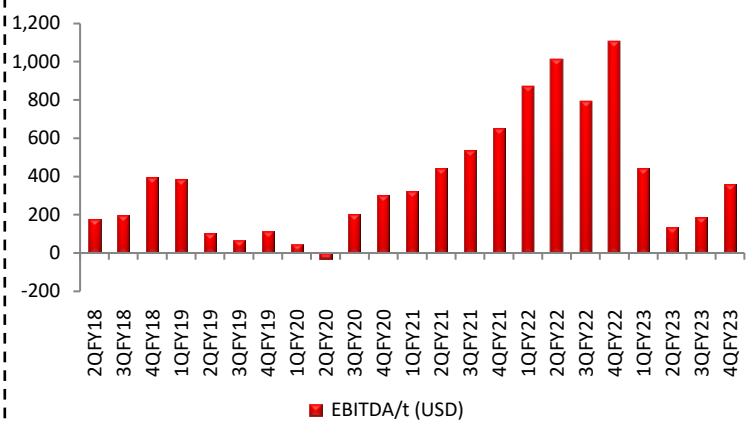
Source: Company, Systematix Institutional Research

Exhibit 11: Aluminium EBITDA recovers on lower input costs

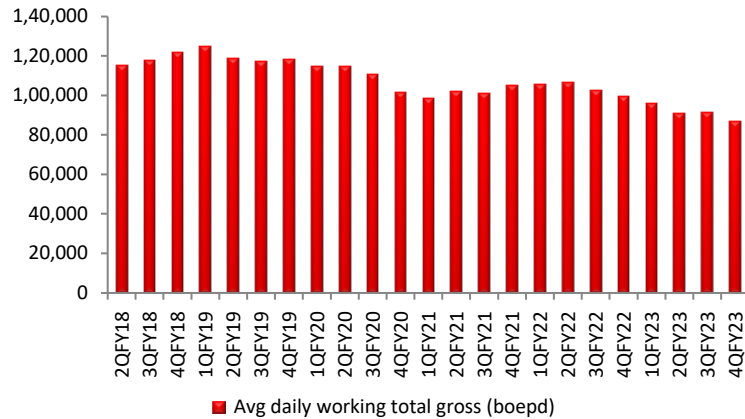
Source: Company, Systematix Institutional Research

Exhibit 12: Alumina COP declines QoQ

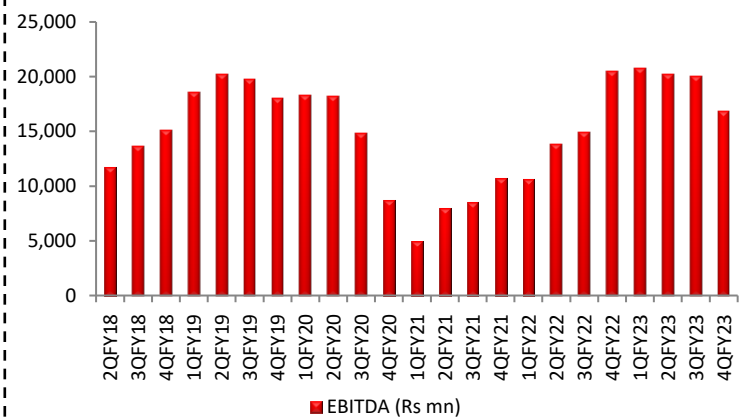
Source: Company, Systematix Institutional Research

Exhibit 13: Aluminium EBITDA/t

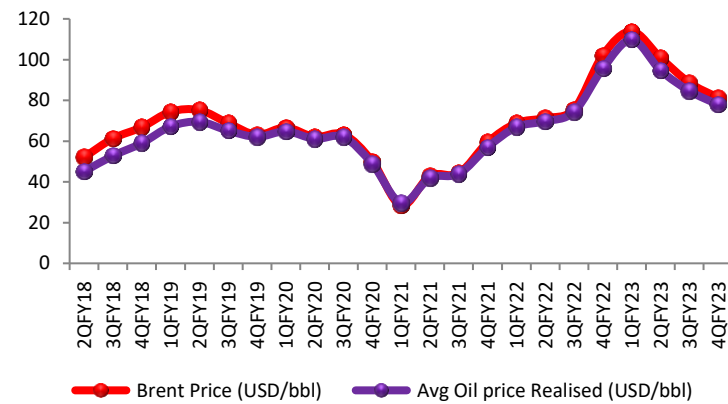
Source: Company, Systematix Institutional Research

