

Ferrous to outperform non-ferrous....

Company Name

JSW Steel

JSPL

JSL

Tata Sponge

Hindalco

Hindzinc

Nalco

Vedanta

NMDC

Coal India

Steel players to post decent growth YoY

Domestic steel HRC prices remained stable QoQ at around Rs.45833/t; whereas, steel rebar prices corrected by Rs.1600/t in seasonally weak quarter due to monsoon but have recovered towards Sep'18 end to around Rs.44600/t. China steel HRC prices were down by 3% QoQ and American HRC prices were down by 2%. Domestic sponge iron prices were flat QoQ at around Rs.22700 and China heavy metal scrap prices were at USD 377/t (down 1% QoQ). Raw material prices such as iron ore increased by 17% in Chhattisgarh, 25% in Odisha and Karnataka e-auction prices corrected by close to 4% QoQ to compete with cheap imports. Hard coking coal prices though corrected by 3% QoQ in dollar terms; however, INR depreciation would increase the cost. Financials of steel players would see sequential decline due to higher input cost QoQ whereas steel prices remaining flat QoQ but on YoY basis steel players would still post decent growth led by higher realization and better volume.

Non-ferrous to remain under pressure

In non - ferrous space LME zinc and lead were down 16% and 14% QoQ, silver prices were down 8%, LME aluminium down 7% QoQ; whereas alumina prices were up 22% QoQ and 58% YoY, copper down by 9% and LME nickel is down 10%. Prices are still under pressure due to global trade war worries and strengthening USD. Nalco is expected to post strong set of number with EBITDA growth of 55% (YoY) led by strong alumina prices. Alumina prices have been strong throughout 2QFY19 led by production cuts at Alunorte in Brazil and workers strike in Alcoa mine in Australia. Though workers strike at Alcoa's have come to an end and operations are running again but Alunorte is still operating at 50% capacity (total capacity 6.3mt) and recently 100% curtailment was announced due to the residue plant reaching its capacity; however, operation are again running at 50% capacity. Hindalco's EBITDA is expected to decline by 15% YoY due to lower copper volume (maintenance shutdown) and lower copper realization. Hind Zinc's EBITDA is expected to decline by 5% due to lower volume and decline in realization. VEDL's EBITDA is expected to grow at 20% YoY led by strong growth in Oil and business; however, aluminium margins would be under pressure due to lower LME and higher alumina prices.

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View:

Steel players are expected to deliver good set of numbers again in 2QFY19 and are set to outperform non ferrous players. Domestic HRC prices on an average were flat QoQ; however, long product prices saw correction due to monsoon. On raw material front, increase in iron ore price is expected to put some pressure and hard coking coal prices have seen some moderation in USD terms but will increase due to INR depreciation. EBITDA of JSL, JSPL, JSW Steel and Tata Sponge is expected to decline by 3-21% QoQ led by seasonal weakness due to monsoon and higher input cost while EBITDA is expected to increase by 27-60% on YoY basis due to strong realizations and higher volume. In non - ferrous space LME zinc and lead were down 16% and 14% QoQ, silver was down 8%, LME aluminium down 7% QoQ; whereas alumina prices were up 22% QoQ and 58% YoY, copper down by 9% and LME nickel was down 10%. Prices are still under pressure due to global trade war worries and strengthening USD. Nalco and VEDL's EBITDA is expected to post strong growth at 55% and 20% YoY while Hind Zinc and Hindalco's EBITDA is expected to decline by 5% and 15% YoY respectively. Coal India is also expected to post strong growth led by strong realization and healthy volume growth.

Among steel players we like JSL, JSPL and Tata Sponge from non- ferrous and mining we like Nalco, VEDL and Coal India.

