

Steady operational performance....

On the back of a sequential uptick in non-ferrous metal prices, Vedanta reported a steady Q2FY21 performance. Consolidated topline for Q2FY21 came in at ₹ 21107 crore, up 32% QoQ. Consolidated EBITDA for Q2FY21 came in at ₹ 6531 crore, up 48% YoY, 64% QoQ. Steady EBITDA performance in Q2FY21 on a YoY basis was supported by higher volume at Zinc India business, subdued input commodity prices, lower cost of production at aluminium, steel and zinc business and rupee depreciation, partially offset by lower volume at the oil & gas business. Consolidated EBITDA margin for the quarter was at 30.9%, up 1080 bps, 590 bps QoQ. Tax expense for Q2FY21 was at ₹ 2370 crore vs. ₹510 crore in Q1FY21 and a tax credit of ₹ 1609 crore in Q2FY20. Normalised tax rate (excluding tax on dividend income of Zinc India business) for the quarter was 29% vs. 20% in Q1FY21, driven by change in profit mix in business. Ensuing reported PAT for Q2FY21 was at ₹ 824 crore while adjusted PAT (before exceptional items and tax on dividend) was at ₹ 1979 crore.

Aluminium segment performs well...

During Q2FY21, blended cost of production (CoP) of the aluminium segment was at US\$1288/tonne (US\$1852/tonne in Q2FY20 and US\$1268/tonne in Q1FY21). During the quarter, YoY there was a notable 30% reduction in aluminium CoP, aided by lower input costs (on a QoQ basis, blended CoP of aluminium segment was largely flattish). Both Jharsuguda and Balco smelter operated in the first quartile of the cost curve in 2020.

Extends intercompany loan (ICL) of US\$956 million to VRL...

As part of its cash management activities, Vedanta Ltd's overseas subsidiary (CIHL) has extended an inter-company loan (ICL) to Vedanta Resources (VRL). As of date, the loan of US\$956 million carrying interest rate @ 7% per annum is outstanding and has an average maturity profile of 2.2 years. The management has indicated that this is the upper limit of intercompany loans that will be extended to promoter entity, VRL. The loan amount will gradually reduce as per the repayment schedule.

Valuation & Outlook

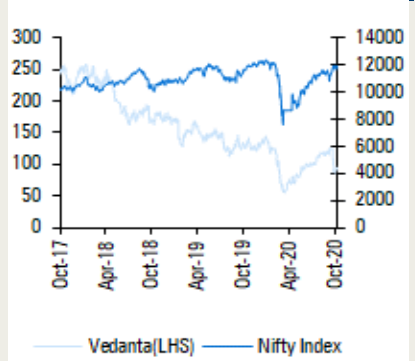
Vedanta's earnings remain sensitive to movement in commodity prices. On a sequential basis, non-ferrous prices have witnessed an uptick auguring well for the company. We value the stock on a SoTP basis and arrive at a target price of ₹ 100. We maintain **HOLD** rating on the stock.



Particulars

Particular	Amount
Market Capitalisation	₹ 36484 Crore
Debt (FY20)	₹ 59187 Crore
Cash, Liquid Invests (FY20)	₹ 37914 Crore
EV	₹ 57757 Crore
52 week H/L	166/ 60
Equity capital	₹ 372 Crore
Face value	₹ 1

Price Chart



Key Highlights

- During Q2FY21, blended cost of production of aluminium segment at US\$1288/tonne (US\$1852/tonne in Q2FY20, US\$1268/tonne in Q1FY21). Both Jharsuguda, Balco smelter operated in first quartile of cost curve in 2020
- Assign HOLD rating to stock with target price of ₹ 100

