CMP: ₹ 435 | Target: ₹ 600 (38%) | Target Period: 12 months | BUY

May 13, 2025

Powerhouse redefining growth, lucrative offering...

About the Company: Vedanta Ltd (VEDL), a subsidiary of Vedanta Resources, is a diversified natural resources conglomerate with presence across aluminium, zinc-lead-silver, oil and gas, power, iron ore, steel, ferroalloys, and copper.

- Operates India's largest primary aluminum metal capacity ~2.4 MTPA, having ~45% market share in domestic primary aluminum domain (FY24).
- VEDL holds ~63% stake in Hindustan Zinc (HZL), which is India's leading producer of zinc and lead. Also, HZL is 4th largest silver producer globally.

Investment Rationale:

- **Aluminium set for transformational growth; a big mover for VEDL:** Vedanta is undertaking a major expansion in its Aluminium division, adding 450 KTPA of new capacity in BALCO and debottlenecking in Jharsuguda, raising smelting capacity to ~3.1 MTPA by FY27E. Also, it is expanding Lanjigarh alumina refinery to 6 MTPA for full captive integration with its newly secured bauxite & coal mines, thereby reducing import dependence and insulating from price volatility. With focus on value-added products, we expect metal premiums to inch upwards in this domain from FY26E. Thus, we project its aluminium division revenue to grow at 10% CAGR over FY25–27E, with EBITDA/tonne to inch upto US$1,100 by FY27E vs. US$ 870 in FY25. EBITDA CAGR at this segment is seen at 23% over FY25-27E.
- **Steady prospects at HZL; growth seen accelerating in power & steel:** HZL remains a key cash cow, contributing ~40% of VEDL's EBITDA in FY25. Notably, it is expanding mined metal capacity to 1.5 MT, with later scaling it to 2 MT, along with smelter expansion, thereby supporting the long-term growth. In the near term however, growth at HZL is expected to be modest in nature. Other growth drivers at VEDL include power space i.e. ~2,200 MW thermal plants (Meenakshi & Athena), iron ore capacity expansion to 30 MTPA, and doubling steel capacity to 3.5 MT by FY27E. Overall, VEDL is poised for revenue and EBITDA CAGR's of 11% and 17% over FY25–27E.
- **Compelling blend of controlled leverage, ~10% dividend yield, and value unlocking through demerger:** VEDL is generating healthy cash flows with cash flow from operations (CFO) consistently >₹ 30,000 crore mark since FY22, resulting in reduction of debt on B/S. Net: Debt to EBITDA is down to 1.3x in FY25 & is expected to further reduce to 1x by FY27E, primarily driven by organic expansion & commissioning of new capacities. Dividend payouts have also been high at VEDL in the past and with strong FCFF generation forward dividend yield is seen sustaining at ~9% mark. Importantly, the planned demerger of its five businesses aims to streamline corporate structure, and unlocking value potential for its shareholders post demerger.

Rating and Target Price

- We have a **positive** view on Vedanta amidst its market leadership in the aluminium and zinc segments, healthy capacity expansion across divisions, controlled leverage on B/S, return ratios >20% & attractive dividend yield of ~9%. We assign **BUY** rating with SOTP-based target price of **₹600**.

vedanta transforming for good

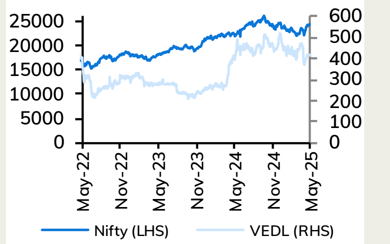
Particulars

Particulars	₹ crore
Market capitalisation	1,70,085
Total Debt (FY25P)	73,853
Cash & Investment (FY25P)	20,749
EV (₹ crore)	2,23,189
52 week H/L (₹)	527 / 362
Equity capital (₹ crore)	391
Face value (₹)	1

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	59.3	56.4	56.4	56.4
FII	10.2	11.5	12.0	11.2
DII	14.8	16.3	15.5	16.4
Other	15.7	15.9	16.1	16.1

Price Chart



Recent Event & Key risks

- Sales, PAT to grow at a CAGR of 11%, 19%, over FY25-27E.
- Key risk: i) sharp volatility in underlying commodity prices, impacting earnings profile ii) adverse capital allocation decision at parent company impacting growth capex, B/S and dividend payouts at VEDL

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Key Financial Summary

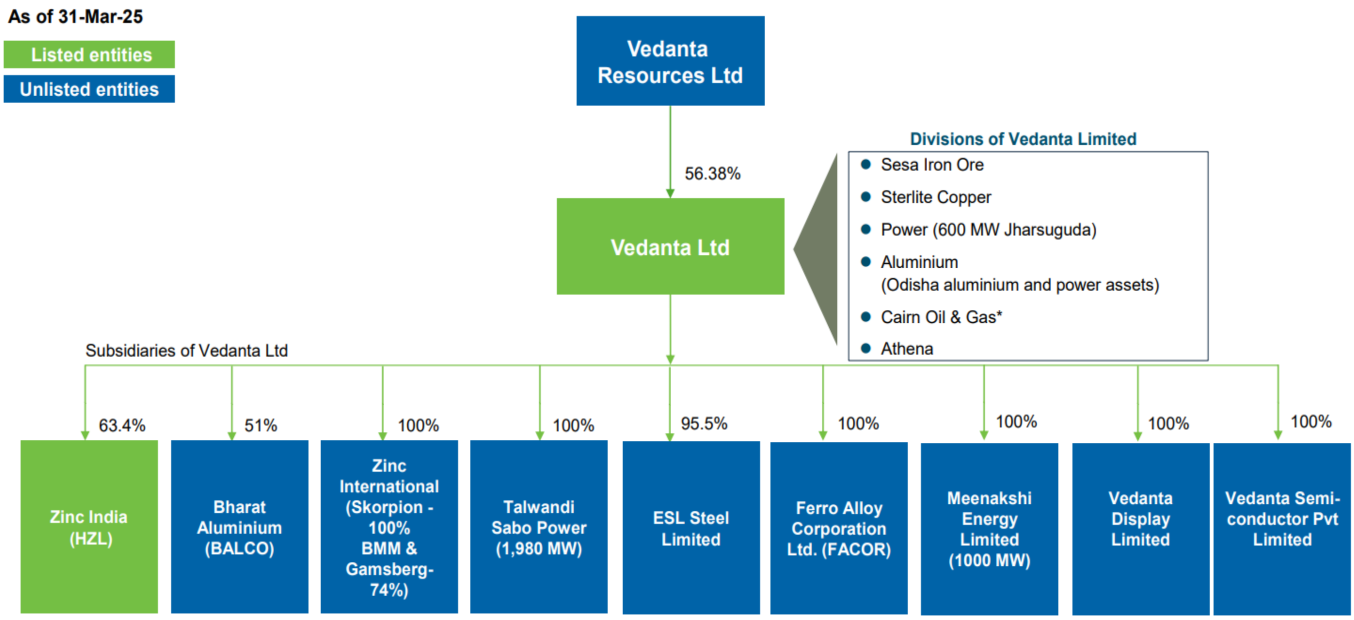
Key Financials ₹ crore	FY21	FY22	FY23	FY24	FY25P	5 year CAGR (FY20-25)	FY26E	FY27E	2 year CAGR (FY25-27E)
Total Op. Income	88,021	1,32,732	1,47,308	1,43,727	1,52,968	12.9%	1,66,702	1,89,140	11.2%
EBITDA	27,318	44,824	34,422	35,198	42,343	15.4%	48,011	57,508	16.5%
EBITDA Margins (%)	31.0	33.8	23.4	24.5	27.7		28.8	30.4	
Net Profit	11,602	18,802	10,574	4,239	14,988	NA	16,211	21,198	18.9%
EPS (₹/share)	31.2	50.5	28.4	11.4	38.3		41.5	54.2	
P/E	13.9	8.6	15.3	38.2	11.3		10.5	8.0	
RoNW (%)	19.6	29.6	27.2	10.4	32.9		38.8	44.8	
RoCE (%)	13.8	24.5	18.7	18.8	21.2		23.9	28.4	

Source: Company, ICICI Direct Research

Company Background

Founded in 1965, Vedanta is a diversified natural resources company with key assets located in India, South Africa, and Namibia. It operates across a broad spectrum of segments including aluminium, zinc-lead-silver, oil and gas, power, iron ore, steel, ferroalloys, and copper. It is a subsidiary of Vedanta Resources Ltd, a global natural resources conglomerate with a strong footprint across Asia, Europe, and Africa.

