

### Vedanta

19 June 2024

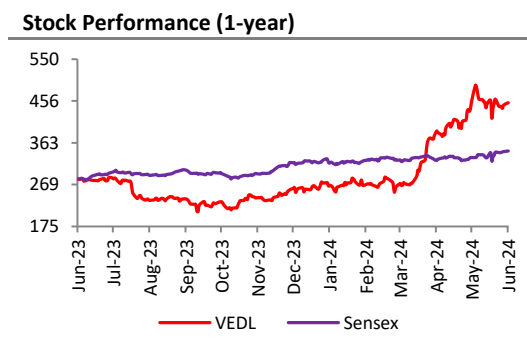
#### Vertical expansions to drive cost efficiency and margins

PLANT VISIT UPDATE	
Sector: Metals	Rating: BUY
CMP: Rs 452	Target Price: Rs 536

Stock Info	
Sensex/Nifty	77,301/23,558
Bloomberg	VEDL IN
Equity shares (mn)	3,717.2
52-wk High/Low	Rs 507/208
Face value	Rs 1
M-Cap	Rs 1,682bn/USD 20bn

Financial Snapshot (Rs bn)			
Y/E Mar	FY24	FY25E	FY26E
Net Sales	1,437	1,578	1,721
EBIDTA	352	456	504
PAT	14	110	149
EPS (Rs)	4	30	40
PE (x)	39.7	15.3	11.3
EV/EBITDA (x)	5.7	4.4	4.0
RoE (%)	12.1	34.8	42.2
RoCE (%)	37.3	54.3	59.1
Dividend yield (%)	7.4	6.3	6.3

Shareholding Pattern (%)			
	Mar'24	Dec'23	Sep'23
Promoter	62.0	63.7	63.7
—Pledged	100.0	100.0	100.0
FII	8.8	7.7	7.8
DII	13.2	11.2	10.6
Others	16.1	17.4	17.9



We return positive from our visit to Vedanta's (VEDL IN) aluminium smelter in Jharsuguda, Odisha. The Jharsuguda aluminium plant (JSG) was VEDL's first greenfield project that commenced operations in 2005. It is now the largest single-location aluminium smelter globally, with a capacity of 1.8mtpa. VEDL is also India's largest aluminium producer that operates at a total capacity of 2.3mtpa (including BALCO operations). With several debottlenecking and growth projects underway, the company expects to touch 2.8mtpa and 3.1mtpa capacity in the short and medium term, respectively. The company achieved 104% capacity utilization having produced 2.37mt of aluminium in FY24 (+3.5% YoY). VEDL's aluminium product portfolio (primary foundry alloys, billets, wire rods, and rolled products) commands a sizeable share in the domestic and export markets; the company is the largest wire rod producer (ex-China) in the world. The segment contributed 26% to the conglomerate's FY24 EBITDA, second highest after Hindustan Zinc (37% share).

**Valuation and view:** VEDL's vertically integrated operations make it one of the lowest-cost aluminium producers in the world. Following vertical expansions would further drive cost efficiency: a) Commissioning of 1.5mtpa train II and debottlenecking at the Lanjigarh refinery would enable 100% captive alumina capacity of 6mtpa; b) Commencement of mining operations at the Sijimali bauxite mine (Odisha) and various coal mines, and c) renewable power projects in the pipeline to ensure its commitment to sustainability. It is the only domestic aluminium producer with a 430kt smelting capacity expansion plan underway at Korba, BALCO. This coupled with certain debottlenecking plans will likely enable it to achieve its targeted capacity of 3.1mt by FY26. Higher volumes along with the rising proportion of value-added products (VAP) are expected to drive topline and enable margin expansion. We have retained our estimates and value VEDL at 5.5x FY26E EV/EBITDA (4.3x earlier) to arrive at a revised target price of Rs 536/share (Rs 418/share earlier); we are upgrading the stock to BUY. Parent-level debt and capital allocation are key monitorables for VEDL.