Exhibit 14: Oil output trends lower

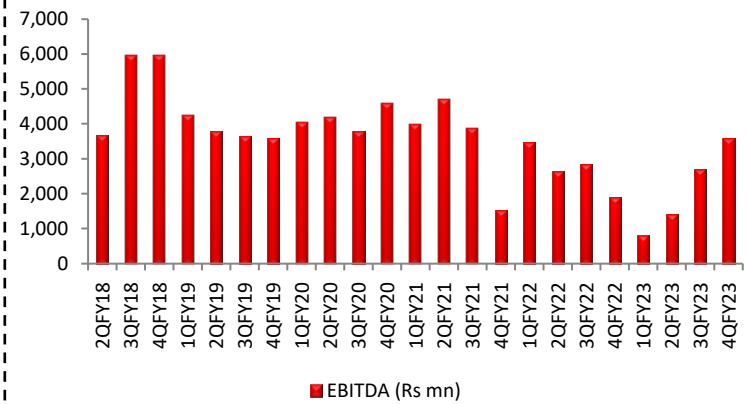
Source: Company, Systematix Institutional Research

Exhibit 15: Oil division: EBITDA declines QoQ

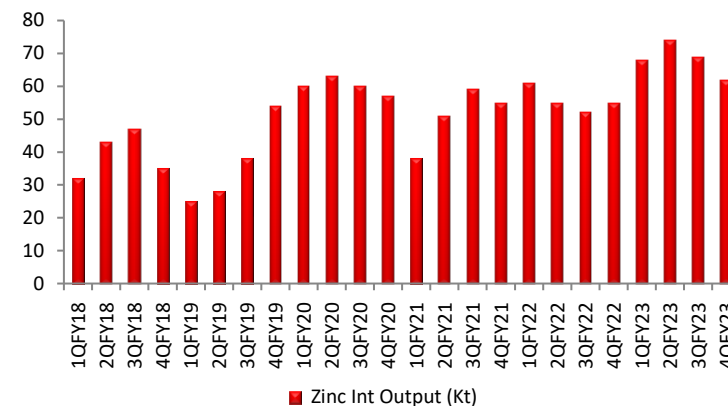
Source: Company, Systematix Institutional Research

Exhibit 16: Oil discount to Brent has narrowed

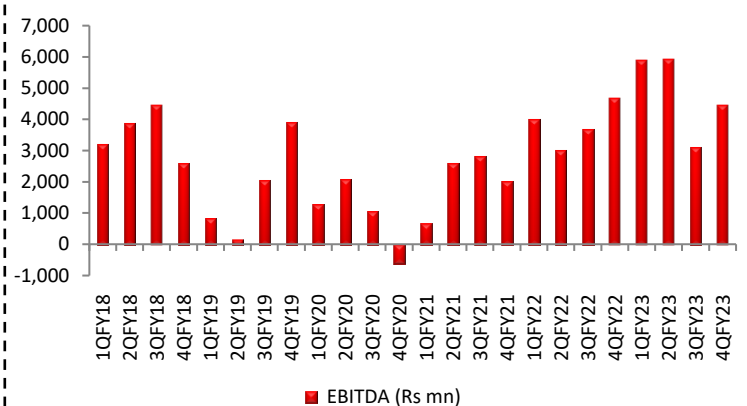
Source: Company, Systematix Institutional Research