Research Analyst

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Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	91,866	92,048	84,447	82,976	93,194	5%
EBITDA	25,164	23,103	20,687	24,071	26,066	12%
EBITDA Margin (%)	27.4	25.1	24.5	29.0	28.0	
Adj PAT	7,445	6,745	3,993	6,651	7,404	36%
EPS (₹)	20.0	18.1	10.7	17.9	19.9	
EV/EBITDA (x)	3.0	3.2	3.5	3.2	2.6	
RoCE (%)	15.4	11.9	10.8	13.6	14.9	
RoE (%)	11.7	10.8	7.3	11.5	12.1	

Source: Company, ICICI Direct Research

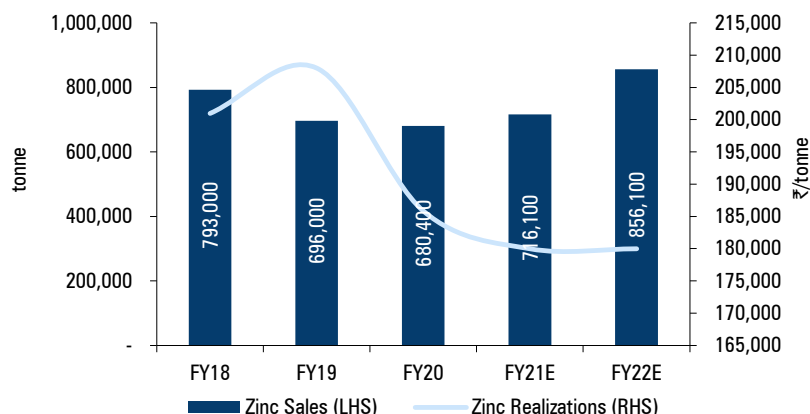
Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	21,107.0	21,958.0	-3.9	15,973.0	32.1	Topline declines YoY but increases QoQ
Other Income	637.0	856.0	-25.6	1,025.0	-37.9	
Raw Material Expense	5,491.0	6,551.0	-16.2	4,748.0	15.6	
Employee Expense	596.0	713.0	-16.4	659.0	-9.6	
Power & Fuel	3,905.0	4,805.0	-18.7	2,416.0	61.6	
Other op. Exp.	4,584.0	5,466.0	-16.1	4,157.0	10.3	
EBITDA	6,531.0	4,423.0	47.7	3,993.0	63.6	EBITDA increases both QoQ and YoY
EBITDA Margin (%)	30.9	20.1	817 bps	25.0	594 bps	
Depreciation	1,938.0	2,395.0	-19.1	1,733.0	38.2	
Interest	1,312.0	1,340.0	-2.1	1,252.0	7.0	
Exceptional item	95.0	(422.0)	-122.5	-	PL	
PBT	4,013.0	1,122.0	257.7	2,033.0	-44.8	
Tax Outgo	2,369.0	-1,609.0	-247.2	511.0	-414.9	Normalised tax rate (excluding tax on dividend income of Zinc India business) for quarter was 29%, compared to 20% in Q1FY21
PAT	1,644.0	2,731.0	-39.8	1,522.0	79.4	
Minority Interest & others	820.0	573.0	43.1	489.0	17.2	
Attributable PAT	824.0	2,158.0	-61.8	1,033.0	-20.2	

Source: Company, ICICI Direct Research

Financial story in charts

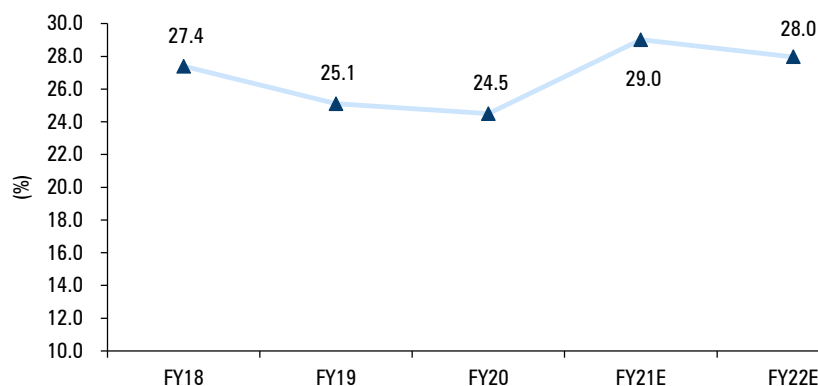
Exhibit 2: HZL zinc sales volume and realisation trend



Zinc sales volume expected to grow at CAGR of ~12% in FY20-22E

Source: Company, ICICI Direct Research

Exhibit 3: Trend in consolidated EBITDA margins...