#### Vedanta aluminium highlights

- The company is on track to expand its total smelting capacity of 2.3mtpa (incl BALCO's 530ktpa), to 2.8mtpa this year, led by its 430ktpa growth project at Korba, BALCO. It further expects to expand this capacity to 3.1mtpa by FY26 through debottlenecking initiatives.
- VAP's currently constitute 61% of VEDL's total capacity, which the company is targeting to stretch to 90% post expansion.
- The company has backward integrated operations with 3mtpa bauxite mining capacity and 3.5mtpa alumina refining capacity. Plans are underway to expand its captive bauxite mining capacity to 12mtpa and alumina refining capacity to 6mtpa.

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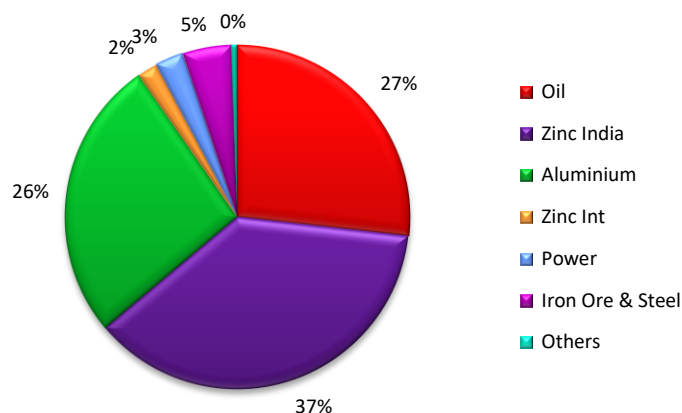
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**JSG plant highlights**

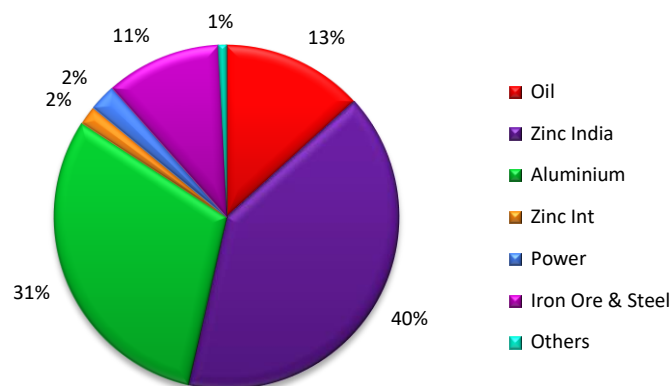
- The company's JSG smelter is the largest single-location smelter globally with a capacity of 1.8mtpa.
- The plant has two smelters:
  - Smelter 1 is built on GAMI-320 prebake technology with two potlines of 304 pots each. The total design capacity of this smelter is 500ktpa.
  - Smelter 2 is built on GAMI-340 prebake technology with four potlines of 330 pots each. The total design capacity of this smelter is 1,350ktpa.
- The smelting operations draw power from two captive thermal power plants that have a total capacity of 3.6GW.
- The plant's strategic location provides easy access to the captive alumina refinery in Lanjigarh and is well-connected to coal mines and various ports.

**Other highlights and takeaways from the visit**

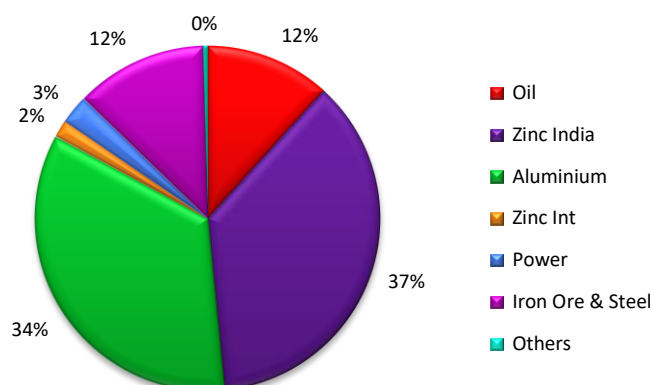
- JSG produces low carbon green aluminium products, using renewable power sources under the brands, Restora and Restora Ultra.
- VEDL is on track to reach 3.1mtpa smelting capacity by FY26. The incremental 800ktpa capacity would be contributed by a) 430ktpa smelter expansion at BALCO, and b) various planned debottlenecking initiatives.
- Management expects to generate an EBITDA of USD 1,350/t once the new 3.1mt capacity touches peak utilization and achieves 100% raw material integration.
- India's per capita aluminium consumption of 3kg offers significant headroom for growth compared with global and China averages of 12kg and 32kg, respectively.
- According to VEDL, aluminium consumption in India grew by 16% (YoY) in FY24, at 2.5x GDP growth. Focus on industrialization and sustainability is expected to double consumption at twice the GDP rate in future.
- VEDL expects India to witness a shift in aluminium consumption segments from electrical (36% contribution) to transport (22% contribution). The transport segment is the largest aluminium consumer in the world ex China (33%).
- On the captive coal front, Kurloi (8mtpa) and Radhikapur (6mtpa) coal blocks are likely to be commissioned by end of FY25, and Ghogharpalli (20mtpa) could be commissioned in early FY26. These coal blocks, along with the already operational Jamkhani mine (3mtpa) are expected to raise VEDL's captive coal capacity to ~37mt. The Barra coal block (6mtpa) is currently in the exploration stage.
- VEDL meets 90% of its coal requirement through linkages with Mahanadi Coal Fields and the rest through captive sources and e-auction. The company aims to secure 100% captive coal consumption in future.

