

## Steady operational performance....

Vedanta reported a steady set of Q3FY21 numbers. Topline for the quarter was at ₹ 22735 crore, up 6% YoY, 8% QoQ. EBITDA came in at ₹ 7757 crore, up 19% both QoQ as well as YoY. EBITDA margin came in at 34.1% vs. 30.5% in Q3FY20. Ensuing attributable PAT (before exceptional items and tax on dividend) for the quarter was at ₹ 3017 crore, up 51% QoQ, 35% YoY. For the quarter, topline growth was primarily supported by higher commodity prices. Aluminium division reported sales volume of 497 KT, up 5% QoQ. CoP for the aluminium division was at US\$1387/tonne (US\$1691/tonne in Q3FY20, US\$1288/tonne in Q2FY21) while EBITDA margin for the aluminium division was at 28%. Zinc International's Gamsberg posted highest ever quarterly production of 43 KT, up 39% YoY, 23% QoQ. With respect to oil & gas vertical, average daily gross operated production was at 160 kboepd, down 3% QoQ. On the steel business, the company reported highest ever hot metal production of 372 KT (since acquisition of Electrosteel), while EBITDA/tonne of the steel business was at US\$111/tonne, up 18% QoQ.

## Aluminium CoP to fall to US\$1200/tonne in two to three years

In the current fiscal YTD, Vedanta's aluminium cost of production (CoP) saw a healthy improvement. For 9MFY21, CoP of the aluminium segment was at US\$1315/tonne, down 26% YoY. For FY21E, aluminium CoP is expected to be ~US\$1300-1350/tonne (for FY20, aluminium CoP was US\$1690/tonne in FY20). Going forward, aluminium CoP is expected to further decline to US\$1200/tonne over next two to three years. This further decline in CoP is expected to be driven by a) Lanjigarh capacity expansion from 2 million tonnes per annum (MTPA) to 5 MTPA, b) operationalising of coal blocks (Vedanta has won Radhikapur (West) coal block in recent auctions). c) Incremental operational improvement across power plants and smelters.

## Gas production being ramped up by ~15 kboepd....

For Q3FY21, average daily gross operated production was at 159621 boepd, down 3% QoQ. Going forward, as a part of growth project, Vedanta has commissioned a new facility. As a result, gas production is being ramped up by ~15 Kboepd.

## Valuation & Outlook

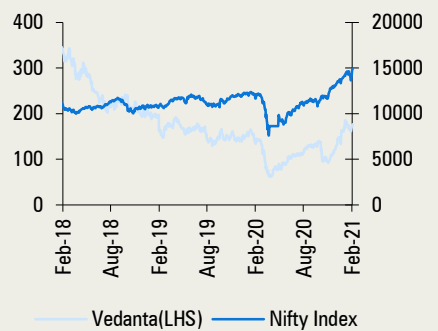
Vedanta's earnings remain sensitive to movement in commodity prices. The improvement in major commodity prices over the last couple of quarters augurs well for the company. We value the stock on a SoTP basis and arrive at a target price of ₹ 180 (earlier target price of ₹ 100). We maintain our **HOLD** rating on the stock.



### Particulars

Particular	Amount
Market Capitalisation	₹ 64604 Crore
Debt (FY20)	₹ 59187 Crore
Cash, Liquid Invests (FY20)	₹ 37914 Crore
EV	₹ 85877 Crore
52 week H/L	189/ 60
Equity capital	₹ 372 Crore
Face value	₹ 1

### Price Performance



### Key risks to our call

- Higher than expected increase in commodity prices will lead to better than expected earnings
- Higher than expected increase in cost of production would put downward pressure on operating margins