CMP as on 3-Oct-18

Company	Particulars	Q2FY18	1QFY19	Q2FY19E	QoQ (%)	YoY (%)
JSW Steel	Revenue	16818	20519	18214	-11%	8%
	EBITDA	3036	5105	4073	-20%	34%
	PAT	836	2339	1582	-32%	89%
JSPL	Revenue	6123	9665	9400	-3%	54%
	EBITDA	1373	2277	2198	-3%	60%
	PAT	-498	110	64	-42%	-113%
JSL	Revenue	2608	3147	3119	-1%	20%
	EBITDA	256	375	326	-13%	27%
	PAT	27	91	83	-8%	206%
Tata Sponge	Revenue	167	261	218	-17%	30%
	EBITDA	34	60	47	-21%	38%
	PAT	28	46	38	-17%	37%
Hindalco	Revenue	10308	10593	10457	-1%	1%
	EBITDA	1390	1325	1175	-11%	-15%
	PAT	393	414	312	-25%	-21%
Hindzinc	Revenue	5309	5310	5168	-3%	-3%
	EBITDA	3024	2713	2882	6%	-5%
	PAT	2254	1918	2184	14%	-3%
Nationalum	Revenue	2455	2973	2646	-11%	8%
	EBITDA	335	1011	521	-48%	55%
	PAT	235	687	317	-54%	35%
Vedanta (Consol.)	Revenue	21590	22206	20955	-6%	-3%
	EBITDA	5669	6284	6802	8%	20%
	PAT	2986	2248	2690	20%	-10%
NMDC	Revenue	2421	2422	2841	17%	17%
	EBITDA	1203	1424	1443	1%	20%
	PAT	844	975	977	0%	16%
Coal India	Revenue	18148	24261	21281	-12%	17%
	EBITDA*	1231	5732	4435	-23%	260%
	PAT*	369	3786	2989	-21%	710%

* Reported Figures

JSTL IN

CMP 382
Target 390
Upside 2%
Rating NEUTRAL

	FY17	FY18	FY19E	FY20E
Roe%	15%	22%	22%	17%
Roce%	16%	19%	22%	18%
P/E	13.1	11.4	12.0	13.7
P/B	2.0	2.5	2.7	2.3
EV/Ebdita	6.3	6.8	6.7	7.3

	FY17	FY18	FY19E	FY 20E	Q2FY18	Q1FY19	Q2FY19E
Capacity (mt)	18.00	18.00	18.00	18.00			
Steel Sales stdIn.(mt)	14.77	15.62	16.06	16.57	3.92	3.83	3.53
Avg.HRC (Rs./t)	39075	40340	45449	45382	37367	45833	45150
<i>Financials (Consol.)</i>							
Sales	55,605	70,225	80,440	81,891	16,818	20,519	18,214
Sales Gr	34%	26%	15%	2%	27%	40%	8%
Ebdita	12,174	14,794	18,256	17,237	3,036	5,105	4,073
Ebdita Gr	90%	22%	23%	-6%	3%	95%	34%
Finance Cost	3,768	3,701	3,872	4,078	950	887	968
PBT	5,128	7,873	11,163	9,795	1,274	3,371	2,300
PBT Gr	-	54%	42%	-12%	13%	277%	81%
Net Profits	3,467	6,113	7,685	6,735	836	2,339	1,582
Profit Gr%	-	76%	26%	-12%	15%	275%	89%
EbditaM%	22%	21%	23%	21%	18%	25%	22%
Net Mgn%	6%	9%	10%	8%	5%	11%	9%
D/E	1.65	1.21	1.04	1.02			

Conso/Fig in Rs Cr

□ Sales for 2QFY19 is expected at Rs.18214 cr (up 8% YoY, down 11% QoQ). Volume is expected to fall by 8% QoQ to 3.53mt as monsoon sets in 2Q19. We expect realization to be strong in 2QFY19 (up 20% YoY) which would offset the effect of volume loss. Coated business revenue is expected to grow by 4% YoY led by increase in realizations.

□ US plate and pipe is expected to post strong set of numbers with 2QFY19 revenue expected to grow 2 times YoY to Rs.708 crores primarily on account of better capacity utilization (because of trade barriers imposed by US to cut imports) and also better realizations.

□ EBITDA is expected to be at Rs.4073 crore, we expect margins to fall to 22% from 25% in 1QFY19 due to higher cost of raw material as iron ore prices are on a continuous uptrend.

□ Company had completed acquisition of Acero (USA based) with capacity of 1.5mtpa EAF, 2.8mtpa of continuous slab caster and 3mtpa of HSM. Acquisition of Aferpi (Italy based) was also completed in 1QFY19 with 1.3mtpa capacity which is to be increased to 4mtpa at a later stage. Operations at these facilities are expected to commission from end of 3QFY18.

□ Company also has lined up capex of Rs.44450 crores for 4 years (including FY18) to increase capacity by 6.7mt from current 18mt to over 24mt by the end of FY21.

Key Trackable this Quarter

- Steel price movement.
- China Steel exports.