Exhibit 17: Power business: EBITDA shows sharp recovery

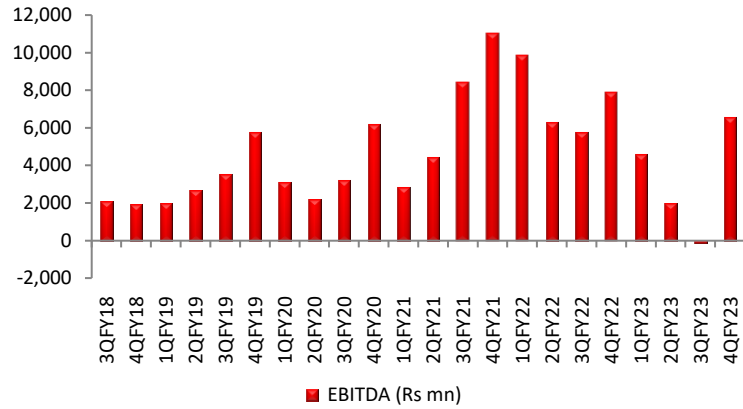
Source: Company, Systematix Institutional Research

Exhibit 18: Zinc international output

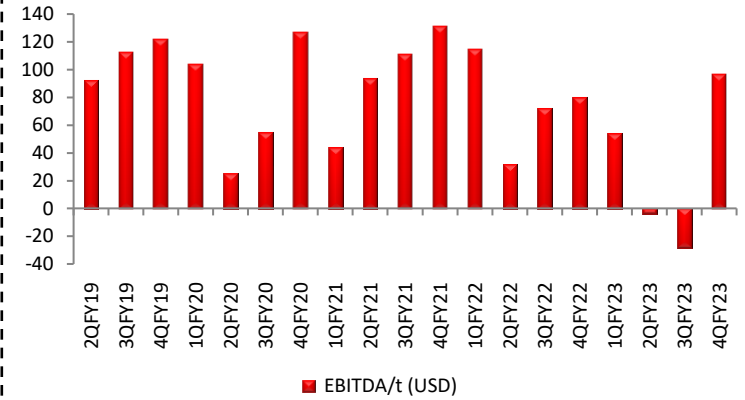
Source: Company, Systematix Institutional Research

Exhibit 19: Zinc international EBITDA

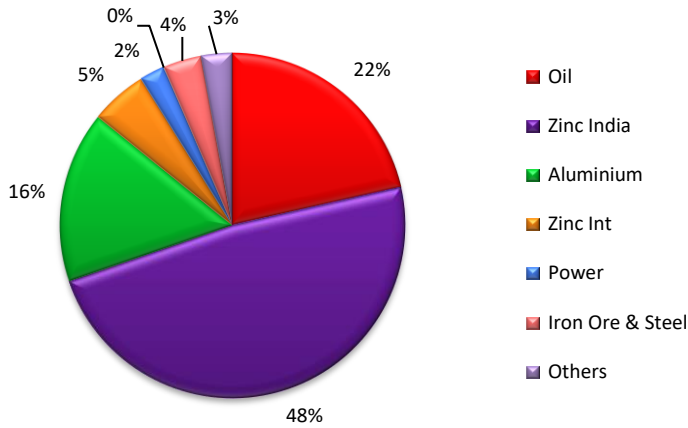
Source: Company, Systematix Institutional Research

Exhibit 20: Steel & iron ore business: EBITDA rises on high volumes

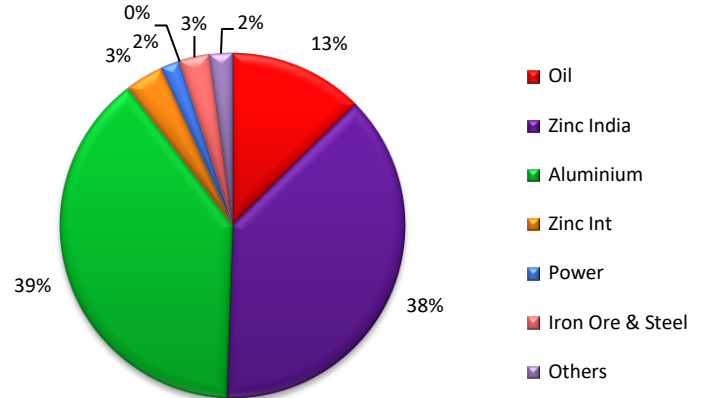
Source: Company, Systematix Institutional Research