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### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	91,866	92,048	84,447	84,388	93,029	97,530	5%
EBITDA	25,164	23,103	20,687	26,148	29,758	32,192	16%
EBITDA Margin (%)	27.4	25.1	24.5	31.0	32.0	33.0	
Adj PAT	7,445	6,745	3,993	9,116	10,461	11,023	40%
EPS (₹)	20.0	18.1	10.7	24.5	28.1	29.7	
EV/EBITDA (x)	3.9	4.2	4.6	4.0	3.3	2.9	
RoCE (%)	15.4	11.9	10.8	16.5	18.0	18.3	
RoE (%)	11.7	10.8	7.3	15.1	15.6	14.8	

Source: Company, ICICI Direct Research

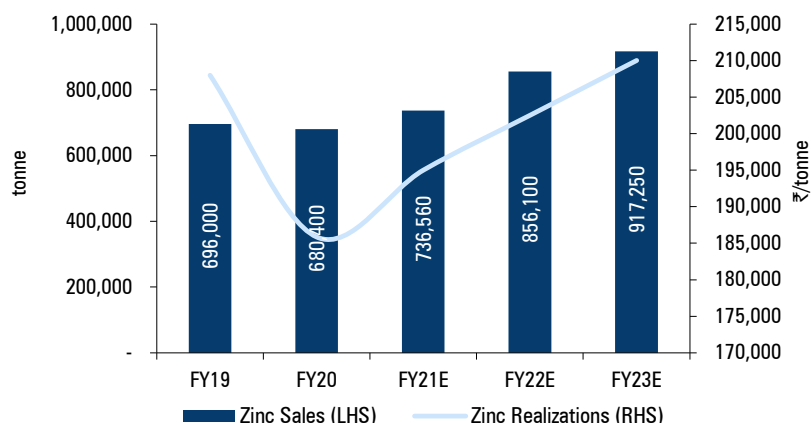
**Exhibit 1: Variance Analysis**

	<b>Q3FY21</b>	<b>Q3FY20</b>	<b>YoY (%)</b>	<b>Q2FY21</b>	<b>QoQ (%)</b>	<b>Comments</b>
Revenue	22,735.0	21,360.0	6.4	21,107.0	7.7	Topline came in higher both QoQ as well as YoY
Other Income	886.0	647.0	36.9	651.0	36.1	
Raw Material Expense	5,951.0	4,980.0	19.5	5,491.0	8.4	
Employee Expense	897.0	728.0	23.2	596.0	50.5	
Power & Fuel	3,083.0	3,690.0	-16.4	3,905.0	-21.0	
Other op. Exp.	5,047.0	5,448.0	-7.4	4,584.0	10.1	
<b>EBITDA</b>	<b>7,757.0</b>	<b>6,514.0</b>	<b>19.1</b>	<b>6,531.0</b>	<b>18.8</b>	EBITDA increases both QoQ and YoY
EBITDA Margin (%)	34.1	30.5	360 bps	30.9	320 bps	
Depreciation	1,912.0	2,291.0	-16.5	1,938.0	18.2	
Interest	1,321.0	1,232.0	7.2	1,312.0	-6.1	
Exceptional item	-	168.0	-100.0	95.0	PL	
PBT	5,410.0	3,806.0	42.1	4,027.0	-5.5	
Tax Outgo	1,186.0	1,141.0	3.9	2,369.0	-51.8	
<b>PAT</b>	<b>4,224.0</b>	<b>2,665.0</b>	<b>58.5</b>	<b>1,658.0</b>	<b>60.7</b>	
<b>Attributable PAT (Before exceptional items and tax on dividend)</b>	<b>3,017.0</b>	<b>2,238.0</b>	<b>34.8</b>	<b>1,993.0</b>	<b>51.4</b>	Attributable PAT came in higher both YoY as well as QoQ