Consolidated EBITDA margins to hover at ~28-29% over next couple of years

Source: Company, ICICI Direct Research

Exhibit 4: Entity wise cash and debt position

Company	30-Sep-20			30-Jun-20		
	Debt	Cash & LI	Net Debt	Debt	Cash & LI	Net Debt
All figures in ₹ Crores						
Vedanta Standalone	32,790	1,967	30,823	33,247	4,070	29,177
Cairn India Holdings Ltd	3,616	4,615	(999)	3,700	5,415	(1,715)
Zinc India	9,798	27,659	(17,861)	4,957	20,468	(15,511)
Zinc International	309	301	8	361	268	93
BALCO	3,897	430	3,467	4,384	559	3,825
Talwandi Sabo	7,797	182	7,615	7,192	56	7,136
Vedanta Star Ltd & Others	4,552	415	4,137	4,727	634	4,093
Vedanta Consolidated	62,759	35,569	27,190	58,568	31,470	27,098

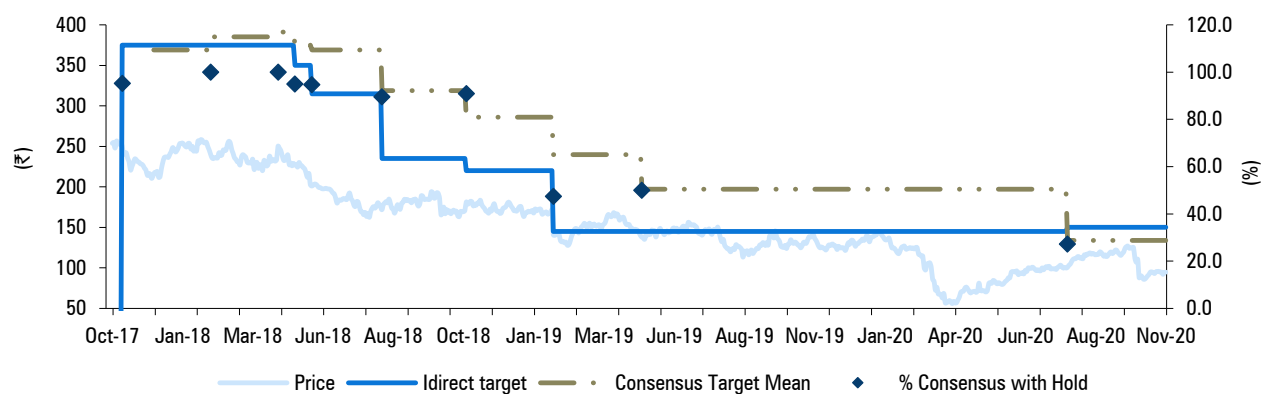
Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	Sales	YoY	EPS	YoY	PE	EV/EBITDA	P/ BV	RoNW	RoCE
	(₹ Crore)	(%)	(₹)	(%)	(x)	(x)	(x)	(%)	(%)
FY17	72225	12.1	15.1	108.1	6.5	2.8	0.6	9.3	11.1
FY18	91866	27.2	20.0	32.3	4.9	3.0	0.6	11.7	15.4
FY19	92048	0.2	18.1	-9.4	5.4	3.2	0.6	10.8	11.9
FY20	84447	-8.3	10.7	-40.8	9.1	3.5	0.7	7.3	10.8
FY21E	82976	-1.7	17.9	66.6	5.5	3.2	0.6	11.5	13.6
FY22E	93194	12.3	19.9	NA	4.9	2.6	0.6	12.1	14.9