Exhibit 21: Electrosteel Steel: EBITDA/t (USD)

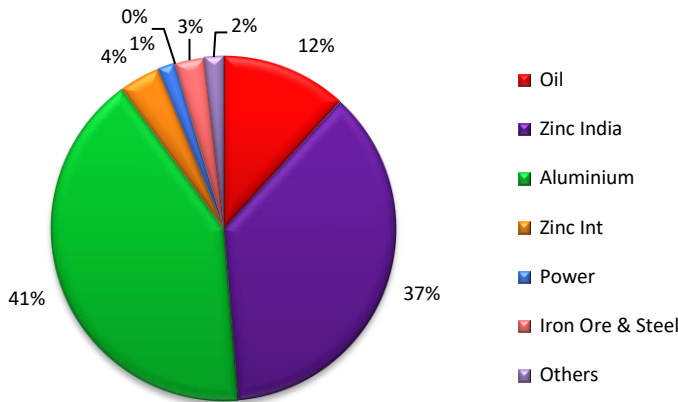
Source: Company, Systematix Institutional Research

Exhibit 22: FY23 attributable EBITDA composition

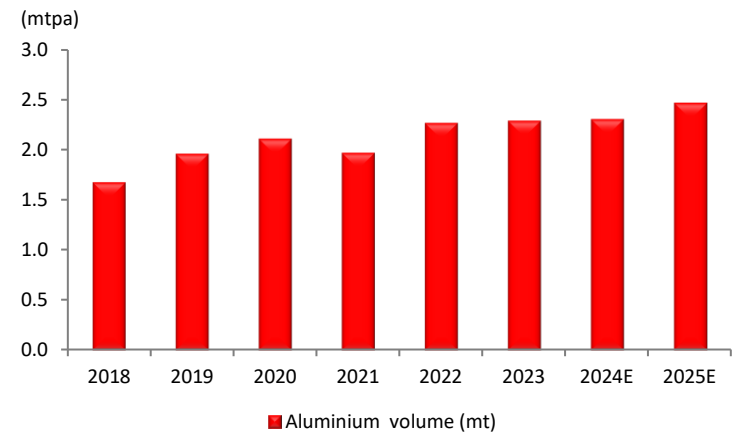
Source: Company, Systematix Institutional Research

Exhibit 23: FY24E attributable EBITDA composition

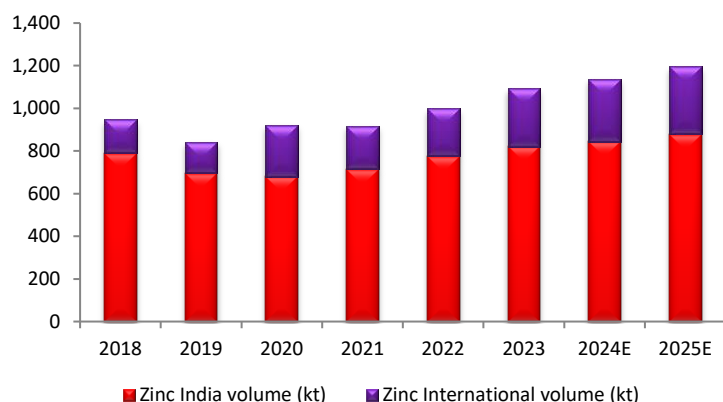
Source: Company, Systematix Institutional Research