Source: Company, ICICI Direct Research

## Financial story in charts

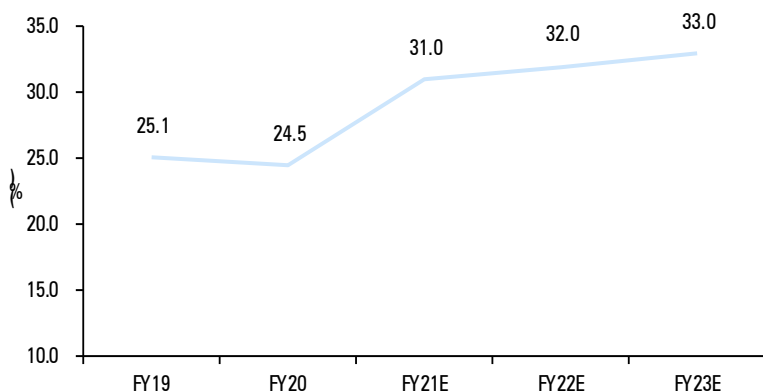
Exhibit 2: HZL zinc sales volume and realisation trend



Zinc sales volume expected to grow at CAGR of ~10% in FY20-23E

Source: Company, ICICI Direct Research

Exhibit 3: Trend in consolidated EBITDA margins...



Consolidated EBITDA margins to hover at ~32-33% over next couple of years

Source: Company, ICICI Direct Research

Exhibit 4: Entity wise cash and debt position

Company	Dec 31st 2020			Sep 31st 2020		
	Debt	Cash & Cash Eq	Net Debt	Debt	Cash & Cash Eq	Net Debt
<b>(All figures in cr.)</b>						
Vedanta Ltd. Standalone	33824	2993	30831	32790	1967	30823
Cairn India Holdings Ltd	2826	1127	1699	3616	4615	-1000
Zinc India	10036	21054	-11018	9798	27659	-17860
Zinc International	263	400	710	309	301	8
BALCO	3606	684	2922	3897	430	3466
Talwandi Sabo	7434	127	7307	7797	182	7615
Vedanta Star Limited	0.0	0.0	0.0	0.0	0.0	0.0
Others	4423	669	2907	4552	415	4137
<b>Total</b>	<b>62412</b>	<b>27055</b>	<b>35357</b>	<b>62759</b>	<b>35569</b>	<b>27190</b>

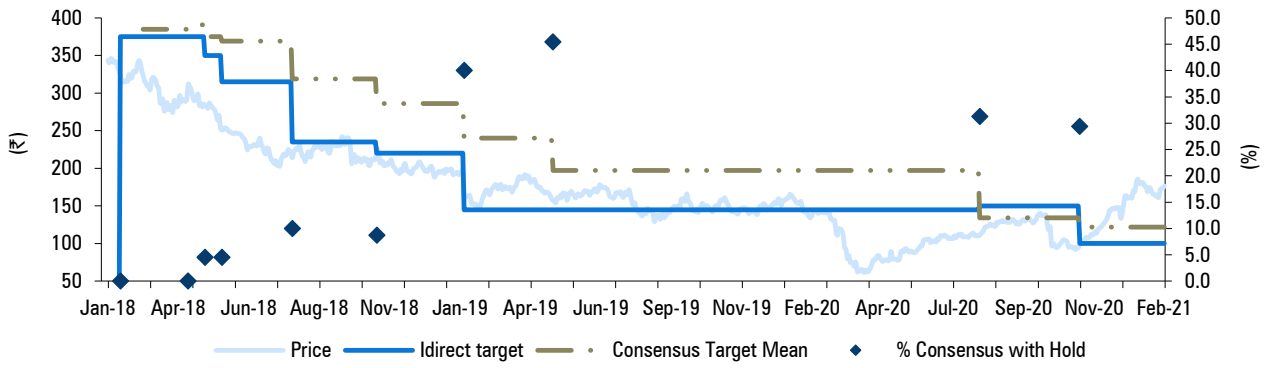
Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	Sales	YoY	EPS	YoY	PE	EV/EBITDA	P/ BV	RoNW	RoCE
	(₹ Crore)	(%)	(₹)	(%)	(x)	(x)	(x)	(%)	(%)
FY18	91866	27.2	20.0	32.3	8.7	3.9	1.0	11.7	15.4
FY19	92048	0.2	18.1	-9.4	9.6	4.2	1.0	10.8	11.9
FY20	84447	-8.3	10.7	-40.8	16.3	4.6	1.2	7.3	10.8
FY21E	84388	-0.1	24.5	128.3	7.1	4.0	1.1	15.1	16.5
FY22E	93029	10.2	28.1	14.8	6.2	3.3	1.0	15.6	18.0
FY23E	97530	4.8	29.7	5.4	5.9	2.9	0.9	14.8	18.3