Source: Company, ICICI Direct Research

Exhibit 6: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	TWINSTAR HOLDINGS LT	14-08-2020	37.1	1379.4	0.0
2	FINSIDER INTERNATION	14-08-2020	10.8	401.5	0.0
3	LIFE INSURANCE CORP	14-08-2020	6.4	236.7	0.0
4	ICICI PRUDENTIAL ASS	30-09-2020	4.4	162.2	-7.8
5	HDFC TRUSTEE CO LTD/	30-06-2020	3.0	111.6	111.6
6	HDFC ASSET MANAGEMEN	30-09-2020	2.8	105.0	-3.4
7	VANGUARD GROUP	30-09-2020	1.5	56.9	-2.6
8	BLACKROCK	06-11-2020	1.3	47.0	0.3
9	WESTGLOBE LTD	14-08-2020	1.2	44.3	0.0
10	PTC CABLES PVT LTD	30-06-2020	1.2	42.7	0.0

Source: Reuters, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20
Promoter	50.1	50.1	50.1
Others	49.9	49.9	49.9
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Total operating income	92,048	84,447	82,976	93,194	
Growth (%)	0.2	-8.3	-1.7	12.3	
EBITDA	23,103	20,687	24,071	26,066	
Growth (%)	-8.2	-10.5	16.4	8.3	
Depreciation & Amortization	8,192	9,093	9,011	9,101	
Interest	5,689	4,977	5,226	5,356	
Other Income	4,018	2,510	2,447	2,472	
PBT	13,240	9,127	12,281	14,079	
Exceptional Items	320	-17,386	0	0	
Total Tax	3,862	-3,516	3,091	3,544	
PAT before MI	9,698	-4,743	9,190	10,536	
Growth (%)	-29	PL	LP	15	
Minorities, Associates, etc	-2,633	-1,921	-2,539	-3,132	
PAT after MI	7,065	-6,664	6,651	7,404	
Growth (%)	-31.7	-194.3	LP	NA	
Adjusted PAT after MI	6,745	3,993	6,651	7,404	
Growth (%)	-9.4	-40.8	66.6	NA	
Adj EPS (₹)	18.1	10.7	17.9	19.9	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Profit after Tax	7065	-6664	6651	7404	
Add: Depreciation	8192	9093	9011	9101	
(Inc)/dec in Current Assets	-2165	3789	-9364	-3834	
Inc/(dec) in CL and Provisions	10915	9836	2008	3914	
Others	1865	0	0	-1900	
CF from operating activi	25872	16054	8307	14684	
(Inc)/dec in Investments	-4365	-8312	1000	1000	
(Inc)/dec in Fixed Assets	-17214	-7847	-4500	-6500	
Others	0	0	0	0	
CF from investing activi	-21579	-16159	-3500	-5500	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	2046	-7038	750	-1000	
Dividend paid & dividend tax	-8276	-1696	-3532	-3718	
Inc/(dec) in Sec. premium	0	698	0	0	
Others	5089	12274	-3642	-3000	
CF from financing activi	-1140	4238	-6424	-7718	
Net Cash flow	3153	4133	-1617	1467	
Opening Cash	5216	8369	12502	10885	
Closing Cash	8369	12502	10885	12351	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Liabilities					
Equity Capital	372	372	372	372	
Reserve and Surplus	61925	54263	57382	61068	
Total Shareholders funds	62297	54635	57754	61440	
Total Debt	66225	59187	59937	58937	
Deferred Tax Liability	4484	2885	2985	3085	
Non-control. Interest, MI & oth	21046	20699	18957	15957	
Total Liabilities	154052	137406	139633	139419	
Assets					
Gross Block	158525	159150	163150	169150	
Less: Acc Depreciation	59405	68498	77509	86610	
Net Block	99120	90652	85641	82540	
Capital WIP	22236	16837	17337	17837	
Total Fixed Assets	121356	107489	102978	100377	
Investments	33065	24753	25753	26753	
Inventory	13198	11335	17050	18642	
Debtors	7670	5808	7957	8699	
Loans, Adv. & Oth. Cu. assets	14910	14846	16346	17846	
Cash	8369	12502	10885	12351	
Total Current Assets	44147	44491	52237	57538	
Creditors	40190	38275	39783	43497	
Provisions	7801	7941	8441	8641	
Total Current Liabilities	47991	46216	48224	52138	
Others Assets	3475	6889	6889	6889	
Application of Funds	154052	137406	139633	139419	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Per share data (₹)					
Adj EPS	18.1	10.7	17.9	19.9	
Cash EPS	40.2	35.2	42.1	44.4	
BV	167.6	147.0	155.4	165.3	
DPS	17.0	3.9	9.5	10.0	
Cash Per Share	22.5	33.6	29.3	33.2	
Operating Ratios (%)					
EBITDA Margin	25.1	24.5	29.0	28.0	
PBT / Total Operating income	14.4	10.8	14.8	15.1	
PAT Margin	7.3	4.7	8.0	7.9	
Inventory days	73	63	75	75	
Debtor days	43	32	35	35	
Creditor days	223	213	175	175	
Return Ratios (%)					
RoE	10.8	7.3	11.5	12.1	
RoCE	11.9	10.8	13.6	14.9	
RoIC	12.4	11.4	14.1	15.7	
Valuation Ratios (x)					
P/E	5.4	9.1	5.5	4.9	
EV / EBITDA	3.2	3.5	3.2	2.6	
EV / Net Sales	0.8	0.8	0.9	0.7	
Market Cap / Sales	0.3	0.3	0.4	0.4	
Price to Book Value	0.6	0.7	0.6	0.6	
Solvency Ratios					
Net Debt/EBITDA	1.1	1.1	1.0	0.8	
Net Debt / Equity	0.4	0.4	0.4	0.3	
Current Ratio	0.9	1.0	1.1	1.1	