Exhibit 1: Vedanta Group Structure



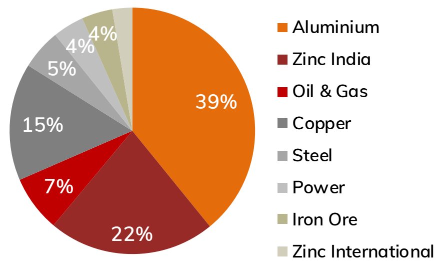
Source: Company, ICICI Direct Research

Vedanta key business segments are as follows:

- **Aluminium:** VEDL is India's largest primary aluminium producer, with an annual capacity of ~2.4 million tonnes (MT), accounting for ~45% of the domestic market share in FY24. It operates two smelters—Jharsuguda (1.8 MT) and BALCO (0.6 MT). It also has an integrated alumina refinery at Lanjigarh with a capacity of 3.5 MTPA. Additionally, it has a downstream capacity of ~1.4 MT, with value-added products, contributing 60% of portfolio. Its product range includes aluminium ingots, primary foundry alloys, wire rods, billets, & rolled products, catering to a diverse industry domestically as well as globally.
- **Zinc India:** Hindustan Zinc Ltd (HZL), one of the largest global zinc-lead producers, operates eight underground mines in Rajasthan—Rampura Agucha, Sindesar Khurd, Rajpura Dariba, and 4 mines in Zawar. It has reserves and resources of ~453 million tonnes, containing about 29.6 MT of zinc-lead metal ensuring a mine life of over 25 years. It has 854.3 million ounces of R&R silver as of FY24. It has a mined metal capacity of ~1.2 MT per annum. It operates 5 zinc-lead smelters, 1 rock-phosphate mine, 4 hydrometallurgical zinc smelters, 2 lead smelters, 1 pyro metallurgical zinc-lead smelter, and sulphuric acid and captive power plants in northwest India. VEDL holds a 63.4% stake in HZL.
    - **Zinc India:** HZL is the world's largest integrated zinc producer and the leading zinc producer in India, commanding about 77% market share in the primary zinc market in FY25. It currently operates 913 KTPA of zinc smelter capacity as of FY24.
    - **Lead:** HZL is also India's leading primary lead producer, with a market share of ~64% in FY24. It has a smelter capacity of 210 KTPA and produces high-purity lead ingots with 99.99% purity.
    - **Silver:** HZL ranks as the world's fourth-largest silver producer, with a silver refining capacity of ~800 TPA as of FY24. It operates the second-largest silver mine globally at Sindesar Khurd, achieving its highest-ever ore production of 5.65 MT in FY24.

- **Zinc International:** Vedanta Zinc International owns zinc assets in South Africa and Namibia, with R&R >662 million tonnes containing 34.8 million tonnes of metal, offering a mine life of over 20 years. It has a total mined-in-concentrate (MIC) capacity of 325 KTPA at the Black Mountain and Gamsberg mines. The ongoing Gamsberg Phase 2 expansion aim to increase mining capacity from 4 MTPA to 8 MTPA and includes building a new 4 MTPA concentrator plant. This will raise total capacity to 8 MTPA and increase MIC production by 200 KTPA, targeting over 500 KTPA production in South Africa going ahead.
- **Oil & Gas:** Cairn Oil & Gas is India's largest private sector crude oil producer, contributing ~25% of India's oil and gas production. It holds interests in 69 blocks covering about 73,000 sq km, with gross 2P and 2C reserves of ~1.4 billion barrels of oil equivalent. Its operations span Rajasthan, Andhra Pradesh, Gujarat, and Assam. It aims to contribute 50% of India's domestic production.
- **Power:** Vedanta Power ranks among India's largest private power generators, with a total capacity of ~11 GW (including 2.5 GW of Independent Power Plants and 7.5 GW of Captive Power Plants). Talwandi Sabo Power, a VEDL subsidiary, operates a 1,980 MW (3x660 MW) thermal plant, the largest in North India. It also runs a 600 MW IPP in Jharsuguda, Odisha. Expansion plans include two thermal power projects: Meenakshi (1,000 MW) in Andhra Pradesh and Atena (1,200 MW) in Chhattisgarh, increasing total capacity to ~4,780 MW by FY26.
- **Iron Ore:** Sesa Iron Ore is one of India's largest merchant iron ore miners. Its Karnataka mines have R&R of 75 MT with a 9-year mine life, while Goa's mines have 55.7 MT with an 18-year life. The company has a capacity of 13 MTPA. Additionally, it is among the largest producers and exporters of merchant pig iron in India, with a 1 MTPA capacity. Globally, it operates the Bomi mine in Liberia, with over 1 billion tonnes of reserves and a mine life exceeding 50 years.
- **Steel:** Vedanta has 95.5% stake in ESL Steel Ltd. It operates a greenfield manufacturing facility with a 1.7 MTPA capacity, primarily producing long steel products such as pig iron, billets, TMT bars, wire rods, and ductile iron pipes. The company is expanding its capacity to 3.5 MTPA by FY27.
- **Ferro Chrome**: Ferro Alloys Corporation Ltd (FACOR) became part of Vedanta in Sept'20. It has a ferrochrome capacity of 150 KTPA and chrome ore mining complexes in Jajpur and Dhenkanal districts of Odisha with a capacity of 250 KTPA. It currently undergoing a ₹2,650 crore capex to expand its ferrochrome capacity to 450 KTPA by FY27.
- **Copper:** Sterlite Copper was one of India's major copper producers. It has a smelting capacity of 400 KTPA at its Tuticorin facility, which is currently non-operational. However, its Silvassa refinery is operating at capacity of 216 KTPA.