Source: Company, ICICI Direct Research

Exhibit 6: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Jun-20	Sep-20	Dec-20
Promoter	50.1	50.1	55.1
Others	49.9	49.9	44.9
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating income</b>	<b>84,447</b>	<b>84,388</b>	<b>93,029</b>	<b>97,530</b>
Growth (%)	-8.3	-0.1	10.2	4.8
Total Operating Expenditure	63,760	56,239	63,270	65,338
<b>EBITDA</b>	<b>20,687</b>	<b>26,148</b>	<b>29,758</b>	<b>32,192</b>
Growth (%)	-10.5	26.4	13.8	8.2
Depreciation & Amortization	9,093	7,503	8,328	9,244
Interest	4,977	5,226	5,356	5,490
Other Income	2,510	2,472	2,596	2,674
<b>PBT</b>	<b>9,127</b>	<b>15,892</b>	<b>18,670</b>	<b>20,131</b>
Exceptional Items	-17,386	0	0	0
Total Tax	-3,516	4,000	4,699	5,067
PAT before MI	-4,743	11,892	13,971	15,064
Growth (%)	PL	LP	17	8
Minorities, Associates, etc	-1,921	-2,776	-3,509	-4,042
<b>PAT after MI</b>	<b>-6,664</b>	<b>9,116</b>	<b>10,461</b>	<b>11,023</b>
Growth (%)	-194.3	LP	14.8	5.4
<b>Adjusted PAT after MI</b>	<b>3,993</b>	<b>9,116</b>	<b>10,461</b>	<b>11,023</b>
Growth (%)	-40.8	128.3	14.8	5.4
<b>Adj EPS (₹)</b>	<b>10.7</b>	<b>24.5</b>	<b>28.1</b>	<b>29.7</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Profit after Tax</b>	<b>-6664</b>	<b>9116</b>	<b>10461</b>	<b>11023</b>
Add: Depreciation	9093	7503	8328	9244
(Inc)/dec in Current Assets	3789	-9789	-3322	-3333
Inc/(dec) in CL and Provisions	9836	2685	3098	2321
Others	0	0	0	0
<b>CF from operating activi</b>	<b>16054</b>	<b>9515</b>	<b>18566</b>	<b>19255</b>
(Inc)/dec in Investments	-8312	1000	1000	1000
(Inc)/dec in Fixed Assets	-7847	-4500	-6500	-10500
Others	0	0	0	0
<b>CF from investing activi</b>	<b>-16159</b>	<b>-3500</b>	<b>-5500</b>	<b>-9500</b>
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-7038	750	-1000	-1000
Dividend paid & dividend tax	-1696	-3532	-3718	-3718
Inc/(dec) in Sec. premium	698	0	0	0
Others	12274	-3642	-4900	100
<b>CF from financing activi</b>	<b>4238</b>	<b>-6424</b>	<b>-9618</b>	<b>-4617</b>
Net Cash flow	4133	-409	3448	5137
Opening Cash	8369	12502	12093	15541
<b>Closing Cash</b>	<b>12502</b>	<b>12093</b>	<b>15541</b>	<b>20678</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	372	372	372	372
Reserve and Surplus	54263	59848	66591	73897
Total Shareholders funds	54635	60219	66963	74269
Total Debt	59187	59937	58937	57937
Deferred Tax Liability	2885	2985	3085	3185
Non-control. Interest, MI & oth	20699	18957	15957	17957
<b>Total Liabilities</b>	<b>137406</b>	<b>142098</b>	<b>144942</b>	<b>153348</b>
<b>Assets</b>				
Gross Block	159150	163150	169150	179150
Less: Acc Depreciation	68498	76001	84328	93572
Net Block	90652	87149	84821	85577
Capital WIP	16837	17337	17837	18337
Total Fixed Assets	107489	104486	102658	103914
Investments	24753	25753	26753	27753
Inventory	11335	17340	18582	19491
Debtors	5808	8092	8672	9096
Loans, Adv. & Oth. Cu. assets	14846	16346	17846	19846
Cash	12502	12093	15541	20678
Total Current Assets	44491	53871	60641	69111
Creditors	38275	40460	43358	45479
Provisions	7941	8441	8641	8841
Total Current Liabilities	46216	48901	51999	54320
Others Assets	6889	6889	6889	6889
<b>Application of Funds</b>	<b>137406</b>	<b>142098</b>	<b>144942</b>	<b>153348</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Adj EPS	10.7	24.5	28.1	29.7
Cash EPS	35.2	44.7	50.5	54.5
BV	147.0	162.0	180.1	199.8
DPS	3.9	9.5	10.0	9.0
Cash Per Share	33.6	32.5	41.8	55.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	24.5	31.0	32.0	33.0
PBT / Total Operating income	10.8	18.8	20.1	20.6
PAT Margin	4.7	10.8	11.2	11.3
Inventory days	63	75	75	75
Debtor days	32	35	35	35
Creditor days	213	175	175	175
<b>Return Ratios (%)</b>				
RoE	7.3	15.1	15.6	14.8
RoCE	10.8	16.5	18.0	18.3
RoIC	11.4	17.3	19.4	20.6
<b>Valuation Ratios (x)</b>				
P/E	16.3	7.1	6.2	5.9
EV / EBITDA	4.6	4.0	3.3	2.9
EV / Net Sales	1.1	1.2	1.0	1.0
Market Cap / Sales	0.6	0.8	0.7	0.7
Price to Book Value	1.2	1.1	1.0	0.9
<b>Solvency Ratios</b>				
Net Debt/EBITDA	1.1	0.8	0.6	0.3
Net Debt / Equity	0.4	0.4	0.2	0.1
Current Ratio	1.0	1.1	1.2	1.3