Exhibit 24: FY25E attributable EBITDA composition

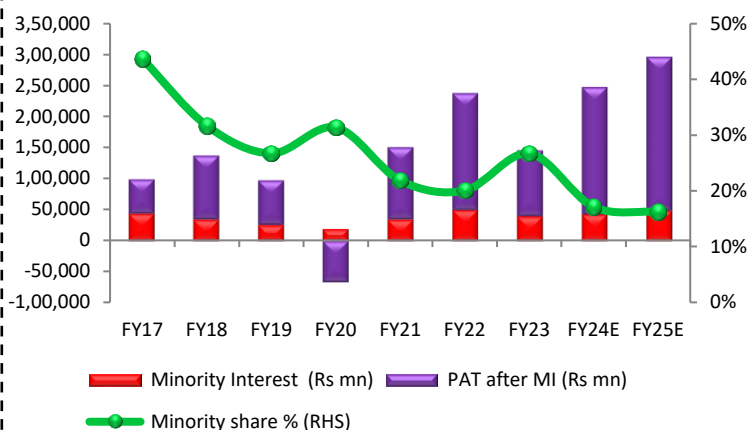
Source: Company, Systematix Institutional Research

Exhibit 25: Aluminium volumes to gradually increase

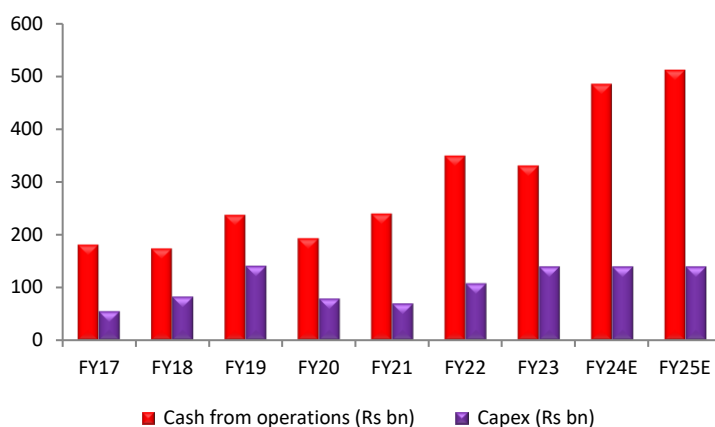
Source: Company, Systematix Institutional Research

Exhibit 26: Zinc output for ZI and HZL

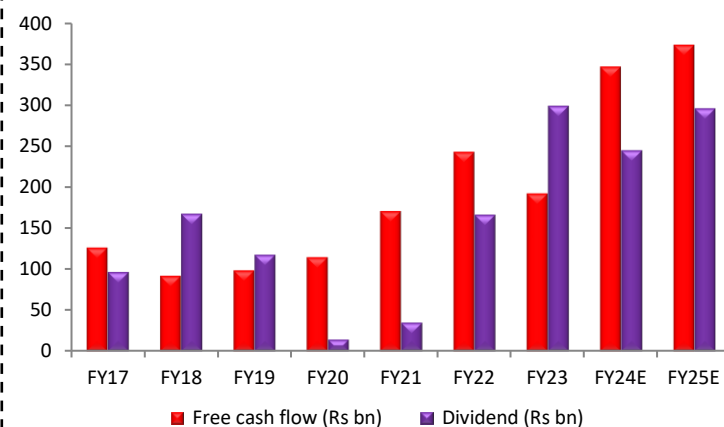
Source: Company, Systematix Institutional Research

Exhibit 27: Share of Minority Interest in PAT

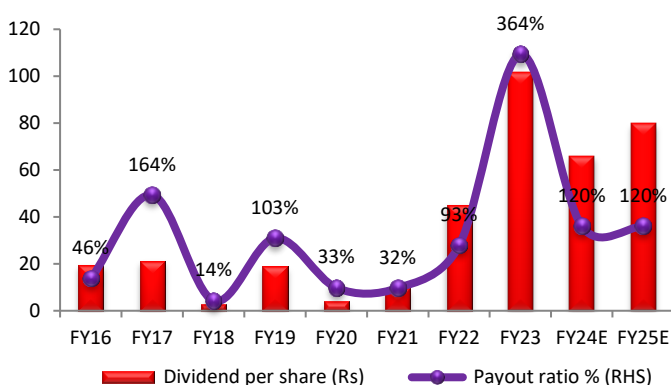
Source: Company, Systematix Institutional Research