Vedanta FY25 Revenue Mix



Vedanta FY25- EBITDA Mix

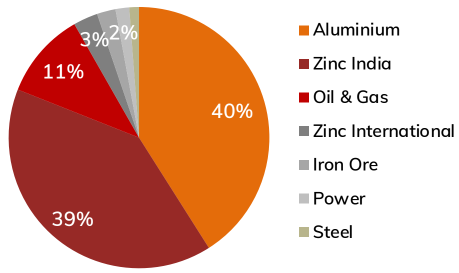
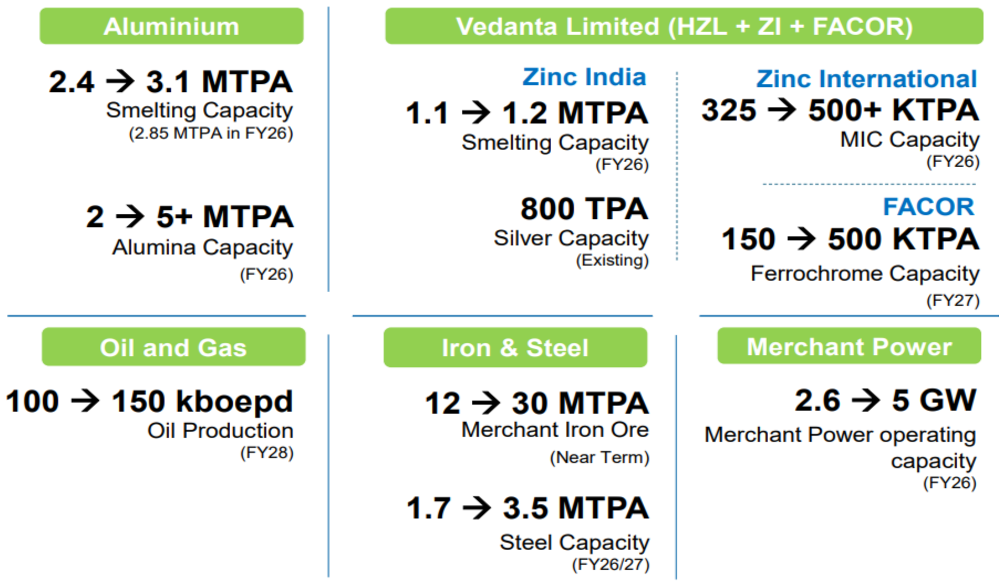


Exhibit 2: Vedanta: Capacity Expansion across division



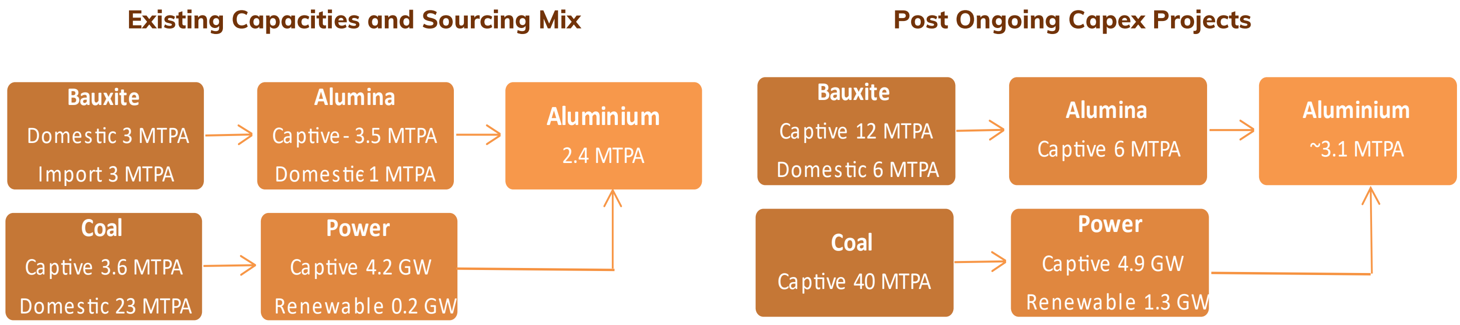
Source: Company, ICICI Direct Research

Investment Rationale

With capacity expansion and focus towards 100% backward integration, Aluminium division set to become bigger & more efficient than ever before!

VEDL's Aluminium segment is poised for its next growth trajectory with upcoming commissioning of ~450 KTPA new capacity at BALCO, taking total smelting capacity to ~2.8 MTPA by H1FY26. Additionally, debottlenecking at Jharsuguda plant aims to further expand smelting capacity to ~3.1 MTPA by FY27E. This expansion is amid domestic aluminium consumption expected to double from ~5.5 MT in FY25 to ~11.4 MT by FY35E, driven by demand from infrastructure, electric vehicles, and renewable energy. On downstream front, VEDL is scaling up its value-added products (VAP) capacity from 1.4 MTPA to 2.6 MTPA, aiming to increase VAP share from 60% to 90%. At BALCO, rolled product capacity is being expanded from 44 KTPA to 100 KTPA. These downstream upgrades are expected to drive higher premiums, boosting revenue and profitability in coming years. Thus, we project VEDL's Aluminium segment sales volume and revenue to grow at a CAGR of 8% and 10%, over FY25–27E, respectively.

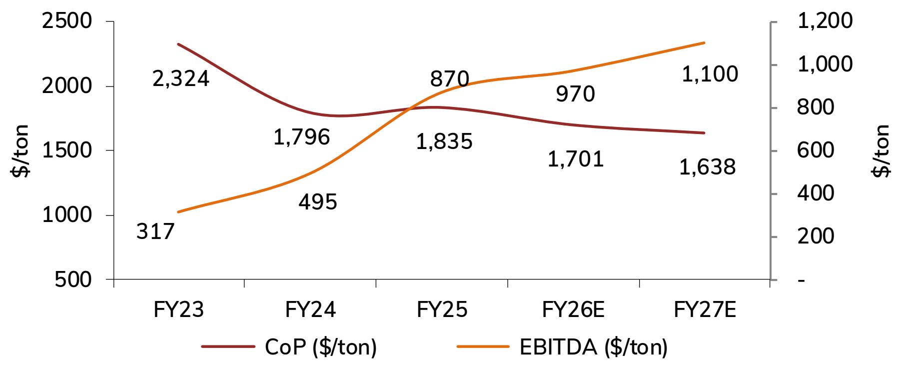
Exhibit 3: Vedanta Aluminium: Capacities and Sourcing Mix



Source: Company, ICICI Direct Research

VEDL have been dependent on external raw material sources. Its alumina capacity stands at 3.5 MTPA, with the balance sourced externally, thereby exposing it to volatility of alumina prices. To address this, VEDL is expanding its alumina refinery with Train-2 (1.5 MTPA) expected to commission by FY26E, taking total capacity to ~5 MTPA, which will reduce its reliance on import. Further debottlenecking will push capacity to 6 MTPA by FY27E, achieving full self-sufficiency for its aluminium plant. Notably, it has secured ~9 MTPA Sijimali bauxite mine, with plans to enhance capacity to 12 MTPA (pending approvals), thereby eliminating its reliance on imports and also ensuring raw material security for its alumina refinery. On coal front, captive coal sourcing is strengthened through upcoming mines: Kuraloi North (8 MTPA) and Radhikapur West (6 MTPA) by Q3FY26, and Ghogharpalli (20 MTPA) by FY27E. These mines are strategically located near VEDL operations and will meet 100% of coal requirements. Thus, this robust backward integration will not only shield the business from commodity price fluctuations but also reduce costs, with COP expected to decline from US$ 1835/ton in FY25 to US$ 1,638/ton in FY27E. With full integration and volume ramp-up, VEDL's aluminium EBITDA/ton is projected to reach ~US$1,100 by FY27E. EBITDA CAGR at this segment is seen at 23% over FY25-27E.

Exhibit 4: Vedanta- Aluminium COP and EBITDA ($/ton)

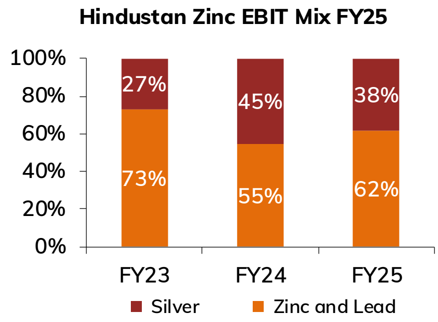


Source: Company, ICICI Direct Research

Aluminium segment EBITDA is seen increasing from ~₹ 18,000 crore in FY25 to ~₹ 27,000 crore in FY27E. Its share in consolidated EBITDA is slated to increase from ~40% in FY25 to ~45% in FY27E.

