

7th June 2018

CMP – ₹246.9

View – Positive

Company Background And Business Model

Vedanta Limited is a natural resource company engaged in the business of manufacturing copper and copper products, and aluminum and aluminum products. The Company's segments include Copper, which consists of manufacturing of copper cathode, continuous cast copper rod and anode slime, including from purchased concentrate and manufacturing of precious metal from anode slime, sulfuric acid, phosphoric acid; Iron ore; Aluminium, which consists of manufacturing of alumina and various aluminum products; Power, which consists of power, including power facilities engaged in generation and sale of commercial power, and Other, which consists pig iron and metallurgical coke. Its iron ore business consists of iron ore exploration, mining, beneficiation and exports. The Company has iron ore mining operations in the States of Goa and Karnataka. Its copper business consists of custom smelting. Its power business consists of 2,400-megawatt thermal coal based power facility in the State of Odisha.

Important Statistics

M.Cap (Cr)	₹91796/-
52 Week H/L (₹)	₹355.7/₹230.3
NSE Code	VEDL
BSE Code	500295

Investment Argument

- **Volume traction post completion of projects (FY19), to drive earnings** – A company is nearing completion of few of its large projects by FY19. This will enable Vedanta to grow volumes by 30-40% over the next 2 years. The company has guided for a capex of US\$1.5 bn for FY19 against US\$0.8 bn spent in FY18. Key projects nearing completion and hence expected to drive volume growth in the next 2-3 years are:
 - **Zinc Expansion** – mine expansion in Zinc India and Gamsberg project in RSA will lead to a 40% volume increase in zinc over the next two years.
 - **Aluminium Expansion** – volumes are expected to increase by 0.4 mn tons to 2 mn tons in FY2019E from 1.6 mn tons led by ramp-up of Jharsuguda-II smelters
 - **Oil & Gas** – management reiterated guidance of a sharp increase in gross production volumes to 220-250 kb/d in FY2019, up from 186 kb/d in FY2018.
- **Strong aluminum performance aided profitability growth in Q4** – The consolidated topline came in at | 27630 crore (up 22.7% YoY, 13.4% QoQ). The consolidated EBITDA came in at | 7837 crore (up 6.6% YoY, 15.9% QoQ). The earnings surprise was on account of higher than expected volume in the aluminium segment (9%+ qoq), and higher volume and lower cost in the copper and zinc segment. Total value added aluminium products sales rose by 62% and 18% respectively on yoy and qoq to 224,000t. The company faced challenges due to higher carbon costs, poor coal supply and higher alumina prices during the quarter, which increased the COP. The company expects the COP of aluminium to come down due to better alumina sourcing, smoother coal availability, starting of bauxite mine, higher output etc.
- **Company forays into steel with the acquisition of Electro Steels** – VEDL's acquisition of ELSS as its first step in the ferrous space. The acquisition cost of USD546/t vs. USD750/t capex entailed by Electro Steel makes the deal seem relatively in expensive. There is a scope for EBITDA/tn improvement on account of captive sourcing of iron ore and hence ability to ramp up capacity utilisation. This acquisition will be earnings accretive give the play of economies of scale.

Risk: The recent shooting of protestors at Tuticorin, against expansion of the copper smelters has been a sore point for the company. We believe such environment risks are inherent to the company. TN government has ordered permanent closure of the plant which the company is challenging in the court.

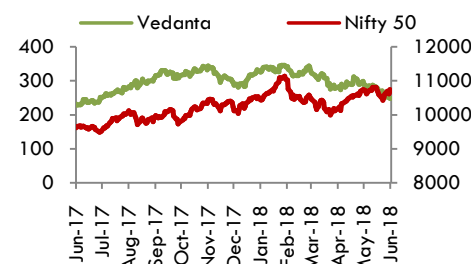
Valuations

With multiple growth drivers such as expansion ramp-up, steel foray & lowering of aluminum cost of production; aiding profitability growth going forward we are **POSITIVE** on the stock. At CMP of ₹246.9/-, Vedanta trades at ~12.2x its FY18 earnings of ₹20.2/-.

Financials

	(₹ Cr)	
	FY17	FY18
Sales	74,382.1	91,866.0
EBITDA	21,332.5	25,143.0
EBITDA Margin	28.7%	27.4%
Reported PAT	7,072.5	7,514.0
PAT Margin (%)	9.5%	8.2%
EPS (₹)	19.0	20.2
Book Value	127.3	147.4
ROE	15.5%	14.9%

Source: Company, Way2Wealth Inst. Equity.



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Disclosure of Interest Statement Vedanta Ltd. as on June 7th, 2018

Name of the Security	Vedanta Ltd.
Name of the analyst	Shivani V. Vishwanathan
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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