Source: Company, ICICI Direct Research

**Exhibit 12: ICICI Direct coverage universe (Metals and Mining)**

	CMP		TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20
Coal India	141	130	Hold	87431	27.1	22.2	22.9	5.2	6.4	6.2	3.0	4.6	4.7	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	263	240	Buy	59119	18.2	25.3	34.4	14.3	10.3	7.6	6.9	7.0	5.8	7.8	7.7	9.2	6.9	9.0	10.9
Hind Zinc	294	290	Hold	124266	16.1	18.7	23.6	15.2	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	403	400	Hold	97413	19.5	29.9	37.3	19.4	12.7	10.2	12.5	8.2	6.7	7.2	11.9	13.7	12.9	16.6	17.2
NMDC	116	100	Hold	35518	11.8	11.6	9.0	10.6	10.7	13.8	4.5	5.0	5.5	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1605	1900	Buy	7504	65.8	49.4	64.5	24.7	32.9	25.2	17.7	22.6	16.8	22.2	16.2	19.6	18.0	12.3	14.1
Graphite Ind.	354	185	Hold	6916	2.0	-1.0	18.0	78.0	NA	10.5	NA	NA	3.6	-2.6	-5.7	4.4	1.0	-0.4	7.3
Tata Steel	688	625	Buy	78923	41.4	18.4	58.1	16.7	37.6	11.9	10.7	9.8	6.3	4.8	5.0	8.7	6.4	2.8	7.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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