**Exhibit 1: FY24 EBITDA composition**

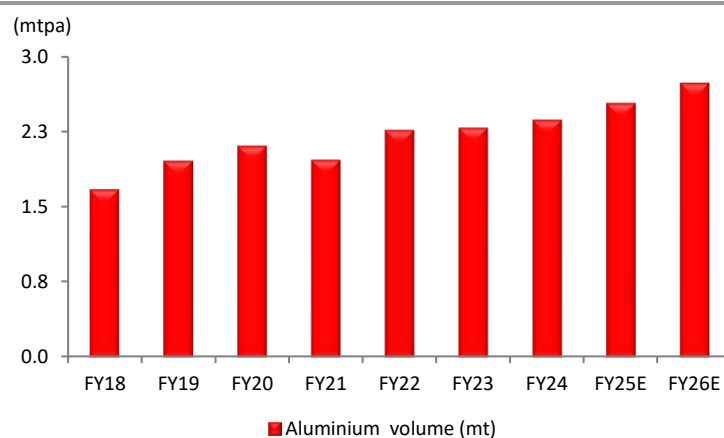
Source: Company, Systematix Institutional Research

**Exhibit 2: FY25E EBITDA composition**

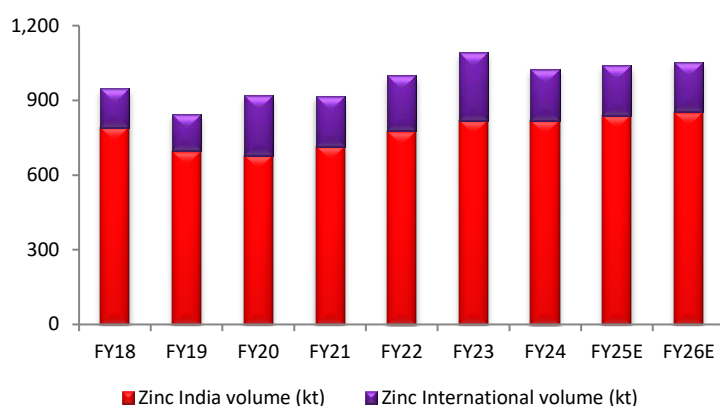
Source: Company, Systematix Institutional Research

**Exhibit 3: FY26E EBITDA composition**

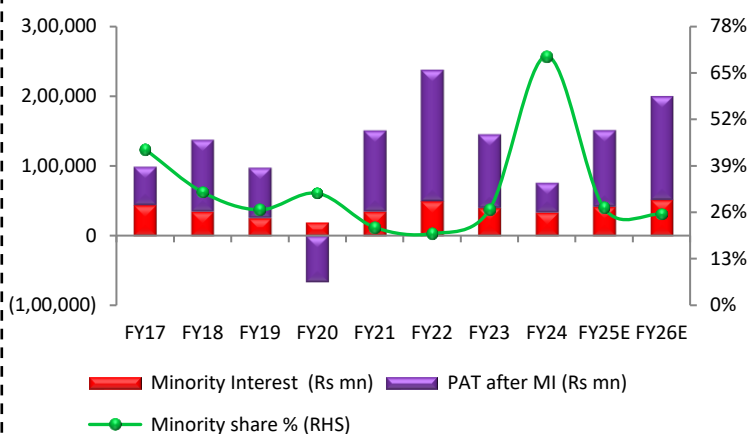
Source: Company, Systematix Institutional Research