We value the stock at 7.4x FY20e EV/EBITDA.

JSP IN

CMP 187
Target 270
Upside 44%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	-8%	-5%	1%	3%
Roce%	1%	4%	7%	8%
P/E	-4.4	-13.1	64.0	20.7
P/B	0.4	0.7	0.6	0.6
EV/Ebdita	9.3	8.3	5.6	4.7

	FY17	FY18	FY19E	FY20E	Q2FY18	Q1FY19	Q2FY19E
Ttl. Steel Capcty (mt)	7.1	10.6	10.6	10.6			
Power Capacity (MW)	3400	3400	3400	3400			
Stdln. Steel Sales (mt)	3.35	3.76	5.64	6.20	0.83	1.19	1.35
Oman Steel Sales (mt)	1.31	1.67	1.72	1.77	0.43	0.42	0.43
Power (mill unit)	9176	10905	11450	13168	2427	2751	2548
<i>Financials (Consol.)</i>							
Sales	21,051	27,383	39,151	40,695	6,123	9,665	9,400
Sales Gr	15%	30%	43%	4%	22%	36.70%	54%
Ebdita	4,658	6,469	8,820	9,587	1,373	2,277	2,198
Ebdita Gr	36%	39%	36%	9%	38%	38%	60%
Finance Cost	3,390	3,866	3,920	3,673	927	972	982
PBT	(2,671)	(1,277)	676	1,307	(550)	264	154
PBT Gr	-	-	-	93%	-	-	-
Net Profits	(2,538)	(1,616)	282	875	(498)	110	64
Profit Gr%	-	-	-	210%	-	-	-
EbditaM%	22%	24%	23%	24%	22%	24%	23%
Net Mgn%	-12%	-6%	1%	2%	-8%	1%	1%
D/E	1.33	1.29	1.28	1.18			
Intrst. Covrge. Ratio	0.21	0.67	1.17	1.36			

Conso/Fig in Rs Cr

□ Revenue in 2QFY19 is expected to grow by 54% led by strong volume growth (63% YoY led by ramp up of Angul plant) to 1.35mt and high realization (up 26% YoY) at standalone level, however realization are expected to correct on sequential basis due to seasonal weakness led by monsoon.

□ Oman volume is expected to be flat YoY at 0.43mt and realization is expected to be up around 3% in USD and 13% in INR.

□ Power business is still expected to remain sluggish. However, overall capacity addition in FY18 had fallen to 5% as compared to last 5 years average of 10%, whereas demand is rising and is also supported by different govt. initiatives.

□ EBITDA for 2QFY19 is estimated to grow at robust rate of 60% to Rs.2198 crores led by better realizations and higher capacity utilization. However, EBITDA margins are expected to fall by 1% to 23% on sequential basis due to higher input cost (i.e iron ore and coking coal) .PAT is expected to be at Rs.64 crores.

Key Trackable this Quarter

- Volume ramp up at Angul plant.
- Gross margin movement (as iron ore prices are on a continuous uptrend).

We value the stock at 5.5x FY20e EV/EBITDA.

JDSL IN

CMP 56
Target 100
Upside 78%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	4%	14%	15%	17%
Roce%	16%	17%	20%	22%
P/E	34.8	10.9	6.0	4.4
P/B	1.6	1.5	0.9	0.8
EV/Ebdita	5.3	5.4	3.6	2.8

	FY17	FY18	FY19E	FY 20E	Q2FY18	1QFY19	Q2FY19E
Capacity (ton)	800000	800000	800000	1100000			
Sales volume (ton)	641333	778933	895773	1021181	202447	216880	223943
SS Price (USD/t)	1906	2097	2202	2200	2199	2207	2200
LME Nickel (USD/t)	10018	11289	14047	14105	10740	14625	13311
Ferrochrome (USD/t)	1187	1195	1175	1191	1214	1125	1125
<i>Financials (Consol.)</i>							
Sales	9,279	11,638	13,884	15,893	2,608	3,147	3,119
<i>Sales Gr</i>	30%	25%	19%	14%	36%	56%	20%
Ebdita	1,166	1,340	1,544	1,740	256	375	326
<i>Ebdita Gr</i>	15%	15%	15%	13%	10%	50%	27%
Finance Cost	788	566	581	555	161	150	139
PBT	78	499	671	881	34	155	122
<i>PBT Gr</i>	-	539%	34%	31%	-	88%	259%
Net Profits	82	346	448	607	27	91	83
<i>Profit Gr%</i>	-	324%	30%	36%	-	119%	206%
EbditaM%	13%	12%	11%	11%	10%	12%	10%
Net Mgn%	1%	3%	3%	4%	1%	3%	3%
D/E	2.96	1.86	1.42	1.05			