Zinc India: Steady Growth prospects ahead; Next leg of growth in process

Possessing the 2nd largest zinc ore reserves in the world, HZL has significantly contributed to VEDL's revenue (~20%) and profitability (~40%) over the past few years. This is evident from 40% increase in HZL's reserves and resources, with an incremental ore addition of ~132 MT over the last five years, thereby extending its mine life to over 25 years. This has supported a steady volume growth in mined metal production, registering a CAGR of 4% during the FY20–25 period. Looking ahead, HZL plans to increase its underground mined metal capacity to 1.5 MTPA by the end of FY28. Furthermore, it targets expanding production to 2 MTPA by 2030. To support this growth, HZL has earmarked a total capex of US$2 to $2.5 billion and has already engaged two Australian firms for mine planning and contracting services. Correspondingly, HZL also plans to expand its zinc smelting capacity to 1.5 MTPA by 2030. On the silver front, HZL is set to commission a fumer plant, projected to produce ~27 tons in FY26E. In addition, it aims to scale up its silver production to 1,000 MT by 2030. With this long-term growth roadmap in place, HZL is well positioned to deliver value-driven growth for VEDL going forward. However, these major expansions are expected to come onstream post FY27E. As such, we estimate HZL's mined metal production to witness a modest growth, with a 3.6% CAGR in FY25–27E period. While, refined metal production to report a growth of 3.5% CAGR in the same period.



Silver accounted for ~40% of HZL's EBIT Mix in FY25, thereby forming a crucial segment for both HZL and VEDL's profitability mix. Notably, burgeoning demand from industrial applications, particularly in emerging sectors such as solar panels (critical for green energy transition) and AI technology, could spur upward momentum of silver prices, positioning the company to benefit in the coming years.

Exhibit 5: Hindustan Zinc- Production Volumes

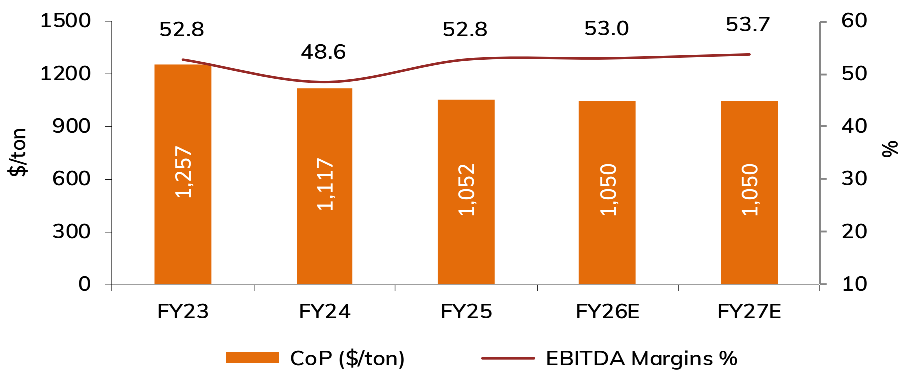
Particulars	Units	FY23	FY24	FY25P	FY26E	FY27E
Mined Metal Production	kt	1,062	1,079	1,095	1,125	1,175
Refined Mined Metal Production	kt	1,032	1,033	1,053	1,091	1,128
Refined Zinc	kt	821	817	827	849	886
Refined Lead	kt	211	216	225	242	242
Saleable Silver Production	ton	714	746	687	710	760
Zinc Realization	$/ton	3,665	2,670	3,123	2,950	3,000
Lead Realization	$/ton	2,307	2,279	2,220	2,150	2,150
Silver Realization	$/oz	21.4	23.6	30.4	33.0	35.0

Source: Company, ICICI Direct Research

Consistent ~50% EBITDA Margins with end goal of lower COP & VAP rise

Over the years, HZL has consistently maintained ~50% EBITDA margins, owing to its position in the first decile of the global zinc mines cost curve. Notably, it recorded the lowest zinc cost of production in past 16 quarters at ~US$994/ton in Q4FY25. Going forward, it aims to maintain the CoP to ~US$1,000-1,050/ton, through improved ore hauling, increased volumes and grades, and enhanced productivity via automation. Additionally, HZL is commissioning 450 MW of renewable energy capacity at Dariba and Chanderiya, which will cater to 50% of its total power requirement. The power purchase agreement has been signed at a fixed rate for 25 years, shielding the company from price volatility and improving cost predictability. HZL is also focusing on expanding its VAP portfolio by establishing a 30 KTPA zinc alloy melting and casting facility. It aims to boost the penetration of zinc alloys such as ZAM (Zinc-Aluminium-Magnesium) and other specialized zinc-lead alloys. Ultimately, it targets increasing the share of VAP from the current 23% to 50% by FY30. Based on these initiatives, we expect HZL to maintain healthy EBITDA margins of 50%+ over FY25-27E, supported by a modest EBITDA CAGR of over 6% during the FY25–27E period.

Exhibit 6: Hindustan Zinc- COP ($/ton-without royalty) and EBITDA margins



Source: Company, ICICI Direct Research

New upcoming capacities to charge up Vedanta's Power segment

Despite growing emphasis on renewable/non-fossil fuel- based energy, thermal energy remains to be dominant with substantial contribution of ~79% to India's total electricity generation. This is amidst domestic power sector witnessing an explosive growth, as per CEA, electricity consumption surged by ~4.4% to ~1,694 billion units in FY25, with peak power demand touched ~250 GW in the same period. VEDL is well place to capitalize on growing opportunity given its robust ~11 GW capacity (IIP: ~2.5 GW). Its gearing up for major expansion of its two new thermal power projects- Meenakshi (~1,000 MW) and Athena (~1,200 MW), which is expected to commission in FY26E. This will enhance total merchant power operating capacity to ~5 GW. Both these power plants were acquired through NCLT proceeds with Meenakshi being a coastal power plant in Andhra Pradesh, thereby enabling to utilise both domestic and imported coal. While Athena is pit head power plant, located in Chhattisgarh. With the commissioning of these new plant, we expect the revenue of VEDL's power division to grow 2x by FY27E, registering 40% CAGR over FY25-27E. Consequently, EBITDA of power division is expected to reach ~₹2,180 crores in FY27E from ~₹762 crores reported in FY25 (i.e. 3x by FY27 vs. the base year-FY25).

VEDL anticipate to generate ₹2 per unit of EBITDA at Meenakshi power plant, against a cost of ₹3 to ₹3.5 per unit and realisation prices ranging from ₹5 to ₹6 per unit. Notably, during peak summer months, when power shortages drive up rates, some of contracts can fetch up to ₹10/unit, resulting in significant boost to near term profitability.