**Exhibit 4: Aluminium volumes to gradually increase**

Source: Company, Systematix Institutional Research

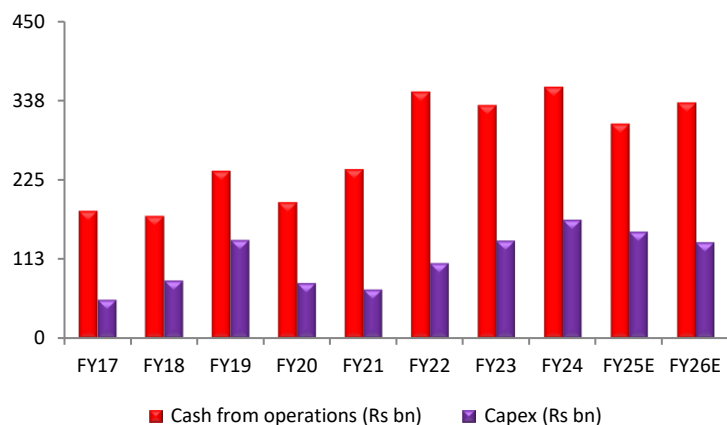
**Exhibit 5: Zinc output for ZI and HZL**

Source: Company, Systematix Institutional Research

**Exhibit 6: Share of Minority Interest in PAT**

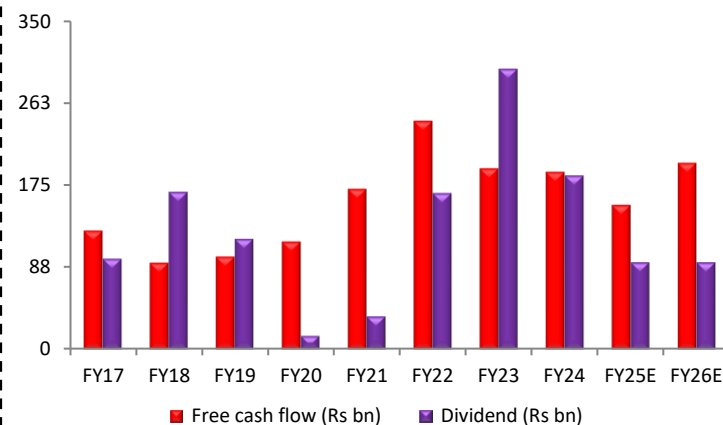
Source: Company, Systematix Institutional Research

Exhibit 7: Cash generation to stabilize (Rs bn)



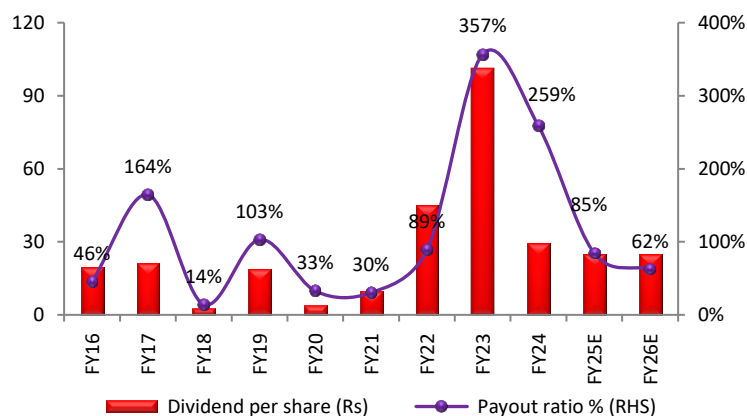
Source: Company, Systematix Institutional Research

Exhibit 8: Free cash generation to stabilize (Rs bn)