Yearly data Consolidated , Quarterly Standalone

Fig in Rs Cr

□ Revenue is expected to grow at 20% YoY in 2QFY19 led by volume growth of 11%YoY (management expects 15% Volume growth in FY19) and 8% YoY growth in realization.

□ EBITDA is expected to fall by 13% QoQ led by increase in COGS due to rupee depreciation (company imports 50-60% of raw material) and also on account of increase in power and fuel cost as prices of non coking coal have increased both in domestic as well as international markets.

□ Though EBITDA margin is expected to be flat YoY and down 2% QoQ on PAT level we expect margin to be at 3%. We expect finance cost to be lower YoY and QoQ led by company's initiatives to reduce debt on books and management also has a guidance of Rs.550-570 crores for finance cost in FY19.

□ There can be a downside risk to cost of material consumed due to INR depreciation and also to finance cost as company has exposure to FC loans.

Key Trackable this Quarter

□ USD/INR-Raw material Import (50-60%) and FC loan of Rs.750 crore (LT debt of Rs.3550 crore).

□ Volume growth rate.

We value the stock at 4x FY20e EV/EBITDA.

TTSP IN

CMP 830
Target 985
Upside 19%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	7%	14%	15%	13%
Roce%	6%	17%	18%	15%
P/E	18.3	12.5	7.8	7.7
P/B	1.2	1.8	1.1	1.0
EV/Ebdita	12.5	7.3	4.0	3.8

	FY17	FY18	FY19E	FY20E	Q2FY18	1QFY19	Q2FY19E
<i>Sales/Realization</i>							
Sponge Iron (MT)	392000	413500	420000	430000	92000	115142	92400
Realization (Rs/t)	14389	18409	21531	20540	16895	21358	22559
Power (MKWH)	132	144	141	147	30	37	32
Realization (Rs/unit)	4.89	5.03	5.19	5.17	5.13	5.32	5.09
EBITDA/tonne	1572	4418	5028	4869	3739	5233	5127
<i>Financials</i>							
Sales	557	800	961	927	167	261	218
Sales Gr	-3%	44%	20%	-4%	21%	49%	30%
COGS	373	496	627	587	107	171	139
COGS % of Sales	67%	62%	63%	62%	64%	66%	64%
Ebdita	62	183	211	209	34	60	47
Ebdita Gr	157%	196%	5%	-1%	103%	56%	38%
Net Profits	59	141	169	170	28	46	38
Profit Gr%	84%	140%	20%	1%	72%	49%	37%
EbditaM%	11%	23%	22%	23%	21%	23%	22%
Net Mgn%	11%	18%	18%	18%	17%	17%	17%
D/E	0.00	0.00	0.00	0.00			

Conso/Fig in Rs Cr

□ Tata Sponge's volume for 2QFY19 is expected to be at 92400 MT (down 20% QoQ and flat YoY), as company took its annual maintenance shutdown in 2QFY19. However, we expect company to register strong volume growth in 2HFY19.

□ Realization is expected to be up by 34% on the back of continuous increase in sponge iron prices (up close to 30% YoY in 2QFY19), which we expect would lead to sales growth of 30%.

□ Cost of goods sold as percentage of sales is expected to be around 64% of sales (down 2% QoQ and flat YoY). QoQ decline is because we assume flattish coal rate QoQ and slight decline in iron ore prices (down 2%) whereas we are assuming 6% increase in realization QoQ.

□ EBITDA and PAT are expected to grow at 38% and 37% YoY in line with growth in sales and no major change in cost of input.

Key Trackable this Quarter

- Sponge iron and Coking coal price movement.
- Impact of maintenance shutdown on volume.

We value the stock at 5x FY20e EV/EBITDA.