Exhibit 7: Vedanta- Power division (Volume and Financials)

Particulars	Units	FY23	FY24	FY25P	FY26E	FY27E
Power Sales (MU)	MU	14,187	13,443	12,822	22,142	24,791
TSPL	MU	10,744	10,278	10,230	10,667	11,378
Jharsuguda	MU	3,048	2,771	2,244	2,365	2,365
Meenakshi	MU	-	-	-	3,504	4,380
Athena	MU	-	-	-	5,256	6,307
Avg Realization	₹/unit	2.9	2.8	3.2	3.9	3.9
Avg Cost of Generation	₹/unit	2.4	2.6	3.1	3.3	3.4
Revenue	₹ in crs	6,724	6,153	6,159	10,740	12,097
EBITDA	₹ in crs	851	971	737	1,836	2,176
EBITDA Margins	%	13%	16%	12%	17%	18%

Source: Company, ICICI Direct Research

Another set of growth opportunities lies in ferrous space- Steel & Iron Ore

VEDL has ramped up its iron ore production to 13 MTPA with commissioning of Bicholim mine in Goa, boasting ~85 million tons of resources with annual capacity of 3 MTPA. Additionally, it has received environmental clearance of expanding Karnataka mines to 7.2 MTPA. For the next leg of growth, it aims to operationalize its Liberia iron ore mine with over 1 billion tons of R&R having mine life of +50 years. Moreover, it aims to set up 3 MTPA of iron ore concentrator plant at Liberia. Thus, it aims for expanding iron ore production capacity to 30 MTPA in near term. On that note, we expect iron ore division revenue and EBITDA to grow at CAGR of 27% and 50% over FY25-27E, respectively. While on steel front, its undergoing capacity expansion of its steel plant from 1.7 MTPA to 3.5 MTPA by FY27E. This capacity will largely cater to value added products including rebar, wire rod, DI pipes, etc, which are margin accretive in nature. On that basis, we expect revenue and EBITDA of steel segment to grow at CAGR of 37% and 69% over FY25-27E, respectively.

Exhibit 8: Vedanta- Iron Ore and Steel (Volume and Financials)

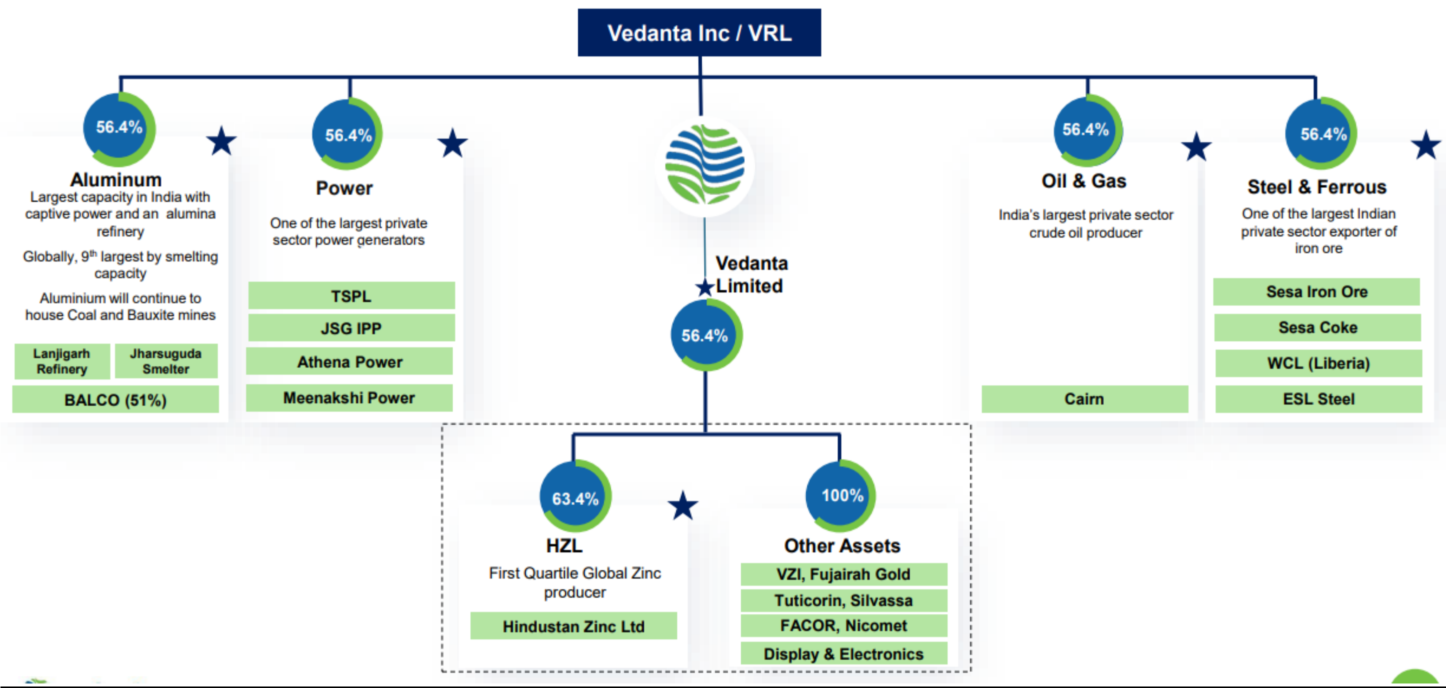
Particulars	Units	FY23	FY24	FY25P	FY26E	FY27E
Iron Ore						
Iron Ore Sales	MT	5.7	6.2	5.4	8.6	9.5
Pig Iron Sales	KT	682	836	808	903	950
Avg Realisation	$/ton	74	112	60	70	70
Revenue	₹ in crs	6,503	9,069	6,086	8,938	9,776
EBITDA	₹ in crs	988	1,676	1,006	2,039	2,252
EBITDA Margins	%	15.2%	18.5%	16.5%	22.8%	23.0%
Steel						
Sales Volume	KT	1,257	1,394	1,337	1,505	2,275
Avg Realisation	$/ton	777	719	700	700	750
Revenue	₹ in crs	7,852	8,300	7,928	9,057	14,844
EBITDA	₹ in crs	316	225	521	647	1,484
EBITDA/tonne	$/ton	31	19	46	50	75

Source: Company, ICICI Direct Research

Demerger- Unlocking Value Potential

VEDL is a conglomerate having diversified portfolio across metals and minerals, including aluminium, zinc, lead, silver, chromium, copper, nickel, oil and gas. Additionally, it has a traditional ferrous vertical including iron ore, steel, and power, including coal and renewable energy. On Sept'23, VEDL announced plans to demerge its various business units into five independently listed "pure play" entities (originally envisaged as 6 independently listed entities). The objective of this demerger is to streamline the corporate structure, enhance value creation, and attract focused investments for the growth and expansion of each vertical.

Exhibit 9: Vedanta-Demerger



Source: Company, ICICI Direct, note: Star denotes demerged entities to be listed

The demergers of five business units are as follows:

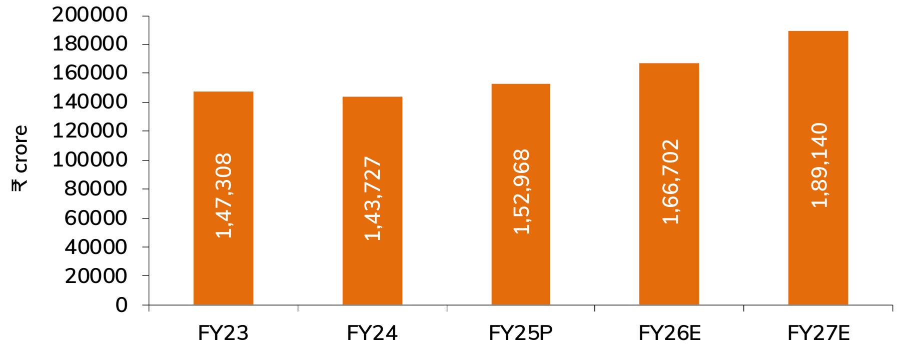
- Vedanta Ltd: The parent company will retain businesses such as its subsidiary company Hindustan Zinc- Zinc, Lead, and Silver, Zinc International, Copper, Ferro Chrome, Nickel, and emerging ventures like displays and electronics.
- **Vedanta Aluminium:** This entity will manage the aluminium operations, including the smelter plants at Jharsuguda and BALCO, the Lanjigarh alumina refinery, and captive coal and bauxite mines. Vedanta Aluminium will hold a 51% stake in BALCO.
- **Vedanta Power:** This unit will operate the Talwandi Sabo Power Plant (1,980 MW), Jharsuguda IPP (600 MW), and upcoming thermal power plants at Meenakshi (1,000 MW) and Atena (1,200 MW).
- **Vedanta Oil & Gas:** It will manage Cairn Oil & Gas, India's largest private crude oil producer, contributing ~25% of India 's total oil and gas output.
- **Vedanta Steel & Ferrous:** This entity will oversee iron ore operations in Karnataka, Goa, and Odisha, as well as international assets in Liberia. It will also include the ESL steel business.