Exhibit 28: Cash generation likely high on steady capex (Rs bn)

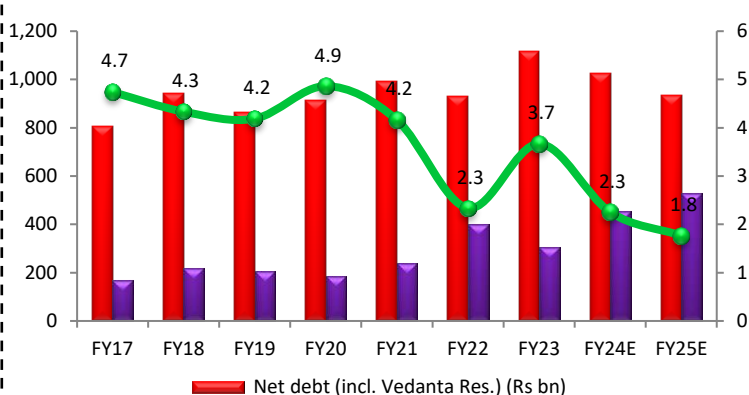
Source: Company, Systematix Institutional Research

Exhibit 29: Free cash generation to remain high (Rs bn)

Source: Company, Systematix Institutional Research

Exhibit 30: Dividend and payout ratio

Source: Company, Systematix Institutional Research

Exhibit 31: Consolidated net debt and attributable EBITDA

Source: Company, Systematix Institutional Research

Exhibit 32: Revised estimates

(Rs bn)	Previous		New		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	1,677	1,811	1,549	1,707	-8%	-6%
EBITDA	528	636	497	578	-6%	-9%
PAT	215	287	205	247	-5%	-14%

Source: Systematix Institutional Research

Exhibit 33: VEDL valuation (FY25E)

	EBITDA (Rs bn)	Multiple (x)	EV (Rs bn)	Per share (Rs)
Cons. EBITDA		4.5	2,601	700
Less: Cons Net debt			453	122
Add: CWIP			174	47
Equity Value (A)			2,322	625
Less: Minority interest				
a) Hindustan Zinc (35.1%)	75	4.5	337	91
b) BALCO (49%)	5	4.5	22	6
c) Zinc International (26%)	6	4.5	26	7
Total Minority (B)	86		385	104
Less: Minority share in net cash			55	15
Total			1,882	506

Source: Systematix Institutional Research

Exhibit 34: Dividend discount model

Scenario	Current	I	II	III
Expected dividend (Rs/Share)	68	68	68	68
Cost of capital (r)	13.8%	13.8%	13.8%	13.8%
Growth rate of dividends (g)	-11%	0%	5%	7%
Price per share (r-g)	272	488	765	990

Source: Systematix Institutional Research

Exhibit 35: VEDL: FY18-25E, key assumptions

	Unit	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Volumes									
Zinc	kt	827	696	680	715	777	820	845	878
Lead	kt	168	198	175	214	192	211	222	233
Silver	ton	558	679	716	706	647	714	743	772
Aluminium	kt	1,675	1,959	2,109	1,969	2,267	2,289	2,304	2,467
Power	mu	11,041	13,517	14,153	11,261	11,872	11,551	11,334	11,189
Iron ore	mt	8	4	4	7	7	5.6	7	7
Gross Oil production	bbl/day	1,89,926	1,88,784	1,72,971	1,62,105	1,60,851	1,42,615	1,36,910	1,36,910
LME price assumptions									
Zinc	USD/t	3,057	2,700	2,500	2,422	3,257	3,319	3,000	3,050
Lead	USD/t	2,379	2,100	2,000	1,862	2,293	2,101	2,200	2,250
Silver	USD/oz	17	17	17	23	23	20	25	26
Aluminium	USD/t	2,046	2,025	1,800	1,805	2,774	2,487	2,200	2,300
Brent price	USD/bbl	58	60	60	43.75	81	96	80	85
Currency	USD/INR	64	70	71	75	74	80	82	83