HNDL IN

CMP 254
Target 275
Upside 8%
Rating ACCUMULATE

	FY17	FY18	FY19E	FY 20E
Roe%	4%	11%	10%	9%
Roce%	2%	6%	5%	5%
P/E	23.3	7.9	9.9	9.7
P/B	1.0	0.9	0.9	0.9
EV/Ebdita	7.0	6.3	6.6	6.7

Ratios on consolidated basis

Volume (kt)	FY17	FY18	FY19E	FY 20E	Q2FY18	1QFY19	Q2FY19E
Alumina	2887	2880	2937	3000	712	665	726
Aluminium	1265	1290	1290	1305	326	323	326
Copper	376	411	390	411	93	82	82
Novelis Shipments	3067	3189	3269	3350	802	797	812
<i>Segmental Revenues</i>							
Aluminium	20,602	21,396	22,450	22,231	5213	5592	5518
Copper	19,448	22,416	22,677	23,280	5097	5006	4939
<i>Financials (Standalone)</i>							
Sales	36,937	42,798	45,122	45,511	10308	10593	10457
Sales Gr	8%	16%	5%	1%	28%	-1%	1%
Ebdita	4,814	5,124	4,788	4,678	1390	1325	1175
Ebdita Gr	44%	6%	-7%	-2%	2%	-7%	-15%
Net Profits	1,557	1,438	1,307	1,250	393	414	312
Profit Gr%	182%	-8%	-9%	-4%	-2%	-25%	-21%
Novelis Ebitda(USDmn)	1001	1181	1312	1385	268	343	335
Utkal EBITDA	673	1084	2170	2034	201	520	633
EbditaM%	13%	12%	11%	10%	13%	13%	11%
Net Mgn%	4%	3%	3%	3%	4%	4%	3%

Fig in Rs Cr

Higher realization in aluminum business is expected to lead to 6% growth in revenue YoY, whereas volume is expected to be flat as plants operate at full capacity. Copper revenue is expected to fall by 3% due to fall in volume as maintenance shutdown taken in 1QFY19 got extended for few days in 2QFY19.

EBITDA at standalone level is expected to fall (15% YoY) primarily on account of robust alumina prices. However, Utkal's EBITDA is expected to grow by 22% QoQ and over 3 times YoY led by upsurge in alumina prices.

Novelis continues to show robust performance. Volumes are expected to grow by 2% QoQ as 20kt of shipments which were impacted in 1QFY19 due to truckers strike in Brazil would now be delivered in 2QFY19. EBITDA is expected to grow by 25% YoY led by higher realization and operating efficiencies.

Key Trackable this Quarter

- Aluminium business realization as LME Al has corrected recently.
- Growth in Utkal EBITDA due to increase in alumina prices.

We value the stock at 7x FY20e EV/EBITDA.

HZ IN

CMP 289
Target 300
Upside 4%
Rating NEUTRAL

	FY17	FY18	FY19E	FY20E
Roe%	27%	26%	21%	23%
Roce%	26%	30%	25%	26%
P/E	14.6	13.8	14.2	11.9
P/B	4.0	3.5	3.0	2.7
EV/Ebdita	9.2	8.6	8.4	6.8

	FY17	FY18	FY19E	FY20E	Q2FY18	1QFY19	Q2FY19E
Zinc & Lead(KT)	907	947	982	1120	219	212	221
<i>Refined Metal</i>							
Zinc (KT)	672	792	799	931	192	172	180
Lead (KT)	144	169	175	179	38	42	40
Total	816	961	974	1111	230	214	220
Sliver (MT)	480	557	658	775	140	138	148
<i>Realization</i>							
Silver LBMA (\$/oz.)	16	17	16	15	18	17	17
Zinc LME (\$/MT)	3038	3271	2883	2780	3161	3308	2977
Lead LME (\$/MT)	2379	2655	2391	2217	2611	2589	2460
<i>Financials</i>							
Sales	17273	22084	22046	24919	5309	5310	5168
Sales Gr	22%	28%	0%	13%	51%	16%	-3%
Ebdita	9739	12272	11742	13830	3024	2713	2882
Ebdita Gr	46%	26%	-4%	18%	46%	14%	-5%
Net Profits	8316	9276	8757	10400	2254	1918	2184
Profit Gr%	2%	12%	-6%	19%	34%	2%	-3%
EbditaM%	56%	56%	53%	56%	57%	51%	56%
Net Mgn%	48%	42%	40%	42%	42%	36%	42%
D/E	0.26	0.00	0.00	0.00			

Std/Fig in Rs Cr

□ Hindzinc's volume in zinc is expected to be down by 6% on yearly basis primarily on account of transition from open cast mine operation to fully underground operations. However, volume in lead and silver are both expected to grow by 6% YoY.