The demerger will be executed as a simple vertical split. For every 1 share of Vedanta Ltd held, shareholders will receive 1 share in each of the four new entities. The proposal is currently awaiting approvals from regulatory authorities and the National Company Law Tribunal (NCLT), with the process expected to be completed by 30th Sept'25. **We expect it to be a major value unlocking event for the company with its high growth Aluminium & Power businesses expected to fetch better valuations compared to the current structure of being part of listed conglomerate entity.**

Key Financial Summary

Vedanta has delivered a healthy topline growth of 13% CAGR over FY20-25 to ₹1.5 lakh crore. ~60% of this came from Aluminium and Zinc India, growing at a 17% and 13% CAGR, respectively, during this period. Looking ahead, the commissioning of 450 KTPA at the aluminium division is expected to drive revenue at a 10% CAGR over FY25-27E. Additional capacity expansions in power, steel, and volume growth in iron ore are also set to support growth. We estimate Vedanta's revenue to grow at ~11.2% CAGR over FY25-27E, reaching ₹1.9 lakh crore by FY27E.

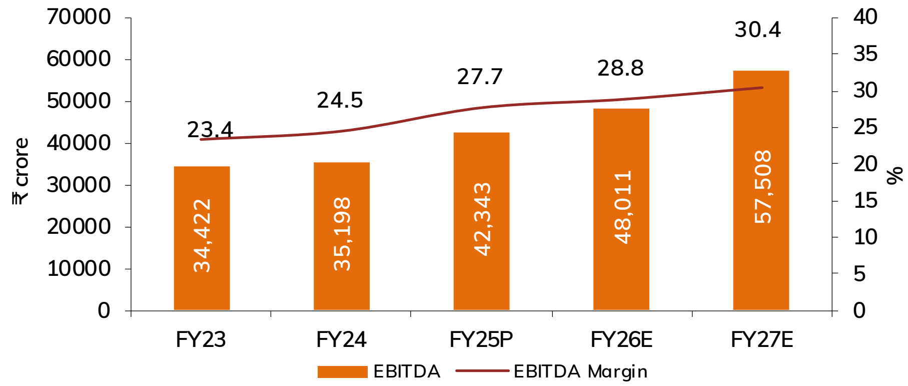
Exhibit 10: Trend in Topline



Source: Company, ICICI Direct Research

Over the past three years, Vedanta's EBITDA margin has improved from 23.4% in FY23 to 27.7% in FY25, largely driven by aluminium and zinc, which contributed ~80% of EBITDA in FY25. We expect margins to further rise to 30.4% by FY27E, led by capacity expansion in aluminium segment, focus on premium products, and higher captive integration, thereby contributing to ~45% of EBITDA in FY27E. Moreover, stable margins with aim of lower CoP from Zinc India, expansion led growth in power, steel, and iron ore segments will also help drive margin expansion over this period.

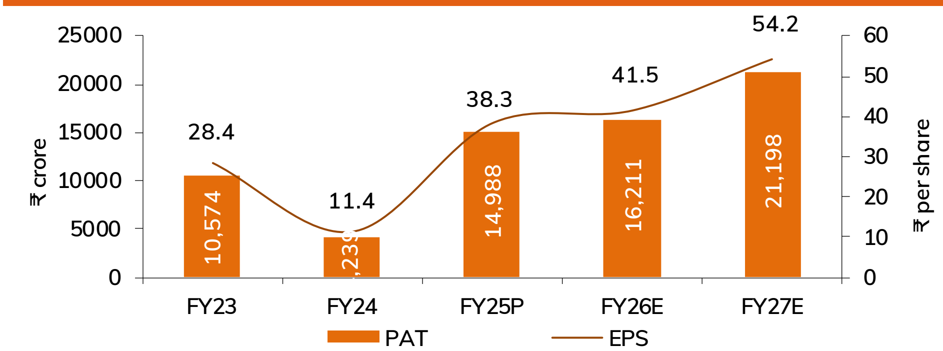
Exhibit 11: Trend in EBITDA & EBITDA margins



Source: Company, ICICI Direct Research

Going forward, with healthy growth in EBITDA and stable leverage on B/S, we expect PAT at Vedanta to grow at a CAGR 19% over FY25-27E to ₹21,198 crores by FY27E, translating into an EPS of ₹54.2 in FY27E vs ₹38.3 clocked in FY25

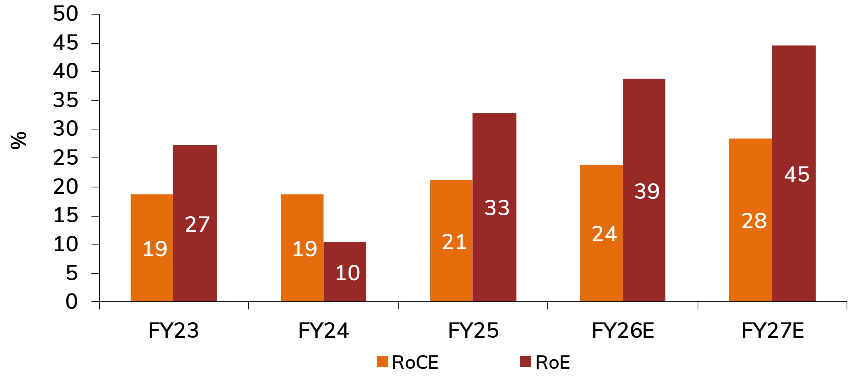
Exhibit 12: Trend in Bottom line & EPS



Source: Company, ICICI Direct Research

VEDL returns reported an improvement with RoCE and RoE at >20% and 30% respectively in FY25. With robust PAT growth and cash flow generation from upcoming new capacities, RoE and RoCE expected healthy at ~28% and ~45% by FY27E.