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
Coal India	122	150	Hold	75668	27.1	22.2	22.9	4.9	6.0	5.8	2.7	4.3	4.4	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	193	225	Buy	43323	18.2	16.4	29.2	10.6	11.7	6.6	5.6	7.6	5.5	7.8	6.0	8.4	6.9	6.0	9.7
Hind Zinc	227	230	Hold	95746	16.1	17.1	21.1	13.8	13.1	10.6	8.2	7.8	5.8	20.8	25.5	27.4	16.9	23.5	24.1
JSW Steel	333	330	Hold	80408	19.5	21.3	33.5	16.4	15.0	9.6	11.2	8.7	6.3	7.2	9.7	13.1	12.7	12.2	16.2
NMDC	93	100	Hold	28552	11.8	11.6	9.0	8.3	8.4	10.8	4.9	5.4	5.9	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1268	1475	Buy	5923	65.8	53.1	73.8	19.2	23.8	17.2	13.7	16.6	11.7	22.2	16.1	21.8	18.0	13.1	15.7
Graphite Ind.	181	200	Hold	3527	2.0	1.0	21.0	80.8	231.3	8.7	NA	NA	3.2	-2.6	-5.4	6.0	1.0	0.3	8.7
Tata Steel	434	450	Hold	49761	41.4	-20.3	56.7	10.1	NA	7.4	9.1	12.6	5.7	5.0	2.0	8.9	6.4	-3.2	8.0
Vedanta	98	100	Hold	36503	10.7	17.9	19.9	9.1	5.5	4.9	3.5	3.2	2.6	10.8	13.6	14.9	7.3	11.5	12.1

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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