□ Volume growth is expected to be strong in 2HFY19 led by expected commissioning of production from new shaft from 3QFY19 onwards at Rampura Agucha. Further, commission of new mill of 2mtpa capacity at Zawar expected by 4QFY19 and commissioning of 1.5mtpa mill at Sindesar Khurd by 3QFY19 are expected to boost production.

□ Due to continuous fall in LME zinc and lead over last few months (June-Sep'18) realizations are expected to fall by 6% YoY to USD 2977/t and USD 2460/t in both zinc and lead respectively. Realization for silver is also expected to be down by 4% on yearly basis.

□ Revenue in 2QFY19 is expected to fall by 3% YoY due to lower volume in zinc (-6%) and lower realization too (-6%). EBITDA is also expected to decline (-5%) due to lower volume and realizations. However, at PAT level decline is limited to 3% due to other income.

Key Trackable this Quarter

- Impact of INR depreciation.
- Contribution of other income.

We value the stock at 7x FY20e EV/EBITDA.

NACL IN

CMP	62
Target	85
Upside	37%
Rating	BUY

	FY17	FY18	FY19E	FY20E
Roe%	7%	13%	17%	15%
Roce%	6%	9%	22%	20%
P/E	22.1	9.6	7.0	7.6
P/B	1.4	1.2	1.2	1.1
EV/Ebdita	11.6	7.3	3.7	3.8

	FY17	FY18	FY19E	FY20E	Q2FY18	1QFY19	Q2FY19E
Alumina Sales (MT)	1294900	1337416	1302000	1302000	380000	320000	273420
Aluminium Sales (MT)	385517	426316	415000	420000	113000	105000	103750
<i>Segmental Revenues</i>							
Alumina	4046	5162	8167	8021	1256	2053	1839
Aluminium	5537	6409	6582	6571	1638	1772	1602
Others	109	127	171	163	49	49	41
Total	9692	11698	14920	14755	2943	3873	3481
Less: Intr. Segmt. Rvn.	1642	2079	3405	3320	488	900	835
Net Sales	8050	9618	11515	11435	2455	2973	2646
<i>Financials</i>							
Sales	8,050	9,618	11,515	11,435	2455	2973	2646
Sales Gr	11%	28%	20%	-1%	41%	65%	8%
Ebdita	1,080	1,397	3,020	2,880	335	1011	521
Ebdita Gr	13%	29%	116%	-5%	95%	344%	55%
Net Profits	668	1,342	1,921	1,753	235	687	317
Adj. PAT	709	800	1,829	1,753	251	596	317
Profit Gr%	-3%	13%	129%	-4%	118%	362%	26%
EbditaM%	13%	15%	26%	25%	14%	34%	20%
Net Mgn%	9%	8%	16%	15%	10%	20%	12%

Std/Fig in Rs Cr

□ Volume both in alumina and aluminum are expected to be lower in 2QFY19, due to robust and better than expected volume in 1QFY19, which may lead to some maintenance cuts and there was some issue with coal availability which may also had some impact on volume.

□ Alumina realization is expected to be robust at USD 570/t (up 77% YoY) led by continuous upsurge in alumina prices. However, Aluminum realization is expected to be fall by 7% on sequential basis as on the back of fall in LME.

□ Sales growth of 8% expected in 2QFY19 is primarily driven by growth in alumina revenue. Aluminum revenue is expected to be flat and cost of input in aluminum business is expected to increase as transfer price of alumina would also increase.

□ EBITDA in 2QFY19 is expected to be at Rs.521 crores up 55% YoY due to increase in alumina realization. However, margins are expected to decline on sequential basis due to lower volume.

Key Trackable this Quarter

- Impact of INR depreciation.
- Impact of fall in LME aluminium.