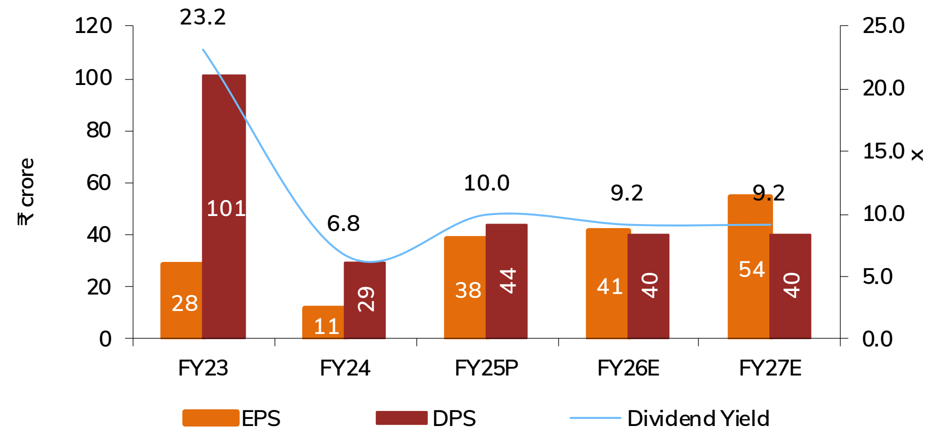
Exhibit 13: Trend in Return Ratios



Source: Company, ICICI Direct Research

With healthy cash generation and debt obligation requirements at parent i.e. Vedanta Resources, VEDL has maintained a dividend payout of more than 100% over the past three years. With strong cash generation and calibrated capex spends, we expect dividend payouts to be healthy going forward as well. Alongside rising profits, the company offers an attractive ~9% dividend yield, providing a good margin of safety to our investment thesis. DPS expected at ₹ 40/share for FY26E & FY27E.

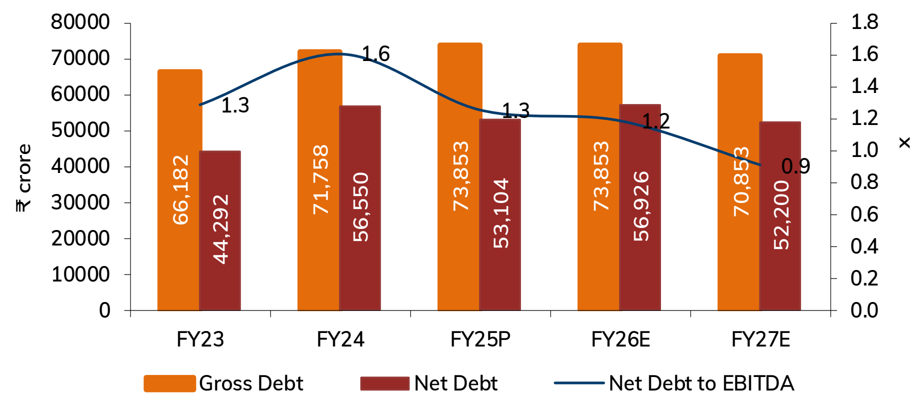
Exhibit 14: Trend in Dividend Yield



Source: Company, ICICI Direct Research

Despite its healthy dividend payouts, VEDL has focused on reducing leverage, with the consolidated net debt-to-EBITDA ratio improving from 1.6x in FY24 to 1.3x in FY25. Looking forward, with new capacities coming onstream amidst impressive growth capex underway, net debt-to-EBITDA ratio is expected at ~1x by FY27E, which is in line with the company's target of Net Debt to EBITDA <1x in near term.

Exhibit 15: Trend in Gross and Net Debt



Source: Company, ICICI Direct Research

Valuation Matrix

We have valued Vedanta using the Sum of the Parts (SoTP) approach, applying EV/EBITDA multiples to the FY27E earnings of each business segment. We assign a 7x EV/EBITDA multiple to Vedanta Aluminium and 7x to BALCO, reflecting the upcoming capacity additions and expected cost improvements from the alumina refinery and captive mines, thereby contributing ~60% of incremental EBITDA from FY25 to FY27E. Additionally, Hindustan Zinc is valued at a 8x EV/EBITDA multiple, supported by stable earnings prospects, benefiting from sustained low cost of production, and an ongoing mining expansion strategy, Furthermore, we value the power segment at 5.5x EV/EBITDA, factoring in the commissioning of new thermal power units, which is projected to drive a threefold increase in the segment's EBITDA by FY27E. Rest of the low growth and volatile segments are valued at 4x EV/EBITDA.

Exhibit 16: Valuation Matrix – SoTP based target price calculation

Particulars (₹ in crores)	FY27E EBITDA (₹ crore)	EV/EBITDA (x)	EV (₹ crore)	VED Stake %	Hold Co Disc %	Apportioned EV (₹ crore)
Vedanta Aluminium	18,723	7.0	1,31,058	100%	0%	1,31,058
BALCO	8,081	7.0	56,567	51%	20%	23,079
Hindustan Zinc	19,638	8.0	1,57,106	63%	20%	79,684
Zinc International	2,123	5.0	10,616	100%	0%	10,616
Oil and Gas	3,715	4.0	14,861	100%	0%	14,861
Power	2,176	5.5	11,968	100%	0%	11,968
Iron Ore	2,252	4.0	9,006	100%	0%	9,006
Steel	1,484	5.0	7,422	96%	20%	5,671
Copper	40	4.0	160	100%	0%	160
FACOR	80	4.0	320	100%	0%	320
Enterprise Value (Total EV)						**2,86,424**
Less: Net Debt						52,200
Implied Market Cap						**2,34,224**
No of Equity Shares (in crores)						391
Target Price						**600**
Current Market Cap						435
Upside						**38%**

Source: ICICI Direct Research

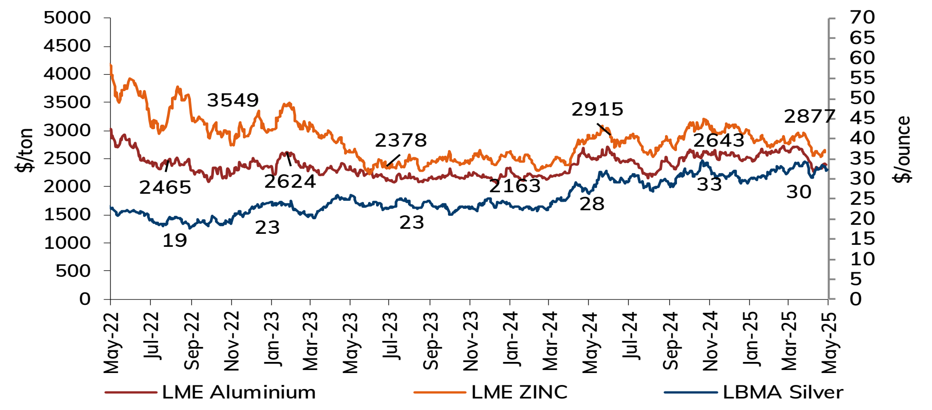
Thus, we have a positive view on Vedanta given its sizeable presence and market leadership in the aluminium and zinc division, healthy capacity expansion across divisions, capital-efficient business model with return ratios more than 20%, and an attractive dividend yield of ~9%. Consequently, we assign BUY rating on the stock with SOTP based blended target price at ₹600 per share (considering 20% hold co. discount to HZL, BALCO, and ESL earnings).

Risk and Concerns

Higher volatility in LME prices with global uncertainties weigh on earnings

Vedanta's domestic operations are closely linked to LME metal prices, particularly in its aluminium and zinc segments, where it is a key producer of primary metal. In addition, its subsidiary Hindustan Zinc Ltd (HZL) derives a significant portion of revenue from silver, which is highly sensitive to global price fluctuations. Adding to the challenge, global uncertainties such as country-specific import duties could hurt overall demand, potentially putting further pressure on metal prices. Profitability is also vulnerable to rising input costs, especially for raw materials like coal, coke, and pitch. To cushion the impact of these challenges, Vedanta has adopted measures such as backward integration, securing captive raw material sources, and expanding domestic coal linkages. Nevertheless, a steep decline in LME metal prices or a surge in key input costs remains a meaningful risk to Vedanta's future earnings.