Source: Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs bn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	880	1,327	1,473	1,549	1,707
Expenditure	607	879	1,129	1,052	1,129
EBITDA	273	448	344	497	578
Depreciation	76	89	106	116	128
Other Income	34	26	29	26	24
EBIT	231	385	267	406	475
Interest cost	52	48	62	63	65
Exceptionals	(7)	(8)	(2)	-	-
PBT	172	330	203	343	410
Taxes	22	93	58	96	115
Adj. PAT	157	245	147	247	295
Minority Interest	34	49	39	42	48
PAT after MI	123	196	108	205	247
No of shares	3,718	3,719	3,719	3,719	3,719
Adj. EPS	33	53	29	55	66

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	4	4	4	4	4
Reserves and surplus	619	650	391	350	300
Net worth	623	654	394	353	304
Minority Interest	151	173	100	142	190
Total Debt	570	531	662	682	702
Other LT liabilities	90	95	95	95	95
Total sources	1,434	1,454	1,251	1,273	1,291
Net block	1,068	1,093	956	1,094	1,232
Net deferred tax	36	7	26	26	26
Other assets	243	297	274	274	274
CWIP	188	198	197	197	197
Cash	333	326	224	168	69
Inventories	99	143	150	120	132
Receivables	35	49	40	42	44
Other current assets	20	23	38	38	38
Current Assets	487	542	452	368	282
Current liabilities	401	486	653	686	720
Net working capital	86	56	(201)	(318)	(437)
Total Assets	1,434	1,454	1,251	1,273	1,291

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs bn)	FY21	FY22	FY23	FY24E	FY25E
PBT	172	330	203	343	410
Add: Depreciation	77	89	106	116	128
Add: Interest	51	47	61	63	65
Less: taxes paid	21	57	64	72	86
Add: other adjustments	(2)	8	1	-	-
Less: WC changes	(16)	(48)	46	60	20
Total OCF	240	350	331	485	512
OCF w/o WC changes	256	397	285	425	492
Capital expenditure	(69)	(106)	(138)	(138)	(138)
Change in investments	(19)	65	114	-	70
Interest/Dividend Recd	20	19	17	15	15
Total ICF	(68)	(23)	(7)	(122)	(53)
Free Cash Flows	172	327	324	363	459
Share issuances	-	-	-	-	-
Change in borrowings	(87)	(69)	14	20	20
Dividends	(35)	(167)	(300)	(246)	(297)
Interest payment	(50)	(52)	(48)	(62)	(63)
Others					
Total Financing CF	(176)	(289)	(341)	(289)	(341)
Net change in cash	(3)	38	(18)	74	117
Opening cash & CE	51	49	87	69	143
Closing cash & CE	49	87	69	143	260

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yoy growth in Revenue	4.2	50.8	11.0	5.2	10.2
Yoy growth in Ebitda	32.1	64.1	(23.2)	44.3	16.3
Yoy growth in Net income	156.6	55.8	(39.8)	67.7	19.5
Effective tax rate (%)	12.7	28.1	28.5	28.0	28.0
EBITDA margin (%)	31.0	33.8	23.4	32.1	33.9
PAT margin (%)	14.0	14.7	7.3	13.2	14.5
ROAE (%)	18.7	28.2	19.8	54.7	75.3
ROCE (%)	19.0	37.1	39.9	64.9	78.8
Net debt to equity (x)	0.4	0.3	1.1	1.5	2.1
Per share numbers (Rs)					
Reported earnings	29.4	48.5	27.9	55.0	66.5
Dividend	9.5	45.0	101.5	66.0	79.8
Free cash	49.9	72.4	56.2	86.3	100.8
Book value	167.5	175.8	106.0	95.0	81.7
Valuations (x)					
Price to diluted earnings	9.4	5.7	9.9	5.0	4.1
EV/Ebitda	5.8	3.5	4.7	3.0	2.6
EV/Sales	1.5	1.0	0.9	0.8	0.8

Source: Company, Systematix Institutional Research

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