We value the stock at 1.4x FY20e Book Value

VEDL IN

CMP 240
Target 292
Upside 22%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	12%	13%	13%	16%
Roce%	14%	18%	19%	20%
P/E	11.2	13.0	11.0	8.4
P/B	1.3	1.6	1.4	1.4
EV/Ebdita	4.6	5.0	4.0	3.7

	FY17	FY18	FY19E	FY20E	Q2FY18	1QFY19	Q2FY19E
Zinc (kt)	672	791	799	931	192	172	176
Zinc Intl. (kt)	140	171	200	350	43	24	50
Lead (kt)	138	169	175	179	38	42	40
Refined Silver (tons)	453	558	658	775	140	138	145
Aluminium (mt)	1209	1672	2000	2000	380	465	455
Oil & Gas (kboepd)	189926	185587	220000	250000	180956	194986	214510
<i>Financials (Consol.)</i>							
Sales	72,225	91,866	90,945	97,373	21,590	22,206	20,955
<i>Sales Gr</i>	12%	27%	-1%	7%	36%	56.15%	-3%
Ebdita	21,332	25,164	28,677	32,202	5,669	6,284	6,802
<i>Ebdita Gr</i>	41%	18%	15%	13%	10%	50%	20%
PBT	13,766	16,672	17,409	21,669	3,735	3,360	4,020
Net Profits	9,873	13,692	11,647	14,497	2,986	2,248	2,690
Adj PAT*	7,271	7,983	8,147	10,411	1,905	1,533	1,762
<i>PAT Gr</i>	29%	10%	2%	28%	52%	1%	-8%
EbditaM%	30%	27%	32%	33%	26%	28%	32%
Net Mgn%	14%	15%	13%	15%	14%	10%	13%
D/E	1.03	0.77	0.78	0.79			

*Excluding non controlling interest and before exceptional item

Conso/Fig in Rs Cr

□ Revenue is expected to fall by 3% YoY on account of no contribution from copper business. Zinc India's revenue is expected to be flat due to flat volume growth (due to transition from OC to UG operations) and 4% fall in realization QoQ. Aluminium revenue is expected to grow at 3% QoQ led by 2% fall in volume and flattish realization.

□ Zinc International's revenue is expected to increase to Rs.1015 cr (vs.Rs.573 cr in 1QFY19) driven by increase in volume to 50kt (24kt in 1QFY19 due to planned maintenance shutdown) and EBITDA is expected to grow to Rs.377 cr (vs.Rs.85 cr in 1QFY19) as higher volume would reduce operating cost.

□ Oil & Gas revenue is expected to grow at 28% (QoQ) and 96% (YoY) led by increase in volume (guidance of 220-250Kbopd in FY19 vs. exit rate of 200kbpod in 4QFY18) and increase oil prices.

□ Growth in EBITDA despite fall in sales is on account of copper business as copper business contributed over 25% of topline whereas, it only contributed around 5%-7% at EBITDA level. Aluminium EBITDA is expected to be impacted due to continuous increase in alumina prices as compare to correction in LME aluminium.

Key Trackable this Quarter

- LME Zinc Prices.
- Imports from FTA countries.

We value the stock at 4.3x FY20e EV/EBITDA.

CMP 114
Target 115
Upside 1%
Rating NEUTRAL

	FY17	FY18	FY19E	FY20E
Roe%	11%	16%	15%	14%
Roce%	15%	23%	21%	20%
P/E	16.3	9.9	9.0	9.0
P/B	1.9	1.5	1.4	1.3
EV/Ebdita	10.2	5.5	5.4	5.6

	FY17	FY18	FY19E	FY20E	Q2FY18	1QFY19	Q2FY19E
Chhatisgarh(mn tonne)	23.01	23.17	24.26	26.00	5.13	5.97	5.37
Karnataka	12.62	12.91	12.00	14.00	3.17	0.87	3.00
Total	35.62	36.08	36.26	40.00	8.30	6.84	8.37
Realization/Cost(Rs/t)							
Realization	2478	3220	3142	2920	2887	3504	3364
Cost	1467	1609	1562	1480	1469	1459	1752
EBITDA/tonne	1011	1610	1580	1439	1450	2082	1642
Iron ore price (Rs/t)	2344	2953	3590	3400	2640	3483	4077
Financials							
Sales	8,828	11,615	11,393	11,678	2421	2422	2841
Sales Gr	37%	32%	-2%	3%	39%	-15%	17%
Ebdita	3,602	5,809	5,935	5,972	1203	1424	1443
Ebdita Gr	31%	61%	2%	1%	46%	-5%	20%
Net Profits	2,589	3,806	4,026	4,039	844	975	977
Profit Gr%	-5%	47%	6%	0%	10%	1%	16%
EbditaM%	41%	50%	52%	51%	50%	59%	51%
Net Mgn%	29%	33%	35%	35%	35%	40%	34%
D/E	0.00	0.02	0.00	0.00			

Std/Fig in Rs Cr

□ In 1QFY19 Company's volume declined 26% YoY on account of price differential in Karnataka (imports were cheaper). However, now NMDC have corrected its prices in Karnataka and volumes are expected to revert to normal levels, 2QFY19 volumes are expected to be around 8.37mt (flat YoY and up 22% QoQ).