Exhibit 17: Global LME Aluminium, Copper, and silver prices



Source: Bloomberg, ICICI Direct Research

Debt obligation at parent level a concern despite substantial decline

Over the years, VEDL's parent company, Vedanta Resources, has been focusing on reducing debt, with net debt over the last three years having been deleveraged by more than $4 billion. This has resulted in the Group's Net Debt to EBITDA declining from 3.3x in FY20 to 2x in FY25. Subsequently, it has significantly reduced the average coupon rate on bonds by 250 bps, with longer maturities extending up to FY34. Notably, the debt reduction of $700 million in FY25 has been partially supported by VEDL raising $1 billion through Qualified Institutional Placement (QIP) and an additional $400 million via the Hindustan Zinc stake sale (OFS). VEDL has reassured that the parent's debt & interest obligation for FY26 can be met through the company's brand fee payment ($400 million) & dividend payout (~$800 million at dividend yield of ~6%), along with some debt refinancing. Notably, the company aims is to trim group Net Debt to EBITDA to ~1x over medium term. However, any change or delay in meeting the debt maturity obligations of the parent in future remain a key risk for VEDL. Moreover, any adverse capital allocation decision at the parent company can potentially impact growth capex, B/S & dividend payouts at VEDL.

Dealy in demerger may impact VEDL's potential valuation upside ahead

Vedanta is currently in the process of demerging its business into five distinct, independently listed companies, including its aluminium, oil and gas, power, base metals (Zinc India &international and copper), and iron and steel divisions. The company secured shareholder and creditor (both secured and unsecured) approval for the demerger scheme on 18th Feb'25. However, the timeline has been pushed back from the initially planned March'25 to Sept'25, as it is still awaiting final clearance from the National Company Law Tribunal (NCLT) and other necessary regulatory approvals. Thus, any further setbacks or delays in the demerger process could weigh on the potential re-rating of Vedanta's stock, particularly as its high-growth, high-value aluminium business is expected to command a premium valuation compared to VEDL's current valuation.

Financial summary

Exhibit 18: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25P	FY26E	FY27E
Net Sales	1,41,793	1,50,725	1,64,239	1,86,345
Other Operating Income	1934	2243	2464	2795
Total Operating Income	1,43,727	1,52,968	1,66,702	1,89,140
Growth (%)	-2.4	6.4	9.0	13.5
Raw Material Expenses	44,407	49,022	55,845	61,470
Employee Expenses	3,300	3,503	3,751	4,010
Other Operating Expense	60,822	58,100	59,095	66,152
Total Operating Expenditure	1,08,529	1,10,625	1,18,691	1,31,632
EBITDA	35,198	42,343	48,011	57,508
Growth (%)	2.3	20.3	13.4	19.8
Depreciation	10,723	11,096	12,318	13,789
Interest	9,465	9,914	8,862	8,321
Other Income	2,550	3,675	2,543	2,402
PBT	17,560	25,008	29,374	37,800
Exceptional Item	-2,803	-1,868	0	0
Total Tax	12,826	6,342	7,637	9,828
PAT post Minority Interest	4,239	14,988	16,211	21,198
Growth (%)	-70.8	253.6	8.2	30.8
EPS (₹)	11.4	38.3	41.5	54.2

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25P	FY26E	FY27E
Profit after Tax (Adj)	14,239	14,988	16,211	21,198
Add: Depreciation	10,723	11,096	12,318	13,789
(Inc)/dec in Current Assets	1,907	3,905	-3,457	-4,882
Inc/(dec) in CL and Provisions	-7,126	-4,984	3,470	6,237
Others	9,465	9,914	8,862	8,321
CF from operating activities	29,208	34,919	37,405	44,662
(Inc)/dec in Investments	1,281	-2,663	750	750
(Inc)/dec in Fixed Assets	-17,302	-23,045	-17,200	-17,200
Others	8,715	6,619	726	1,474
CF from investing activities	-7,306	-19,089	-15,724	-14,976
Issue/(Buy back) of Equity	0	19	0	0
Inc/(dec) in loan funds	5,576	2,095	0	-3,000
Dividend & interest outgo	-20,424	-26,923	-24,502	-23,961
Inc/(dec) in Share Cap	0	0	0	0
Others	-11,982	12,492	0	0
CF from financing activities	-26,830	-12,316	-24,502	-26,961
Net Cash flow	-4,928	3,514	-2,822	2,726
Opening Cash	9,254	4,326	7,840	5,018
Closing Cash	4,326	7,840	5,018	7,744

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25P	FY26E	FY27E
Liabilities				
Equity Capital	372	391	391	391
Reserve and Surplus	30,349	40,821	41,392	46,950
Total Shareholders funds	30,721	41,212	41,783	47,341
Total Debt	71,758	73,853	73,853	70,853
Deferred Tax Liability	10,152	13,043	13,043	13,043
Minority Interest / Others	17,534	19,528	20,654	22,527
Total Liabilities	1,30,165	1,47,636	1,49,333	1,53,765
Assets				
Gross Block	2,85,372	2,97,410	3,28,506	3,55,706
Less: Acc Depreciation	1,86,409	1,97,505	2,09,823	2,23,612
Net Block	98,963	99,905	1,18,683	1,32,094
Capital WIP	22,889	33,896	20,000	10,000
Total Fixed Assets	1,21,852	1,33,801	1,38,683	1,42,094
Investments	11,869	14,532	13,782	13,032
Inventory	13,001	14,474	15,749	17,869
Debtors	3,607	3,636	4,500	5,105
Loans and Advances	3,369	3,639	3,965	4,499
Other Current Assets	16,743	11,066	12,058	13,681
Cash	4,326	7,840	5,018	7,744
Total Current Assets	41,046	40,655	41,290	48,898
Current Liabilities	25,030	26,488	28,348	32,164
Provisions	3,446	3,595	3,847	4,365
Current Liabilities & Prov	60,641	55,657	59,127	65,364
Net Current Assets	-19,595	-15,002	-17,837	-16,466
Others Assets	16,039	14,305	14,705	15,105
Application of Funds	1,30,165	1,47,636	1,49,333	1,53,765

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios

(Year-end March)	FY24	FY25P	FY26E	FY27E
Per share data (₹)				
EPS	11.4	38.3	41.5	54.2
Cash EPS	40.2	66.7	73.0	89.5
BV	82.6	105.4	106.9	121.1
DPS	29.5	43.5	40.0	40.0
Cash Per Share	11.6	20.1	12.8	19.8
Operating Ratios (%)				
EBITDA Margin	24.5	27.7	28.8	30.4
PAT Margin	2.9	9.8	9.7	11.2
Inventory days	33.5	35.1	35.0	35.0
Debtor days	9.3	8.8	10.0	10.0
Creditor days	64.4	64.1	63.0	63.0
Return Ratios (%)				
RoE	10.4	32.9	38.8	44.8
RoCE	18.8	21.2	23.9	28.4
RoIC	26.6	33.6	31.8	34.9
Valuation Ratios (x)				
P/E	38.2	11.3	10.5	8.0
EV / EBITDA	6.4	5.3	4.7	3.9
EV / Net Sales	1.6	1.5	1.4	1.2
Market Cap / Sales	1.2	1.1	1.0	0.9
Price to Book Value	5.3	4.1	4.1	3.6
Solvency Ratios				
Debt/EBITDA	2.0	1.7	1.5	1.2
Debt / Equity	2.3	1.8	1.8	1.5
Current Ratio	0.8	0.7	0.7	0.8
Quick Ratio	0.5	0.4	0.4	0.4

Source: Company, ICICI Direct Research

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Sell: <-15%

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