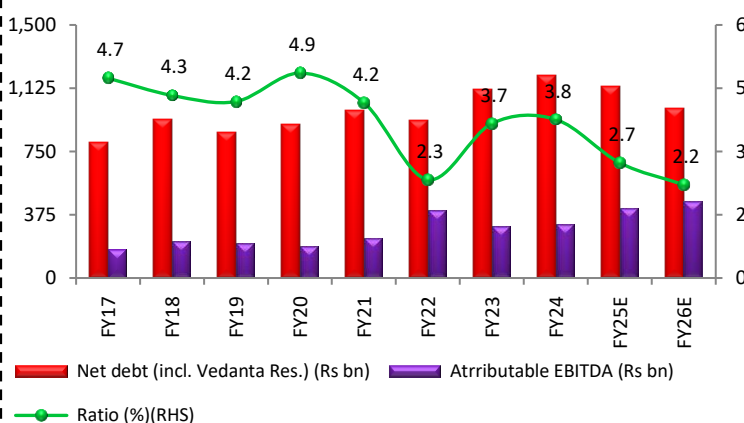
Source: Company, Systematix Institutional Research

Exhibit 9: Dividend and payout ratio



Source: Company, Systematix Institutional Research

Exhibit 10: Consolidated net debt and attributable EBITDA



Source: Company, Systematix Institutional Research

Exhibit 11: VEDL valuation (FY26E)

	EBITDA (Rs bn)	Multiple (x)	Holdco Discount	EV (Rs bn)	Per share (Rs)
Cons. EBITDA	504	5.5		2,771	745
Less: Cons Net debt				563	152
Add: CWIP				229	62
Equity Value (A)				2,436	655
Less: Minority interest					
a) Hindustan Zinc (35.1%)	68	7.5	20%	408	110
b) BALCO (49%)	4	5.5		23	6
c) Zinc International (26%)	2	5.5		12	3
Total Minority (B)	74			443	119
Less: Minority share in net cash					
<b>Total</b>				<b>1,993</b>	<b>536</b>

Source: Systematix Institutional Research

**Exhibit 12: VEDL: Key assumptions (FY21-FY26E)**

	Unit	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Volumes</b>							
Zinc India	kt	715	777	820	818	838	853
Lead	kt	214	192	211	217	241	246
Silver	ton	706	647	714	746	761	774
Aluminium	kt	1,969	2,267	2,289	2,370	2,534	2,735
Power	mu	11,261	11,872	14,835	13,443	14,133	14,819
Iron ore	mt	7	7	5.7	6.2	6.2	6.2
Gross Oil production	bbl/day	1,62,105	1,60,851	1,42,614	1,27,600	1,26,324	1,26,324
<b>LME price assumptions</b>							
Zinc	USD/t	2,422	3,257	3,319	2,475	2,800	2,900
Lead	USD/t	1,862	2,293	2,101	2,122	2,250	2,350
Silver	USD/oz	23	23	21	24	28	30
Aluminium	USD/t	1,805	2,774	2,481	2,200	2,450	2,550
Brent price	USD/bbl	43.75	81	96	83	86	85
Currency	USD/INR	75	74	80	82	83	83

Source: Systematix Institutional Research

## FINANCIALS (CONSOLIDATED)

### Profit & Loss Statement

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
<b>Net Sales</b>	<b>1,327</b>	<b>1,473</b>	<b>1,437</b>	<b>1,578</b>	<b>1,721</b>
Expenditure	879	1,129	1,085	1,122	1,218
<b>EBITDA</b>	<b>448</b>	<b>344</b>	<b>352</b>	<b>456</b>	<b>504</b>
Depreciation	89	106	107	119	123
Other Income	26	29	26	22	29
<b>EBIT</b>	<b>385</b>	<b>267</b>	<b>270</b>	<b>359</b>	<b>411</b>
Interest cost	48	62	95	85	78
Exceptionals	(8)	(2)	28	-	-
<b>PBT</b>	<b>330</b>	<b>203</b>	<b>204</b>	<b>275</b>	<b>332</b>
Taxes	93	58	128	124	133
Adj. PAT	245	147	47	151	199
Minority Interest	49	39	33	41	51
<b>PAT after MI</b>	<b>196</b>	<b>108</b>	<b>14</b>	<b>110</b>	<b>149</b>
No of shares	3,719	3,719	3,719	3,719	3,719
Adj. EPS	53	29	4	30	40