□ Sales are expected to grow at 17% YoY primarily on account of increase in realization (up 17% YoY) as volume are expected to be almost flat YoY (up 1%).

□ EBITDA in 2QFY19 is expected to be around Rs.1443 crores (up 20% and flat QoQ), EBITDA growth is reflecting growth in sales as operating leverage comes into play (realizations have increased , whereas volume have remained flat YoY).

Key Trackable this Quarter

- Karnataka volume.
- Iron ore realization/tonne.

We value the stock at 5.5x FY20e EV/EBITDA.

CMP 266
Target 340
Upside 28%
Rating BUY

	FY17	FY18	FY19E	FY20E
Roe%	37%	35%	66%	59%
Roce%	37%	31%	83%	72%
P/E	19.6	25.1	10.5	9.6
P/B	7.3	8.7	7.0	5.7
EV/Ebdita	14.9	18.5	5.9	5.2

	FY17	FY18	FY19E	FY 20E	Q2FY18	Q1FY19	Q2FY19E
Production (mt)	554.14	567.37	604.8	635.0	113.0	136.9	120.5
Offtake (mt)	543.32	580.29	615.7	646.5	131.3	153.0	135.0
<i>Operating Matrix</i>							
FSA Vol. (mt)	429.8	460.0	496.4	504.2	104.6	130.4	108.8
FSA Realiz.	1301	1257	1319	1319	1224	1313	1280
E-Auc Vol. (mt)	94.2	106.2	106.3	129.3	23.3	19.4	22.9
E-Auc Realiz.	1536	1839	2438	2447	1614	2399	2447
Washed Coal Vol. (mt)	14.0	11.5	10.2	10.2	2.9	2.6	2.6
Washed Coal Realiz.	3049	3022	2567	2591	2582	2427	2675
Othr. Prod. Vol. (mt)	3.4	2.9	2.8	2.8	0.6	0.7	0.7
Othr. Prod. Realiz.	2915	3249	3064	3085	3050	2943	3158
<i>Financials</i>							
Sales	78,221	85,862	99,504	105,845	18,148	24,261	21,281
Sales Gr	0%	10%	16%	6%	12%	27%	17%
Employee Cost	33,514	42,634	36,726	37,461	9,155	9,598	8,432
Ebdita	12,240	9,565	24,334	26,706	1,231	5,732	4,435
Ebdita Gr	-35%	-22%	154%	10%	66%	63%	260%
Net Profits	9,266	7,019	16,276	17,811	369	3,786	2,989
Profit Gr%	-35%	-24%	132%	9%	-39%	61%	710%
EbditaM%	16%	11%	24%	25%	7%	24%	21%
Net Mgn%	12%	8%	16%	17%	2%	16%	14%

Conso/Fig in Rs Cr

□ Volume in 2QFY19 is expected to be at 135mt down 12% QoQ and up 3% YoY (seasonally weaker due to monsoon). Revenue is expected to be at Rs.21281 crore (up 17% YoY) led by better volume and higher realizations both in FSA (due to price hike taken in Jan) and E-Auction (due to robust demand at domestic level).

□ On realization front, FSA realization is expected to grow by 5% YoY to Rs.1280/t in 2QFY19 (led by 9% price hike taken in Jan'18). E-Auction realization is expected to increase by 52% YoY to Rs.2447/t led by robust demand by power and non-power sector, shortage of coal in domestic market and increasing prices of thermal coal globally.

□ EBITDA is expected to grow over 3 times YoY to Rs.4435 crore in 2QFY19 led by higher volumes and better realizations and decrease in employee cost by 8% as wage agreement issue is behind.

Key Trackable this Quarter

- FSA volume (upside risk, coal stock at power plants still low at around 7 days as of 27 Sep'18).
- International thermal coal prices.

We value the stock at 7x FY20e Book value.

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Analyst's ownership of the stocks mentioned in the Report	NIL
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