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	4	4	4	4	4
Reserves and surplus	650	391	304	320	376
<b>Net worth</b>	<b>654</b>	<b>394</b>	<b>307</b>	<b>324</b>	<b>380</b>
Minority Interest	173	100	113	155	205
<b>Total Debt</b>	<b>531</b>	<b>662</b>	<b>718</b>	<b>653</b>	<b>601</b>
Other LT liabilities	95	95	93	93	93
<b>Total sources</b>	<b>1,454</b>	<b>1,251</b>	<b>1,231</b>	<b>1,225</b>	<b>1,279</b>
Net block	1,093	957	990	1,022	1,035
Net deferred tax	7	12	(75)	(75)	(75)
Other assets	297	278	301	301	301
CWIP	198	195	229	229	229
Cash	326	224	162	137	192
Inventories	143	150	130	138	150
Receivables	49	40	36	43	47
Other current assets	23	38	34	34	34
Current Assets	542	452	362	352	423
Current liabilities	486	643	575	604	634
<b>Net working capital</b>	<b>56</b>	<b>(192)</b>	<b>(214)</b>	<b>(252)</b>	<b>(211)</b>
<b>Total Assets</b>	<b>1,454</b>	<b>1,251</b>	<b>1,231</b>	<b>1,225</b>	<b>1,279</b>

Source: Company, Systematix Institutional Research

### Cash Flow

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
<b>PBT</b>	<b>330</b>	<b>203</b>	<b>204</b>	<b>275</b>	<b>332</b>
Add: Depreciation	89	106	107	119	123
Add: Interest	47	61	93	85	78
Less: taxes paid	57	64	27	124	133
Add: other adjustments	8	1	(19)	(41)	(51)
Less: WC changes	(48)	46	16	13	14
<b>Total OCF</b>	<b>350</b>	<b>331</b>	<b>357</b>	<b>305</b>	<b>334</b>
OCF w/o WC changes	397	285	341	291	320
Capital expenditure	(106)	(138)	(168)	(151)	(136)
Change in investments	65	114	13	60	10
Interest/Dividend Recd	19	17	17	22	29
<b>Total ICF</b>	<b>(23)</b>	<b>(7)</b>	<b>(137)</b>	<b>(69)</b>	<b>(96)</b>
Free Cash Flows	327	324	220	236	238
Share issuances	-	-	(2)	-	-
Change in borrowings	(69)	14	25	(65)	(52)
Dividends	(167)	(300)	(186)	(93)	(93)
Interest payment	(52)	(48)	(62)	(95)	(85)
Others					
<b>Total Financing CF</b>	<b>(289)</b>	<b>(341)</b>	<b>(261)</b>	<b>(242)</b>	<b>(223)</b>
Net change in cash	38	(18)	(41)	(7)	15
Opening cash & CE	49	87	69	28	22
Closing cash & CE	87	69	28	22	36

Source: Company, Systematix Institutional Research

### Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
YoY growth in Revenue	50.8	11.0	(2.4)	9.8	9.1
YoY growth in EBITDA	64.1	(23.2)	2.3	29.6	10.5
YoY growth in Net income	55.8	(39.8)	(67.8)	218.9	32.1
Effective tax rate (%)	28.1	28.5	63.0	45.0	40.0
EBITDA margin (%)	33.8	23.4	24.5	28.9	29.3
PAT margin (%)	14.7	7.3	1.0	7.0	8.6
ROAE (%)	29.5	20.2	12.1	34.8	42.2
ROCE (%)	37.1	39.3	37.3	54.3	-
Net debt to equity (x)	0.3	1.1	1.8	1.6	1.1
<b>Per share numbers (Rs)</b>					
Reported earnings	50.6	28.4	11.4	29.5	40.0
Dividend	45.0	101.5	29.5	25.0	25.0
Free cash	72.4	56.2	47.8	61.5	73.0
Book value	175.8	106.0	82.6	87.2	102.1
<b>Valuations (x)</b>					
Price to diluted earnings	8.9	15.9	39.7	15.3	11.3
EV/EBITDA	4.5	5.9	5.7	4.4	4.0
EV/Sales	1.5	1.4	1.4	1.3	1.2

Source: Company, Systematix Institutional Research

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## DISCLOSURES/APPENDIX

## I. ANALYST CERTIFICATION

I, **Shweta Dikshit, Hinal Kothari**, hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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